

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:

This report describes the work carried out by Internal Audit for quarter 3 and the proposed work to be delivered for quarter 4.

RECOMMENDATION:

Members are requested to:

- i. Note the audit work carried out in quarter 3.
- ii. Note the update to the expected deliverables for quarter 4.
- iii. Endorse the expected deliverables for quarter 4

1 Introduction

1.1 This report is to provide Members with:

- An overview of the work completed by Internal Audit to date for quarter 3.
- An update of the progress made and any changes required for the expected deliverables for quarter 4, as approved by the Committee on the 26th November 2018.
- A schedule of work expected to be delivered in quarter 4.

2 Audit work – Q3 18/19

2.1 The following audit work has been carried out within quarter 3:

Work	Status
Audit findings – Appendix A of this report	
Depot (carried forward from 2017/18)	This audit was carried out by the contract auditors. It was carried forward from 17/18. A limited assurance opinion has been given to this area. Findings are detailed within Appendix A.
Transparency code follow up	A follow up was carried out on the recommendations made from the Transparency code audit carried out in 2017/18. The findings from the follow up has changed the assurance opinion within this area, from limited to reasonable assurance . Findings are detailed within Appendix A.

Items for the March Committee	
IT access controls	Due to some long-term sickness with the contractors, this audit has been delayed. The findings of this audit will be communicated to the committee at the meeting in March 2019.
Weekly refuse and recycling contract	Due to some long-term sickness with the contractors, this audit has been delayed. An exit meeting has been carried out with the auditee. The findings of this audit will be communicated to the committee at the meeting in March 2019.
Portable IT Equipment follow up	A follow up is being carried out on the recommendations made from the portable IT equipment audit carried out in 2017/18. Due to other priority demands within IT Services the findings of this report has been delayed but will be communicated to the Committee at the March meeting.
Parking Machine Income follow up	A follow up on the recommendations made within the Parking Machine Income audit carried out in 2016/17 is being carried out. The findings of this follow up will be communicated to the Committee at the meeting in March 2019. This has been delayed due to a reduction in resources and other priorities within the Parking team. However, a meeting is booked for the end of January in order to finalise.
Benefits	This audit is being carried out by the contract auditors. Testing is currently underway and the findings will be communicated at the Committee meeting in March.
Recovery	This audit is being carried out by the contract auditors. Testing is currently underway and the findings will be communicated at the Committee meeting in March.
Sales Ledger	This audit is being carried out by the contract auditors. Testing is currently underway and the findings will be communicated at the Committee meeting in March.
Corporate Governance	Testing is currently underway and the findings will be communicated at the Committee meeting in March.
Awaiting information	
Contaminated water review	This review has been completed but the report has yet to be issued, as it will be done in conjunction with the Contaminated soil review.
Contaminated soil review	Currently waiting on information to be provided by the contractors.

2.2 *Other deliverables:*

Work has been continuing to establish the current demands on the Corporate Investigations Officers, who now come under Internal Audit, so that a work programme can be established for 2019/20 financial year and quarterly updates on their work reported to this Committee.

Work has also begun to develop the audit plan for 2019/20.

2.3 There has been a delay in some of the audits carried out by the contract auditors. This has been due to 2 officers being on long periods of sickness. I have had assurances from the senior auditor at Wokingham Borough Council that all the audits required to be completed by the end of March, as per the contract, will be.

3 **Expected deliverables for Q4**

3.1 The following changes will be made to quarter 4 work previously planned within the audit update provided to the Committee in November 2018. The following audits/follow ups were to be carried out within quarter 3 but will be completed within quarter 4.

- Contract Management
- Corporate Governance
- Benefits
- Recovery
- Sales Ledger
- Purchase of property follow up
- Card payments follow up
- Contract letting & tendering follow up

3.2 The work expected to be delivered in quarter 4 is detailed within the table below. As with the previous quarter, these audits can be subject to change due to the changing needs of the organisation or resource availability. An update will be provided at the March meeting.

