

28 September 2018

## **AUDIT AND STANDARDS COMMITTEE**

A meeting of the Audit and Standards Committee will be held on **TUESDAY 9 OCTOBER 2018** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**



David Hagg  
Chief Executive

**Please Note:** This meeting will be filmed for live or subsequent broadcast via the Council's internet site ([www.stroud.gov.uk](http://www.stroud.gov.uk)). By entering the Council Chamber you are consenting to being filmed. The whole of the meeting will be filmed except where there are confidential or exempt items, which may need to be considered in the absence of the press and public.

### **AGENDA**

- 1 APOLOGIES**  
To receive apologies for absence.
- 2 DECLARATIONS OF INTEREST**  
To receive declarations of interest.
- 3 MINUTES**  
To approve the minutes of the meeting held on 26 July 2018.
- 4 PUBLIC QUESTION TIME**  
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.  
**DEADLINE FOR RECEIPT OF QUESTIONS**  
**Noon on THURSDAY 4 OCTOBER 2018**  
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email: [democratic.services@stroud.gov.uk](mailto:democratic.services@stroud.gov.uk).
- 5 STANDING ITEMS**
  - (a) To consider the work programme for 2018/19.
  - (b) To consider any Risk Management issues.
  - (c) To receive a verbal update on the Task and Finish Group (Ethical Audit).

- 6**     **PROCUREMENT UPDATE**  
To receive an update on corporate procurement activity.
- 7**     **INTERNAL AUDIT ACTIVITY 2018/19**  
To receive a report on the Internal Audit activity progress.
- 8**     **MEMBERS' QUESTIONS**  
See Agenda Item 4 for deadline for submission.

**Members of Audit and Standards Committee**

**Councillor Nigel Studdert-Kennedy (Chair)**  
**Councillor Skeenor Rathor (Vice-Chair)**  
Councillor Rachel Curley  
Councillor Stephen Davies  
Councillor Keith Pearson

Councillor Simon Pickering  
Councillor Mark Reeves  
Councillor Tom Williams  
Councillor Penny Wride

## AUDIT AND STANDARDS COMMITTEE

26 July 2018

5.00 pm – 8.12 pm

Council Chamber, Ebley Mill, Stroud

### Minutes

#### Membership

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Simon Pickering	P
Councillor Skeena Rathor (Vice-Chair)	P	Councillor Mark Reeves	P
Councillor Rachel Curley	P	Councillor Tom Williams	P
Councillor Stephen Davies	A	Councillor Penny Wride	P
Councillor Keith Pearson	P		

A = Absent P = Present

#### Other Councillor present

Councillor Cooper

#### Officers in attendance

Accountancy Manager	Finance Manager and Section 151 Officer
Head of Audit, Risk and Assurance Shared Service (ARA)	Principal Accountant
Head of Legal Services and Monitoring Officer	Democratic Services Officer

#### Others present

Ian Pennington, KPMG

#### **AC.001**

#### **APOLOGIES**

An apology for absence had been received from Councillor Davies.

#### **AC.002**

#### **DECLARATIONS OF INTEREST**

There were none.

#### **AC.003**

#### **MINUTES**

**RESOLVED** That the Minutes of the meeting held on 10 April 2018, are approved as a correct record.

#### **AC.004**

#### **PUBLIC QUESTION TIME**

There were none.

**AC.005**      **STANDING ITEMS**

- (a) Work Programme
- Multi Service Contract – Councillor Pickering stated that it would be useful if the audit report could also go to Environment Committee and the Waste Task and Finish Group (queries regarding when the decision on the price for the contract and some of the changes had not been reported to Committee).
  - Constitution Working Group – Councillor Pearson suggested that they look at the way that Committees report and more joined up thinking.
  - Letting of properties, (particularly commercial properties) not all are on the website, in accordance with Government Guidelines.
- (b) Risk Management – the Risk Register and excelsis had been reviewed by Corporate Team the day prior to Committee. Another meeting would be arranged with Corporate Team in the autumn. Corporate Team had asked that queries are raised prior to the meeting so that they can be addressed.
- (c) Task and Finish Group (Ethical Audit) – the Head of Legal Services gave a verbal update. A member event is planned for 27 September 2018 at 4.00 pm. The aim is that everyone is working to the same standards.

