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HEALTH AND SAFETY COMMISSION

Corporate Governance

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Issue

1. The structures for corporate governance in HSC/E and how we manage risk.

Timing

2. Routine.

Recommendation

3. That the Commission notes:
 - emerging and recently published material on corporate governance.

Background

4. In the private sector, corporate governance has been tackled in several reports (Cadbury, Greenbury and Higgs). These resulted in [The Combined Code: Principles of Good Governance and Code of Best Practice](#), adopted widely by the business community. Until recently there was no equivalent for the public sector. However, over the past year there have been three separate initiatives:

Name	Scope	Timing
Lynton Barker	Study into enhancing the effectiveness of Boards of Non Departmental Public Bodies, with tool-kit to assess Boards' effectiveness.	Report issued November 2004
HM Treasury (Likierman)	Review of corporate governance in central government departments; essentially a central Government equivalent of the Combined Code.	Approval of Draft by Ministers expected imminently
Sir Alan Langlands (set up by CIPFA)	Independent Commission on Good Governance in Public Services. Aims to provide for the public sector something similar to the 'Combined Code'.	Final report published January 2005.

5. The reports are summarised at **Annex A**; they contain several similar themes but from slightly different perspectives. Treasury material is for central government departments, and includes a section on the relationship between departments and "arms length bodies" like HSC and HSE. Lynton Barker is aimed specifically at Board

performance which in this context broadly equates to HSC. Langlands is aimed primarily at public sector bodies outside central government.

Argument

6. Corporate governance is an increasingly important topic in the public sector. This has implications for HSC/E. The Chair and Director-General have worked in recent years to establish sound working relationships. There have been several initiatives to strengthen governance arrangements, including the establishment of a Remuneration Committee and changes to the Audit Committee, now chaired by a Commissioner.
7. The overall governance structure in HSC/E is shown at **Annex B**. The Health and Safety at Work Act 1974 provides little detail on governance arrangements. The constitution, functions, powers and duties of the Commission and Executive are set out in HSWA Ss. 10, 11, 13, 14 and 16. It is largely silent on the detail of the structure and how HSC and HSE interact. It says simply that there shall be a three-member Executive and a Commission of nine members. The relationship between HSC/E and its sponsoring department is set out in a Framework of Accountabilities agreed in 2001. A draft Management Statement (to replace the Framework) is attached to paper HSC/05/88 (also on the agenda for the July meeting). It sets out the framework within which DWP and HSC/E operates, and defines respective roles, duties and conditions of funding (detailed in an annexed Financial Memorandum). It will go to DWP for agreement if HSC is content.
8. Within HSE, the Resources & Delivery Group (RDG) and the Board are the bodies that take corporate decisions. RDG takes coordinated decisions to ensure HSE remains in a sound financial position, directs improved business efficiency and ensures that HSE progresses toward its PSA targets. The Board deals with cross-cutting strategic business including HSE's general approach to policy or strategic (including strategic operational) issues; personnel; health and safety; corporate risk management; communications; and modernising government.
9. RDG consists of the Executive, the Director of Resources & Planning, and the Chief Scientist. A senior DWP official attends for delivery business, and a manager from Logica CMG attends for meetings on efficiency. The Board consists of RDG executive members, plus Director of Policy, Director of FIT 3 Strategic Programme, Hazardous Industries, Field Operations, Communications and Nuclear Safety, the Chief Inspector of Railways, and the Legal Adviser.
10. An overall formal statement on governance is provided annually alongside the Annual Accounts in a **Statement on Internal Control (SIC)**, signed by the Chair and the Director-General as Accounting Officers for HSC and HSE respectively. A copy of the Statement for 2004/05 is at **Annex C**.

