



## **Final Internal Audit Report**

# **Stevenage Borough Council – Governance Arrangements for the Hertfordshire CCTV Partnership**

**August 2018**

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<b>Report Status:</b>	Final
<b>Reference:</b>	S248/18/001
<b>Overall Assurance:</b>	Limited

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## 1. EXECUTIVE SUMMARY

### Introduction

- 1.1 Internal Audit provides Stevenage Borough Council ('the Council') with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan. This audit forms part of the Council's approved 2018/19 Audit Plan.
- 1.2 The Council is the lead authority for the Hertfordshire CCTV Partnership which includes East Herts Council, Hertsmere Borough Council and North Herts District Council. The original Partnership was set up in 1999 between Stevenage Borough Council and North Herts District Council to jointly manage CCTV cameras in public spaces within their administrative areas. East Herts Council and Hertsmere Borough Council subsequently joined the Partnership.
- 1.3 A separate private limited company was established in 2014 to facilitate a number of commercial contracts. The company is owned by the four Partners in proportion to the number of public cameras they manage in their respective administrative areas.
- 1.4 The purpose of this review was to provide assurance to the Council and Partners regarding the governance and financial management arrangements that are currently in place for the Hertfordshire CCTV Partnership, including oversight of the limited company. This is intended as a high level internal audit of the governance arrangements and is not a full governance review.

### Overall Audit Opinion

- 1.5 The Hertfordshire CCTV Partnership has proven to be a useful vehicle for the joint management of the CCTV service. However, we have identified a number of weaknesses in the overall governance control framework. We have therefore made nine recommendations to help address the above and potentially inform a wider governance review.
- 1.6 Based on the work performed during this audit, we can provide overall **limited assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review. These are detailed in the Assurance by Risk Area Table in section 2 below.
- 1.7 For definitions of our assurance levels, please see Appendix B.

### Summary of Recommendations

- 1.8 In support of our overall opinion, we have identified nine key areas that should be addressed as a high priority and, as necessary, considered as part of a wider full governance review of the CCTV Partnership. We can summarise these nine key areas as follows:

- Confirmation of the governance framework and the roles and responsibilities
- Establishment of a current Partnership Agreement
- Review of the terms of the Company Shareholders' Agreement
- Review/establishment of all Terms of Reference
- Review of Partner Authority Constitutions
- Establishment of a current five year Business Plan (18/19-22/23)
- Review of financial management
- Review of performance monitoring
- Review of the calculation and application of charges to Partner Authorities

1.9 Please see Management Action Plan at Appendix A for further detail.

### **Annual Governance Statement**

1.10 This report provides limited levels of assurance to support the Annual Governance Statement.

## **2. ASSURANCE BY RISK AREA**

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

<b>Risk Area</b>	<b>No</b>	<b>Limited</b>	<b>Satisfactory</b>	<b>Good</b>
Governance and financial management arrangements of the four Partners in the Partnership				
Governance and financial management arrangements of the limited company				
Governance and financial relationship between the Partnership and the limited company				
<b>Overall</b>				

2.2 See definitions for the above assurance levels at Appendix B.

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p><b>Governance framework:</b></p> <p>Whilst there is an overall framework for the governance of the CCTV Partnership, there is not full corporate clarity and understanding regarding the management and reporting structures or the respective roles and responsibilities.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity and understanding about requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.</p>	High	<p>We recommend that the governance framework for the overall CCTV Partnership is reviewed and confirmed as being fit for purpose, or changed as necessary, and is clearly understood by all parties, including the respective roles and responsibilities of the relevant Members and Officers.</p>	<p><b>Responsibility:</b></p> <p>CCTV Joint Executive and Company Board of Directors.</p> <p><b>Actions:</b></p> <p>We will draft a governance framework for the overall CCTV arrangements to include:</p> <ul style="list-style-type: none"> <li>• Governance for Hertfordshire CCTV Partnership</li> <li>• Governance for Hertfordshire CCTV Partnership Ltd.</li> <li>• Governance lines between the Partnership and the Company</li> <li>• Member roles and responsibilities</li> <li>• Officer roles and responsibilities</li> </ul> <p>These will be consulted on and agreed by the CCTV Joint Executive and the Company Board of Directors.</p>	1 December 2018