**AC.006**      **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2017-18**

The Principal Accountant outlined the above report and appendices. A half yearly update will be presented at the next Committee. Training for members will be arranged for October/November 2018.

**RESOLVED**      **To approve the treasury management activity annual report for 2017/2018 and the actual Prudential Indicators.**

**AC.007**      **1<sup>ST</sup> QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2018/19**

The Principal Accountant provided an update on the treasury management activity as at 30 June 2018.

**RESOLVED**      **To approve the treasury management activity first quarter report for 2018/2019.**

**AC.008**      **ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY 2017/18**

The Head of Audit Risk Assurance (Chief Internal Auditor) presented the above report highlighting various issues. The Directors have taken ownership of the problems with IT. It was agreed that Internal Audit would monitor the progress made with implementing the agreed recommendations resulting from the Socitm review, as part of the 2018/2019 internal audit plan.

**RESOLVED**      **a. To assess, from the findings set out in this Internal Audit Annual Report, whether it can take reasonable assurance that the internal control environment, comprising risk management, control and governance is operating effectively; and**

- b. To note that the performance of Internal Audit meets the required standards.**

**AC.009                    LIMITED ASSURANCE REPORTS MANAGEMENT UPDATES**

Capital Programme: The Accountancy Manager highlighted the progress made by management in implementing the recommendations raised by Internal Audit following its 2017-18 review. The Capital Programme will be presented to Strategy and Resources Committee on 17 January 2019 with a recommendation to Council on 24 January 2019. There is a need for wider discussions and member involvement to take place. It is mandatory for this work to be completed by April 2019.

Councillor Curley was not entirely comfortable with the delay but was assured that Committee would receive regular updates.

The Pulse – management had provided assurance that the recommendations had been acted upon, however internal audit will undertake a follow up review and report the key findings back to the January 2019 Committee.

Post Project Reviews – recommendations that had been made had not been accepted by management. Members raised their concerns.

Councillor Pearson proposed an amendment to the decision box by adding the words “the lack of” prior to the word “progress”. This amendment was supported by Committee.

**RESOLVED    To consider and note the lack of progress made against implementation of the audit recommendations.**

The meeting adjourned at 6.30 pm and reconvened at 6.56 pm.

**AC.010                    INTERNAL AUDIT/EXTERNAL AUDIT WORKING PROTOCOL**

The Head of Audit Risk Assurance (Chief Internal Auditor) presented the above report and confirmed the aim was to co-ordinate activities with no duplication of work.

**RESOLVED    That the Internal Audit/External Audit Working Protocol as set out in Appendix A be approved.**

**AC.011                    DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2017/18**

The Head of Audit Risk Assurance (Chief Internal Auditor) presented the above report and drew attention to page 135, the Council wide assurance map. Officers are being encouraged to have a procurement plan in place and to plan ahead. The key was how risks are managed. Committee were concerned that actions were not being taken quickly enough and sought assurances from the Chief Executive and Directors that risks would be managed.

**RESOLVED    That the AGS 2017/18 (including the actions planned by the Council to further enhance good governance arrangements), as set out in Appendix A, be approved.**

**AC.012            EXTERNAL AUDIT REPORT 2017/18**

Ian Pennington, Director from KPMG outlined the key findings in relation to the external audit undertaken on the Council's significant risks. Property values were used from December, rather than October. The Multi Services Contract had overspends, responses were initially slow from officers to internal audit but issues had been addressed. The food collection and recycling rates were both significantly higher than expected.

**RESOLVED    The External Audit ISA260 Report 2017/18 from the Council's external auditors, KPMG was considered and accepted.**

**AC.013            STATEMENT OF ACCOUNTS 2017/18**

The Accountancy Manager presented the above report which highlighted changes up to 31 May 2018. He confirmed that the Council did not provide a loan for Merrywalks. The focus had been on the key financial performance. He also highlighted various notes contained within the report.

The Principal Accountant requested that the Chair of Committee and the Accountancy Manager signed the representation letter for KPMG at the close of the meeting. He highlighted note 47. Prior Period Adjustment, (page 132 of 154) regarding assets under construction which required figures from last year to be adjusted by £4.3m.