Business risk management

11. In November 2002 the government's Strategy Unit published "Risk: Improving government's capability to handling risk and uncertainty". It formed the basis of a two-year, centrally driven programme aimed at improving risk management (both identification and management of risks to programmes, and taking well-considered

risks aimed at improving services) across government. HSE was at the heart of this work: Paul Davies, HSE's Chief Scientist, was a member of the Inter-departmental Steering Group (chaired by Sir David Omand) and HSE ran a working group on public risk. This initiative has been extended and is managed by a sub-group of the Civil Service Management Board. The need for effective management of risk is a recurring theme of the three documents described at paragraph 4 above.

12. HSE's corporate risk register has been developed to identify risks that pose a threat to HSC/E achieving its Strategy. It is divided into imminent risks and those that present a potential risk in the longer term. A distinction is also made between internal and external risk. The register has 22 risks currently; these are listed at **Annex D** with their inherent risk (our evaluation of the risk before action is taken to try to control the risk) and residual risk (the remaining risk after control measures have been applied).
13. The register is updated quarterly and then considered by the HSE Board. New risks may be added and stable well-controlled ones removed. The distinction between imminent and longer-term risks is a recent development intended to focus attention on the small number of risks that could require action at corporate level.
14. Across the organisation HSE has resisted imposing a "one size fits all" approach preferring different parts of the organisation to develop their own approach to risk management within the overall context of HSE's Business Risk Management Framework. The basics of HSE's approach to BRM are described in "Business Risk Management in HSE – A short practical guide". Both are available to all staff.
15. The approach to business risk management varies across the organisation and is tailored to meet the business needs of that part of the organisation. This reflects HSE's view that management of business risks should be integrated into HSE's normal management processes. Many of HSE's systems which evolved over many years are in effect in place to manage risks. For example, the Commission's enforcement policy and the Enforcement management model are about minimizing the risk that different approaches are taken to investigating similar incidents in different parts of GB; similarly a range of finance control systems have been in place for many years to manage the risk of fraud. These systems are about controlling risks – even if not formally labelled as such. Also the change to programme and project working and the move to more partnership working has generated new risks at that level. Risk registers are in place or are being developed for the strategic programmes and projects within them.

Audit Committee

16. The Audit Committee's main role is "to co-ordinate the derivation and assessment of assurances regarding the quality of corporate governance...". It advises the HSE Accounting Officer on risk and internal control, internal and external audit, corporate governance and fraud control. The full terms of reference are attached at **Annex E**. Judith Hackitt, Commissioner, chairs the Audit Committee, comprising the three members of the Executive, the Director of Resources & Planning, the head of PEFD and DWP Head of Internal Audit. The Committee meets at least twice yearly – usually in June and around the turn of the year. The June meeting concentrates on clearing the accounts for the previous year following audit by National Audit Office (NAO) before publication with the Annual Report. The Committee also considers:
 - any technical issues arising in connection with the Accounts;

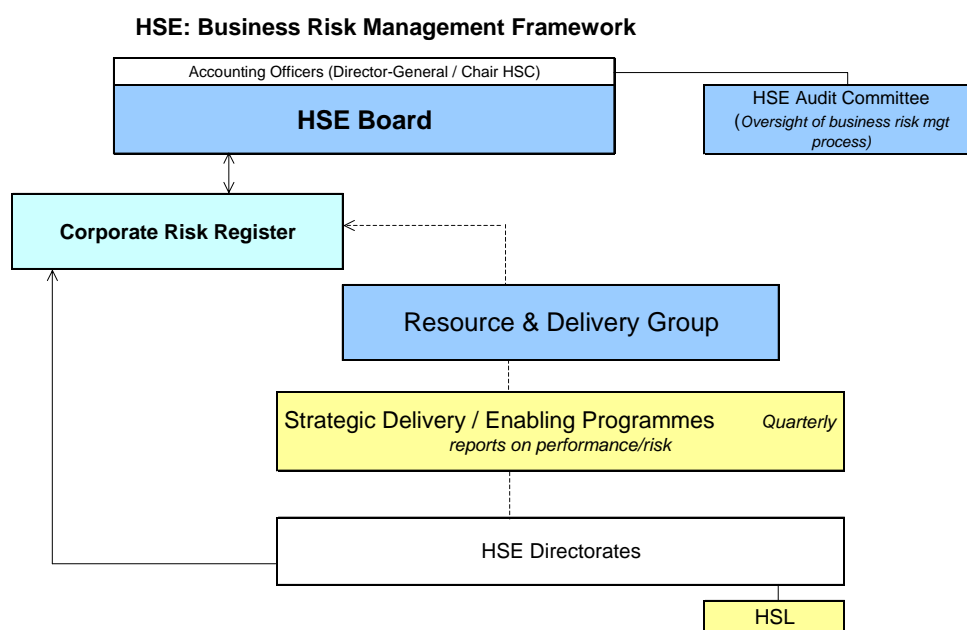
- the Statement on Internal Control, described above at Para 10;
- HSE's approach to business risk management;
- the findings of the Internal Audit programme. HSE Head of Internal Audit and a representative of the National Audit Office attend all meetings;
- Internal Audit's plans for the following year.