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
2.	<p><b>Partnership Agreement:</b></p> <p>There is no fully executed Partnership Agreement in place that includes all four of the current CCTV Partner Authorities.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity and understanding about requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.</p>	High	<p>We recommend that an appropriate new Partnership Agreement between the current four CCTV Partner Authorities is drawn up and executed. It should clearly include the specific roles and responsibilities of the Partner Authorities. It should also clearly state the relationship the Partner Authorities have with Hertfordshire CCTV Partnership Ltd. and the function of that company in respect of the overall CCTV Partnership.</p>	<p><b>Responsibility:</b></p> <p>CCTV Officer Management Board.</p> <p><b>Actions:</b></p> <p>We will prepare an updated CCTV Partnership Agreement drafted through the CCTV Officer Management Board to be signed by all four Partner Authorities.</p>	31 March 2019
3.	<p><b>Shareholders' Agreement for Hertfordshire CCTV Partnership Ltd:</b></p> <p>Whilst there is a current Shareholders' Agreement in place for the Company (executed as at 7 September 2015 by the four Partner Authorities), there is a lack of compliance with some of the terms, e.g. 2.1 states that Shareholders'</p>	High	<p>We recommend that the current Shareholders' Agreement for the Company is reviewed to ascertain if it remains fit for purpose and, if so, that the terms are fully complied with.</p>	<p><b>Responsibility:</b></p> <p>Company Board of Directors.</p> <p><b>Actions:</b></p> <p>The Company Directors' will</p>	31 March 2019

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>will not fund the Company with public funds; 5.2 states that a Business Plan will be prepared each year and include a five year medium term financial strategy projection; 7.1 states that Shareholders will be provided with final audited annual accounts by 15 June each year.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of clarity and understanding about corporate requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.</p>			<p>consider this recommendation through their Shareholder Representatives in light of future considerations relating to the future of Hertfordshire CCTV Partnership Ltd.</p>	
4.	<p><b>Terms of Reference:</b></p> <p>There is no Terms of Reference in place for the CCTV Joint Executive that includes all four of the current CCTV Partner Authorities. Neither is there any Terms of Reference for the CCTV Officer Management Board.</p>	High	<p>We recommend that appropriate revised / new Terms of Reference for the CCTV Joint Executive and the CCTV Officer Management Board are drawn up and formally agreed.</p>	<p><b>Responsibility:</b></p> <p>CCTV Joint Executive and CCTV Officer Management Board.</p> <p><b>Actions:</b></p>	31 March 2019

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity and understanding about requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.</p>			<p>Terms of Reference will be updated for the CCTV Joint Executive and a Terms of Reference will be created for the CCTV Officer Management Board.</p>	
5.	<p><b>Constitutions:</b></p> <p>The extracts from the Constitutions of the four Partner Authorities obtained and examined did not completely, accurately or consistently reflect the Terms of Reference and current Member/Officer representation in respect of the CCTV Joint Executive and the CCTV Officer Management Board.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity</p>	High	<p>We recommend that, once agreed, the revised/new Terms of Reference for the CCTV Joint Executive and the CCTV Officer Management Board are revised / added in the Constitutions for each of the four Partner Authorities, together with the updated Member/Officer representation for both groups.</p>	<p><b>Responsibility:</b></p> <p>Each of the four Partner Authorities.</p> <p><b>Actions:</b></p> <p>New Terms of Reference will be submitted for formal incorporation into constitutional arrangements for the four Partner Authorities.</p>	31 July 2019



