

**Final Report to the Accounting Officer of
HEFCW on the Audit of**

Corporate Governance

By

HEFCW Internal Audit Service

Issued to:

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Corporate Governance

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Note

This report, and the opinions and assurances provided within it, is produced solely for the use of the Accounting Officer of HEFCW. The matters contained in the report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive record of all the errors or weaknesses that exist, or improvements made by HEFCW officers. This report has not been prepared and is not intended for use by any third party and HEFCW Internal Audit Service will not accept responsibility for any reliance such parties might place on it.

Executive Summary

The principal objective of this audit of the Corporate Governance arrangements is to provide assurance on the management of the governance risks and the effectiveness of the controls in place.

This audit also follows up the recommendations from the 2006-07, 2005-06 and 2004-05 Corporate Governance internal audits that were reported as outstanding in the 2007-08 Corporate Governance follow up audit. This audit also follows up on the 2006-07 Public Relations and Communications internal Audit.

The one 2004-05 recommendation reported as outstanding in the 2007-08 follow up concerning the whistle blowing policy for Council members is still outstanding. The draft policy had been produced in 2006 and a request sent to the Welsh Assembly Government for guidance as to who the Council members' should report to within the Assembly. No response has been received from the Welsh Assembly Government even after a number of follow up requests. It is now planned that the whistle blowing policy will be presented to the Council for approval in July 2009 and then to inform the Welsh Assembly Government of the procedure implemented.

There were two 2005-06 corporate governance recommendations reported as outstanding in the 2007-08 follow up audit. The recommendation concerning the effectiveness reviews of Committees was only partially implemented but has been cleared as it has been superseded by the 2008 committees review process. The second recommendation relates to the reviewing and updating of the Code of Practice for members which has not yet been implemented. The Welsh Assembly Government has issued a draft updated Management Statement and Financial Memorandum to all the AGSBs at the end of March 2009. The Code of Practice for members is an annex to the Management Statement and will be discussed and updated as part of the process of agreeing the new Management Statement and Financial Memorandum.

Three of the six significant recommendations arising out of the 2006-07 corporate governance audit and all four of the recommendations that merited attention have been implemented. The three significant recommendations that remain outstanding relate to the development of an induction process for external members of HEFCW Committees; the relative roles and responsibilities of the Clerk to the Council and the guidance for Secretaries of the HEFCW Committees.

These outstanding recommendations are shown in Annex B of this report.

Six recommendations from the 2006-07 public relations and communications audit have been implemented and one was cleared with the agreement of internal audit as the recommendation was no longer appropriate.

Executive Summary

Overall opinion

Taking account of the issues identified in this report, in our opinion the control framework for the system under review provides substantial assurance that the risks material to the achievement of the organisation's objectives for this system are effectively managed and controlled.

Evaluation opinion on the adequacy of controls

Based on the evidence obtained, we have concluded that the design of the system of control, if complied with, is sufficiently robust to provide substantial assurance that the systems objectives will be achieved. We identified 1 significant weakness which is summarised below and 2 priority 3 (less significant) recommendations.

- The role of fully advising the Learning & Teaching Committee regarding its statutory powers and duties needs to be formally assigned.

Testing opinion on the application of controls

We have concluded that the evidence obtained from our testing provides adequate assurance that the controls are being consistently applied. We identified 2 significant weaknesses which are summarised below and 1 priority 3 (less significant) recommendations.

- The governance risks and controls need to be based on current relevant and effective controls.
- The Clerk to the Council desktop procedures need to be retained in a shared drive accessible in their absence.

Recommendations and management responses have been summarised in a Management Implementation Plan at Annex A to this report.

HEFCW Audit Service would like to thank the Clerk to the Council for their assistance during the course of this audit.

Introduction

Scope and Objectives

- 1 HEFCW Audit Service is responsible for providing the Chief Executive with independent assurance on the adequacy, reliability and effectiveness of control arrangements within HEFCW, financial or otherwise. This is largely achieved through the completion of audit assignments in accordance with the programme of work set out in the HEFCW Annual Audit Plan that is approved by the Chief Executive and Audit and Risk Committee of the Council. The Internal Audit Plan for 2008-09, which is to form the first year of a new Internal Audit strategy, includes an audit of Corporate Governance arrangements.
- 2 This audit covers key controls over the Corporate Governance processes which include a review of the effectiveness of these controls. The audit also integrates the Public Relations and Communications into the Governance audit work and covers the progress in the development of an action plan to address the findings of the stakeholder survey.
- 3 The objective of this audit is to assess the adequacy, reliability and effectiveness of controls established within HEFCW to ensure:
 - a) the achievement of management objectives;
 - b) compliance with established policies, procedures and regulations;
 - c) safeguarding of public funds and assets;
 - d) the integrity and reliability of information; and
 - e) the economical and efficient use of resources.
- 4 This audit has been conducted in accordance with the requirements of the Government Internal Audit Standards using a risk based approach. It identifies the risks to the achievement of the management objectives and the controls that should be established to control these risks. A comparison is then made to the actual controls to assess their adequacy, reliability and effectiveness in managing the identified risks.

