

Internal Audit: Corporate Governance

Status: Final Report

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Executive Summary

Background

The above audit was approved by the Audit Committee for inclusion in our 2006-07 audit programme.

Business Objective

To deliver a framework or system to provide: -

- A suitable control environment to support HSE to deliver the organisation's long term strategic objectives and plans, within a framework of integrity and accountability;
- The HSC/HSE Accounting Officer(s) with sufficient supporting evidence of a satisfactory quality standard to enable the drafting of the annual statement on internal control; and
- The level of control over HSE operations required by HSE Senior Management, Treasury and DWP Corporate Governance standards.

Key Risks

- That the systems in place are not adequate to provide the level of control over HSC/HSE operations/business as required by the HSC/HSE accounting officers, DWP (as sponsoring Department) and HM Treasury; and
- That there is insufficient supporting evidence of adequate quality for the accounting officers to complete the annual statement on internal control.

Audit Objective and Scope

Audit Objective

- To provide the Accounting Officer with an assurance that the key risks to the achievement of the system objectives are being effectively managed;
- To provide assurance over the adequacy and effectiveness of the HSC/HSE Corporate Governance arrangements, and levels of compliance with HSC/HSE, DWP and Treasury Governance requirements; and
- To make recommendations for improvement in control with due regard to value for money.

Scope of the audit

- Assess the adequacy of existing Corporate Governance arrangements to provide the level of control required by HSC/HSE Accounting Officer(s);
- Examine and evaluate levels of compliance with Treasury, DWP and HSC/HSE Corporate Governance requirements;
- Assess the adequacy of the systems in place to provide supporting evidence to enable the drafting of the Annual Statement on Internal Control (SIC); and
- Evaluate the current status of progress against the recommendations made in the Internal Audit report "Internal Audit of Business Risk Management" dated May 2006

Approach

Audit Approach

“Corporate Governance is the way in which organisations are directed and controlled. It defines the distributions of rights and responsibilities among the different stakeholders and participants of the organisation, determines the rules and procedures for making decisions on corporate affairs including the process through which the organisation’s objectives are set, and provides the means of attaining those objectives and monitoring performance”*

We have used a Governance Framework (reproduced below), guidance from HM Treasury and other sources (such as CIPFA, NAO, Cabinet Office) to identify the key components of a governance framework.

The framework sets out a hierarchy of governance which is underpinned by policies, processes and guidance that provide the practical application of how the governance arrangements are delivered.

These framework components comprise:-

Principles and Objectives – what HSC/E is here to do and the measures set in place to assess performance against objectives, as set out in PSA Targets and the “Strategy for workplace health and safety in Great Britain to 2010 and beyond”

Organisational values – using common values to drive behaviours and ways of working needed to deliver our objectives. For example as set out in codes of conduct, such as the Civil Service Code of Conduct; and HSE’s Rough Guide to Managing Change

Organisation and Accountabilities – how HSC/E is organised to work together in delivering its objectives. Clarity about corporate and individual accountabilities is crucial to the way an effective organisation operates. Clear accountabilities support effective decision-making and enable risks to be managed at the most appropriate level within the organisation. The discharging of corporate accountabilities needs to be supported by decision-making structures that are integrated and cohesive.

Elements include

* HM TREASURY - Corporate Governance in central government departments: Code of good practice – July 2005

Audit Approach

- Organisational structure, including definition of accountabilities, responsibilities and decision making authorities – e.g. in job descriptions; and
- Role of Board, and Committees, particularly the Audit Committee

Business Management Framework – arrangements that provide standards, processes and guidance setting out how business will be conducted and governed

A business management framework incorporates:

- Business planning process, including monitoring strategic and operational plans and budgets;
- Financial Management;
- HR strategies, policies and procedures; including provision of training, awareness and guidance;
- Performance Management Framework (in HSE's case incorporating the Balanced Scorecard);
- Business Risk Management process;
- Business Continuity arrangements;
- Project and Programme governance;
- Statement on Internal Control completed by Accounting Officers;
- Existence of corporate policies and guidance in areas such as Health and Safety, Security, Whistleblowing;
- Media handling process to deal with reputational risk; and
- HSC/E Management Statement and Financial Memorandum setting out sponsorship arrangements with DWP.

Assurance Mechanisms - The arrangements for ensuring business activities are conducted with due regard to risk propriety and regularity in accordance with internal and external requirements, values, principles and guidance to meet overall objective.

In order to fulfil their role, managers need to obtain assurance that these components are in place and operating as intended. The following lists potential sources of this assurance but there are likely to be more which directorates can identify:-

- Internal Audit;
- External auditors - National Audit Office (NAO);
- Opinions of other internal assurance providers, (for example BEU4 project assurance activity);
- External providers of assurance (e.g Treasury Financial Management Review of HSE financial systems);

Audit Approach

- Letters of Assurance completed by directors;
- Results from management assurance processes – such as checking, validation and monitoring activities;
- OGC Gateway reviews of projects and programmes;
- Results from DWP monitoring of sponsorship arrangements;
- Monitoring, review and updating of risk registers, budgets and business plans;
- Risk Management Assessment Framework findings; and
- Reviews of compliance with mandatory legislation and policies – e.g. Health and Safety – and with business procedures and standing financial instructions.

