

Internal Audit Activity Progress Report

2018-2019



(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance.

This report summarises:

- The progress against the 2018/19 Internal Audit Programme, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period July 2018 to September 2018;

- Special investigations/counter fraud activity;
- The Multi Service Contract follow-up review outcomes; and
- The Workforce Plan – Programme Management position statement.

(4) Progress against the 2018/19 Internal Audit Programme, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Standards Committee.

Attachment 2 includes the Multi Service Contract follow-up review outcomes.

Attachment 3 includes the Workforce Plan – Programme Management position statement.

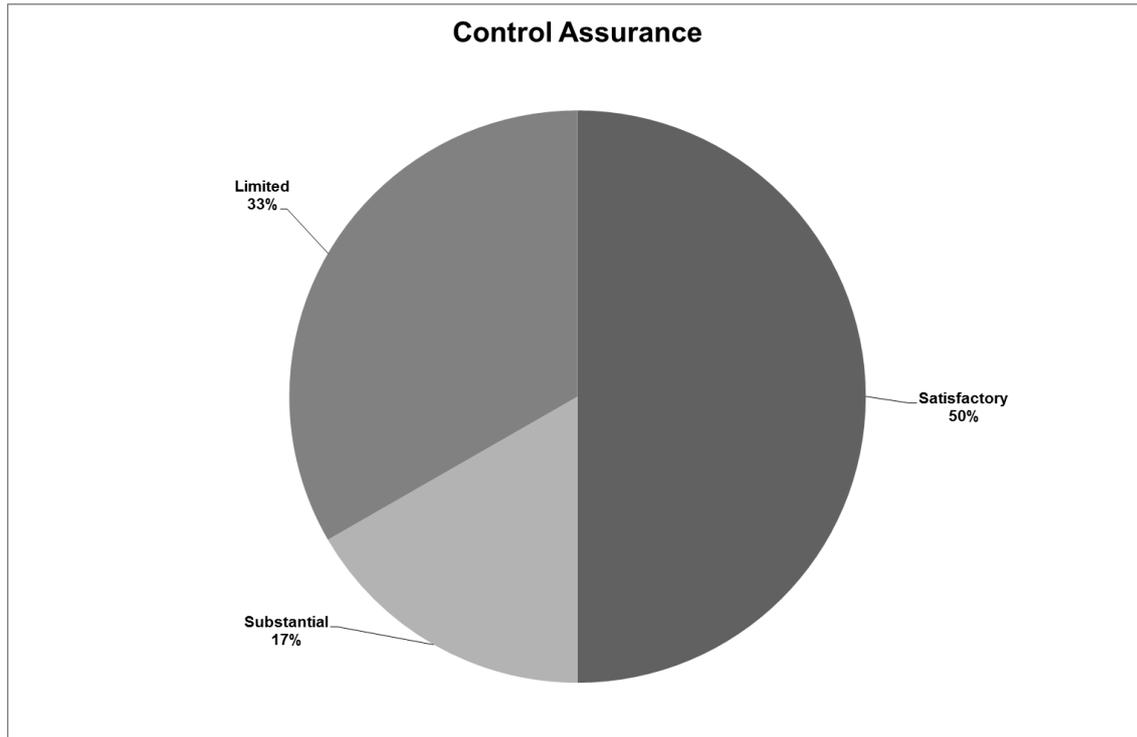
The schedule provided at **Attachment 4** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and

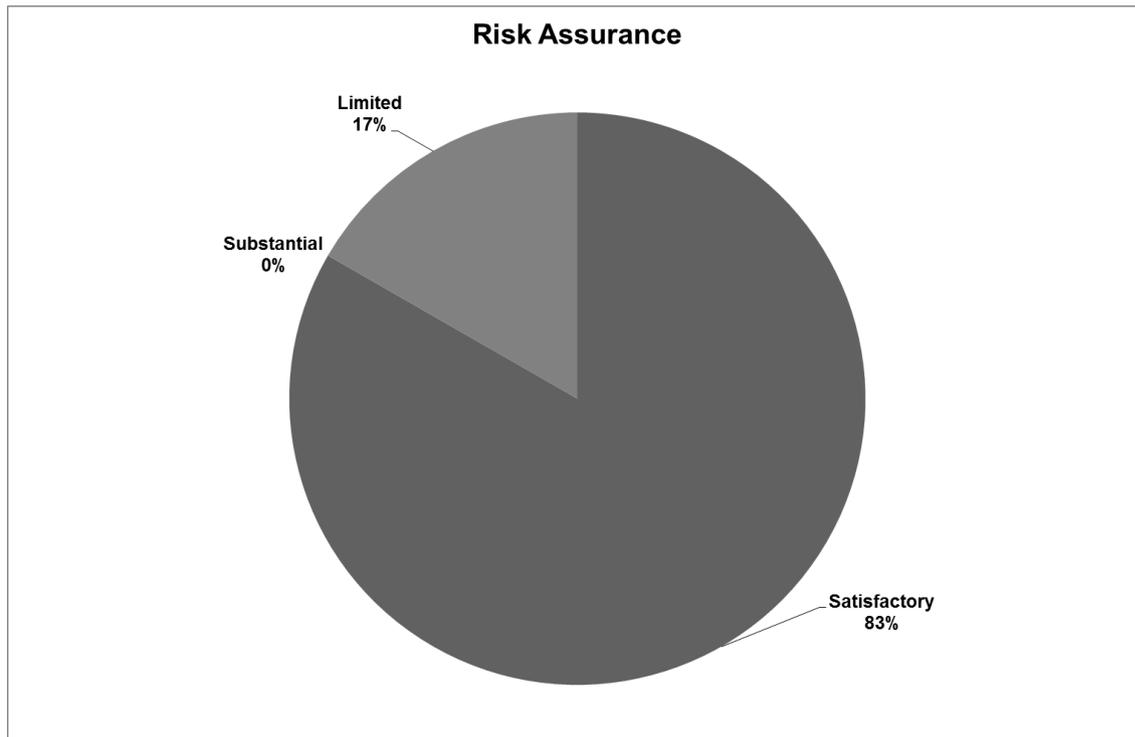
Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	<p>Risk Managed Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> • System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	<p>Risk Aware Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.</p>	<ul style="list-style-type: none"> • System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	<p>Risk Naïve Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> • System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls • Control Application – Significant breakdown in the application of control

Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2018 to September 2018.