No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>and understanding about requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.</p>				
6.	<p><b>Business Plan:</b></p> <p>Whilst an initial five year Financial Business Plan for the overall CCTV Partnership was drawn up following the formation and inclusion of Hertfordshire CCTV Partnership Ltd. In 2014, it has not been formally reviewed or refreshed since then. Also, it does not include any non-financial aims and targets.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity and understanding about requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication</p>	High	<p>We recommend that a new five year Business Plan for the overall CCTV Partnership is drawn up and agreed. As a minimum, the plan should be monitored on a monthly basis in terms of achievements against projections and it should be the subject of a full review and refresh annually to cover the next five years ahead on a rolling basis. Besides financial projections, it should include non-financial aims and targets that should be monitored, reviewed and refreshed on the same basis.</p>	<p><b>Responsibility:</b></p> <p>CCTV Joint Executive and Company Board of Directors.</p> <p><b>Actions:</b></p> <p>We will develop a new five year rolling Business Plan (with monthly monitoring and full annual reviews) for the overall Hertfordshire CCTV Partnership based on decisions about the future direction of Hertfordshire CCTV Partnership Ltd.</p>	31 March 2019





No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.				
7.	<p><b>Financial management:</b></p> <p>Accounting records for the original Partnership were maintained by the Group Accountant (GA) for SBC as the Lead Authority. Following the formation of Hertfordshire CCTV Partnership Ltd, the GA has been further relied on by the Managing Director of the company (who is also the SBC Lead Officer for the four Partner Authorities) to assist with the necessary accounting services and financial responsibilities in relation to the company that are not currently being provided by the external Accountants. However, there has not been formal inclusion of these responsibilities in the GA role.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity and understanding about requirements and expectations, or lack of</p>	High	We recommend that the role and responsibilities of the SBC Group Accountant in respect of the overall CCTV Partnership are reviewed, evaluated and formerly confirmed. Consideration should be given to increased use of the external Accountants with regard to the accounting requirements of Hertfordshire CCTV Partnership Ltd.	<p><b>Responsibility:</b></p> <p>CCTV Officer Management Board, Company Board of Directors and SBC Assistant Director, Finance &amp; Estates.</p> <p><b>Actions:</b></p> <p>The role of the SBC Group Accountant in relation to the overall Partnership will be clarified in the revised Partnership Agreement.</p> <p>The Company Directors will consider the accountancy needs of the Company and source appropriately.</p>	31 March 2019

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.</p>				
8.	<p><b>Reporting and monitoring:</b></p> <p>The current reporting arrangements for the overall Partnership, including Hertfordshire CCTV Partnership Ltd, are not clearly defined and are not effectively working in practice to meet the expectations of all Partner Authorities.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity and understanding about requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may</p>	High	<p>We recommend that all reporting arrangements for the Partner Authorities are formally reassessed, agreed and documented to ensure there is complete clarity and transparency of expectations and understanding across all interested parties regarding the need, responsibility, frequency, timing, content, format and distribution of each report required.</p>	<p><b>Responsibility:</b></p> <p>CCTV Joint Executive, CCTV Officer Management Board and Company Board of Directors as appropriate.</p> <p><b>Actions:</b></p> <p>Authority reporting arrangements to be included as part of a revised Partnership Agreement, Shareholder Agreement and Terms of Reference as necessary.</p>	31 March 2019

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.				
9.	<p><b>Charges:</b></p> <p>Responsibility for the current charging arrangements is unclear which has led to an issue in respect of the communication and timeliness of calculations and billing.</p> <p><u>Associated Risk</u></p> <p>Where there is lack of corporate clarity and understanding about requirements and expectations, or lack of identification and ownership of responsibilities, it may lead to gaps, inconsistencies and communication failings in relation to the leadership, management, reporting and monitoring of the overall Partnership. This may result in a lack of transparency, potential reputational damage and possible financial loss to the Partner Authorities.</p>	High	We recommend that there is a review of how charges are being calculated and billed to the Partner Authorities, clarification of who is responsible for this and agreement of the timing.	<p><b>Responsibility:</b></p> <p>SBC Assistant Director, Finance &amp; Estates.</p> <p><b>Actions:</b></p> <p>A schedule of charges to be prepared for the Partnership. The schedule will identify recharges applied to the Partnership, including; staffing, overheads, IT, etc.</p> <p>The schedule will also include recharges applied to Hertfordshire CCTV Partnership Ltd.</p> <p>A quarterly finance report to be prepared for the CCTV Officer Management Board, to include year-end financial projections for the Partnership.</p>	1 November 2018

**Appendix B - Definitions of Assurance and Finding Priorities      Governance Arrangements for the Herts CCTV Partnership**

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.