This review has assessed the extent to which the HSC/E Corporate Governance system includes the components and sources of assurance listed above. Where possible we have evaluated the adequacy of the components' contribution to the system of internal control within HSC/E. Where we have been unable to assess the component as part of this audit we have suggested future activity to do so.

We grouped the components we had identified under three of the main elements of the example Governance Framework as follows:-

1. Business Management Framework;
2. Organisation and accountabilities; and
3. Assurance mechanisms.

The action plan below is intended to assist managers to evaluate the status of Corporate Governance arrangements within their area of responsibility.

Our draft findings were discussed by video conference with the HSE Chief Executive on 20 December 2006 and are summarised in the following table.

Overall Conclusion

Commentary

We are pleased to report that HSC/E has the majority of the key components of a corporate governance framework in place as indicated in the next section of this report.

In particular:

- There is a Management Statement in place covering the financial and operational delegation from DWP to HSC and HSE;
- There is a comprehensive framework of policies available to all staff via the intranet;
- The Letters of Assurance Process has been introduced to give assurance to the Accounting Officers when signing the Statement on Internal Control.
- There has been work to develop the role of the Audit Committee;
- The Corporate Risk Management Plan (CRMP) is reported on, discussed and updated on a quarterly basis and Internal Audit is working with the Strategic Planning Unit to develop and improve the Business Risk Management process;
- National Audit Office (NAO) made no observations on HSC/E financial statements for 2005/2006; and
- DWP evaluation and monitoring of HSC/E under sponsorship arrangements reveal no concerns about HSC/E governance

However there are areas where HSC/E can improve its current processes to strengthen the effectiveness of its governance framework. There is an acknowledgement within the organisation of the need to improve a number of the key processes (e.g. performance management) and we will seek to work with management on these areas. In particular:

- Production and use of an assurance framework (or map) to provide a clear understanding of those areas where assurance is required and the sources of that assurance. This will help identify any key areas where there is no systematic assurance provision
- A better understanding of Corporate Governance issues would be facilitated by the appointment of a 'Champion' at Board level;
- A mechanism for collating and monitoring implementation of recommendations arising from relevant sources (e.g. internal audit, external audit, external reviews, OGC reviews) should be considered. In particular there should be a formal process for escalation of significant issues as necessary;

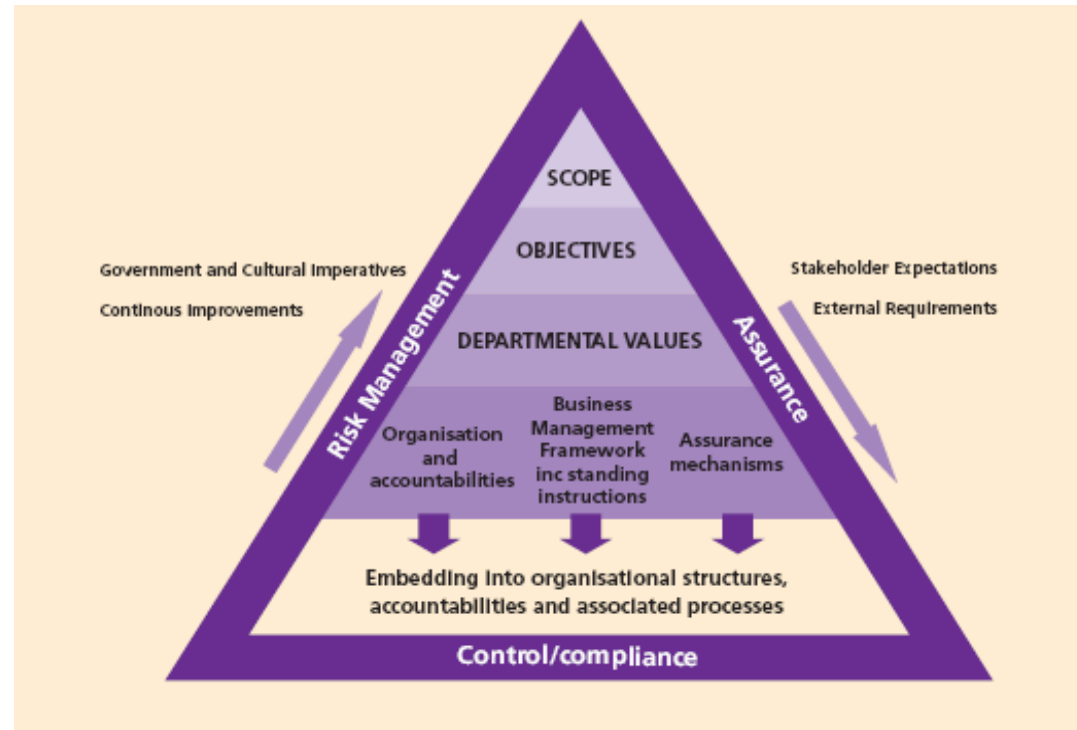
Commentary

- Further refinement and embedding in areas including:
 - Corporate arrangements for identification and continuous improvement of internal control issues;
 - Induction and training for board members and senior managers;
 - The business risk management process; and
 - Improved performance measurement, management information and resource management systems.

Next Steps

- This report highlights the key issues. Once the action plan has been agreed, IAA will work closely with the Corporate Governance champion to discuss in detail how the actions will be progressed.