(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During the period July 2018 to September 2018, two audit reviews have been provided with a limited opinion for control environment. These relate to Legacy Software (within **Attachment 1**) and Multi Service Contract Follow-up (see **Attachment 2**).

It is important to note that whilst a limited assurance opinion has been provided in these instances, management have responded positively to the recommendations made and actions are being taken to address them.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some

improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During the period July 2018 to September 2018 Internal Audit made, in total, **14** recommendations to improve the control environment, **9** of these being high priority recommendations (**100%** of these being accepted by management) and **5** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During the period July 2018 to September 2018, one limited assurance opinion on risk has been provided on completed audits from the 2018/19 Internal Audit Plan. This relates to the Multi Service Contract Follow-up review (see **Attachment 2**). The monitoring of the implementation of the recommendations to manage the risks identified is owned by the relevant manager and helps to further embed risk management into the day to day management, risk monitoring and reporting processes.

Completed Internal Audit Activity during the period July 2018 to September 2018

Summary of Limited Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Legacy Software

Background

The review is to identify those systems and applications which have reached or are approaching end-of-life or are no longer appropriate to support Stroud District Council's (the Council's) strategic delivery plan.

Legacy ICT systems can become an issue where there has been limited investment in overarching ICT. Old systems can become costly to maintain, can fall out of support presenting an operational and possibly a security risk, and may no longer fit with or support the Council's aims and objectives.

There is a hidden cost to maintaining old or legacy systems in the additional time taken to maintain and support them. There is also a current need across the public sector generally, and in local government particularly, to move to digital ICT strategies which make savings as part of a transformation programme. ICT sits at the heart of such a strategy and requires clear direction and proper investment if savings or efficiencies elsewhere in the organisation are to be made. The Government's own ICT strategy, published in March 2011, recognises that legacy systems are a barrier to the proper introduction of new policies or working methodologies (such as digital) because they are inflexible and unable to change as they must as the delivery of public services requires them to.

The cost and risk of maintaining legacy systems has to be balanced against the cost and risk of replacement, which include data migration, implementation and set-up costs, disruption to service users, and then the benefits of replacement which include efficiency, improved systems integration, reduced operating costs etc.

Scope

The scope of this review encompassed:

- Identification of existing systems and platforms;
- Gap analysis to identify where there is a delivery mis-match or shortfall; and
- Evaluation against strategic objectives.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

The review identified the following matters which require attention:

- At the time of the audit, the ICT strategy was in its last year, had become out of date and did not reflect or inform the business or its future requirements. This presents a significant risk for the Council in that, until this is corrected, the direction of travel for innovation, transformation and ICT application procurement or development is unclear. It should be stated that the Council had commissioned an independent strategic review of ICT within 2017/18 which has highlighted required actions for the Council to take on this area.
- It was apparent that there are infrastructure devices that, whilst still in support (which if not, would present a security risk), are approaching end-of-life and require a decision on replacement. Examples are included in the report's main findings section.
- There are some key business applications that, at the time of the audit, are end-of-life and /or are running versions behind the latest, and are also out of support.
- The original terms of reference contained a gap analysis to identify delivery mis-matches or shortfalls. Without an up to date ICT strategy, this was not feasible and will only be achievable once a clear strategy is produced and adopted.

Three audit recommendations have been raised (two High priority and one Medium priority) to strengthen controls on the above areas.

It was clear during the audit that, despite the above, systems, applications and infrastructure devices were being maintained as well as possible during a period of uncertainty and underinvestment. The risk of running old or unsupported equipment is understood within ICT but perhaps less so in service areas where some of the replacement decisions are taken.

The independent strategic review of ICT is a positive action and should provide a clear direction to Council leadership and ICT management in terms of future ICT requirements.

Conclusion

The matters identified and outlined in the key findings section above limit the assurance that can be given about the effectiveness of the legacy ICT system risk management and mitigation (control) activities, in particular, the lack of a clear strategy and that systems are clearly at end-of-life and require replacement strategies to be implemented.

Management Actions

Management have positively responded to all recommendations within the report. The recommendation actions are due to be delivered as part of agreed ICT project streams, aligned to the themes highlighted by the independent strategic review of ICT. Target completion dates for the legacy ICT system recommendations range from November 2018 to April 2019.

Whilst Internal Audit will monitor the implementation of the recommendations, it is recommended that senior management attend the next meeting of the Audit and Standards Committee and is requested to provide an update on the action taken in relation to each recommendation made.

Summary of Satisfactory Assurance Opinions on Control

Service Area: Council Wide

Audit Activity: Procurement

Background

Procurement can be defined as 'the acquisition of supplies, services or works from third parties'. Stroud District Council's Constitution states that procurements must adhere to the Contract and Procurement Procedure Rules (CPPR) which:

- Ensure that the Council obtains value for money when procuring any goods, services or works;
- Ensure that the Council complies with current UK and European law and the Council's policies that govern the procurement of goods, services and works; and
- Establish procedures which, when followed, should protect the Council, its officers and Members from any allegation of acting unfairly or unlawfully which may be made in connection with any procurement by the Council of any

goods, services or works.