Service	Audit/ follow up/descriptor	Expected
Finance	Contract Management - <i>A review of how contracts are monitored within the Council to ensure they are delivering the outcomes we require.</i>	Q4
CLT	Corporate Governance - <i>Overview of corporate governance arrangements within the Council against CIPFA/SOLACE guidance.</i>	Q4
Finance	Benefits - <i>Key financial system review of the benefits system/process</i>	Q4

Finance	Recovery - <i>Key financial system review of the debt recovery system/process</i>	Q4
Finance	Sales Ledger - <i>Key financial system review of the sales ledger system/process</i>	Q4
Legal	Purchase of property follow up - <i>A follow up on the recommendations made within the audit carried out in 2017</i>	Q4
Finance	Card payments follow up - <i>A follow up on the recommendations made within the audit carried out in 2017</i>	Q4
Finance	Contract Letting & Tendering follow up - <i>A follow up on the recommendations made within the audit carried out in 2017</i>	Q4
IT	IT portable equipment follow up - <i>A follow up on the recommendations made within the audit carried out in 2017</i>	Q4
Planning	Planning Applications - <i>A review of adherence to statutory requirements and processes for planning applications</i>	Q4
Housing	Disabled Facilities Grant - <i>A review of processes for granting DFGs and process for the rotation of suppliers.</i>	Q4
Finance	Capital Programme Management - <i>A review of the arrangements in place to manage the capital programme and the projects included.</i>	Q4
CLT	Risk Management - <i>A review of the risk management process and system in place. This is an area that was highlighted within the Annual Governance Statement and by External Audit as having deficiencies.</i>	Q4

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HEAD OF SERVICE: David Stanley, Executive Head of Financial Services

References: *Internal Audit – Audit Plan* report, presented to the Committee on the 29th January 2018

<https://democracy.rushmoor.gov.uk/ieListDocuments.aspx?CId=166&MIId=459&Ver=4>

Internal Audit – Audit update report, presented to the Committee on the 26th November 2018

<https://democracy.rushmoor.gov.uk/ieListDocuments.aspx?CId=166&MIId=555&Ver=4>

Audit Title 1	Depot
Year of Audit	2018/19
Assurance given	Limited – <i>Minimal controls designed to achieve the system/function/process objectives, are in place. Significant improvements are required if key controls are to be established.</i>
Overview of area	<p>This was a unique and large project for Rushmoor. There were certain construction related aspects that could have been better managed, e.g. design, and certain aspects that were foreseen, e.g. contamination, but not the extent. Some elements could not have been foreseen, e.g. existing cable alignment, but there are lessons that can be applied to and inform future projects of varying sizes.</p> <p>The selection of the Canna site was taken after consideration of a number of other options which were not deemed suitable for a variety of reasons. The basis of this selection and the risks could have been better presented to management and Members to help achieve transparency in these decisions.</p> <p>From the outset, once the decision to purchase the Canna site was made, the project was under time pressure to purchase the land, obtain permissions, manage existing tenants and build the depot ready for July 2017. This factor has influenced some decision making in regard to procurement where Exemptions were applied and value for money for the Council was not always fully tested.</p> <p>The expectation of costs was set in October 2015 when Canna site purchase costs were known (£1.3m) and the development costs (£1.5m) were based on figures from a desktop exercise by the then waste contractor, Veolia, and officer assessment of other elements. The total value of £3.05m was reported to senior management and Cabinet and the capital budget approved was based on this. This capital budget set the expectation, which in hindsight was unrealistic, and the project has suffered from this perception. The actual construction was much more complex than the basis of the third party 'desktop exercise'.</p> <p>The full skill set/experience required in the Project Team was not utilised from the beginning and as such, there were certain elements that could have been foreseen, e.g. construction design.</p> <p>Despite the difficulties with this project and the additional costs, it is recognised that the availability of a bespoke depot for waste contractors to utilise, assisted in attracting more companies in the re-letting of the waste contract in 2017, and savings with the new provider, Serco, of c.£700k per annum were realised over the initial 10 year contract. There are, of course, operational costs to off-set, against this saving, in RBC running their own depot.</p>

	<p>Post-Audit Note: <i>As part of the recent corporate restructure, Property and Legal have been split to avert future conflicts with Exemptions. Additionally, a new Executive Head of Regeneration & Property and a Corporate Property Manager have been appointed to ensure that there are increased resources into those areas. The new Head reports directly to the Chief Executive to emphasise the importance and the level of risk of these areas. A Gateway process has been introduced for all capital projects together with detailed business cases and formal reporting. These are supported by the newly formed Capital and Property Strategy Group and the Regeneration Steering Group.</i></p> <p>The Executive team have taken on board the recommendations made within the audit report and have acted promptly to ensure that the recommendations have all been implemented, apart from further training which has been scheduled for April 2019. This is to ensure that the necessary controls are in place for any future projects of this calibre.</p>		
Priority	Key findings	Management response and agreed action	Action by who and when
Medium	<p>Corporate Project Management There is an absence of a corporate framework for all stages in managing major projects including:</p> <ul style="list-style-type: none"> • feasibility / due diligence; • risk assessment; • scope; • skills assessment; • defining roles; • reporting, etc. <p>Risk: <i>Senior management and Members did not have clear guidance as to the requirements in setting up and managing this major project. Project Managers have to reinvent / create a framework and governance controls for each new project.</i></p>	<p>A Gateway process has been introduced for all capital projects, which will provide the basis for a corporate framework of approval and management going forward. The Executive Leadership Team will act as Project Board for the Gateway process.</p>	<p>Executive Leadership Team as Project Board</p> <p>In place</p>