**RESOLVED    To approve the audited Statement of Accounts for the year ending 31 March 2018.**

**AC.014            MEMBERS' QUESTIONS**

There were none.

The meeting closed at 8.12 pm.

Chair

## AUDIT AND STANDARDS COMMITTEE

9 OCTOBER 2018

**5a**

## WORK PROGRAMME

<b>Proposed Meeting Date</b>	<b>Report Description</b>	<b>Responsible Officer / Member</b>
29 January 2019	Internal Audit Activity Progress Report 2018/19	Head of Audit Risk Assurance (ARA)
	Annual Summary of Certification of Grant Claims and Returns 2017/18	KPMG
	Annual Governance Statement 2017/18 Improvement Plan	Chief Internal Auditor
	Treasury Management Activity 2017/18	Principal Accountant
	Treasury Management, Annual Investment, and MRP Strategy 2018/19	Principal Accountant
7 May 2019	Annual Report of the Audit and Standards Committee (prepared by the Chairman) for agreement prior to presentation to Council	Chair
	External Audit Plan 2017/18	KPMG
	Internal Audit Activity Progress Report 2018/19	Head of Audit Risk Assurance (ARA)
	Internal Audit Plan 2019/20	Chief Internal Auditor

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**9 OCTOBER 2018**

**6**

<b>Report Title</b>	<b>PROCUREMENT UPDATE</b>
<b>Purpose of Report</b>	To receive an update on corporate procurement activity
<b>Decision(s)</b>	<b>The Committee RESOLVES</b> that each Directorate is reminded of the need to forward plan for any procurement, whether a completely new service or a renewal (as opposed to an extension) of a contract.
<b>Consultation and Feedback</b>	Internal only
<b>Financial Implications and Risk Assessment</b>	<p>There are no financial implications arising directly from this report.</p> <p>The Council is under a statutory duty to demonstrate Best Value and procurement, when undertaken in a planned way in accordance with Council policy and the procurement framework, plays an important part in achieving this. Some of the issues highlighted in this report may make it more difficult for Best Value to be demonstrated.</p> <p>Members are reminded of the Value for Money judgement provided by external audit in their annual report to those charged with governance (ISA260). If the Council is not able to satisfy external audit in their assessment, this may lead to a qualified opinion and may lead to additional costs and potential reputational risk.</p> <p>David Stanley – Accountancy Manager Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p> <p>Failure to comply with the Council’s procurement framework may lead to poor Value for Money and lack of transparency, resulting in political, financial and reputational risk.</p>



<b>Legal Implications</b>	No additional issues to report. Karen Trickey, Head of Legal Services and Monitoring Officer Tel: 01453 754369 Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a>
<b>Report Author</b>	Sarah Turner, Principal Procurement Officer Tel: 01453 754346 Email: <a href="mailto:sarah.turner@stroud.gov.uk">sarah.turner@stroud.gov.uk</a>
<b>Options</b>	
<b>Performance Management Follow Up</b>	Further reports or information sheets will be provided to Audit & Standards Committee.
<b>Background Papers/ Appendices</b>	Audit & Standards Committee report – Procurement Review 2017/18 – 4 July 2017 Information Sheet – AS-2016/17-003

## 1. Background

- 1.1 The Audit & Standards Committee has been monitoring the Council's performance in relation to procurement and contract management over a number of years, particularly since the limited assurance identified by External Audit in September 2015 regarding "instances where the Council [had] not followed its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts". As advised at the time, the impact of which inhibited the Council's ability to secure "economy, efficiency and effectiveness" in obtaining value for money for services, works and goods ("VFM"). The Committee will be aware that the Council is subject to a duty to obtain VFM under Section 3 of the Local Government Act 1999.
- 1.2 Members will recall, since that assessment, the committee has received regular reports / information sheets on progress made to improve the procurement undertaken to secure VFM. Simply by way of update in this regard, a Member Information event has being arranged for March 2019 to consider future procurement priorities of the Council as part of the procurement team's work to review the Council's procurement strategy. A further report will be provided to the Committee on relevant recommendations thereafter.
- 1.3 Further, Internal Audit has undertaken a review of a sample of procurement undertaken to provide assurance (or otherwise) of compliance with the procurement framework (namely CPPRs, internal guidance and the law). The latest internal audit is reported to this Committee in a preceding agenda item.