Protocol

- 5 The executive summary and report have been reported on an exception basis to focus attention on those areas where management action is required to strengthen existing arrangements. Accordingly, audit observations have been made where considered appropriate together with recommendations designed to improve and strengthen control.

Introduction

- 6 The Opinions provided in the report are based on the following reporting definitions;

Level of assurance	Evaluation Opinion on the adequacy of controls	Testing Opinion on the application of controls
Substantial Assurance	There is a sound system of control designed to achieve the systems objectives.	The controls are being consistently applied
Adequate Assurance	There is a basically sound system but there are weaknesses which put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put the system's objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No Assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

- 7 All recommendations have been summarised in the management implementation plan at Annex A and have been given a priority to signify their relative importance, based on the following definitions:

Priority	Definition
1	Recommendations are fundamental to HEFCW upon which action should be taken immediately
2	Recommendations are significant to HEFCW which provide scope for improvements to be made.
3	Recommendations concern issues which are considered to be of less significance but nevertheless need to be addressed.
4	Good practice or efficiency issue.

Introduction

Background

- 8 The Reorganisation in 2008 changed the responsibility for oversight of the Corporate Governance arrangements from the Head of Planning & Corporate Governance to the Head of Governance, Leadership & Information.
- 9 There has been a significant turnover in Council and Committee membership during 2008-09 as a result of the end of terms of office of seven of the eleven Council members (including the Chair). Three of the remaining four Council members' terms of office are due to end in 2009 and the remaining one in 2010.
- 10 A Committee Review has also been carried out in 2008-09 which has resulted in a restructuring of Committees and included the updating of the terms of reference for each Committee and the refreshing of membership of these Committees.
- 11 The last Council effectiveness review was carried out in 2006 and was updated and reported to the Council in 2007. No effectiveness reviews were carried out in 2008 due to the significant changes in the Council membership. Although the Audit & Risk Committee completed a self assessment of effectiveness in 2007 no other committee has carried out this process. This was the subject of a recommendation being monitored by the MIPs process. This recommendation was cleared in October 2008 on the basis that changes in committee structure and membership along with review of terms of reference means that retrospective effectiveness review will not add any further value. The Council Chairman is leading on a Council member appraisal process and an effectiveness review is planned at the end of 2009 which should cover both Council and Committee effectiveness.
- 12 The Governance framework at HEFCW is based on the following key guiding documents
 - The Management Statement and Financial Memorandum issued by the Welsh Assembly Government to HEFCW contain the responsibilities and Accountability of the Welsh Assembly Government, the Principal Accounting Officer, the Chair, Council members and the HEFCW Chief Executive. The extant version was issued in April 2006. A model Management Statement & Financial Memorandum, that takes into account the implications of the 2006 Government of Wales Act, was received by HEFCW in March 2009. Further discussions are required with the HE Sponsor Division to tailor the document to take account of HEFCW's specific responsibilities.
 - The Code of Practice for Members of HEFCW was issued in 1997 and is intended to be a best practice guidance document. It includes rules of

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personal conduct for members of HEFCW and provides guidance on dealing with conflicts of interests. This document was the subject of an outstanding recommendation arising from the 2005-06 corporate governance audit to review it in the light of good practice and to include within its scope the members of committees who are not Council members. The implementation of the recommendation is monitored by both Management Board and the Audit & Risk Committee through the Management Implementation Plan (MIPs) follow up and monitoring process.