The Committee addresses other issues as they arise – for example, the review of HSE's Internal Audit functions considered in June 2004. It will oversee the changes to the audit and assurance function described at para 18 below. It also commented on and agreed the short practical guide referred to in para 14 above.

17. Core elements of HSE's risk management system, illustrated below, are:

- a corporate risk register, considered quarterly by the Board;
- quarterly performance reports to the RDG that report on emerging risks and action taken / planned to mitigate them.

Further work is still needed to embed risk management. Internal Audit will play a more active role in this as an aspect of undertaking detailed audits of BRM within HSE.



Audit and Assurance

18. Internal Audit and business assurance functions are embarking on major change to implement the recommendations of a Deloitte's report on audit functions. These changes will ensure that Audit and assurance operate in the most effective and economic way to meet its responsibilities and the needs of HSE. The changes will result in:

- an appropriately resourced centralised audit and assurance function

- audit effort directed towards high risk and pertinent areas
- audit approach and methodology in line with best practice guidelines
- a continuing strong link between the work of internal audit and the business risk management process.

Governance: Self-Assessment

19. We have carried out an initial high-level self-assessment of HSC/E processes against the criteria in the Treasury material especially as it relates to Arm's Length Bodies. This is shown at **Annex F**. Overall the main conclusion is that the arrangements between DWP and HSC/E are satisfactory. However, within HSC/E there are other governance issues that could be further examined. For example, the Audit Committee's terms of reference do not explicitly say that it should advise the Chair before he signs the SIC. In practice the Audit Committee has provided an opinion but if it is formally the Audit Committee for both Commission and Executive there is the question as to whether a Commissioner can be regarded as wholly independent.

Consultation

20. Internal Audit, Strategy Division.

Action

21. The Commission is invited to note the emerging material, and the initial assessment of compliance with the Treasury guidance.

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Summary of Governance Codes

1. HM Treasury

Sir Andrew Likierman initiated work to produce a code of good practice for central government departments on which Ministerial agreement will be sought shortly. Much of this concerns the role and composition of Departmental Boards. HSC/E's NDPB status means not all of this applies *directly*. However, we can probably learn from and might be expected to adopt some key points. The draft code covers six areas:

- Parliamentary accountability
- Board performance
- Board skills
- Independent non-executives
- Internal controls
- Arm's length bodies (including NDPBs)

The **principles** that should apply in each area are:

Parliamentary accountability

The minister in charge of the department is alone ultimately responsible and answerable to Parliament for the exercise of the powers on which the administration of that department depends. He or she has a duty to Parliament to account, and to be held to account, for the policies, decisions and actions of the department including its executive agencies.

Under the minister, the head of the department, as its Accounting Officer, is personally responsible and accountable to Parliament for the management and organisation of the department, including the use of public money and the stewardship of its assets.

The board

Each department should be managed by an effective board which, within the strategic framework set by the minister (or, in the case of a non-ministerial department, by legislation), supports the head of the department by advising ministers and taking ownership of the department's performance.