The Council has a Procurement and Contract Management Strategy 2016 – 2021 which sets out the Council's vision for procurement and contract management and priorities up to 2021. In addition the Audit and Standards Committee receive updates to the Procurement Action Plan.

Officers are supported through the procurement process by the procurement team consisting of a Principal Procurement Officer and Business Support Officer, who are part of Legal Services and provide advice upon request. In addition the team proactively provide procurement guidance to the Council and its officers by publishing and regularly updating the Council's intranet procurement section which includes manuals, forms and guidance documents.

In 2017 procurement training was offered and delivered to officers covering a breadth of topics; the slides for these training sessions are published on the Council's intranet.

Scope

The objective of this review was to provide assurance that:

- The acquisition of goods, works and services, in 2017/18, with a value between £25,000 and the EU threshold is in line with CPPR; and
- Exemption procedures are being following and authorised appropriately.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The current CPPR were reviewed, updated and resolved at the Council meeting in July 2017. The CPPR are located within Stroud District Council's Constitution and are also available to officers on the Council's intranet. Procurement roles and responsibilities are clearly defined with the Council's Constitution.

The CPPR clearly documents the procurement process that officers must follow, dependant on the value of the procured goods, works or services.

The CPPR states that Directors must ensure that their officers comply with the CPPR at all times. There is additional procurement guidance on the Council's intranet and upon request procurement support can be provided by the procurement team. During the audit testing process officers spoke highly of the procurement team and the support they received.

Internal Audit reviewed the Public Contracts Regulations 2015 and Local Government Transparency Code 2015 to verify that the CPPR and procurement guidance adheres to these regulations. Internal Audit found that on the whole these regulations were adhered to. It is noted that Government Procurement Card transactions ('information which must be published' as per the Transparency Code) have not been published by the Council at the point of audit.

There are currently no identified risks for the procurement process or specific procurement activities documented on the corporate system for risk recording, Excelsis.

Internal Audit, in consultation with the Principal Procurement Officer and through a review of the South West Procurement Portal, sampled five 2017/18 procurement activities. Internal Audit review of supporting documentation confirmed that all five sampled procurements were found to be compliant with the CPPR.

The Financial Regulations stipulate that financial checks on contractors only need to be performed if the contract exceeds £150,000. This does not enable consideration of lower value contracts which could cause a risk to the Council if the contract fails due to a contractor's financial viability.

To ascertain that the goods/services are correctly procured and the CPPR not bypassed, Internal Audit reviewed the Agresso Financial System for payments to suppliers. Two suppliers who had been paid in total over £50,000 and two suppliers who had been paid in total between £5,000 and £25,000, were sampled. Internal Audit found that work orders for three of these suppliers had not been procured in line with the CPPR. Discussions with the responsible officers showed a misunderstanding of the CPPR.

Internal Audit also considered the Council's CPPR exemption approach. In consultation with the Principal Procurement Officer, sample testing was completed on three exemption cases (out of a total population base provided by the procurement team of seven). These cases selected occurred during the periods 2016/17 – 2017/18. Internal Audit review confirmed that all three sampled exemptions requests and decisions were found to be compliant with the CPPR requirements.

Conclusion

Internal Audit is pleased to confirm that there is a good framework in place at the Council to support officers with the procurement of supplies, services or works.

The audit found that the current framework could be further strengthened by:

- Strengthening the Council adherence to the Local Government Transparency Code 2015;
- Providing further guidance on the expectations of procurement activity monitoring and who is responsible for these monitoring activities;
- Capturing of risks associated with the procurement process and documenting them on the corporate risk register, Excelsis;
- Considering financial checks for contractors where the contract value is less than £150,000 but could cause a risk to the Council if the contract was terminated early;
- Reminding officers that the CPPR apply to all procurements whatever the value; and
- Providing additional information to officers on:
 - Additional methods to obtain prices for procurements less than £5,000;
 - How to review the risk of anti-competitive behaviour by suppliers; and
 - Management authorisation of invoices to include verification that the goods, works or services have been correctly procured.

Internal Audit has made four medium priority recommendations, capturing the above themes.

Management Actions

Management have responded positively to the four medium recommendations made.

Service Area: Tenant and Corporate Services

Audit Activity: Settlements

Background

Employees may have claims against their employer under both their contract of employment and under statute. In the United Kingdom, a settlement agreement is a legally binding agreement between an employer and its employee (or ex-employee)

under which the employee receives consideration, often a negotiated financial sum, in exchange for agreeing that he or she will have no further claim against the employer.

Stroud District Council (the Council) made settlement payments to eight officers for the financial years 2016-17 and 2017-18 totalling £54,259 (source Human Resources records). There were no settlement agreements for the period April to June 2018.

Scope

This audit looked to determine that paid settlement agreements had been made in compliance with the Council's agreed internal policies / procedures, as well as statutory guidance. The period of review included 2016/17 and 2017/18.

The specific objectives of this audit were to provide assurance on the following:

- Council policies and procedural notes have been documented that comply with good practice guidelines and legal requirements, which details the process for the operation and management of settlement agreements; and
- Settlement agreements have been processed in compliance with the Council and statutory guidance, correctly calculated, accounted for and authorised.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The application and management of the settlement agreement process is limited to senior Human Resources officers and the Director of Tenant and Corporate Services. The Human Resources Manager provided verbal assurance to Internal Audit that Human Resources officers involved in the process are aware of and operate Advisory, Conciliation and Arbitration Service (ACAS) guidance. However, internal guidance has not been documented and the Council's rules and regulations are limited relating to the use and operation of settlement agreements.