## 2. Issues

- 2.1 As the Committee will note, the latter report has highlighted that the governance framework is (still) fit for purpose and of the procurement activity reviewed, there were no significant issue of concerns, although as

always there is room for improvement! Inevitably internal audits cannot provide a comprehensive expert review of all procurements. Consequently in practice, the sample review, understandably, does reflect some continuing issues regarding service procurement which officers advising on procurement experience and which in the absence of significant involvement of the procurement team can mean that VFM is not always secured. As noted by Internal Audit, where advice has been sought from the procurement team, especially where officers have not carried out procurement previously, the relevant procurement activities have been completed in accordance with the Council's adopted framework.

2.2 Issues which have been identified by the procurement team indicate a significant failure on occasion to effectively forward plan for procurement activities. This is of concern given the 2016 / 2017 comprehensive training programme which was geared towards all staff managing and / or overseeing procurement and as noted in the Information Sheet March 2017, was well received by staff, raising awareness and understanding of how to secure VFM via effective procurement. There still appears to be considerable uncertainty amongst senior managers as to how to properly plan and prepare for procurement. In particular it is considered that:

- (a) There is not a consistent ability to anticipate and prepare for new procurements where existing contracts are about to end. In 2018, this has resulted in two (out of 29 contracts over £25,000) requests to the Monitoring Officer to approve 'urgent' extensions to contracts to prevent breaks in key services which would otherwise adversely impact service users. Further, unexplained delays in instigating a procurement have led to decisions having to be made when deadlines are imminent and / or have necessitated additional costs to secure service continuity in the interim. Proper preparation for procurement can readily enable the Council to advertise, receive tenders and award contracts within 4 to 6 weeks. Indeed, even procurements that exceed EU thresholds can readily be successfully completed within 3 months.
- (b) On occasion, the available exemptions are being used to circumvent the requirement for fair competition amongst potential suppliers to meet the Council's legal duty to secure VFM. For example, in 2018 requests have been made to appoint particular suppliers for convenience. Such requests have been made of the procurement team without any (or any proper) assessment of whether there are alternative suppliers and / or whether the preferred supplier satisfies a relevant framework agreement which provides a potential and legitimate 'short cut' (by virtue of pre-vetting) to a separate procurement.
- (c) Insufficient consideration is being given to how the tenders will be evaluated and / or what exactly the Council wants. Again, some recent examples illustrate the evaluation criteria incorporated into Invitations to Tender produced by the Council are such that it is not

possible to assess the VFM of individual bids to enable a justifiable contract award to be made, thereby causing further delay in project delivery and / or opening the Council to challenge from unsuccessful bidders.

- 2.3 The main problems appear to occur in officers either understanding and / or committing the time needed to ascertain what service, goods etc they actually need and what options are available to them. Despite the extensive training programme and guidance provided to officers, there still appears to be a perception of lawful procurement being too difficult and time consuming.

### **3. Recommendations**

- 3.1 Whilst the Internal Audit report is welcome, it is recommended that the Committee resolve that the senior officers are reminded of the need to forward plan for any procurement, whether a completely new service or a renewal (as opposed to an extension) of a contract.

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**AGENDA  
ITEM NO**

**9 OCTOBER 2018**

**7**

<b>Report Title</b>	<b>INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19</b>
<b>Purpose of Report</b>	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.
<b>Decision(s)</b>	<p>The Committee RESOLVES to:</p> <ul style="list-style-type: none"> <li>• Accept the progress against the Internal Audit Plan 2018/19;</li> <li>• Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date; and</li> <li>• Request senior management attendance at the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the Legacy Software and Multi Services Contract follow-up audit reports.</li> </ul>
<b>Consultation and Feedback</b>	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
<b>Financial Implications and Risk Assessment</b>	<p>There are no financial implications arising directly from this report. Members should review the limited risk and control assurance opinions against the issues highlighted in the Annual Governance Statement Action Plan and KPMG's External Audit Report 2017/18.</p> <p>David Stanley – Accountancy Manager Tel: 01453 754100 Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p> <p>Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.</p>