Example Governance Framework



Internal Audit and Assurance

Evaluation and Action Plan

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
<p>Component 1. Business Planning Process</p> <p>Evaluation</p> <p>The “Strategy for workplace health and safety in Great Britain to 2010 and beyond” sets out HSC’s vision. This is supported by a three-year business plan which is in the process of being reviewed and updated.</p> <p>Supporting this are various Directorate/Divisional and thematic plans which detail the work which will be undertaken to support the achievement of the organisation’s objectives.</p> <p>We have not reviewed the effectiveness of the business planning process in detail. It is anticipated that an audit of the business planning process to evaluate the extent to which plans are adequate, comprehensive, in place, monitored effectively, and updated as required is undertaken in 2007/08.</p>	<p>IAA to propose inclusion of Business Planning within the 07/08 Internal Audit Plan</p>	<p>Agreed. HIA to consider inclusion within the audit planning cycle</p>	<p>To be considered as part of 07/08 planning cycle</p>	<p>Head of Internal Audit, Rachael Radway</p>
<p>Component 2. Financial Management</p> <p>Evaluation</p> <p>Formal Financial Management procedures are in place. Formal Letters of delegation for budgets are issued to the four main budget holders setting out budget allocations and defining how resources may, and may not, be used. Budgets are delegated further in some instances.</p> <p>The main budget holders have appointed budget monitors and budgets are reviewed and monitored on a regular basis.</p>	<p>HSC/E to continue to use the letters of delegation and budget monitoring arrangements, and to fully implement the recommendations arising from the</p>	<p>Agree that we should continue to issue delegation minutes to main budget holders.</p> <p>Agree that we will implement agreed recommendations from audit of Financial Management and Budget</p>	<p>-</p>	<p>Director, RPD</p> <p>Director, RPD</p>

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
<p>IAA is currently undertaking an audit of "Financial Management and Budgetary Control" which will include assurance over the letters of delegation process and areas for improvement will be identified.</p>	<p>audit of Financial Management and Budgetary Control</p>	<p>control</p>		
<p>Component 3. Human Resources strategies, policies and procedures</p> <p>Evaluation There are comprehensive HR policies, processes and guidance in place - including attendance management, performance appraisal. The first stage of the E-HR system has been implemented, and once fully rolled out, will cover a wide range of HR processes. We have not evaluated the effectiveness of the HR processes during this audit but plan to include this area in audit planning for 2007/2008</p>	<p>IAA to propose inclusion of Human Resources processes in the 07/08 Internal Audit Plan</p>	<p>The HIA concurs that this should be incorporated into the proposed Audit Plan 2008 for discussion with Directors and the Audit Committee.</p>	<p>31 March 2007 with audits being undertaken during 2007/08</p>	<p>Head of Internal Audit, Rachael Radway</p>
<p>Component 4. Corporate Governance training and/or awareness included in management training.</p> <p>Evaluation From interviews held with senior staff we have found no evidence of any specific training in corporate governance. We have also found mixed levels of awareness and understanding of corporate governance issues. We would expect a sound system of internal control to include wide understanding of the organisations governance arrangements and structure. IAA will be happy to advise on provision of awareness.</p>	<p>HSC/E to develop arrangements to provide staff with corporate governance awareness (as appropriate to roles and responsibilities)</p>	<p>Agreed in principle; but we will need to ensure the right balance between the cost of awareness raising and likely benefits. This maybe best included in future work to improve financial competence and awareness.</p>		<p>Director, RPD</p>
<p>Component 5. Learning and Development strategy</p> <p>Evaluation This is an essential component of the governance structure - as noted above, and is currently under development. We have not examined the adequacy of the proposed L&D strategy but may do so in future audit work</p>	<p>IAA audit planning to include L&D</p> <p>HSC/E to ensure</p>	<p>The HIA concurs that this should be incorporated into the audit planning process at a time when it is appropriate for the strategy to be reviewed.</p>		<p>Head of Internal Audit, Rachael Radway</p>

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<p>The Professional Skills for Government (PSG) framework applies across government. The framework includes Financial Management, Assurance and Governance. These should feature in the HSC/E L&D Strategy.</p>	<p>that PSG planning includes Financial management, Assurance and Governance skills</p>			
<p>Component 6. Performance Management Framework Evaluation Elements of a performance management framework are in place, for example monitoring of plans, performance agreements and the use of the Balanced Scorecard which is reported to the Board quarterly. However we have not evaluated the effectiveness of performance management during this audit and an audit in this area will feature in audit planning for 2007/2008.</p>	<p>IAA to propose inclusion of Performance Management in the 07/08 Internal Audit Plan</p>	<p>Work is in hand to update and refine performance management including the Balanced Scorecard. Agree that audit should take place once changes “bedded in”.</p>	<p>To be considered as part of 07/08 planning cycle</p>	<p>Head of Internal Audit, Rachael Radway</p>
<p>Component 7. Resource Management System (RMS) Evaluation An effective RMS measures inputs (such as staff time) against outcomes (such as target achievement). HSC/E acknowledges that it currently lacks an effective RMS and staff time recording process and is working on developing these.</p>	<p>HSC/E to develop and implement effective RMS and time recording processes.</p>	<p>We question whether this should be regarded as part of corporate governance. Work is on-going to develop a management information system with universal work recording in place by April 2008</p>		<p>Director , RPD (SRO)</p>
<p>Component 8. Business Risk Management (BRM) process and Corporate Risk Management Plan (CRMP) Evaluation The CRMP is in place and is reported on, discussed and updated for the board on a quarterly basis. This is supported by D/D risk registers. We have followed up the recommendations made in the 2005/06 audit and these will be reported separately. The 2006 IAA review of BRM gave substantial assurance that “the BRM system provides an adequate basis for effective control and is properly operated in practice.</p>	<p>IAA and SPU to continue to work together to develop and improve the BRM process.</p>	<p>Agreed – although BRM should be seen as part of performance management and not a stand-alone process.</p>	<p>Workshops to commence February 2007</p>	<p>Rachael Radway, HIA Mike Lacaille, Head SPU</p>