At the point of this audit Human Resources management were not aware of the Chartered Institute of Public Finance and Accountancy (CIPFA) Standards for Staff Severance Agreements.

Detailed Internal Audit tests on a sample of four settlement agreements highlighted that CIPFA best practice had not been fully demonstrated or evidenced relating to the decision making process, record keeping and income tax implications, e.g. involvement/full consultation of the Section 151 Officer and Monitoring Officer in all

main stages of considering and negotiating a severance agreement, a standard report / business case template to support the rationale for and appropriate authorisation of each financial settlement, etc.

Emails and correspondence are kept by Human Resources either on the employee's personal file and / or Human Resources secure folder, which provides some, but not all the documentary evidence suggested by CIPFA best practice, e.g. background circumstances, negotiations, breakdown of the financial settlement, etc.

Internal Audit confirmed that for all the reported eight cases during the period 2016-18 there was a formal legal settlement agreement signed by the appropriate Council officer and employee and that the employee had received independent third party advice.

One additional settlement agreement during 2016-17 had not been identified and reported by Human Resources to Finance. As a result the number of settlement agreements of five reported for this financial year in the notes to the Statement of Accounts is incorrect (correct number is six).

The Council's Risk Management Policy Statement and Strategy states that risks should be recorded in the Council's risk register (Excelsis) and kept up to date to demonstrate awareness and mitigation of the risks affecting the service. A review of the Council's risk register for Human Resources operational risks established that no such risks had been recorded for settlement agreements or for the other services provided by Human Resources.

Conclusion

The audit review was able to confirm that the tested settlement agreements were compliant with the ACAS settlement agreement code of practice.

There is an opportunity to further strengthen settlement agreement risk management and internal control arrangements through consideration and implementation of CIPFA good practice guidance points.

Management Actions

Internal Audit has raised three medium priority recommendations which have been accepted by management.

Summary of Substantial Assurance Opinions on Control

Service Area: Stroud District Council

Audit Activity: Contract Management (Mechanical and Electrical Payment Mechanisms)

Background

Stroud District Council (the Council) retains and manages its own housing stock of 5,164 council rented dwellings, with a balance sheet value of £256 million.

There are currently 11 active contracts managed by Tenant Services, for the provision of mechanical and electrical works for the housing stock. These contracts are a combination of planned works such as kitchen upgrades, responsive repairs e.g. fixing a blocked drain, heating installation and lift servicing contracts.

The total value of these contracts is circa £60 million across the term of the contracts.

When administering payments to the contractors, the Public Contracts Regulations 2015 requires contracting authorities to:

- Pay invoices no later than 30 days from the date on which the invoice is regarded as valid and undisputed;
- Consider and verify any invoices for payment submitted by the contractor in a timely fashion; and
- Publish on the internet each year how they have performed the above points, including the proportion of invoices paid on time to their first tier suppliers/prime contractors.

In light of the above it is important for the Council to have effective arrangements in place for administering payments to ensure that they are in line with the terms and conditions of the contract, internal procedures and external regulations.

Scope

The objective of this review was to determine whether there is an effective control framework in place for administering payments for mechanical and electrical works (planned and responsive) in line with the terms and conditions of the contracts, internal procedures and external regulations.

Risk Assurance – Satisfactory

Control Assurance – Substantial

Key Findings

Tenant Services have acknowledged the associated inherent risks relating to

contract management and Financial Services have acknowledged the associated inherent risks relating to the payment of creditors and captured these using the corporate system for recording, Excelsis.

The Council must adhere to the Public Contracts Regulations 2015 regulation with regards to the publishing of invoice payment information; currently this information is not published by the Council. Internal Audit has discussed this regulatory requirement with Financial Services who have confirmed that the information is available and will be published by the end of the summer.

Internal Audit reviewed the contracts with the Head of Housing Contracts and the following three contracts were selected for testing as they each used different IT systems and were either for planned or responsive works:

- H1727 Electrical Works Contract – work is not scheduled within an ICT system and it is for planned work;
- H1725 Responsive and Planned Maintenance North - work is managed by Northgate, the Housing Management system, and the sample looked at responsive work; and
- H1738 Domestic Gas Heating Boiler & System Installation - work is managed by Keystone, the Asset Management System, and is for planned and responsive work.

Internal Audit found that all three contracts met the expectation for payment administration however improvements could be made when documenting the review of contractor quotes for works.

Conclusion

Internal Audit is pleased to confirm that there is a framework in place for administering payments for mechanical and electrical works in line with the terms and conditions of the contracts, internal procedures and external regulations.

The audit found that the current framework could be improved by:

- Documenting the process payments systems;
- Strengthening the Council's adherence to the Public Contracts Regulations 2015 by publishing invoice payment information; and
- Ensuring when officers review quotes for work received from the contractors, the reviews are documented and show that the work is necessary and demonstrates value for money.

In addition Internal Audit recommends that a cost/benefit review of the quantity of post inspections is carried out for responsive and planned works.

Internal Audit has made four medium priority recommendations to support both Tenant Services and Financial Services to further strengthen the current framework and working practices.