<b>Legal Implications</b>	<p>The legal framework concerning the requirements regarding internal audit are set out in the opening section of the report. The Committee should ensure it is satisfied that the steps proposed are sufficient to alleviate the risks identified; it is open to the Committee to request further information if it is required.</p> <p>Mike Wallbank Solicitor Mike.Wallbank@stroud.gov.uk</p>
<b>Report Author</b>	<p>Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: <a href="mailto:theresa.mortimer@stroud.gov.uk">theresa.mortimer@stroud.gov.uk</a></p>
<b>Options</b>	<p>There are no alternative options that are relevant to this matter.</p>
<b>Performance Management Follow Up</b>	<p>In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2018/19. These are scheduled to be presented to Audit and Standards Committee at the January, May and July 2019 meetings.</p>
<b>Background Papers/ Appendices</b>	<p><b>Appendix A</b> – Internal Audit activity progress report 2018/19.</p> <p><b>Background papers:</b></p> <ul style="list-style-type: none"> <li>➤ Internal Audit Plan 2018/19;</li> <li>➤ PSIAS; and the</li> <li>➤ CIPFA Local Government Application Note for the UK PSIAS.</li> </ul>

## 1.0 Background

- 1.1 Members approved the Internal Audit Plan 2018/19 at 10<sup>th</sup> April 2018 Audit and Standards Committee meeting. In accordance with the PSIAS, this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.
- 1.2 The Internal Audit activity progress report 2018/19 at **Appendix A** summarises:
- The progress against the 2018/19 Internal Audit Plan, 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.
- 1.3 The report is the first progress report in relation to the Internal Audit Plan 2018/19. Please note that the outcomes of the Bankers' Automated Clearing System (BACS) internal audit 2018/19 were reported to the July 2018 Audit and Standards Committee.

# 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.

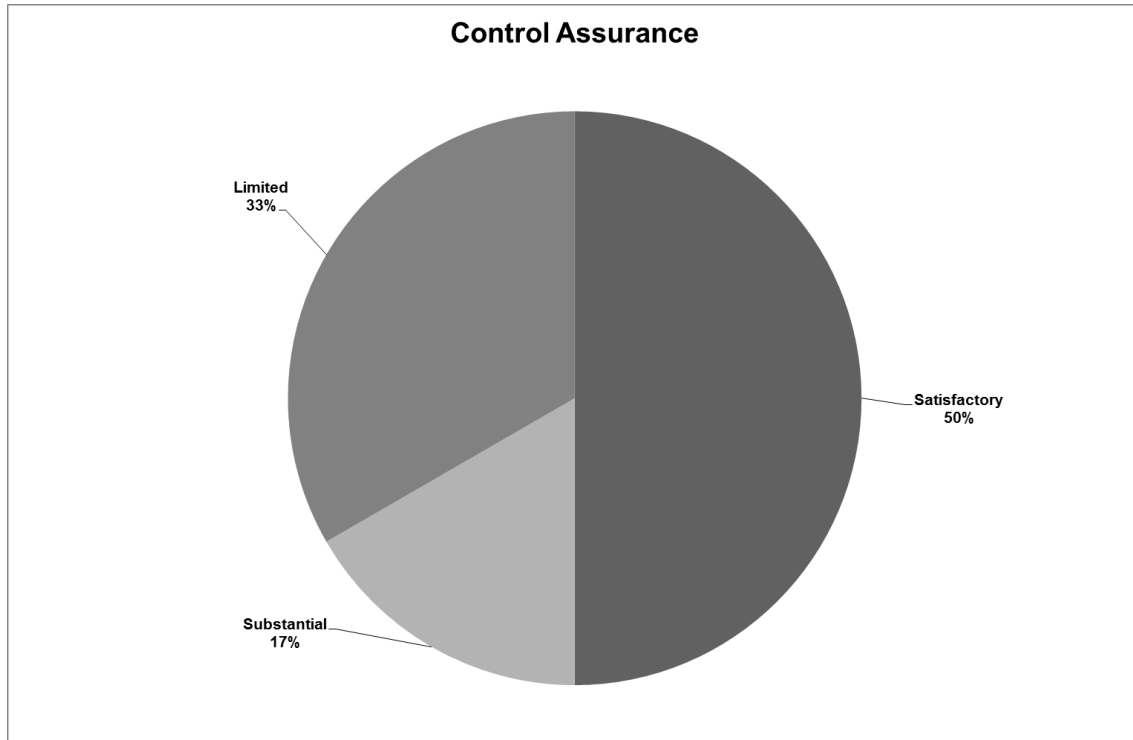
The schedule provided at **Attachment 4** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage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