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<p>Progress has been reported on the recommendations of that report – see Annex C. The need for further work to embed BRM across HSE is recognised and IAA will work with SPU to take that forward</p> <p>It is likely that an audit review of the BRM process, in a similar format to this review, will feature in the 07/08 Audit Plan.</p> <p>As part of the BRM process HSC/E use the Treasury Risk Management Assessment Framework (RMAF) and Risk Management Improvement Plan (RMIP).The RMAF is a tool for assessing the standard of risk management in an organisation. Ideally it helps the collection and assessment of evidence and supports the production of the SIC. HSC/E completes an annual assessment against the seven RMAF categories (Leadership, People, Policy & Strategy, Partnerships, Processes, Risk Handling and Outcomes) and has produced annual RMIPs to address weaknesses identified via the RMAF. The most recent RMAF results and RMIP were presented to the HSE Board meeting in August 06. Audit found that the components of the RMAF and RMIP are in place but effective management of the planned activities is needed.</p>	<p>IAA to propose that an audit of BRM be included in the 07/08 Internal Audit Plan.</p> <p>Current RMIP to be updated to show progress against planned activities.</p> <p>RMAF/RMIP to be used to inform the 06/07 SIC draft.</p>	<p>Agree that this should be the subject of regular audit, the frequency of which is determined by the maturity of our risk management processes.</p> <p>Agreed</p> <p>Agreed that progress against RMIP should inform SIC; decision not yet taken on whether a formal RMAF assessment should be undertaken.</p>	<p>To be undertaken during 2007/08</p>	<p>Head of Internal Audit, Rachael Radway</p>

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<p>Component 9. Programmes and Projects Governance</p> <p>Evaluation OGC and/or HSE Centre of Excellence (part of BEU4 function) gateway reviews assess the effectiveness of control over programmes and projects, and make recommendations to address any weaknesses and as such they inform the SIC. At present if significant control issues raised during these reviews are not resolved satisfactorily there is no formal route to escalate them.</p> <p>We considered Programme and Project management skills and training and through discussion have identified varying levels of awareness and understanding of Programme management roles, requirements and procedures.</p>	<p>HSC/E to establish formal escalation route for significant programme/project control weaknesses</p> <p>HSC/E to undertake training needs analysis (TNA) in relation to Programme Management skills and considers the mechanisms by which it appoints project/programme managers to reduce the risk of failure.</p>	<p>We agree that an escalation route is important, though we need to consider the practical point that the role of SRO in our major projects is at least Band 0/Board level</p> <p>Agreed in principle. Success depends on a mix of technical skills and other general management and people handling skills. .</p>		<p>Head of BSD, Gordon MacDonald</p>
<p>Component 10. Statement on Internal Control</p> <p>Evaluation A SIC has been produced and signed off as required each year.</p> <p>Responsibility for the SIC and drafting the statement on behalf of the HSC/E Accounting Officers (AOs) has recently transferred within PEFD from SPU to Finance Unit. There are no documented</p>	<p>IAA to assist and advise HSC/E in the development and improvement of the LOA and SIC evidence gathering,</p>	<p>Agreed, IAA will provide support and advice as required</p>	<p>By 30 June 2007</p>	<p>Head of Internal Audit, Rachael Radway</p>

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<p>procedures or guidance for the role and the member of staff who will produce the draft has received limited awareness guidance about his responsibilities.</p> <p>The previous, and current, drafters' approach is to draw on the quarterly updates of the Corporate risk register, performance reporting and other information which they saw as the basis for the SIC as well as Letters of Assurance provided to the Accounting Officer by senior managers. Committee would expect the Accounting Officers to require robust evidence of supporting information to underpin the statements made in the SIC and LOA.</p> <p>During this audit we have found mixed levels of awareness of what constitutes robust evidence, and how, or even if, that evidence is, or can be, validated.</p> <p>NAO will examine the 06/07 SIC as part of their programme of work. We do not know to what extent they will ask to examine supporting evidence but HSE should be prepared to demonstrate that robust evidence is available if required.</p>	<p>evidence validation and drafting process, including advice on sources of assurance they could use.</p>			
<p>Component 11. Internal Control Continuous Improvement</p> <p>Evaluation Treasury has developed standard, mandatory wording for the SIC which includes the statement - "a plan to address weaknesses and ensure continuous improvement of the internal control system is in place". Such weaknesses may be identified through Internal Audit activity, or from other assurance activity (such as Office of Government Commerce (OGC) gateway reviews, NAO audits). A corporate plan as described does not exist at present, although individual action plans may be in place.</p>	<p>HSC/E to identify a mechanism through which it can assure itself that key control issues arising, identified from any source are monitored on a regular basis to ensure that improvements are progressed.</p>	<p>Agreed. Internal Audit to work with individual assigned to lead on corporate governance (see 20 below) to determine an appropriate mechanism for undertaking this</p>		<p>Head of Internal Audit, Rachael Radway and TBA,</p>

