



Confidential Internal Audit Report

Audit of East North East Homes Leeds – Corporate Governance

Issued to	East North East Homes Leeds Audit Committee	
Copies to	Steve Hunt, Chief Executive Maureen Gatt, Director of Corporate Services	
Date	May 2008	
Report Status	FINAL	
Principal Audit Manager	Katherine Johnson	
Internal Audit Opinion (see reverse for details)	Control Environment	MODERATE ASSURANCE



Definitions of Audit Assurance

Control Environment Assurance		
Level		Definitions
1	FULL ASSURANCE	There is a sound control environment.
2	SUBSTANTIAL ASSURANCE	There are minor weaknesses in the control environment.
3	MODERATE ASSURANCE	There are some weaknesses in the control environment.
4	LIMITED ASSURANCE	There are some significant weaknesses in the control environment.
5	NO ASSURANCE	There are fundamental weaknesses in the control environment.

Compliance Assurance		
Level		Definitions
1	FULL ASSURANCE	The control environment has operated as intended.
2	SUBSTANTIAL ASSURANCE	The control environment has substantially operated as intended although some minor errors have been detected.
3	MODERATE ASSURANCE	The control environment has mainly operated as intended although errors have been detected.
4	LIMITED ASSURANCE	The control environment has not operated as intended. Significant errors have been detected.
5	NO ASSURANCE	The control environment has fundamentally broken down and is open to significant error or abuse.

INTERNAL AUDIT REPORTS

Freedom of Information Rider

STATUS OF THIS REPORT

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1. Introduction

- 1.1.1 The role of public facing organisations is continually evolving and has been subject to extensive change and scrutiny over the last couple of years. Delivering this extensive change and meeting rising expectations about the quality and responsiveness of services provided has proved particularly challenging for those responsible for managing the process.
- 1.1.2 Governance is about how organisations ensure that they are doing the right thing, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.
- 1.1.3 Good governance arrangements are imperative to ensure good direction and control of the organisation. Good governance arrangements should operate through a governance framework which brings together all legislative requirements, governance principals and management processes. Governance arrangements should not be regarded merely as bureaucracy but embedded across all policies, procedures and working practices. To this effect, organisations should ensure there is a sound governance framework in place in order to meet with standards of the best.
- 1.1.4 Corporate Governance is defined within the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' as the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities. Other bodies, including the Audit Commission and CIPFA, also produce guidance on Corporate Governance.
- 1.1.5 The Accounts and Audit Regulations 2006 require local authorities to conduct a review of the effectiveness of its system of internal control and prepare a statement on internal control. As East North East Homes Leeds is an 'arms length company' of Leeds City Council they do not need to comply with this requirement. However, it is good practice for all private companies to issue a statement on internal control.
- In addition, the Audit Commission's CPA scoring mechanism (Key Lines of Enquiry (KLOE) 4.2) requires the Council to ensure there are effective arrangements in place to maintain a sound system of internal control and this includes the arrangements in place across key partnerships.
- 1.1.6 Following a request from East North East Homes Leeds (ENEHL), Internal Audit undertook a review of the Corporate Governance arrangements in place within the organisation.

2. Risks and Audit Objectives

2.1 Links to Key Risks and Council Priorities

- 2.1.1 ENEHL risk register is not sufficiently developed and has therefore not been reviewed to identify any risks specific to ENEHL.
- 2.1.2 Corporate Governance cuts across all areas identified within the Leeds City Council Corporate Risk Register.

2.2 Audit Objectives

2.2.1 The objective of the audit is to ensure there are adequate overarching assurance and monitoring arrangements in place within the Company to ensure good governance and internal control arrangements are embedded in the organisation.

3. Scope and Work Completed

3.1.1 The scope of the work was to review and evaluate the governance arrangements in accordance with the best practice requirements identified in the CIPFA / SOLACE – Delivering Good Governance in Local Government: A Framework, covering the following Core Principles.

- Focusing on the Organisation’s Purpose and Community Needs.
- Working Together to Achieve a Common Purpose with Clearly Defined Functions and Roles.
- Promoting Values for Demonstrating and Upholding High Standards of Conduct and Behaviour.
- Taking Informed and Transparent Decisions which are Subject to Effective Scrutiny and Managing Risk.
- Developing Skills and Capacity.
- Engaging Stakeholders to ensure Robust Public Accountability.

