



Appendix 1

Draft Internal Audit Report

East Herts Council – Recruitment Process 2019/20

December 2019

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Overall Assurance:	Satisfactory

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 Internal Audit provides East Herts 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 internal audit plan. The audit of the Recruitment Process derives from the Council's approved 2019/20 Internal Audit Plan.
- 1.2 Recruitment is a process to appoint staff to permanent roles vacant in the establishment. It encompasses several interrelated stages to reach the end goal of employing the most suitable person available from within the marketplace. In sequential order the stages are approval to recruit, advertising a vacancy, shortlisting applications, interviewing candidates and pre-employment checks on the preferred candidate.
- 1.3 The Council operates a devolved recruitment model, which transfers accountability and responsibility for decision-making to departments. In this way of working, Human Resources (HR) is a supporting player in the recruitment process, involved at fixed points and on an ad hoc basis when required. The framework, setting out the key controls within each stage of the recruitment process, is clearly defined in the corporate recruitment policy and supplementary guidance for recruiting managers. These, together with staff training, are the main directive features to ensure departments conduct recruitment in a consistent manner and adhere to all relevant legal requirements regarding non-discrimination, etc.
- 1.4 Recruiting permanent staff presents several risks from both the internal and external environments. For example, difficulties in filling professional and specialist posts and carrying long-term vacancies could impact upon the achievement of core service objectives. In addition, poor recruitment practices could result in people not suitable or entitled to work in the UK being appointed, or complaints of bias or discrimination being made and taken through to an employment tribunal.
- 1.5 Between October 2018 and September 2019, a total of 59 recruitments were completed. This equates to an average of five recruitments each month over the period.
- 1.6 The purpose of the audit was to provide management with assurance on the corporate recruitment process, primarily in terms of compliance and consistency with the key controls contained in the corporate recruitment policy and guidance for recruiting managers and the transparency of decision-making. We have tested the application of key controls by reviewing a ten percent sample of the total recruitments completed between October 2018 and September 2019. Our sample was selected to include as broad a representation as possible, with nine departments being included. The results of the testing have informed the overall level of assurance and levels of assurance provided for each detailed area of focus.

Overall Audit Opinion

- 1.7 Based on the work performed during this audit, we can provide overall **Satisfactory 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.
- 1.8 For definitions of our assurance levels, please see Appendix C.

Audit Commentary

- 1.9 The results of the audit testing of key controls in the corporate recruitment process are summarised in the table at Appendix A. The following paragraphs provide additional context to support the overall level of assurance and levels of assurance provided for each detailed area of focus.
- 1.10 Before a planned recruitment advances to the advertising stage, the appropriate head of service is required to confirm in writing that there is sufficient budget to fill the vacancy either on a fixed-term or permanent basis. There is a standard corporate form in use to record the approval and this is in effect the first key control point in the recruitment process. The results of our testing indicated a compliance rate of 67%, with a correctly approved recruitment request form being present on file for six of the nine recruitments in our sample.
- 1.11 In regard to the three exceptions identified, we acknowledge that two recruitments did have a recruitment request form available on file, but an issue existed with each one. There was an instance where a form was signed by a department manager rather than the appropriate head of service and another did not contain either a physical or electronic signature on it. For the final exception no form could be located centrally or locally. HR made emails available to us to demonstrate approval to recruit had been provided for the final exception, however, we are of the view that the evidence provided was not explicit enough and therefore we do not consider it to be reliable as a compensatory control.
- 1.12 The corporate guidance for recruiting managers sets out the key controls for the shortlisting and interviewing stages. Essentially, these are around forming a panel to shortlist and interview and record decision-making at each stage. Panels should be balanced and include one person who has completed the internal recruitment training. Competence to participate in shortlisting and interviews is not defined using any other criteria, such as current role, level of seniority, experience, qualifications or previous recruitment training with another employer.
- 1.13 Our testing identified four exceptions linked to the above. We noted recruitment was conducted on two occasions without an officer who has completed the internal recruitment training. For the other recruitments there were no records available, either locally or on the HR system to confirm the panel details. We were therefore unable to comment if a trained officer was involved as required.
- 1.14 In regard to recording decision-making during the shortlisting and interview stages, recruiting managers are required to forward the relevant documentation to HR for

central retention. Our testing identified a mixed outcome of results. For seven of the nine recruitments selected there was no written record available, either locally or centrally, to support the shortlisting. This suggests that shortlisting was either not documented or the documentation produced did not reach HR. Similarly, there were gaps with interview records. For five of the nine recruitments audited there were no interview records retained centrally, suggesting that recruiting departments had not documented interviews or not forwarded the documentation to HR. We noted that where interview records were available locally and centrally, invariably the documentation was only for the candidate appointed and not all candidates interviewed.