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	It is suggested that an "Internal Control Continuous Improvement Plan" could be used to support this process. This plan to be used to inform the annual SIC drafting process.			
<p>Component 12. Policies, strategies and frameworks - to support HSC/E objectives.</p> <p>Evaluation During the normal course of our audit activity we have identified the existence of a number of policies, strategies and frameworks (for example L&D Strategy, Security Policy, Disaster Recovery, IS/IT strategy, Procurement policy, Communication strategy, Risk Management Framework.)</p> <p>We have not examined the adequacy of these as part of this audit, nor have we evaluated levels of compliance. We undertake this work during individual audits in relevant areas or if required we advise during development of policies, strategies and frameworks.</p>	IAA to continue to evaluate policies, strategies and frameworks as part of individual audits, and to advise as required during policy/strategy development.	No immediate action required		
<p>Component 13. HSC/E Management Statement and Financial Memorandum</p> <p>Evaluation These are required by Treasury and DWP (as sponsoring department). They have recently been updated in line with Treasury guidance. We have not examined compliance but we understand that DWP are broadly satisfied with the sponsorship liaison and</p>	HSC/E to consider introducing (or formalising) arrangements for obtaining assurance over	Agreed to consider. One option would be to integrate this into the Letters of Assurance process		Head of PEFD, Steve Dennis

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
control in place and have no concerns over HSC/E governance.	compliance with the Management Statement and Financial Memorandum			
<p>Component 14. Civil Service Code of Conduct</p> <p>Evaluation This has recently been revised and re-launched. It was issued on a personal basis within HSC/E under a covering letter from the head of HR. We have not examined this process in any detail</p>	HSC/E to obtain assurance that all staff have received and understood the Civil Service code of conduct	We suggest periodic reminding of the Code through normal communication channels would be more proportionate to the risk involved.		Head, HR Gaynor Coldrick
<p>Component 15. Register of hospitality</p> <p>Evaluation This register is maintained and regularly reviewed by IAA.</p>	Periodic audit of hospitality register to continue.	Agreed HIA agrees that such work should be undertaken as part of a wider ethics review and will be considered as part of the 2007/08 planning process.	31 March 2007	Head of Internal Audit, Rachael Radway
<p>Component 16. Register of interests</p> <p>Evaluation An informal process is in place. It is important that all HSE staff, and in particular Inspectors, are fully aware of the good practice of disclosure of conflicts of interest.</p>	HSC/E to develop and publicise guidance on reporting, handling and managing potential conflicts of interest	Comprehensive guidance on a wide range of potential conflicts of interests, including reporting arrangements, is already included in HR guidance. In addition, the written statement of the main conditions of service	-	-

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
		provided to new recruits contains explicit reference to conflicts of interests for civil servants		
<p>Component 17. Communication</p> <p>Evaluation Effective internal Communication of, for example, policies, plans, changes, organisation, can be a useful component of the governance structure.</p>	IAA to undertake audit review of the effectiveness of Internal Communications	Currently being undertaken and findings to be reported by 31 March 2007	31 March 2007	Head of Internal Audit, Rachael Radway
Area 2. Organisation and Accountabilities				
<p>Component 18. Organisational structure – reporting lines, boards, committees, steering groups, decision making bodies.</p> <p>Evaluation The board is aware of the issues related to decision making covered in the “Making decisions properly” paper which was discussed at the January 07 board meeting. The Board has agreed a way forward.</p> <p>Audit has not re-examined this area in any detail as part of this review.</p> <p>We found out of date or incomplete information about groups/committees within the organisational structure – for example the Intranet still contains information and references to the now defunct Resources and Delivery group (RDG). We also found unclear reporting line structure around Programme Boards.</p> <p>In view of the proposed new governance arrangements we propose</p>	<p>HSC/E to consider the action it is to take following the review of decision making. Issues arising should be considered as part of the detailed development of the new governance structure – IAA to advise as requested</p> <p>Weaknesses identified are considered as part of the governance</p>	RPD to action the points arising from the Board discussion in January relating to decision-making.		Director, RPD

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
<p>that the weaknesses in these areas be addressed as part of the detailed development of the new structure. As suggested above, IAA will advise on this as required.</p>	<p>work being undertaken,</p>			
<p>Component 19. Board, Commission and Audit Committee – skills, induction and training Evaluation We have found that no formal training is provided for Board, Commission or Audit Committee members. The National School for Government provides a variety of training events for government board and audit committee members. In particular, new members have not receive induction training – as a result they have needed to seek out and obtain for themselves the information they need about their roles, responsibilities, accountabilities, codes of conduct, organisational structure and culture etc.</p>	<p>HSC/E to identify training requirements of, and arrange provision of training for, Board, Commission and Audit Committee members.</p>	<p>HRD to explore training required and create induction pack.</p>		<p>Head HR, Gaynor Coldrick</p>
<p>Component 20. Clearly defined ownership of the governance process, and roles and responsibilities for key governance roles. Evaluation As previously mentioned, work is ongoing between SPU and IAA to further develop BRM within HSC/E. Also IAA will work with Finance unit to develop and improve the SIC process. Clear definition of roles and responsibilities will be needed as part of this work. As part of the proposed new governance structure, HSC/E may wish to consider allocating the role of “Corporate Governance champion” to a SCS or board member to take forward Corporate Governance issues at board level and determining an appropriate individual to take responsibility for the day to day management of corporate governance.</p>	<p>HSC/E to consider appointing a Corporate Governance champion at SCS or board level and a nominated manager for taking responsibility for day to day corporate governance issues</p>	<p>Agreed. Director of RPD has agreed to take on champion role. Individual to take on day-to-day management to be determined</p>		<p>Director RPD.</p>
<p>Component</p>				