4. Executive Summary

4.1 Key Findings and Recommendations

Focusing on the Organisation’s Purpose and Community Needs.

4.1.1 The Company has adequate arrangements in place to establish a clear ‘Vision’, objectives and priorities and ensure these are communicated to stakeholders. Priorities and objectives identified are included in the annual strategic and operational plans. In addition, members and officers are timetabled to meet formally on a regular basis to set the strategic direction of the organisation.

4.1.2 EastNorthEast Homes Leeds (ENEHL) has adopted the Performance Management Framework (PMF) contained in the Management Agreement between the ALMO and the Council which includes the Best Value Key Performance Indicators (BVPIs). Monitoring has been delegated to the Performance Sub Committee, who monitor all KPI and customer service related targets. In addition, the Business Planning & Finance Sub Committee monitor financial performance and the Human Resources Sub Committee monitors BVPIs. There is no overarching PMF which captures all aspects of performance which are currently being monitored and links this to the strategic objectives of the organisation. This increases the risk that individual performance is not linked to the aims and objectives of the organisation.

4.1.3 The accuracy and integrity of data supplied for monitoring performance is assured by reviewing values reported. Although this gives assurance that the data supplied is within the range expected it does not provide assurance on the accuracy of information/data input to the system. Some areas of the Company have introduced sample checking to provide assurance on the

quality of data held. There is an increased risk that the quality of data cannot be assured.

- 4.1.4 The organisation has adequate arrangements in place for budget setting, approval and monitoring. It also publishes a formal annual report showing the organisations activities and achievements, its financial position and performance. This report includes details of plans to improve performance and services, and a Statement of Corporate Governance

Key recommendation 1

- Consideration should be given to the development of a Comprehensive Performance Management Framework which incorporates all aspects of performance currently being monitored by the organisation and links to Strategic Objectives.
- Consideration should be given to the wider implementation of data quality checks.

Working Together to Achieve a Common Purpose with Clearly Defined Functions and Roles.

- 4.1.5 The company has Articles of Memorandum in place. Decisions made by the Board were also found to be clearly documented in their meeting minutes. Testing confirmed that decisions are in line with delegated authorities.
- 4.1.6 The organisation has assigned the roles of Financial Officer and Chief Executive to relevant senior officers within the organisation. The role of Monitoring Officer has not been specifically assigned to a member of staff. The HR Manager has confirmed that the job descriptions for the above roles are not available for ENEHL as they are in the process of being updated. As there are no job descriptions there is no evidence of accountability for corporate governance or risk management responsibilities. There is an increased risk that key duties are not carried out as they are not assigned to a designated post.
- 4.1.7 There is an organisational structure which is set out in a paper presented to the Board. Details are made available to the staff through the internal website and the phone contact list, which has details of the management team and is broken down into sections. There is a full scheme of delegation in place these are included in the articles of memorandum. Details include roles and responsibility of the Board, decision making and quorums. In addition further financial responsibilities are detailed in FPRs. Amendments have been made to the Chief Officer's delegated powers and this was done through a report to the Board.
- 4.1.8 No evidence has been obtained to confirm that the organisation has completed any formal impact assessments when planning and reviewing the services it provides to determine whether policies etc. are directly or indirectly discriminatory or have an adverse impact on certain groups of the community.

There is an increased risk that the organisations policies could discriminate against certain sections of the community in breach of legislation and best practice.

- 4.1.9 Formal procedures are in place for staff appointments to the organisation and records of interviews and appointments made are maintained.
- 4.1.10 The organisation has a number of arrangements in place to demonstrate that value for money is considered, including partnership arrangements, Contract Procedure Rules, Framework Contracts and contractor performance monitoring. These are monitored on an ongoing basis by the Senior Management Team with each Director being responsible for monitoring their individual area. In addition, Contractor Performance is monitored through reports to the Board
- 4.1.11 The organisation has a Partnerships team in place to monitor and manage partnership arrangements. There are contracts in place with repairs contractors and for capital work. Regular monitoring of performance is reported to the Board.
- 4.1.12 Terms of Reference are in place for the Priority Estate Groups, IMpaCT (Improving Chapeltown), BIG (Beckhill Improvement Group) and MAP (Moor Allerton Partnership). Lists have been developed of partners with whom the Partnership Team work and include both external and Council partners. This has identified that arrangements are not in place for all the partnerships identified. There is an increased risk that adequate governance arrangements are not in place for all partnerships.
- 4.1.13 Internal Audit was informed by the Partnership Development Manager that there is no organisation wide Protocol for Partnership Working. The Priority Estate Groups meet regularly and the meetings are minuted. However, evidence was not provided of meetings with other partners during the course of the audit. There is an increased risk that the organisation is unaware of all partnerships held and cannot assess and manage the risks of these partnerships.
- 4.1.14 Internal Audit was informed that the use of partnerships was being considered further with a number of Service Level Agreements due for review to determine whether they provide Value for Money or alternative provision would be better.