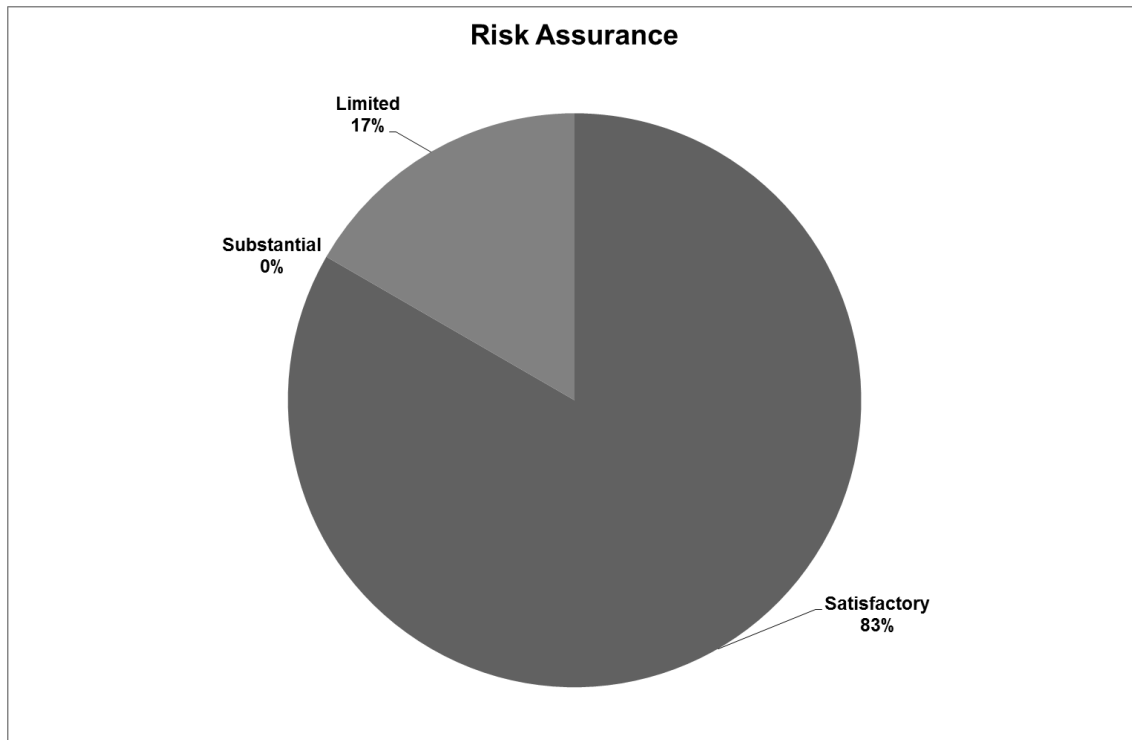
Assurance Levels	Risk Identification Maturity	Control Environment
<b>Substantial</b>	<p><b>Risk Managed</b> Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, 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"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> 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"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> 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"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

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

<b>Recommendation 1</b>		<b>Category</b>	<b>High</b>
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.			
<b>Risk(s)</b>			
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.			
<b>Management Response</b>			
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.			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	30/11/2017

<b>Recommendation 2</b>		<b>Category</b>	<b>High</b>
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.			
<b>Risk(s)</b>			
Non compliance with the contract terms and conditions resulting in poor customer service, potential unforeseen, un-budgeted additional costs and adverse publicity.			
<b>Management Response</b>			
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.			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	31/03/2018



## Review area: Risk identification and management

<b>Recommendation 3</b>		<b>Category</b>	<b>High</b>
<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>			
<b>Risk(s)</b>			
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.			
<b>Management Response</b>			
<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>			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	30/11/2017

<b>Recommendation 4</b>		<b>Category</b>	<b>Medium</b>
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.			
<b>Risk(s)</b>			
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.			
<b>Management Response</b>			
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.			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	31/03/2018