Management Actions

Management have responded positively to the four medium recommendations made.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During 2018/19 to date twelve potential irregularities have been referred to Internal Audit, none of which have previously been reported to the Audit and Standards Committee. All but two of these cases relate to tenancy issues. The other two cases relate to the use of potentially stolen credit/debit cards to settle debts to the council, the payments for which have been recalled by the credit card company, after dispute by the card owner. The cards may not necessarily have been stolen but payments recalled by the debtor in an attempt to delay the debt recovery process. Officers have reported the issue to the Police through Action Fraud in case the cards used have been stolen and Audit, Risk Assurance (ARA) has ensured that the council's debt recovery procedures have been implemented in respect of the unpaid debts. These cases have therefore been closed by ARA.

In respect of the tenancy cases ARA has liaised with Gloucestershire Counter Fraud Unit (CFU) to investigate the potential irregularities. Of these cases referred in 2018/19 five have now closed with varying outcomes. One of the cases involved alleged sub-letting but there was insufficient evidence to prove this was the case. Two cases involved Right to Buy (RTB) which resulted in a withdrawal plus tenancy termination and in respect of the other there was insufficient evidence to proceed with the investigation. The other two cases closed involved council tax and housing benefit for which it was deemed that there was no issue plus a case of a minor tenancy breach involving the erection of a shed.

In addition ARA continued to work on four cases brought forward from 2017/18. Two of these cases have now closed, one of which involved a potential subletting and the other a RTB issue. In the case of the alleged subletting the tenancy was terminated and in respect of the RTB the joint applicant withdrew their application although their parent continued with the application as a single applicant.

ARA previously reported a commissioned piece of work, through the CFU, on RTB which identified an additional six cases requiring further review. The outcomes will be reported to the Audit and Standards Committee once finalised.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The next data collections are due to be uploaded to the Cabinet Office throughout October 2018 and data matching reports will be provided for investigation from January 2019 onwards. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

Multi Service Contract Follow-up review

Service Area: Customer Services

Audit Activity: Multi Service Contract Follow-up

Background

At the full Council meeting on 6 November 2014 the Members approved Ubico Ltd (not for profit making organisation) to deliver and provide for the Council's waste and recycling provision, street cleaning, grounds maintenance, fleet management and maintenance services.

The cost of providing this service to Stroud District Council (the Council) in the first year of operation, as per the contract was approximately £5m. The budget for 2018-19 indicates that the cost for the financial year will be approximately £5.6m.

As part of the 2017-18 Internal Audit work plan, Internal Audit provided professional advice and support to the Service area to develop a control framework that ensured there were adequate arrangements in place to effectively manage and monitor the contract with Ubico Ltd. This consultancy review focused upon the following five key areas:

- Governance arrangements;
- Risk identification and management;
- Cost control and management;
- Change control; and
- Monitoring and management of performance.

The Internal Audit consultancy review completed in 2017-18, concluded that although Public Spaces had successfully introduced three new chargeable waste collection services during the second half of 2015-16, and the new waste and recycling services during 2016-17, alongside managing the closure of the multi services contract with the previous contractor and the procurement of the service to the new provider there were found to be key governance issues with the management of the current contract.

These issues related to the lack of documented Terms of Reference for the board and key service meetings, delegation of authority and receipt of timely budgetary updates, etc.

Scope

This audit sought to provide assurance that the recommendations raised in the 2017-18 consultancy review of the multi services contract had been fully implemented or there was an approved action plan to show how and when they will be implemented.

Risk Assurance – Limited

Control Assurance – Limited

Key Findings

Five high and four medium priority recommendations (see Appendix A) were raised by Internal Audit in the 2017-18 consultancy review of the multi services contract to support management in the provision of a robust and effective governance framework and for the effective delivery of the contract.

Community Services was subject to the Workforce Plan – Change Programme during the fourth quarter of 2017-18 and first quarter of 2018-19. During that period two of the three experienced Public Space Officers resigned and the Public Space Manager was made redundant. Other changes to personnel with responsibility for managing and supporting the operation of the multi services contract were also introduced.

The above has resulted in a loss of key personnel who were responsible for the multi services contract and with it a significant reduction in the level of knowledge and skills in this area. The Community Services Manager has taken over day to day management of the contract but the majority of his time has up until now been mainly spent on another Council high priority project. This has all resulted in a significant adverse impact on the delivery of the recommendations raised by Internal Audit.

The current position against each recommendation made is summarised below:

➤ **Governance arrangements**

High priority recommendation 1 - Terms of Reference

Original completion date - 30 November 2017

Draft Terms of Reference for the Environment Services Partnership Board (ESPB) and Client / Contractor operational meetings have been written but have not been subject to formal ESPB members' approval. In addition the Terms of Reference for the Client / Contractor management meeting has not been drafted.

The Head of Community Services advised that the original governance structure for the service provision, with the exception of the ESPB, is to be reviewed and updated where appropriate to ensure the structure is robust and effective. A Terms of Reference will then be written / updated and all submitted to the ESPB for approval by 31 January 2019.

High priority recommendation 2 - Review of contract

Original completion date - 31 March 2018

The Head of Community Services provided a revised completion date of 30 November 2018 for a full review of the contract to establish Ubico Ltd duties and responsibilities and subsequently to confirm their compliance.

➤ **Risk identification and management**

High priority recommendation 3 - Risk Register

Original completion date - 30 November 2017

Updates to the Council's risk management register for the multi services contract risks have been undertaken by management resulting in a reduction in operational risks from five to three.

A review by Internal Audit of the remaining risks highlighted that they required updating to reflect current information and further work was required to identify all potential risks to the service provision are recorded and managed.

The Head of Community Services advised that an appropriate review will be undertaken and the risk register updated accordingly by 30 November 2018.