Board skills

The board's membership should have a balance of skills and experience appropriate to directing the business of the department.

Independent non-executives

The board should include independent non-executive members to ensure that executive members are supported and constructively challenged in their role.

Internal controls

The board should ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. In this respect, the board should be independently advised by:

- an audit committee chaired by an independent non-executive member;
- an internal audit service operating in accordance with Government Internal Audit Standards.

Arm's length bodies

Where part of the business of the department is conducted with and through arm's length bodies (ALBs), the department's board should ensure that there are robust governance arrangements with each ALB board, setting out the terms of their relationship, in order to promote high performance and safeguard propriety and regularity.

2. Langlands

The Office for Public Management (OPM) and the Chartered Institute of Public Finance and Accountancy (CIPFA), with funding from the Joseph Rowntree Foundation, established an independent Commission to develop a common standard of good governance for all public services. Sir Alan Langlands, Principal and Vice Chancellor of the University of Dundee and former Chief Executive of the National Health Service chaired the Commission

Sir Alan's report¹, which was published in early 2005, set out six principles of good governance for public service organizations:

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective;
- engaging stakeholders and making accountability real.

3. Lynton Barker

The Public Services Productivity Panel (part of HM Treasury, and chaired by Paul Boateng, the then Chief Secretary to the Treasury) instigated a study of board performance in executive non-departmental public bodies. The final report was published in November 2004. Lynton Barker, President of the Management Consultancies Association, led the study. The Report set out a number of principles and tools to help

¹ http://www.opm.co.uk/ICGGPS/download_upload/Standard.pdf

improve the effectiveness of NDPB boards. The *Better Boards* toolkit contains eight elements to assist NDPBs and their sponsor departments in evaluating current practices and performance:

Tool 1: NDPB function and purpose - *organisation and its sponsor department to be clear about its aim and its position within the department's strategy.*

Tool 2: Board structure and function –*board to be optimally positioned to positively influence the performance of the organisation.*

Tool 3: Fit for purpose board –*board to be composed of the right set and amount of skills and knowledge to enable it to meet the current and medium-term needs of its organisation.*

Tool 4: Effective leadership –*board to be led as a team, within a constructive and open atmosphere, that encourages good decision-making and good corporate managements.*

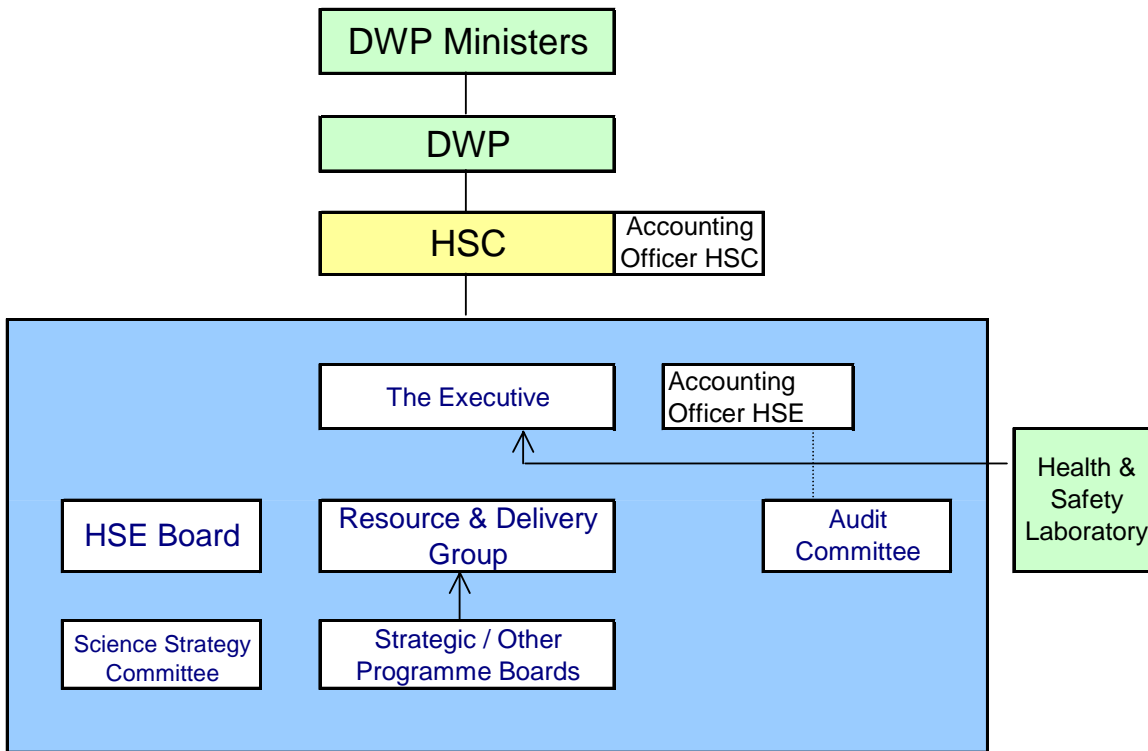
Tool 5: Effective decision-making –*board to steer its organisation through well-informed and corporately owned decisions and thereby improve organizational performance and governance.*