- 1.15 We followed up on the outstanding shortlisting and interview records by contacting the recruiting managers. This prompted three recruiting managers to supply interview records, of which only one set included a complete record of the interview stage. No additional shortlisting records were supplied.
- 1.16 Our testing also focused on pre-employment checks, which are split out between recruiting managers and HR. For all nine recruitments selected there was a 100% compliance rate for entitlement to work in the UK test we performed, indicating that no new starters had commenced employment without evidence having been supplied and verified beforehand. There was also a 100% compliance rate for references, and we noted that evidence existed centrally to confirm that recruiting managers had seen and signed off references before candidates had commenced employment.
- 1.17 We did identify one instance where the recruiting manager served as one of two referees for a candidate, which is not common practice. Ideally, we would have expected to see two external references on file. However, the circumstances were checked, and we found that the candidate was already in the role on a temporary contract, which had prompted the recruiting manager in this particular instance to accept one external reference to expedite the appointment. It should be noted that neither the corporate recruitment policy nor the supplementary guidance for recruiting managers is explicit regarding the use of an internal reference. This is perhaps an area which requires greater clarity to avoid similar situations of ambiguity arising in future.
- 1.18 The final area we focused on was starting salaries. It is expected that new starters will commence employment at the bottom of the pay grade for the post unless there is a compelling reason to justify higher pay i.e. experience or specific qualifications. Negotiation of the starting salary with the preferred candidate is the responsibility of recruiting managers and not HR. We understand that historically recruiting managers have had full autonomy and outcomes of a starting salary at the mid or top of the pay grade have not been subject to internal challenge by HR. However, effective from June 2019, the Head of HR & OD has introduced an additional control that is designed to offer a robust challenge. This is primarily to ensure consistent practice across departments rather than to question the integrity of decision-making. From our sample we found that six out of the nine new starters received a starting salary above the bottom of the pay grade. The reasons for the higher starting salaries have not been reviewed retrospectively, primarily because there is now a control in place to challenge the award of higher salaries in future.

Summary of Recommendations

- 1.19 This report contains nine recommendations over five areas for management to consider. Eight recommendations are prioritised “Medium” priority and one as “Low / Advisory” priority.
- 1.20 Please see Management Action Plan at Appendix A for further detail.

Annual Governance Statement

- 1.21 This report provides satisfactory 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:

Risk Area	No	Limited	Satisfactory	Good
Establishment Control – The Council’s establishment is appropriately monitored. Changes, additions and deletions to established posts are correctly approved in writing by management				
Approval to Recruit – Planned recruitment exercises are correctly approved in writing by management before services publish job adverts				
Interviewing – Interview panels comprise at least one person who is appropriately trained in the corporate recruitment policy and process				
Pre-Employment Screening – The appropriate pre-employment checks are performed regarding employment history, qualifications, criminal record and right to work status in a timely manner				
Starting Salaries – Candidates are offered employment at the appropriate starting salary commensurate to their experience and qualifications				
Audit Trails – Services maintain appropriate written records in support of the shortlisting and interviewing stages, so that complaints from unsuccessful applicants can be robustly defended				
Overall				