Key recommendation 2

- Job descriptions should be reviewed and updated to ensure that governance and risk management roles and responsibilities are clearly documented.
- Formal impact assessments should be completed when planning and reviewing services.
- Terms of reference/ SLA's should be devised for all partnerships to ensure that the objectives of the partnership and its governance and

financial arrangements are clear, and the effectiveness of the relationship can be reviewed.

- An organisation wide Protocol for Partnership Working should be developed to ensure consistent arrangements are in place throughout the organisation for the establishment and operation of partnerships. This protocol should include arrangements for dispute resolution.

Promoting Values for Demonstrating and Upholding High Standards of Conduct and Behaviour.

- 4.1.15 The company was found to have adequate arrangements in place to ensure that members and officers conduct themselves in an appropriate manner. There is a formally approved Code of Conduct in place for Members and Officers. The review identified that the Code of Conduct is not covered as part of the induction process for Officers. However, it does cover 'Promotional Offers and Inducement Disclosures of Interest'. Members are required to return a declaration that they are aware of and will comply with the Code. A review of the returns found that only 8 out of 12 had been returned. There is an increased risk that Officers and Board Members have not understood and do not comply with the Code.
- 4.1.16 The review confirmed that although there are requirements for registering interests and offers of gifts and hospitality, there are no arrangements in place to ensure this is undertaken by officers. The review identified that the registers of interest held were not current and there were a minimal number of returns. This increases the risk of reputational damage and the Company may be unable to protect an employee should an allegation of improper conduct be made. In addition, in the case of a potential disciplinary matter, the department may be unable to prove conclusively that the employee was aware of these requirements.
- 4.1.17 There is a Whistleblowing policy in place. In addition Counter Fraud and Corruption procedures are in place and included within the employee handbook. However, these have not been formally documented in a policy. This increases the risk of reputational damage and failure to ensure good governance is embedded across the organisation
- 4.1.18 Formal disciplinary procedures have been established which are detailed in the staff handbook. There are designated members responsible for carrying out investigations and presenting findings to management.

Key recommendation 3

- Staff should be informed of the requirements of the Code of Conduct as part of the induction process and this should be communicated to all staff periodically.
- Acknowledgements of the Code of Conduct should be received from all members of the Board.
- Effective arrangements should be put in place to ensure staff and

members are made fully aware of their requirements to register Declarations of Interests and offers of gifts and hospitality.

- Arrangements should be put in place to ensure all staff and members complete an annual Registration of Interests Form, including 'nil' returns where applicable. Monitoring should be undertaken to ensure all forms are promptly returned. Declarations should be reviewed at an appropriate level to ensure any potential conflicts of interest have been identified. Remedial action should be taken where necessary.
- Offers of gifts and hospitality should be promptly recorded. An effective mechanism should be put in place to review offers and approve acceptance, where applicable. Offers should be reviewed to identify trends and remedial action taken, where necessary.
- The Company should review current procedures against LCC policies to identify any gaps or areas for improvement.
- Formal policies should be developed, agreed by the Board, implemented and communicated to key stakeholders.

Taking Informed and Transparent Decisions which are Subject to Effective Scrutiny and Managing Risk.

4.1.19 There are adequate arrangements in place to ensure that decisions made by the Board and the various Sub-Committees are transparent. However, there are no arrangements in place to monitor the use of the confidentiality clause, to ensure that this is only used where there is an express need to preserve confidentiality. A lack of such arrangements increases the risk of failure to demonstrate openness and transparency and could lead to reputational damage to the Company.