Tool 6: Understanding/Relationships–*board, executive and department to understand the roles of others and for constructive relationships to exist between them and their stakeholders*

Tool 7: Assessing board performance –*board's performance to be actively monitored and improved through impartial action and forward action planning.*

Tool 8 Assessing board member performance –*performance of all board members to be understood and used as a basis for personal development, along with that of the board as a whole.*

Overall Governance Structure



—— Reporting lines
 Advice

Statement on Internal Control 2004/05

1. Scope of responsibility

As Accounting Officers (for the Health and Safety Commission, the Chair, and for the Health and Safety Executive, the Director General), we have responsibility for maintaining a sound system of internal control that supports the achievement of the Health and Safety Commission's (HSC's) and the Health and Safety Executive's (HSE's) policies and strategic priorities, agreed with the Department's ministers, while safeguarding the public funds and assets for which we are personally responsible, in accordance with the responsibilities assigned to us in Government Accounting.

HSC and HSE are Non-Departmental Public Bodies established under the Health and Safety at Work etc Act 1974. The sponsoring department is the Department for Work and Pensions (DWP). DWP ministers have responsibility for health and safety issues in government. HSC/E submits quarterly performance reports on progress towards Public Service Agreement (PSA) targets to the DWP minister responsible for workplace health and safety (the Minister for Work). The Chair of the Commission and senior HSE managers meet the Minister formally twice a year to discuss these reports, in addition to other meetings and contacts; HSC/E also report to other ministers on different aspects of health and safety.

HSC/E's vision is to gain recognition of health and safety as a cornerstone of a civilised society, and with that, to achieve a record of workplace health and safety that leads the world. Strategy for securing health and safety in relation to work activities is set by HSC with input and support from HSE.

In February 2004 HSC published its strategy for the health and safety system as a whole. The "*Strategy for Workplace Health and Safety in Great Britain to 2010 and beyond*" sets out what HSC wants to achieve and how. It draws on previous publications '*Securing Health Together*' and '*Revitalising Health and Safety*'; both published in 2000. It focuses on delivering the targets agreed with Ministers originally set out in *Revitalising Health and Safety*. A key theme is to concentrate on things that HSE and LA's are best placed to do and where they will have greatest impact.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims, objectives and strategic priorities. It can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of HSC/E's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. It has been in place and progressively developed in HSC/E over the year ended 31 March 2005 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Reducing risk to members of the public so far as is reasonably practical is an integral part of HSC/E's mission. HSC consults formally on all regulatory changes. It is also using new means of consultation in order to ensure as wide a range of stakeholders as possible is reached.

During 2004, HSE developed the Business Plan 2005/06 – 2007/08 which sets out its delivery plans. This will be primarily through Strategic Delivery Programmes (SDPs) supported by four Strategic Enabling Programmes (STEPs). Risk registers are evolving for each SDP with lower level registers in place or developing for the component parts. Effective risk management has been built into training modules and guidance.