Medium priority recommendation 4 - Business Continuity Plan (BCP)

Original completion date - 31 March 2018

A review of the Ubico Ltd BCP was undertaken by the previous Public Space Manager during December 2017, which resulted in further updates being made to the BCP. In addition he requested a copy of the Emergency Management Plan referred by Ubico Ltd in the BCP, which details how the company would respond to an emergency situation. Internal Audit cannot confirm that this has been provided, however, the updated BCP does not refer to this document.

The BCP without the Emergency Management Plan does not in Internal Audit's opinion provide sufficient detail to enable management to confirm that Ubico Ltd's emergency planning arrangements are, for Council purposes, robust and effective to adequately manage a short or long term disaster event(s).

Arrangements are being made by the Senior Community Services Officer to contact other authorities that commission Ubico Ltd for similar operations. This is to gain an understanding of their BCP arrangements with Ubico Ltd and to use their experience and knowledge to ensure that the Ubico Ltd BCP for the Council is effective, robust and fully co-ordinated with the other authorities and service providers.

A revised resolution date of 30 November 2018 has been given by the Senior Community Services Officer to fully implement the recommendation.

➤ **Cost control and management**

High priority recommendation 5 - Financial and risk reporting

Original completion date - 30 November 2017

Finance has taken a leading role in ensuring regular monthly financial reports relating to budget setting and budget monitoring are received and actively scrutinised, which has provided a positive impact. In addition frequent meetings are being held between Finance, Community Services management and Ubico Ltd to discuss the financial position of the multi services contract and aspects of the service provision.

Ubico Ltd have not always provided timely answers to all Finance queries over the reported financial information and some queries still remain outstanding at the point in time of this audit follow-up review.

The above said, Internal Audit can provide reasonable assurance that the recommendation has now been implemented. However, Finance and Community Services management should continue their focus on ensuring the accuracy and timeliness of the financial information from Ubico Ltd and query resolution to ensure effective budget monitoring and management.

Medium priority recommendation 6 - Service specification

Original completion date - 31 March 2018

The services of the Association of Public Service Excellence (APSE) has been commissioned by Community Services management during July 2018 to independently review the waste and recycling service provision, in order to establish whether the Council is receiving value for money and to identify additional savings. This review does not include other elements of the multi services contract such as street cleaning, grounds maintenance, etc.

A formal report of their findings is expected to be issued in October 2018 and early indications, verbally communicated to Internal Audit by the Head of Community Services, are that the Council is receiving value for money.

The information and work performed by APSE in establishing the waste and recycling service being delivered by Ubico Ltd is to be used by Community Services to benchmark against current Community Services management expectations, contract and to use as the basis for the service specification going forward.

Community Services officers will also commence a review of the remaining services to fully detail Ubico Ltd roles and responsibilities and expected service delivery. The street cleaning service provision review will be commenced in September 2018 followed thereafter by the other activities with full completion of the recommendation by 31 March 2019.

➤ **Change control**

High priority recommendation 7 - Service provision change / contract variation

Original completion date - 30 November 2017

A change / variation flowchart, forms and registers to capture all changes to the contract or service provision have been developed, but not fully introduced at the point of this review. Internal Audit has raised six observations following a review of the proposed process and documents to further strengthen the procedures, risk management and control, which has been accepted by the Community Services Senior Business Support Officer.

In addition two elements of the recommendation detailed below had not been implemented at the time of this review:

- Details of officers who have been delegated with authority to submit and approve a change / variation to the service provision including their financial limit of authority should be documented and approved by the

Director of Customer Services. The approved schedule of authorised officers and their delegated financial limits should then be provided to Ubico Ltd as part of the Communications Protocol; and

- Ubico Ltd should be clearly advised that any changes that they wish to make to the service must go through the change control process as per the contract.

The Head of Community Services advised that Internal Audit observations and the identified remaining parts of the recommendation will be completed by 30 November 2018.

➤ **Monitoring and management of performance**

Medium priority recommendation 8 - Key performance indicator (KPIs) reporting

Medium priority recommendation 9 - Review of KPIs

Original completion date - 31 December 2017

A review of the KPIs by the previous Public Space Manager was undertaken, which resulted in the number of KPIs being increased from six to 21. However, they have not been implemented as at the point in time of this audit follow-up review.

The Head of Community Services advised that the KPIs have not been approved by Ubico Ltd or the current Community Services management and they are not now considered appropriate. A review is to be performed by Community Services officers, including Ubico Ltd to establish and agree on performance measures that effectively demonstrates and evaluates how successful the company is in achieving the service provision targets / objectives. The reporting format of the KPI results to the ESPB will also form part of this review.

The Head of Community Services advised that the review would be completed and KPIs approved by 31 January 2019 and be effective from 1 April 2019.

Conclusion

As a result of the Workforce Plan – Change Programme and the commitment of management resources to another Council high priority project there has been a delay in the resolution of eight of the nine recommendations that were raised and agreed by management in the November 2017 consultancy review.

Due to the significance of this contract, Internal Audit strongly recommends that resources are directed and prioritised to ensure that the internal audit recommendations made are fully implemented within the revised timescales provided, to provide the relevant assurances that value for money is being achieved and an effective, quality service is being delivered.

Whilst Internal Audit will monitor the implementation of the recommendations (through further follow up reviews within the 2019/20 Plan), it is recommended that senior management attend the next meeting of the Audit and Standards Committee and is requested to provide an update on the action taken in relation to each recommendation made.