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<p>21. Job descriptions, performance agreements and work objectives.</p> <p>Evaluation These provide part of the lower level governance framework of the organisation. We have not examined them in detail on this occasion.</p>	<p>HSC/E to obtain assurance over compliance with our individual performance appraisal process</p>	<p>HRD to meet with IAA to discuss by end March 2007 and agree a way forward.</p>		<p>Head HR, Gaynor Coldrick and Head of Internal Audit, Rachael Radway</p>
<p>Component 22. Proposed new Governance structure</p> <p>Evaluation The consultation document for the proposed new governance structure for HSC/E has been issued. Assuming this is approved by Ministers/Parliament work will be needed to develop the new roles, accountabilities and responsibilities of the members of the new governing body, executive and non-executive members. Account will also need to be taken of DWP, Treasury, OGC and/or NAO guidance or requirements in this area. As these roles provide a fundamental component of the governance structure IAA will be happy to work with HSC/E to advise on the design and development of the new roles</p>	<p>IAA to work with HSC/E to advise on the design and development of roles, responsibilities and accountabilities for the proposed new governance structure</p>	<p>The HIA agrees that we should work closely with the team responsible for taking the new governance structure forward to ensure the key processes, controls and procedures as identified in this review are in place.</p>	<p>Continuous</p>	<p>Head of Internal Audit, Rachael Radway</p>
<p>Area 3. Assurance Mechanisms</p>				
<p>Component 23. Internal Audit</p> <p>Evaluation. Internal Audit and Assurance (IAA) contribute to HSC/E governance by providing independent assurance over the adequacy and effectiveness of risk management, control and governance activity. We do this through completing our annual plan of risk based audit reviews, as agreed with senior management and approved by the audit committee. The Head of Internal Audit (HIA) provides an Annual audit report, based on audit work undertaken and produced each year in time to inform the SIC. This audit of Corporate Governance will contribute</p>	<p>IAA to continue to undertake a programme of risk based audit activity, including periodic reviews of Corporate Governance arrangements</p>	<p>Agreed</p>	<p>Continuous</p>	<p>Head of Internal Audit, Rachael Radway</p>

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<p>to the HIA annual opinion and we propose undertaking periodic reviews in this area. Audit work to date has revealed no significant control weaknesses during 06/07.</p> <p>Internal Audit and Assurance (IAA) work to Government Internal Audit Standards (GIAS) which include the requirement for regular review of the quality of the internal audit service. IAA has an internal quality assurance process. Treasury have recently published a new "Internal Audit Quality Assessment Framework". IAA will assess the implications of this, if any, for their own process.</p>	<p>HIA report to be produced in time to inform 06/07 SIC process</p> <p>IAA to comply with Treasury quality assessment procedures.</p>			
<p>Component 24.. External audit activity</p> <p>Evaluation National Audit Office (NAO) undertakes an annual audit within HSC/E, including an evaluation of the annual SIC. No serious control issues have been raised. For 06/07 NAO will focus on risk management and budgets in relation to the SIC.</p> <p>NAO provide annual assurance over HSC/E Financial statements. They also attend Audit Committee meetings. Accounts are accurately prepared and produced within Treasury timetable for reporting. NAO made no observations on HSC/E financial statements and previous NAO reports have revealed no significant weaknesses.</p> <p>We found there is no formal process in place to record and monitor progress against NAO audit recommendations to ensure they are fully implemented. These could be included as part of the proposed Internal Control Continuous Improvement process as set out in Component 11 above.</p>	<p>HSC/E to be in a position to provide NAO with evidence that there is a robust process for the annual SIC that has been effectively followed.</p>	<p>Agreed</p>		<p>Head of PEFD, Steve Dennis</p>
<p>Component Internal Audit and Assurance</p>				

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
<p>25. Other internal assurance provision</p> <p>Evaluation Apart from internal audit, there are sources of internal assurance for example Business and Quality Assurance, There are elements of this work undertaken throughout HSE, Internal Audit are to undertake a review to evaluate the extent to which the results of significant business and quality assurance reviews, can be relied upon before inclusion in the HIA annual audit opinion.</p>	<p>IAA to evaluate the extent to which reliance can be placed on assurances provided via other significant internal assurance processes and incorporate into assurance map (see 32)</p>	<p>Agreed</p>	<p>To be undertaken and completed by June 2007</p>	<p>Head of Internal Audit, Rachael Radway</p>
<p>Component 26. Other External Providers of Assurance - e.g Treasury Financial Management Review of HSE financial systems (for details see http://www.hse.gov.uk/aboutus/hsc/meetings/2006/140306/c29.pdf)</p> <p>Evaluation There will always be assurance to be obtained from other organisations undertaking work on behalf of HSE, and reporting back their findings. The findings from such reviews are not routinely collated, and progress reported or escalated as necessary.</p> <p>The results of the Treasury Financial Management review were reported in January 2006 and were generally positive, citing seven areas of particular strength and development and providing assurance over HSE financial systems. As part of this audit we have not evaluated progress against the actions recommended by HMT</p>	<p>HSE to ensure that actions agreed as a result of the Treasury review have been implemented</p> <p>Again there is a need to ensure findings from such reviews are collated, reviewed and action progressed (see action 11)</p>	<p>Agreed</p>		<p>Head of PEFD, Steve Dennis</p>
<p>Component 27. Letters of Assurance</p> <p>Evaluation We examined the Letters of Assurance (LOA) process. The Chief Internal Audit and Assurance</p>	<p>Chief Executive to</p>	<p>Agreed in principle. A draft</p>		<p>Chief Executive,</p>