HSE's corporate planning system has been changed radically to meet these developments. HSC's Business Plan for 2004/2005, the first to put the new Strategy into practice, and its successor for 2005/06 to 2007/08, set out how HSE would use its resources, alongside LA enforcement partners and other key stakeholders, to deliver the Government's health and safety PSA targets. They are aimed at protecting people by ensuring health and safety risks in the changing workplace are properly controlled.

HSE has moved to delivering a large proportion of its work through programmes and projects. A dedicated team has been established, an Intranet site set up, a structured suite of workshops has been delivered, covering programme and project working and the concepts of business risk, to equip staff for this new way of working. Specific business risk workshops helped in building the risk register when three smaller programmes were merged to form Fit for work, Fit for life, Fit for tomorrow (Fit3) Strategic Delivery Programme. Internally produced guidance '*Business Risk Management in HSE: A short Practical Guide*', a product of HSE's Risk Management Improvement Plan (RMIP), is on the intranet site. It is a requirement that formal programme and project management techniques are used for the planning and delivery of all programme activity.

HSE's Risk Management Improvement Plan for 2004/05 was designed to embed risk management processes further across the organisation. Much of this has been delivered.

4. The risk and control framework

HSE's Risk Management Framework codifies its overall strategy for risk management. It emphasises the need for business risk management to be integrated with the organisation's management system to ensure that risks to business are managed effectively and proportionately.

The Corporate Risk Register sets out HSE's strategic risks and is the focus for business risk management at corporate level. For each risk a Board-level risk owner has responsibility for ensuring adequate measures for managing their risk are in place and that their adequacy is regularly reviewed. Where appropriate, action is taken or in hand to add further controls if needed. Risk owners review the risks they own to test whether they should be in the corporate register and their mitigation is still appropriate. Risk owners have provided the Accounting Officers with signed "stewardship statements" confirming that the risks they own have been properly managed.

The HSE Board considered the Corporate Risk Register four times in 2004/05 and change proposals were adopted. It meets formally monthly to action health and safety issues, broad Personnel matters, and HSE's approach to policy and strategic matters. It also monitored and managed performance and delivery in key areas of HSE's business quarterly, using a Balanced Scorecard. During 2004/05 the Balanced Scorecard approach was further developed to meet HSE purposes and continues to be developed in 2005/06.

A Delivery Board was established to support HSE's main board in monitoring the delivery of the workplace health and safety targets. A Business Improvement and Efficiency Board ensured HSE's business improvement and efficiency programmes contributed to delivery of HSC/E's mission. Both were in place for most of 2004/05 until subsumed into the Resources and Delivery Group (RDG) in January 2005 in order to simplify and rationalise governance structures.

The Resources and Delivery Group consists of HSE's five principal budget holders. Its objective is to ensure that HSE remains in a sound financial position, uses resources effectively, improves business efficiency and progresses towards its PSA targets. All boards have a focus on managing any risks to the programmes and projects within their remits where these could not be effectively addressed at a lower level.

Use of resources is subject to clear delegation, specified and agreed in writing, from HSE's Accounting Officer to individual senior managers who are principal budget holders.

HSE's and HSL's² budgets are monitored as a whole and monthly reports provided to main budget holders, the Finance Director and the Accounting Officer (and in turn to the Department and Treasury) based on the latest resource outturn information provided by directorates.

Established corporate policies continue to operate covering a wide range of issues. They provide an effective control across a range of risks including the health and safety of HSE's own staff and contractors, personnel matters, planning, finance, accounting, procurement, information technology and regularity, propriety and

² The Health and Safety Laboratory (HSL) was established as an in-house agency of HSE on 01/04/1995 and operates on 'Next Steps Agency' principles. It provides health and safety science and research services. It has its own Accounting Officer and arrangements to manage risk.

authorisation of expenditure. All are set out in codes and other instructions, communicated throughout the organisation, and available to all staff.