<p>High</p>	<p>Project Initiation / Pre-Contract There was an absence of key documents and actions, which would be expected for the commencement of any major project. These included:</p> <ul style="list-style-type: none"> • Project Initiation Document – The foundation for any project and setting out the why, what, when and how, sensitivity analysis, etc. • Detailed business case • Risk Assessment • Skills assessment • Organisation and governance • Defining roles and responsibilities • Reporting needs <p>Risk: <i>The Project Team were managing the project and making decisions without a full framework in place.</i></p>	<p>Business cases are now developed for all significant projects and scoping is carried out before a project commences. This, coupled with the process rethink detailed above, provides the necessary assurance and governance going forward.</p>	<p>Executive Leadership Team as Project Board</p> <p>In place</p>
<p>High</p>	<p>Site Selection The basis of the sites chosen for purchase and seeking approval were presented in narrative form and it was difficult to compare directly with the other possible site options. There was no assessment of all sites against a standard RBC required criteria, e.g. a matrix.</p> <p>Risk: <i>It was not possible for management and Members to directly compare the pros and cons of all of the sites considered, to ensure that the best overall site was being purchased.</i></p>	<p>Future capital projects will include a full options appraisals including an assessment of all sites.</p>	<p>Executive Head of Regeneration and Property</p> <p>In place</p>

<p>Medium</p>	<p>Initial Project Team The original project team did not incorporate all the key representatives which would have added specialist construction/building experience. In addition, the Corporate Project Officer was not allocated until after site selection.</p> <p>Risk: <i>Certain skills and experience were not utilised from the initiation of the project and the council incurred additional time delays and costs.</i></p>	<p>Accepted that the involvement of key staff at an earlier stage would have improved the pace of delivery. Future projects will involve all key staff from the outset.</p>	<p>Corporate Leadership Team</p> <p>In place</p>
<p>Medium</p>	<p>Risk Assessment A Project Risk Analysis / Register was set up by the Corporate Projects Officer (CPO) to assist managing the project but this was only after the site purchase and the CPOs appointment to the project.</p> <p>Risk: <i>Risks to the project were not identified at the earliest possible opportunity.</i></p>	<p>Again, lessons have been learned – see above.</p>	<p>Executive Leadership Team as Project Board</p> <p>In place</p>
<p>Medium</p>	<p>Capital Budget setting The development element of the original capital budget was based on an estimated and inaccurate basis, which was not like-for like to the actual development needed and did not provide scenarios / options for potential risks.</p> <p>Risk: <i>Senior management and Members had unrealistic expectation on the cost of the project.</i></p>	<p>In addition to the responses already given, the expertise to the council has been improved with the appointment of a new Executive Head of Regeneration and Property, Corporate Property Manager and Executive Head of Finance to help enable this to be dealt with.</p>	<p>Executive Leadership Team as Project Board</p> <p>In place</p>

<p>Medium</p>	<p>Main Contract - Award Criteria The appointment of the original main contractor, Kier, was weighted towards quality aspects of their submission whereas the replacement, Neilcott, was weighted on costs, with no formal record of the quality aspects.</p> <p>Risk: <i>The ‘Award Criteria’ on a 60:40 cost v quality split in the Contract Standing Orders, to ensure the “most economically advantageous” offer, was inconsistently applied.</i></p>	<p>Both the MCS and Neilcott tenders, for the replacement contract, included a programme, method statements and health and safety information which were required to judge the quality of their submission, and in future this will be properly recorded.</p>	<p>Executive Head of Finance</p> <p>In place</p>
<p>High</p>	<p>Variable Quote Values</p> <p>a) The appointment of the demolition contractor (ARD) was based on a significantly lower quote to the other 14 contractors.</p> <p>b) The appointment of the Quantity Surveyors (MTPC) was based on variable prices from 3 companies, which were not compared on a like-for-like basis.</p> <p>Risk: <i>a) Although appearing value for money, the notable variance in the accepted quote for the Demolition contractor may have avoided subsequent issues, delays and costs.</i></p> <p><i>b) It is not possible to assess whether MTPC were the best value option for RBC.</i></p>	<p>a) The Council sought reassurance but accepts that this could have been more robustly challenged.</p> <p>b) Only MTPC provided a quotation that appeared to match the project requirements and had quantified the extent of their professional services, which would serve as a basis for payment of services rendered. Again, it is accepted that this could have been more robustly challenged and a comparison undertaken.</p>	<p>Executive Head of Finance</p> <p>In place</p>