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
<p>Executive (CE) wrote to HSE board members at the start of the 06/07 financial year to advise them that he would require them each to complete an LOA for the financial year just ended, and also for the forthcoming year. He would use these to inform his overall assessment of internal control systems for the SIC. Guidance on draft wording and a suggested list of aspects to consider in reviewing internal controls were provided. In May/June 06 directors produced LOAs for 05/06 in line with the guidance provided.</p> <p>Through discussions with Directors we found mixed levels of understanding and awareness of the LOA process and guidance. In view of this and as there have been some changes to board membership since the CE originally wrote, we would suggest that the CE should write again to the board on the subject in preparation for the 06/07 SIC.</p>	<p>write to all board members to advise/remind them of the requirement to complete a letter of assurance (LOA) for the financial year 06/07 and to re-issue the LOA</p>	<p>letter (on which the Head of IAA commented) is with the Chief Executive.</p>		<p>Geoffrey Podger</p>
<p>Component 28. Gateway review process, Centres of Excellence and other assurance functions.</p> <p>Evaluation OGC Gateway reviews are undertaken in line with OGC requirements and guidance and provide assurance over, and a challenge function to, the governance of Programme and Project activity. We cannot comment on the adequacy of the assurance provided as we have not examined the OGC gateway review process as part of this audit, nor have we explored the role of the Centres of Excellence but this may be included in future audit activity,</p> <p>In order to take assurance from the HSE pre-gateway assessments and peer reviews over Programme and Project activity, and include the results in the HIA annual audit opinion, the HIA is required by</p>	<p>IAA to evaluate the extent to which reliance can be placed on assurances provided via BEU4 pre-gateway assessments and peer reviews</p>	<p>Internal Audit to undertake a review to determine the extent to which BEU4 work can be relied upon</p>	<p>During 2007/08</p>	<p>Head of Internal Audit, Rachael Radway</p>

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
Treasury guidance to have determined the extent to which reliance can be placed on them. IAA has agreed to undertake this evaluation in respect of BEU4 activity during 2007/08.				
<p>Component 29. DWP evaluation of HSC/E under sponsorship arrangements</p> <p>Evaluation DWP are broadly satisfied with the sponsorship and governance arrangements. However we understand that DWP Risk Assurance Division (RAD - internal audit) and NAO plan to examine the DWP/NDPB sponsorship arrangements next year and are likely to include all NDPBs in the study.</p>	HSC/E to prepare for DWP/NAO examination of sponsorship arrangements and seek advice from IAA as necessary	Agreed		Director, RPD
<p>Component 30. Audit Committee</p> <p>Evaluation There has been considerable work to develop and strengthen the role of the Audit Committee; the Terms of Reference have been recently updated, recruitment of non-executive members in line with Treasury guidelines is underway, and the Audit Committee is currently benchmarking against the Treasury Audit Committee Handbook recently.</p>	Audit Committee to complete benchmark against Audit Committee handbook and identify actions required to improve.	Agreed – subject to agreement with chair of AC	During 2007/08	Head of Internal Audit and Assurance, Rachael Radway
<p>Component 31. Management Assurance processes</p> <p>Evaluation We have not examined Management assurance processes in any detail on this occasion. Audit would expect to find that managers at all levels within HSC/E undertake and document a range of assurance activities – checking, validation and monitoring to ensure that activities are being undertaken as intended and in compliance with the relevant policies and. IAA have undertaken work in this</p>	HSC/E to evaluate the extent to which management assurance activity is undertaken and can be relied upon	This might be covered by the extension of the Letters Of Assurance process down the management line, to confirm that adequate checks are in place and applied.		See 32.

Components and Evaluation	Action	Management Response	Agreed Implementation Date	Responsible Manager
<p>area – e.g. as part of the audit of the quality of Regulatory Decision making – and where possible, assurance can be taken from management assurance work completed</p>		<p>Management Assurances will form part of the framework below.</p>		
<p>Component 32. Governance Framework and Map</p> <p>Evaluation HSCE/E does not currently have a documented governance framework and map which would detail those key elements the organisation believes are part of its governance framework and where assurance is obtained as to the effectiveness of those elements.</p>	<p>HSC/E to consider the production of a governance framework and map to assist the organisation in evaluating the effectiveness of its governance processes.</p>	<p>Agreed in principle, The changes arising from the proposed changes on the governance structure will need to be considered. HIA to work with the Board to take this forward.</p>		<p>Head of Internal Audit and Assurance</p>

Annex A: Audit Terms of Reference

Audit Title

Internal Audit of Corporate Governance

System objectives - To deliver a framework or system to provide: -

- A suitable control environment to support HSE to deliver the organisation's long term strategic objectives and plans, within a framework of integrity and accountability;
- The HSC/HSE Accounting Officer(s) with sufficient supporting evidence of a satisfactory quality standard to enable the drafting of the annual statement of internal control; and
- The level of control over HSE operations required by HSE Senior Management, Treasury and DWP Corporate Governance standards.