**Review area: Cost control and management**

<b>Recommendation 5</b>		<b>Category</b>	<b>High</b>
<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>			
<b>Risk(s)</b>			
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.			
<b>Management Response</b>			
<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>			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	30/11/2017

<b>Recommendation 6</b>		<b>Category</b>	<b>Medium</b>
<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>			
<b>Risk(s)</b>			
<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>			
<b>Management Response</b>			
<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>			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	31/03/2018

**Review area: Change control**

<b>Recommendation 7</b>		<b>Category</b>	<b>High</b>
<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>			
<b>Risk(s)</b>			
Unauthorised changes / variations to the service provision are made resulting in excessive unplanned costs.			
<b>Management Response</b>			
<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>			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	30/11/2017

## Review area: Monitoring and management of performance

<b>Recommendation 8</b>		<b>Category</b>	<b>Medium</b>
<p>The current reporting of the KPIs should be improved to include the following:</p> <ul style="list-style-type: none"> <li>Clearly present and give prominence to the KPIs within the reporting schedule;</li> <li>Targets for each of the KPIs should be clearly shown against the actual performance result;</li> <li>Performance results should be subject to verification by Public Spaces to confirm the information reported is correct; and</li> <li>Where adverse variances to targets are highlighted detailed explanations for the reasons are reported.</li> </ul>			
<b>Risk(s)</b>			
Contractor performance and risks are not fully understood or managed resulting in poor service delivery and poor customer service being undetected.			
<b>Management Response</b>			
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.			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	31/12/2017

<b>Recommendation 9</b>		<b>Category</b>	<b>Medium</b>
<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>			
<b>Risk(s)</b>			
Contractor performance is not fully understood or managed resulting in poor performance and customer service being undetected.			
<b>Management Response</b>			
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.			
<b>Person Responsible</b>	Carlos Novoth, Public Space Manager	<b>Completion Date</b>	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.

Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	Workforce - Programme Management	High	Audit in Progress				Position statement to Audit and Standards
Council Wide	Workforce Plan - Transitional Arrangements	High	Audit in Progress				Consultancy
Council Wide	Capital Programme Limited Assurance Follow Up	High	Planned				
Council Wide	Procurement	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	Brought Forward from 17/18 plan
Council Wide	Legacy Software	High	Final Report Issued	Satisfactory	Limited	09/10/2018	Brought Forward from 17/18 plan
Development Services	Food Hygiene Inspections	High	Audit in Progress				
Customer Services	Business Continuity	High	Planned				
Customer Services	Business Rates Evaluation List	High	Planned				
Customer Services	Multi Services Contract Follow Up	High	Final Report Issued	Limited	Limited	09/10/2018	
Customer Services	Subscription Rooms - Risk Management	High	Planned				
Customer Services	Treasury Management	High	Draft Report Issued				
Customer Services	Homelessness	High	Audit in Progress				Brought Forward from 17/18 plan
Customer Services	The Pulse Dursley Limited Assurance Follow Up	High	Audit in Progress				
Finance	Banks Automated Clearing System (BACS)	High	Final Report Issued	Satisfactory	Satisfactory	26/07/2018	
Finance	Budget Savings	High	Planned				
Finance	Communications (Publication of Financial Information)	High	Audit in Progress				
Finance	Debt Collection and Recovery	High	Planned				
Finance	Insurance	High	Planned				
Finance	Local Government Pension Scheme (LGPS) Limited Assurance Follow Up	High	Audit in Progress				
Tenant & Corporate Services	Competency Framework	High	Planned				
Tenant & Corporate Services	Contract Management (Mechanical and Electrical Payment Mechanisms)	High	Final Report Issued	Satisfactory	Substantial	09/10/2018	
Tenant & Corporate Services	Depooling of Rents	High	Audit in Progress				Consultancy
Tenant & Corporate Services	General Data Protection Regulations (GDPR)	High	Planned				
Tenant & Corporate Services	HRA Delivery Plan - Budget Savings	High	Planned				
Tenant & Corporate Services	IR35s - Off Payroll Working Through An Intermediary	High	Planned				
Tenant & Corporate Services	Property Maintenance	Medium	Planned				
Tenant & Corporate Services	Risk Management (Contracts)	High	Planned				
Tenant & Corporate Services	Settlements	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	
Tenant & Corporate Services	ICT Action Plan	High	Planned				