Appendix A: 2017-18 Multi Service Contract consultancy review – original recommendations / management responses / target dates

Review area: Governance arrangements

Recommendation 1		Category	High
A detailed Terms of Reference for each of the contract management meetings should be created and implemented to formalise the purpose, scope / responsibilities and authority of each of the boards / groups.			
Risk(s)			
Lack of clarity around roles and responsibilities, decision making powers, effective management and control of the contract resulting in poor performance, ineffective decision making, and / or potential unforeseen, un-budgeted additional costs.			
Management Response			
A Terms of Reference has been formulated for and agreed by the Environmental Services Partnership Board. A Terms of Reference for client/contractor operational meetings will also be agreed.			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	30/11/2017

Recommendation 2		Category	High
A full review of the contracts performance should be undertaken to formally identify all key actions / requirements to ensure compliance with the contract provisions, particularly in relation to the creation and agreement of a Communications Protocol, Ubico Ltd submission of a quarterly reconciliation invoice or credit note and production of an annual service report.			
Risk(s)			
Non compliance with the contract terms and conditions resulting in poor customer service, potential unforeseen, un-budgeted additional costs and adverse publicity.			
Management Response			
A full performance review of the Multi Service Contract will take place over the coming months and will cover the key points identified within this report.			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	31/03/2018

Review area: Risk identification and management

Recommendation 3		Category	High
<p>Undertake a full joint review of the risks facing the delivery of the multi service contract to confirm that the risks are still current and valid, update where appropriate, correctly evaluated, ensuring mitigating controls have been identified and documented.</p> <p>The joint risk register should be a 'live' 'dynamic' document which forms part of the ongoing management and monitoring arrangements. The key red residual risks are then reported to the relevant boards / groups to enable challenge and inform decisions and priorities.</p>			
Risk(s)			
<p>All risks from both parties affecting the multi service contract are not full identified and managed resulting in unforeseen exposures significantly impacting on service delivery, reputation and potential increased financial costs.</p>			
Management Response			
<p>Risks associated with the Multi Service Contract were jointly identified and co-managed by the Council and Ubico Ltd over the past 2-3 years; this was necessary to ensure the full, timely and successful implementation of each of the services. It is appreciated that whilst the joint risks were not updated on the Council's own risk register through 'Excelsis', more general risks covering the Multi Service Contract services were recorded. Joint risks had been reported regularly, pre and post service implementation to both the 'Task and Finish Group' of cross party Members and Officers and the 'Environmental Service Partnership Board' (ESPB) as a 'live and dynamic' process.</p> <p>In future, key service risks emanating from the joint risk register will be reported through the Council's risk management register 'Excelsis'.</p>			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	30/11/2017

Recommendation 4		Category	Medium
Obtain a copy of the Ubico Ltd business continuity plan and confirm in conjunction with Emergency Planning that it is fit for purpose and that the plan adequately covers and manages for the loss of service(s) on a temporary basis and over the long term in the event of a disruption.			
Risk(s)			
Loss of service due to a temporary or long term disaster or event resulting in limited or no customer service which impacts on adverse publicity and increased costs.			
Management Response			
The Business Continuity Plan (BCP) will be reviewed over the coming months. It should be identified that the decision to use Ubico Ltd for the delivery of this new contract was in part made due to the flexibility the contracting arrangement had over the conventional relationship with a private sector company. It stands to reason that to move forward on this matter constructively and ensure emergency situations are well managed in future, the BCP should remain as flexible as possible.			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	31/03/2018

Review area: Cost control and management

Recommendation 5		Category	High
<p>Ubico Ltd should be formally instructed to provide detailed, up to date financial and risk reports to the Client / Contractor meetings and quarterly to the ESPB, which clearly show actual spend against budget, explanations for variances and spend forecasts to the end of the financial year and any potential and emerging risks associated with service delivery.</p> <p>These financial and risk reports should be presented to officers and Members in advance of the meetings to enable them to be fully scrutinised and ensure that there is effective discussion and robust challenge.</p>			
Risk(s)			
<p>Excessive costs are paid for the service provision resulting in financial losses, reduction in finance available to other services of the Council and/or increase in charges to householders.</p>			
Management Response			
<p>Council officers, alongside the direct support provided by Members and Chief Officers, have over this past year encouraged Ubico Ltd to provide more detailed, accurate and timely financial information relating to the Multi Service Contract. Whilst there have been improvements in Ubico Ltd financial reporting, it is clear that greater progress is needed. Both Public Space Services and the Council's Finance service continues to press Ubico Ltd in this respect. A further meeting is being arranged between SDC and Ubico Ltd Finance teams to finalise improved finance reporting.</p>			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	30/11/2017

Recommendation 6		Category	Medium
<p>Update the service specification that is included in the appendices to the contract so that they clearly and fully detail Ubico Ltd roles and responsibilities and expected service delivery.</p> <p>The updated service specification should be approved by Public Space management and Ubico Ltd.</p>			
Risk(s)			
<p>Ambiguity between the service provisions expected to be delivered against what is delivered resulting in a shortfall in service, increase in costs, poor customer services and adverse publicity.</p>			
Management Response			
<p>Owing to the level of service changes and their successful implementation, it is clear that in the main, the distinction between council and contractor responsibilities are reasonably well established. However, a review will be undertaken albeit with the recognition that there will be minor issues that will have arisen, some as a direct result of service changes made after the contractor's original service proposal was made and others that have arisen as a direct result of increased service demand beyond either the council's or Ubico Ltd control and expectations. The latter are being closely monitored.</p>			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	31/03/2018