5. Review of effectiveness

As Accounting Officers, we have responsibility for reviewing the effectiveness of the system of internal control. Our review of this is informed by the work of the internal auditors and the executive managers within HSE who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by the Board, the Audit Committee and the risk owners; a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Audit Committee, chaired by Judith Hackitt, a member of the Commission, met twice in 2004/05. In December it discussed progress on risk management in HSE. Members of the committee also considered by correspondence further aspects of risk management in March, including the *Risk Management Improvement Plan for 2005/06*. The committee will continue to receive regular progress reports in future. It is responsible for advising the Accounting Officers on corporate governance issues including risk and internal control.

HSE's Internal Audit Unit has direct access to the Accounting Officer and operates to Government Internal Audit standards. HSL has an internal audit function supplied by a private sector auditor which also works to Government Internal Audit Standards. Their work plans are approved by the HSL Audit Committee to which they make regular reports. They include an opinion on the adequacy and effectiveness of the system of internal control, and make recommendations for improvement. The overall risk management arrangements have been developed in consultation with HSE's Internal Audit Unit and will be subject to regular review by it. The Internal Audit work programmes will continue to focus on testing the adequacy and effectiveness of the systems of internal control in HSE and HSL.

The overall opinion of the Head of Internal Audit is that HSC/E has a generally sound framework of control which provides reasonable assurance regarding the effective and efficient achievements of its objectives. The organisation has implemented a comprehensive business risk management process during 2004/2005 and is working to continuously improve this process during 2005/2006.

6. Significant internal control problems

There were no significant internal control problems.

Timothy Walker CB
Director General
Health and Safety Executive Accounting Officer

Bill Callaghan
Chairman

Health and Safety Commission Accounting Officer



HSE AUDIT COMMITTEE - TERMS OF REFERENCE

Purpose of the Audit Committee

1. The prime purpose of the Audit Committee is to co-ordinate the derivation and assessment of assurances regarding the quality of corporate governance in the organisation. In so doing it will advise the Accounting Officer on matters of:

- 1.1 Risk and internal control
- 1.2 Internal audit
- 1.3 External audit
- 1.4 Corporate governance developments
- 1.5 Fraud control

2. The Audit Committee will assist in ensuring that:

- 2.1 risk and control matters are subjected to appropriate management attention
- 2.2 the activity of internal audit is appropriately focused in accordance with business risk assessment
- 2.3 external audit interests are appropriately reflected in risk assessment
- 2.4 significant weaknesses identified by either internal or external audit are addressed
- 2.5 the Accounting Officer receives appropriate assurances to facilitate the preparation of the annual corporate governance statement on internal control
- 2.6 mutual reliance between review bodies is promoted, particularly that internal and external auditors co-operate as far as possible to minimise the burden of audit on the organisation
- 2.7 a culture conducive to the prevention and detection of fraud is encouraged.

3. In addition the Audit Committee will promote the activity of Internal Audit by:

- 3.1 promoting understanding of Internal Audit's role in the organisation
- 3.2 enhancing the independence and perceived value of Internal Audit
- 3.3 providing a forum for the Head of Internal Audit (HIA) to discuss long term and short term audit plans.

Business of the Audit Committee

4. Items for discussion at meetings of the Audit Committee may include:

- 4.1 Management's responsibility for adequate and effective internal control (financial and other)
- 4.2 Major policy issues and their implications for internal control
- 4.3 The objectives, status, scope, and terms of reference of Internal Audit
- 4.4 Business risk assessment and the audit needs assessment
- 4.5 Internal audit plans (long and short term)
- 4.6 The Head of Internal Audit's annual report to the Accounting Officer and the provision of positive assurance in the report
- 4.7 Internal audit reporting arrangements
- 4.8 Internal audit resourcing and skills requirements

- 4.9 Quality assurance mechanisms for internal audit including performance indicators and quality reviews (internal or external)
- 4.10 External audit risk assessments and plans
- 4.11 External audit reports and findings
- 4.12 The network by which the Accounting Officer gains assurance to allow signature of corporate governance statements
- 4.13 Other non-audit reports contributing to corporate governance assurance
- 4.14 Significant weaknesses/risks exposed in the organisation's business
- 4.15 Relationships between internal and external audit and other review bodies.
- 4.16 The organisation's strategy for the prevention and detection of fraud
- 4.17 The audit provision arrangements for HSL
- 4.18 The appointment and termination of the HIA
- 4.19 On occasion the commissioning of audit assignments on the Committee's behalf.