- The standing orders for the conduct of Council business include quoracy and frequency of meetings as well as including the requirements and guidance on attendance, order of meetings and categories of Council papers. In addition the standing committees are defined. This document was last updated and approved by Council in May 2009 to take into account the outcomes of the Committees review. There are also Committee standing orders which were approved by the Council in December 2008.
- The Committee structure was changed in 2008 with the creation of a new Research, Innovation & Engagement Committee and amalgamation of the previous SDF and R&C Committees into a single Reconfiguration & Collaboration Committee. There are now seven Council Committees which all have terms of reference in place that determine the constitution, membership, frequency of meetings, duties and responsibilities and the reporting arrangements.
- The HEFCW Scheme of Delegation provides the basic principles of delegated authority including the need to report to Council the uses of delegated authority at the first available meeting of the HEFCW Council. It also contains the specific matters that are reserved for Council alone. In addition the Scheme of Delegation includes the delegated authority of the Chairman and general provisions covering the Chief Executive's delegation powers as well as the specific delegated authority of the Chief Executive. The scheme of delegation was last reviewed and approved by the Council in December 2008
- The HEFCW Financial Regulations which were revised and reissued in December 2008 also contain the responsibility of the Director of Finance and Corporate Services for the general oversight of financial matters and for the proper administration of the Council's finances. The Financial Regulations provide more definition in the delegation of financial operational responsibility and are supported by specific financial policies and procedures.
- The stakeholder survey which was carried out in 2007 has a supporting action plan which is being monitored by the Management Board. This was last reported to the Council in December 2008.

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- 13 Membership of the Council is determined directly by the Welsh Assembly Government. The Chairman of HEFCW has an involvement in the recruitment process for new members, but the final decision on membership is determined by the Welsh Assembly Government. The membership requirement is set at between 8 and 12 members including the Chairman and the Chief Executive of HEFCW. There were 11 members of Council at the time of the audit however the terms of office for three of these members are due to come to an end in 2009.
- 14 The Committees' membership is drawn from both the Council members and from Co-opted external members who either apply or are nominated by their organisations depending on the Committee.
- 15 The main systems and controls for Corporate Governance comprise:
- The structure and constitution of HEFCW, the Council and committees are in accordance with regulations and guidance and are appropriate for the discharge of their duties;
 - There are formal codes of conduct defining the standards of personal behaviour to which individual members of the Council and Committees and staff are required to subscribe.
 - The organisation has put in place arrangements to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders.
 - A properly constituted Audit & Risk Committee has been established with appropriate Terms of Reference that have been approved by the Council and which are subject to an annual review.
 - Effective communication processes and strategies are in place
- 16 These systems should be in compliance with the requirements of Managing Public Money publication, the Management Statement and Financial Memorandum with the Welsh Assembly Government and . internal procedures.

Introduction

Responsibility and Organisation

- 17 The Management Statement issued by the Welsh Assembly Government to HEFCW advises that the Chairman and members of the Council are collectively and individually responsible for observing the Council's own Code of Practice. This includes responsibility for ensuring that high standards of governance are observed at all times.
- 18 The Chief Executive of HEFCW has particular responsibility to advise the Council on the discharge of its responsibilities under the Management Statement and Financial Memorandum. In addition the Chief Executive has specific responsibilities as Accounting Officer for the day to day operations of the Council. The Chief Executive may be assisted in this exercise by employees of the Council and may also delegate day to day administration of these responsibilities to these employees. However the Chief Executive remains responsible and accountable under the Management Statement and Financial Memorandum. In order to comply with this requirement the Chief Executive of HEFCW seeks sources of assurance in order to ensure that these duties are fully met.
- 19 The Head of Governance, Leadership & Information has the responsibility to develop and maintain effective corporate governance systems for HEFCW. The Clerk to the Council supports them in this role by taking lead responsibility for organising all pre- and post-Council activities, and for providing high level support to the Chairman and other Council Members.
- 20 The Director of Finance & Corporate Services has taken over the responsibility to advise the Council on its statutory powers and duties, and compliance with Assembly requirements following the 2008 HEFCW reorganisation.

Findings and Recommendations

Findings

Risk Register Controls

21	Findings	<p>There are two governance risks included on the Governance, Leadership & Information Risk register. The existing controls in place were audited and the following matters identified;</p> <ul style="list-style-type: none"> • The control refers to governance processes being regularly reviewed including via progress against a detailed checklist of best practice. Although there is an annual governance paper provided to the Council, the control checklist refers to the comparison of the Council against the CIPFA 'On Board' guidance document which was reported to the Council 2006 & updated in 2007. As there has been significant change in the Council membership this (or a compensating control) needs to be implemented during 2009. • The controls refer to having in place effectiveness and development reviews. The last effectiveness and development review last was carried out in 2006 and reported to the Council in 2007. The change in the Board membership will once again have an impact on the effectiveness of this control.. • One of the controls is that detailed documented procedures exist for all standard Council meetings and activities. The procedures in practice include the desktop procedures for council meetings maintained by the Clerk to the Council. This document which is a key document to use in the absence of the Clerk was located on their personal 'H' drive which is only accessible by the Clerk. The clerk considered this document to be for their personal use rather than connected to the controls on the risk register. • The controls include the roles and responsibilities being documented for secretaries of committees and the clerks' role in respect of committees. This was issued at the end of May 2009 in draft form only and is still shown on the MIPs monitoring as outstanding.
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Findings and Recommendations

Risk	The governance risks have a higher residual risk than that shown on the Team risk register.
Recommendations 20.1	The governance risks and controls need to be based on current relevant and effective controls.
20.2	The Clerk to the Council's desktop procedures need to be retained in a shared drive accessible in their absence.