Audit objective(s)

- To provide the Accounting Officer with an assurance that the key risks to the achievement of the system objectives are being effectively managed;
- To provide assurance over the adequacy and effectiveness of the HSC/HSE Corporate Governance arrangements, and levels of compliance with HSC/HSE, DWP and Treasury Governance requirements; and
- To make recommendations for improvement in control with due regard to value for money.

Scope of the audit

- Assess the adequacy of existing Corporate Governance arrangements to provide the level of control required by HSC/HSE Accounting Officer(s);
- Examine and evaluate levels of compliance with Treasury, DWP and HSC/HSE Corporate Governance requirements;
- Assess the adequacy of the systems in place to provide supporting evidence to enable the drafting of the Annual Statement of Internal Control; and
- Evaluate the current status of progress against the recommendations made in the Internal Audit report "Internal Audit of Business Risk Management" dated May 2006

Exclusions

- The audit will not include Business Risk Management other than to examine progress against previous audit recommendations as described above; and
- The audit will not examine the proposals set out in board paper HSC/06/57 (Future Governance of Health and Safety Commission and Executive). However we would hope that the findings of this review will inform future decision-making.

Key risks to achievement of system objectives

- That the systems in place are not adequate to provide the level of control over HSC/HSE operations/business as required by the HSC/HSE accounting officers, DWP (as sponsoring Department) and HM Treasury; and
- That there is insufficient supporting evidence of adequate quality for the accounting officers to complete the annual statement of internal control.

1. The audit will proceed by assessing whether controls in place to manage the key risks are adequate and operating in practice.
2. Any emerging findings, conclusions and recommendations will be discussed with you or your nominated contact as appropriate. We aim to issue a draft summary outlining the key findings to you by 31 December 2006.
3. If you have any questions please do not hesitate to contact Margaret Wharton (auditor) on ext 4391 or Steve Ratcliffe (auditor) on ext 3876.

Margaret Wharton (Auditor)

Annex B: “Internal Audit of Business Risk Management” – Audit Report May 2006

Progress against recommendations made

Cat	Observation	Impact	Recommendation			
B	There is not always a clear link between business objectives and risks in directorate risk registers	Key risks may be overlooked	The link be made explicit in the risk register	This is covered in the corporate guidance, but we will engage Directorate risk contacts to reiterate that risks should clearly relate to objectives.	PEFD by end June 2006	2007/08 Business Plan will be translated into the balanced Scorecard (BSC). Risks on the CRMP are mapped against the BSC. PEFD are meeting with risk contacts. PEFD meet risk owners quarterly and are planning some workshops to include risk wording
B	The risk appetite has not been articulated nor have any 'nil tolerance' areas been identified	The organisation may be exposed to too high a level of risk	The board agree their risk appetite for all areas of the business and any 'nil tolerance' areas and communicate these across the organisation.	The Board set its risk appetite in 2004 but it would be sensible to re-visit this in the light of Board changes and a changing financial management environment.	PEFD to schedule Board discussion as agenda permits, but certainly by the end of 2006/07	Risk appetite presentation was made to Board members. There is a definition of 'status' allocation on CRMP.
C	Risk registers are prepared using different formats	It is difficult to read across and ensure all risks are covered due to lack of consistency, comparability and clarity	A standard layout should be agreed ideally based upon the corporate risk register	Actively managing risks is more important than the format per se although we recognise that there are benefits from consistency. We will work with contacts to	PEFD, and then Internal Audit through 06/7	PEFD can refer to formats at the workshop and in their planned discussions but their main concern is content and methodology

Cat	Observation	Impact	Recommendation	Management response	Responsibility for implementation and timetable	Update as at Dec 06
				suggest that fresh iterations of risk logs contain the information captured in the corporate risk register.		
B	Risk management is not embedded within all parts of the organisation.	To be effective, risk management needs to be an integral part of the normal operational planning and monitoring procedures.	Consideration of business risk should be included as an important element of the planning process both in annual plans of work and in programme/projects.	Risk is already a consideration in corporate planning and the 2005 Treasury review of financial management concluded that ' <i>Your corporate business plan shows good evidence of ... awareness of risks</i> '. However we will ensure that risk is included in the current consideration of planning as part of the Fundamental Review, and that Directorate Plans acknowledge risk.	PEFD, and then Internal Audit through 06/7	PEFD are planning workshops in the new year (07). They also meet risk owners quarterly and are planning meetings with risk contacts.
C	The emphasis of all risk registers is on the negative aspects of risk rather than the opportunities it can afford	Opportunities for exploiting risk may be missed	In preparing risk registers consideration be given to including 'opportunity' risks	We will engage the Board on whether we are taking sufficient risks as part of the discussion on risk appetite.	See (2)	Board presentation on risk appetite has been held. PEFD can pick this up in workshops and discussions.