High	<p>Use of Exemptions</p> <p>a) Although unusual, the former Solicitor to the Council was the only officer able to approve Exemptions (to the Contract Standing Orders) and was also the overall managing officer for the project. Two Exemptions were applied to this project with one not being signed off and formally approved.</p> <p>b) The Exemption basis of 'quality' for the replacement build-only contract does not appear to have been formally considered.</p> <p>Risk: <i>There was a conflict of interest in the use of Exemptions and no alternative set out in the Contract Standing Orders. The basis of the Exemption was not fully applied.</i></p>	<p>The Chief Executive recognised this issue previously and has subsequently removed the conflict with the separation of Legal and Property in the corporate restructure. The overall approach would now ensure that any Exemptions are dealt with properly.</p>	<p>Corporate Manager - Legal</p> <p>In place</p>
High	<p>Build-only Contractor</p> <p>a) The choice of contractors for the build-only contract tender invite was selected by 2 officers without the involvement of the Procurement team. Those selected were not on the RBC contracts lists. One of those selected was by the officer who also approved the Exemption from Standing Orders.</p> <p>b) Although tendered on build-only, the contract was eventually let as Design & Build but the other tenderer was not given the opportunity to price for the design element.</p> <p>Risk: <i>The specialist knowledge of the procurement team was not utilised, as required by Contract standing Orders, and there is a risk of conflict of interest. Also, RBC may not have received the best value for money.</i></p>	<p>a) The procurement officer will be involved in future and the conflict of interest has been dealt with.</p> <p>b) Whilst time was important, the Neilcott tender with design costs was less than the build-only cost of MCS. As such, an assumption was made and they were not invited to offer a design and build cost. Full tender processes will be adhered to in future.</p>	<p>Executive Head of Regeneration and Property</p> <p>In place</p>

Medium	<p>Contracts Register None of the four major contracts raised during the Depot project were recorded on the Contracts Register.</p> <p>Risk: <i>The council procedures and records required under the Transparency Code are not being complied with.</i></p>	This will be corrected in future.	Executive Head of Finance In place
Medium	<p>Contracts: 'Lessons Learned' As part of the assessment by Legal as to whether there was a claim against AR Demolition, the Legal team included a 'Lesson Learned' element which included contracting/documentation weaknesses. These have not been shared outside of the small project team.</p> <p>Risk: <i>Past weaknesses in contracting arrangements have not been informed to officers that need to be made aware, e.g. procurement team, other project managers.</i></p>	The lessons will be shared across the Corporate Leadership Team and further training will be provided for our managers on the contracting arrangements.	Corporate Manager - Legal April 2019
Medium	<p>Procurement documentation Suppliers of services linked to the Depot project were engaged and paid without order or contract documentation being located.</p> <p>Risk: <i>Standard RBC procurement procedures have not been applied.</i></p>	This will be corrected. An order for MTPC was provided post-audit.	Executive Head of Finance In place
Medium	<p>Roles and Responsibilities The roles and responsibilities of the project team were not formally set out.</p> <p>Risk: <i>Project team members were not fully certain of their role and expectations of them.</i></p>	See arrangements laid out above relating to gateway processes.	Corporate Leadership Team In place

<p>Medium</p>	<p>Agency staff The BSM/PM was an agency staff working part-time and was a key member of the team in overseeing the contractor contracts, reviewing on-site progress, attending site meetings and assessing the monthly valuations for payment.</p> <p>Risk: <i>The BSM/PM could have left at short notice and there was the potential for delays in decisions/work due to the part-time nature of the employment. The PM also selected the successful build-only contract, Neilcott, when the in-house procurement team should have been more actively involved in the selection.</i></p>	<p>This was recognised as a weakness by the Executive Leadership Team with the Executive Director taking responsibility for the project. Enhanced reporting on the progress of the project was also introduced by the Chief Executive at this time. The corporate restructure mentioned has also increased the resilience of the team.</p>	<p>Executive Head of Regeneration and Property</p> <p>In place</p>
<p>Medium</p>	<p>Project Team meetings a) There was no representative from Finance at project meetings until towards the latter stages when pressures on the budget were realised. b) The risk register updates were not always formally shared / presented to all of the project team.</p> <p>Risk: <i>All aspects of project management should be represented at project meetings throughout to identify risks.</i></p>	<p>Representation from Finance is now considered at the outset of projects.</p>	<p>Executive Leadership Team as Project Board</p> <p>In place</p>