4.1.20 The Audit Sub Committee has been charged with overseeing the organisations Corporate Governance arrangements and ensuring their adequacy, which is documented in the Committee's Terms of Reference. The Committee meets bi monthly on the same cycle as all other committees and the Board.

4.1.21 .The Company has their own Financial Procedure Rules (FPRs), and has adopted LCC Contract Procedure Rules (CPRs). These have not been reviewed since the Company was set up. In addition, staff training requirements have not been identified. There is a risk that the procedures do not support the business and that staff are unaware of the correct processes to follow resulting in value for money not being achieved and legislation not being complied with.

4.1.22 The organisation has a documented Health and Safety Policy in place that is available for staff to refer to. Internal Audit was informed that this is currently being reviewed following the revised guidance for directors on Health & Safety which were issued during 2007.

4.1.23 Complaints procedures are in place at the organisation and these are reported to the Performance Sub Committee for their review as part of the performance management framework.

4.1.24 The area of risk management is currently under development by the ALMO. A Risk Management Officer has been appointed and this is the Director of Corporate Services. The process of identifying risks, recording these in a risk register and then embedding the process throughout the organisation has commenced but is not yet fully developed. Internal Audit has been informed that the ALMO is hoping to implement risk management in 2008/09. There is an increased risk that risk management is not consistent throughout the organisation.

4.1.25 Responsibility for statutory obligations have been assigned and documented. Compliance with legislation is monitored through the relevant sub committee and any issues are reported through to the Board. However, no evidence has been made available to confirm that a central register is in place to monitor the implementation of any changes. There is an increased risk of non compliance with legislation.

Key recommendation 4

- Arrangements should be put in place to ensure an appropriate senior officer, e.g. the Freedom of Information Officer, reviews the use of the confidentiality clause to ensure information is only restricted where there is an express need to preserve confidentiality. Appropriate training should be given where required.
- FPRs should be reviewed to ensure that they remain relevant.
- Training for both FPRs and CPRs should be provided and FPRS s and CPRS made available to all relevant staff.
- The organisation should continue with the process of the development of the Risk Management Framework.
- Consideration should be given to the implementation of a central register to monitor and manage changes in legislation.

Developing Skills and Capacity.

4.1.26 The organisation has worked closely with the Board Development Agency to develop an appraisal process for Board Members. This will include details of skills required. The appraisals will be carried out independently by the Board Development Agency and they have produced a booklet outlining the process. Board Away days are held on a 6 monthly basis to provide the Board members with relevant business updates and training. The focus of the training on the first two away days has been on the development of the appraisal process.

4.1.27 The review confirmed that a training plan has been developed for 2008/09 but this does not include specific corporate governance and risk management

training. A lack of training increases the risk of reputational damage, and failure to achieve objectives and effectively deliver services.

4.1.28 The Company has comprehensive arrangements in place to undertake staff appraisals. However, appraisals do not specifically cover performance in relation to corporate governance and risk management responsibilities where these have been delegated. There is an increased risk of failure to achieve objectives and effectively deliver services.

Key recommendation 5

- A formal Corporate Governance and Risk Management training programme should be developed for all stakeholders, including staff/member induction and on-going training arrangements.
- Appraisal processes should include a review of performance in relation to corporate governance and risk management responsibilities. Personal objectives should be set where areas of improvement are identified and achievement of these objectives monitored.

Engaging Stakeholders to ensure Robust Public Accountability.

4.1.29 The Company has a clear communication framework in place to consult with stakeholders and mechanisms in place to monitor customer satisfaction, which is reported to the Performance Sub Committee as part of the performance management framework.

4.1.30 The Company has adopted the Langlands Governance Standards. A report was put to the Board in July 2007 which recommended that the self assessment check list be completed to form the basis for the next stage of development work around Corporate Governance. A review of Board and sub committee minutes has not identified any subsequent reports regarding the Governance Standards. There is an increase risks that areas identified for improvement are not addressed.

Key recommendation 6

- The process for the implementation / development of a Code of Corporate Governance should be undertaken.

INTERNAL AUDIT OPINION

Moderate Assurance is provided on the control environment as corporate governance arrangements have been established within the organisation, but there is currently no risk management framework in place.

5. Detailed Findings and Recommendations

5.1 Detailed findings and recommendations are included in Appendix A.