Findings and Recommendations

Roles and Responsibilities

21	<p>Findings</p> <p>The role of advising the Council on their statutory powers and duties and of the Welsh Assembly Government's formal requirements as set out in the Management Statement and Financial Memorandum has changed in the reorganisation and has been assumed by the Director of Finance & Corporate Services. This role has not been included in their Job Description.</p> <p>The Job Description of the Clerk to the Council includes working with the Head of Governance, Leadership and Information to ensure the Council is kept fully advised of its statutory powers and duties. The Job Description of the Head of Governance, Leadership & Information does not include this equivalent role of working with the Clerk and the Director of Finance & Corporate Services.</p> <p>The responsibility for ensuring the Committees work within their remit is not formally assigned, but would fall to the Chair of the Committee, Secretary and Officers</p> <p>Only one Committee has a statutory role ((Quality Assurance Committee (QAC) within the Learning & Teaching Committee Remit) but no officer has been assigned the role of fully advising the Committee regarding its statutory powers and duties.</p> <p>The 2006-07 internal audit identified that the role of the secretary to the committee was not properly defined. The draft guidelines on the role of the Clerk to the Council and the Committee Secretaries roles was produced and sent out for consultation at the end of May 2009.</p> <p>The 2006-07 audit also identified that the papers being produced for the committees did not follow a standard format/ numbering and the reporting of Freedom of Information categorisation and protective marking was at the discretion of the secretary. This area has not been addressed in the draft guidelines and is to be followed up as part of the consultation process.</p>
	<p>Risk</p> <p>The effectiveness of the governance arrangements may be affected if clear responsibilities and guidance are not available.</p>

Findings and Recommendations

Recommendations 21.1	The Job Descriptions of the Director of Finance & Corporate Services and the Head of Governance, Leadership & Information should be amended to reflect their relative roles in the process of providing advice to the Council on their statutory powers and duties.
21.2	The role of fully advising the Learning & Teaching Committee regarding its statutory powers and duties needs to be formally assigned.

Findings and Recommendations

Intranet and website and extranet

22	<p>Findings</p> <p>The update of the HEFCW Website and intranet depends on the ownership of the responsibility for maintaining the content being assigned. This process had been completed prior to the 2008 HEFCW reorganisation for both the Website and Intranet.</p> <p>The website is in the process of being redesigned and as part of this the ownership of content has been confirmed post reorganisation.</p> <p>The content ownership mapping for the intranet covers just the shared corporate area, but this had not been updated following the reorganisation.</p> <p>The owners of the intranet and website content are issued with regular reminders to review and update their pages but the response to this request is reported to be variable.</p> <p>A review of the HEFCW website identified that the HEFCW policies and procedures pages had a number of out of date documents including the financial regulations, Travel and Subsistence, and HR policies.</p> <p>In addition the Corporate Documents page included the previous versions of policies including the 2006 risk management policy and guidelines.</p> <p>The updating of the website is an issue which has been raised in the stakeholder survey and is the subject of recommendations in the associated action plan. The identified actions in the plan include; Bringing the web update into HEFCW processes; Developing web user guidelines; and building in updating the website considerations to all internal and sector facing policies and documents.</p> <p>There is also a new Council members' extranet introduced in 2009. The governance documents provided on the extranet do not include the standing orders for the Council.</p>
	<p>Risk</p> <p>The content of the website or extranet may be out of date or incomplete.</p>

Findings and Recommendations

Recommendations 22.1	The mapping of the ownership of the content of the Intranet needs to be updated to reflect the changes arising out of the HEFCW reorganisation.
22.2	The Standing orders of the Council should be provided on the Extranet.