Medium	<p>Senior Management / Member Reporting For this unique project, there was no formal reporting to CLT or the Executive on progress, budget, risks, etc until initiated by the new Chief Executive.</p> <p>Risk: <i>No extra reporting considerations were given for this exceptional project and key stakeholders for the organisation were not formally kept up-to-date.</i></p>	Mechanisms for the formal reporting of projects have now been introduced, most notably through the Regeneration Steering Group, the regeneration and property projects and through the Corporate Leadership Team.	Executive Leadership Team as Project Board In place
High	<p>Neilcott Variations There are a significant value of variations claimed by Neilcott (over £1m) and although audit testing verified a sample as satisfactory, all variations should be independently reviewed and signed off before the final account is settled with Neilcott.</p> <p>Risk: <i>The significant variable element of Neilcott's account may be paid without independent verification. These payments are being managed by the officer (BSM/PM) who recommended them for selection.</i></p>	All variations were discussed and agreed with the Project team before being authorised as a contract instruction, which was copied to the project team. Final payments and variations will be agreed by the Executive Head only.	Executive Head of Regeneration and Property In place

Priority key for way forwards	
High priority	A fundamental weakness in the system/area that puts the Authority at risk. To be addressed as a matter of urgency.
Medium priority	A moderate weakness within the system/area that leaves the system/area open to risk.
Low priority	A minor weakness in the system/area or a desirable improvement to the system/area.

Audit Title 3	Transparency code - follow up		
Year of Audit	2018/19		
Assurance given at time of the audit	<i>Limited – Minimal controls designed to achieve the system/function/process objectives, are in place. Significant improvements are required if key controls are to be established.</i>		
Assurance given at time of the follow up	<i>Reasonable – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>		
Overview of area	<p>The Local Government Transparency Code (the Code) was introduced in May 2014 by the Department for Communities and Local Government. The Code specifies certain data, which is required to be published at varying intervals.</p> <p>An audit was carried out in 2017/18 in which 4 recommendations, 1 medium and 3 low priority, were agreed by the Corporate Leadership Team.</p>		
Priority	Way forward agreed	Follow up findings	Recommendation status
Low	CLT agreed that Internal Audit would be the corporate key contact/ co-ordinator for ensuring publication deadlines and requirements for compliance are met.	Internal Audit is the corporate key contact for the transparency code. Details of requirements were emailed to Heads of Service.	Implemented
Low	An email will be sent from the corporate key contact to all Heads of Service detailing what is required to be carried out. Heads of service will respond to the email with details of who will be the key responsible person within their service for specific areas.	An email was sent out to all Heads of Service, which was responded to detailing who will be the key responsible person within their service. This information was updated onto the spreadsheet held by the corporate key contact.	Implemented

Medium	<p>CLT agreed that relevant services would review the requirements of the code to ensure that their service provides the relevant information required following the email from the corporate key contact.</p>	<p>The required information has not been published for all the requirements of the code for the following:</p> <ul style="list-style-type: none"> • Organisational Chart • Senior Salaries • Parking spaces • Procurement data • Waste contract <p>The following information is correct but is not up to date:</p> <ul style="list-style-type: none"> • Procurement card transactions • Local Authority Land • Parking account • Fraud <p>An email has been sent to the key responsible persons' to ensure that the data is up to date and all the relevant information is included. The areas of non-compliance will be reviewed in a month's time to ensure they have been updated. Any which remain non-compliant will be reported to CLT for further action.</p>	Not implemented
Low	<p>The review identified that it is not always easy or clear where to find the relevant published data on the website and more user-friendly guidance would assist, particularly for FOI requests. The web team will look into making it easier for the public to identify the published</p>	<p>A clear page showing transparency information is not available on the Council's website. Majority of the data is held on the data.gov.uk site. However, the link to this data is held on a page on our website titled 'Our</p>	Not implemented

	<p>data on the Council's website.</p>	<p>spending over £250' which is not clear that this is where all of our transparency data can be located.</p> <p>Furthermore, data relating to community grants is held on the community, youth and sports grants webpage and data relating to contracts is held on the contracts webpage on Rushmoor's website.</p> <p>Therefore, all data relating to the transparency code is not held in one central or clear location on the Council's website.</p>	
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