Membership of the Audit Committee

5.1 The membership of the Audit Committee will consist of the three members of the Executive, the Principal Establishment and Finance Officer and the Head of Planning Efficiency and Finance Division. DFE's Head of Internal Audit and a member of HSC will be non-executive members. The PEFO and the Head of PEFD will be excluded from decision making in matters for which they have direct responsibility. HSE's Head of Internal Audit and a representative of the External Auditors will normally attend.

Frequency and Timing of Meetings

6.1 The Committee will meet at least twice a year. The first meeting will include consideration of Internal Audit's annual programme of work. The second will include consideration of assurances received towards enabling the Committee to advise the Accounting Officer on the degree of confidence with which (s)he can sign the annual corporate governance statement on internal control. This second meeting will therefore be scheduled to take place prior to signature of the annual accounts.

The Treasury Code: Self-Assessment

This assessment focuses on the sixth principle of the proposed Code, relating to Arms Length Bodies, and

Arm's length bodies

Where part of the business of the department is conducted with and through arm's length bodies (ALBs), the department's board should ensure that there are robust governance arrangements with each ALB board, setting out the terms of their relationship, in order to promote high performance and safeguard propriety and regularity.

Supporting provisions

<p>6.1 The board should ensure that the department has a written agreement with each of the department's ALBs, setting out a clear definition of how their relationship should work. These documents should reflect the increased emphasis on departments conducting business with and through partnership organisations. Each departmental agreement with an ALB should be drawn up to suit the ALB's legal standing and the environment in which it operates.</p>	<p>There is a draft Management Statement (which will replace the existing document). This has been agreed at working level, and is attached for HSC consideration (see paper HSC/05/88).</p>
<p>6.2 The agreement document should be reviewed and updated periodically. It should include clear information about:</p> <ul style="list-style-type: none"> • shared aims and performance targets; • arrangements for reporting and consultation in order to ensure that the department board receives information enabling it to monitor the areas specified in paragraph 2.10; and • where relevant, the process of board and senior management appointments in the ALB 	<p>The draft Management Statement is the result of a thorough review. It covers:</p> <ul style="list-style-type: none"> • aims, objectives and key targets; • planning, budgeting, control and reporting arrangements; • the appointment of the Director-General
<p>6.3 Departments may adopt a variety of supplementary arrangements in practice to manage these relationships. For example, senior members of ALBs may be members of, or observers on, departmental boards in their capacity as stakeholders; similarly, departmental board members may be members of the boards of ALBs.</p>	<p>Michael Richardson, Director for Work, Welfare & Poverty in DWP attends HSE's Resources & Delivery Group. The Head of DWP's Internal Audit Unit attends Audit Committee</p>
<p>6.4 The department's relationship with ALBs should reflect the department board's assessment of the ALB's ability to manage its risks, including those relating to delivery and financial management. The aim should be to ensure that the department's monitoring of and intervention with its ALBs is targeted on the most significant risks.</p>	<p>HSC/E's Accounts have been certified by the National Audit Office without qualification</p>
<p>6.5 In the case of companies or other entities in which the department has a controlling shareholding, the departmental board will need to distinguish between the department's role as a shareholder and any other business relationship it or other departments may have with the company (for example as customer).</p>	<p>N/a</p>
<p>6.6 The department should report annually on the overall arrangements it has in place for promoting sound working relationships with its ALBs.</p>	<p>For DWP</p>