Review area: Change control

Recommendation 7		Category	High
<p>Details of officers who have been delegated with authority to submit and approve a change / variation to the service provision including their financial limit of authority should be documented and approved by the Strategic Head (Customer Services). The approved schedule of authorised officers and their delegated financial limits should then be provided to Ubico Ltd as part of the Communications Protocol.</p> <p>All changes / variations to the service provision as per the contract should be documented and include the financial cost and implication to the annual contract sum so that the Council is fully aware of the financial effect of the change , effect on budgets and can verify the additional charge(s) from Ubico Ltd. Variations to the annual service charge should therefore, where appropriate, be supported by an approved change / variation schedule. In addition Ubico Ltd should be clearly advised that any changes that they wish to make to the service must go through the change control process as per the contract.</p>			
Risk(s)			
<p>Unauthorised changes / variations to the service provision are made resulting in excessive unplanned costs.</p>			
Management Response			
<p>Notwithstanding two pieces of additional work that has been separately charged for, outside of the Multi Service Contract, changes made to the contract within the last twelve months have constituted only minor variations, the majority of which have limited or no adverse impact on the use of the contractors resources as the changes are accommodated within the contractors daily workload without the requirement for additional resource. There are also other relatively minor changes that require additional work resulting from for example land adoptions through Section 106 Planning Agreements and additional domestic properties coming online; the council is obligated to accommodate the additional work these issues generate.</p> <p>It is recognised that the processing of contract variations is critical to maintaining control over contract expenditure. However, the council no longer uses a private sector contractor and therefore has no in-built mechanism to evaluate each contract variation on a cost basis. Decisions on the impact of contract variations are now determined by whether they can be accommodated within the contractor's existing resources. This will be tracked and reported over time to monitor the cumulative effect.</p>			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	30/11/2017

Review area: Monitoring and management of performance

Recommendation 8		Category	Medium
<p>The current reporting of the KPIs should be improved to include the following:</p> <ul style="list-style-type: none"> • Clearly present and give prominence to the KPIs within the reporting schedule; • Targets for each of the KPIs should be clearly shown against the actual performance result; • Performance results should be subject to verification by Public Spaces to confirm the information reported is correct; and • Where adverse variances to targets are highlighted detailed explanations for the reasons are reported. 			
Risk(s)			
Contractor performance and risks are not fully understood or managed resulting in poor service delivery and poor customer service being undetected.			
Management Response			
Key Performance Indicators (KPIs) are regularly monitored and reported to Environment Services Partnership Board (ESPB). Meaningful targets exist for the waste indicators and the minutes do reflect Officers comments on this matter; targets for non waste related services will be identified. Changes to performance verification should ensure a more consistent and accurate reporting. The absence of a narrative on poor performance is noted and will be improved.			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	31/12/2017

Recommendation 9		Category	Medium
<p>A review (annually thereafter) of the KPIs should be undertaken by Public Space management to ensure that they remain fit for purpose and provide a broad and effective assessment of Ubico Ltd performance across all the services that form part of the multi service contract. In addition, relevant KPIs should be introduced to ensure that the Council's current objectives and priorities are also being met.</p> <p>Any changes to the KPIs following the review should be discussed and formally agreed with Ubico Ltd with the decisions being taken via the relevant governance board / group or officer with delegated authority.</p>			
Risk(s)			
Contractor performance is not fully understood or managed resulting in poor performance and customer service being undetected.			
Management Response			
KPIs form part of the Multi Service Contract but it is recognised that they centre mainly on the waste services. KPIs are less well developed for the other services and so this will be a key area to improve upon whilst ensuring they present clear benefit and understanding of performance. New KPIs will be presented to ESPB for approval.			
Person Responsible	Carlos Novoth, Public Space Manager	Completion Date	31/12/2017

Workforce Plan – Programme Management – Position Statement

Introduction

Local Government continues to operate in a climate of financial uncertainty and volatility. For Stroud in particular, due to a reduction in settlement from central government the Council will incur a significant reduction in its General Fund finances by 2021/22. The General Fund Medium Term Financial Plan (approved by Council in January 2018) highlights that it forecasts that there will be a shortfall year on year totalling approximately £1.7m by 2021/22. The deficit net of planned savings is to be covered by the Council's reserves to ensure it maintains a balanced budget.

The Council's Corporate Change Programme is part of a wider programme to help the Council achieve the changes that are needed to shape the Council for the future. Focus on initiatives that support the use of technology, enabling staff to work more flexibly, promoting customer self service, office redesign, organisational culture, with the overall aim of delivering greater efficiencies in order to address the funding gap and enable a cohesive and aligned approach to the achievement of the Council's Corporate Delivery Plan.

The workforce plan is an efficiency initiative and focuses upon a 20% reduction in the workforce over a four year period. A phased programme of service reviews have been scheduled, with the objective of achieving the best future direction of the service under review, taking into consideration its priorities, risks and options to achieve financial savings, whilst maintaining value for money, and excellent service delivery.

In light of the above, it was agreed that a review of the programme management arrangements should be included within the internal audit annual plan for 2018/19.

Terms of Reference

This audit will seek to determine whether there are effective programme / project management arrangements in place to deliver the objective of the Workforce Plan. In particular, to provide assurance on the following key phases:

- Vision and direction: strategic alignment, business case, sponsor commitment;
- Planning: governance, risk management;
- Execution: resources, methodology and management;
- Measuring and monitoring: reporting, costs, benefits, slippage, impact upon interdependencies; and
- Business acceptance: change management, stakeholder management.

Position Statement

The Terms of Reference for the review has been agreed with the Corporate Change Board and fieldwork has commenced. Due to the significance, and breadth of this programme, application of an agile audit approach to delivering the objective is being taken, thus ensuring that should any suggested improvement areas be identified these are raised with management at the earliest opportunity.

Next steps

Internal Audit will continue to provide progress update reports to the committee during 2018/19.