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

Appendix B – Management Action Plan

<u>SUMMARY OF AUDIT TESTING RESULTS</u>							
<u>Post</u>	<u>Approval to Recruit</u>	<u>Shortlisting Records</u>	<u>Interview Records</u>	<u>Recruitment Training</u>	<u>Minimum References</u>	<u>Right to Work in UK</u>	<u>Starting Salary</u>
Customer Services Advisor	Pass	Fail	In Part	Fail	Pass	Pass	Bottom Point
Herts Sustainability Forum Co-ordinator	Pass	Fail	Fail	Fail	Pass	Pass	Bottom Point
Democratic Services Manager	Pass	Fail	Pass	In Part	Pass	Pass	Top Point
Arboricultural Officer	In Part	Pass	In Part	Pass	Pass	Pass	Mid-Top Point
Ass. Front of House Manager	Pass	In Part	Fail	Fail	Pass	Pass	Bottom Point
Personal Assistant	In Part	Fail	In Part	Pass	Pass	Pass	Top Point
Principal Planning Officer	In Part	Pass	In Part	Pass	Pass	Pass	Middle Point
Revenue Officer	In Part	Fail	In Part	Pass	Pass	Pass	Top Point
Property Services Manager	Pass	Fail	Pass	Pass	Pass	Pass	Mid-Top Point
<u>Compliance Rate</u>	56%	22%	22%	56%	100%	100%	N/a

Appendix B – Management Action Plan

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p>Establishment Control</p> <p>HR maintains a central establishment record, which serves as the key point of control for information on current posts and the staff currently employed in them. The establishment control record is informed and updated by various sources of information originating from heads of service and line managers (i.e. recruitment request forms and termination forms).</p> <p>We understand that the establishment control record is not reconciled to cost centre budgets and staff salaries held on the corporate finance system on an ad hoc basis to ensure accuracy and completeness is maintained. Without an ad hoc reconciliation process the possibility that the establishment control record is incorrect, and either under or overstated, becomes greater.</p> <p>Associated Risk: Departments could recruit staff without there being appropriate budget available, due to differences between establishment information held by Finance and HR, resulting in a potential overspend on salaries.</p>	Medium	<p>We recommend that there should be an ad hoc reconciliation process of the establishment control record maintained by HR to cost centre and staff salary records on the corporate finance system.</p>	<p>Responsible Officer: Heads of Service/HR Officers/Finance Business Partners</p> <p>Staff budget dialogue/changes to include HR from 1 Feb 2020 onwards alongside Finance so that non-employment of staffing budget is captured in HR and is up to date</p>	1/2/2020

Appendix B – Management Action Plan

	<p>availability of shortlisting and interview records, suggesting that these stages of the corporate recruitment process are not working as well as management would expect and require.</p> <p>Associated Risk: The Council could struggle to defend the legality of recruitment decisions, if there is a lack of quality documentation to support the shortlisting and interview stages, resulting in a claim being made and going to tribunal.</p>		<p>and also the need to forward records for both successful and unsuccessful candidates to HR for central retention and coordinated disposal in line with data protection requirements.</p>	<p>made unless both the shortlisting and interview paperwork has been sent to HR</p>	
5.	<p>Post-Employment Follow Up</p> <p>The corporate recruitment policy and the supplementary guidance for recruiting managers clearly set out that recruiting managers are required to send all relevant documentation generated during the recruitment process to HR for central retention.</p> <p>However, our testing results identified gaps of information within the files held on the HR system. This would suggest that some recruiting managers overlook the requirement, perhaps due to workload pressures or incorrect assumptions, and either retain records locally or dispose of them post-appointment. Failure not to forward records to HR for central retention</p>	Medium	<p>We recommend that HR does not send out conditional offer letters until recruiting managers have supplied all relevant documentation and this is confirmed to be appropriate and complete.</p> <p>It is advisable that an escalation procedure for outstanding information is devised, setting out the route, steps and timeframe involved.</p>	<p>Responsible Officer:</p> <p>As above - HR will send an email providing clarity.</p> <p>HR will escalate after 2 working days to the recruiting officer's line manager</p>	<p>1/2/2020</p> <p>1/2/2020</p>

Appendix B – Management Action Plan

	<p>increases the risk that data protection requirements could be overlooked, with personal data being stored for too long.</p> <p>We have been informed that HR has arrangements in place to ensure that the appropriate records are received from recruiting managers. However, based on our testing results, we would suggest that this is not entirely effective and in need of improvement.</p> <p>Associated Risk: Errors in the recruitment process could be overlooked or missed, due to essential documentation not being seen and checked by HR, resulting in employment of individuals not entitled to work in the UK or suitable for a specific role.</p>				
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Appendix C – Definitions of Assurance and Finding Priorities

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.