Management Implementation Plan on Recommendations

Para	Recommendation	Risk Priority	Management Comments	Implementation Timetable	Responsibility
20.1	The governance risks and controls need to be based on current relevant and effective controls.	2	Agreed. The documentation of controls on the risk register and the governance review checklist and effectiveness review questionnaire will be updated prior to issuing the annual governance review paper to Council in December.	December 2009	Head of Governance, Leadership & Information
20.2	The Clerk to the Council's desktop procedures need to be retained in a shared drive accessible in their absence.	2	Agreed	August 2009	Head of Governance, Leadership & Information
21.1	The Job Descriptions of the Director of Finance & Corporate Services and the Head of Governance, Leadership & Information should be amended to reflect their relative roles in the process of providing advice to the Council on their statutory powers and duties.	3	Agreed	September 2009	Head of Governance, Leadership & Information

Management Implementation Plan on Recommendations

Para	Recommendation	Risk Priority	Management Comments	Implementation Timetable	Responsibility
21.2	The role of fully advising the Learning & Teaching Committee regarding its statutory powers and duties needs to be formally assigned.	2	Agreed. This will be discussed with the Head of Strategy, Learning and Funding to determine the most appropriate person to fulfil this role.	October 2009	Head of Governance, Leadership & Information
22.1	The mapping of the ownership of the content of the Intranet needs to be updated to reflect the changes arising out of the HEFCW reorganisation.	3	Agreed. The work on implementing the new website is the first priority but we will then focus on updating and keeping current the intranet.	October 2009	Head of Governance, Leadership & Information
22.2	The Standing orders of the Council should be provided on the Extranet.	3	Agreed. These are available on the website and will also be made available on the Extranet.	July 2009	Head of Governance, Leadership & Information

Management Implementation Plan on Previous Recommendations

Audit	Para Ref.	Recommendation	Risk Priority	Original Management Comments	Implementation Timetable	Progress	Responsibility
Corporate Governance 2004/05	3.1	A Whistleblowing Policy should be established as soon as possible for Council Members.	3	The National Assembly have advised that Council Members should adopt the Assembly's own whistleblowing procedures	December 2005 This was reported as implemented in February 2007 subject to WAG response	The draft policy was produced in 2006 and a request sent to the Welsh Assembly Government for guidance as to who the Council members' should report to within the Assembly. WAG have been chased a number of times for a response but no reply received, The Policy was redrafted to refer to WAG Assessor as members' contact point. WAG were asked again for name of contact in light of new members starting in Dec 09. Draft updated, sent to Assembly and being actively pursued. As no response received from WAG. Plan to issue to Council for approval in July 09 and inform WAG of the procedure implemented.	Head of Governance Leadership & Information
Corporate	16	The Code of Practice for	3	Agree. Will be	Dec-06	Shared proposed revised	Head of

Management Implementation Plan on Previous Recommendations

Audit	Para Ref.	Recommendation	Risk Priority	Original Management Comments	Implementation Timetable	Progress	Responsibility
Governance 2005-06 September 2006		members should be reviewed in the light of relevant up to date good practice guidance and updated to specifically apply to members of HEFCW Committees who are not also members of HEFCW Council.		Considered as part of a broader corporate governance 'health check' agreed by the Council at its meeting on 7 th July 2006. Report back via an annual corporate governance review paper to Council in December 2006		HEFCW with WAG (re: consistency with and interpretation of various sections of the Management Statement / Financial Memorandum), and then to Council Action delayed due to lack of response from WAG. The Welsh Assembly Government has issued a draft updated Management Statement and Financial Memorandum to all the AGSBs at the end of March 2009. The Code of Practice for members is an annex to the Management Statement and will be discussed and updated as part of the process of agreeing the new Management Statement and Financial Memorandum. To be implemented after 25 June 2009	Governance Leadership & Information

Management Implementation Plan on Previous Recommendations

Audit	Para Ref.	Recommendation	Risk Priority	Original Management Comments	Implementation Timetable	Progress	Responsibility
Governance 2006-07 September 2007	17.1	The role and responsibilities of a secretary to a Committee needs to be clearly defined and documented. This should include guidance on the processes that should be followed and the document formats that should be used.	2	Agree	December 2007	Draft produced setting out roles and responsibilities in detail. Plan to consult with all Committee secretaries was put on hold pending Chair's review of committee structure Draft document issued in May 2009 to be completed by end of June 2009.	Head of Governance Leadership & Information
Governance 2006-07 September 2007	17.2	The role and responsibilities of the Clerk to the Council in respect of committees needs to be clearly assigned and documented.	2	Agree	December 2007	In hand (see above).	Head of Governance Leadership & Information
Governance 2006-07 September 2007	17.4	A standard induction programme should be developed and implemented for all external members of HEFCW committees.	2	Agree	December 2007	Programme drafted and will be circulated to all Committee secretaries for comment. This was put on hold pending Chair's review of committee structure. Clerk now to liaise with committee secretaries in developing standard committee	Head of Governance Leadership & Information

Management Implementation Plan on Previous Recommendations

Audit	Para Ref.	Recommendation	Risk Priority	Original Management Comments	Implementation Timetable	Progress	Responsibility
						induction material for non-council members.	