

# Swindon Borough Council

## Audit Committee

**Tuesday, 21 February 2017**

Committee Room 6, Civic Offices

**At 6.00 p.m.**

### **Conservative Councillors**

Steve Weisinger  
(Chair)  
Malcolm Davies  
Mary Friend  
Nick Martin

### **Labour Councillors**

Des Moffatt  
Kevin Small  
Chris Watts

**Committee Officer:** Steve Jones (01793 463602)

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**Access Arrangements** - The venue is wheelchair accessible and an infrared receiver hearing system is provided. If you have any special requirements to enable you to attend the meeting or would like to receive any of the pages contained in this agenda in a larger print size, please contact the Committee Officer as soon as possible prior to the date of the meeting.

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## **AGENDA**

**1. Apologies for Absence**

**2. Declarations of Interest**

Members are requested at the start of the meeting to declare any known interests in any matter to be considered, and are reminded that any such interest should also be declared at the start of an item or during any discussion of the matter concerned.

**3. Public Question Time**

See explanatory note below. Please phone the Committee Officer whose name and number appears at the top of this agenda if you need further guidance).

**4. Minutes (Pages 5 - 8)**

To receive the minutes of the meeting held on 15<sup>th</sup> November 2016.

**5. Annual Statement of Accounts Update 2016/17 ICDR (Pages 9 - 16)**

**6. Treasury Strategy Statement 2017/18 ICDR (Pages 17 - 42)**

7. **Internal Audit report - Contract management of the delivery of the Housing capital programme** HIA (Pages 43 - 112)
8. **Internal Audit report - Stores and Equipment Management** HIA (Pages 113 - 146)
9. **External Audit Report** (Pages 147 - 164)
10. **Head of Internal Audit Update** HIA (Pages 165 - 182)

**Date of Despatch:** 10 February 2017

**Key:**

**Officers:**

ICDR	-	Interim Corporate Director Resources (Section 151 Officer)
HIA	-	Head of Internal Audit

**Public Question Time** - Swindon Borough Council remains committed to increasing its accountability to the public and to promoting active citizenship. 15 minutes will be allowed at the start of all Council meetings for questions to the Chair from the public about the work of the Committee (except for confidential matters, and matters relating to planning and licensing applications). We will give priority to those who submit questions in writing at least two days before the meeting. Questions must be relevant, clear, and concise. You may not use Public Question Time as an opportunity to make speeches or statements.

Questions in writing should be sent to the Committee Officer whose contact details appear on the agenda above or to the Director of Law and Democratic Services, we will publish it, along with the answer, alongside the Minutes. The process associated with asking a public question is set out in the "Public Question Time at Council Meetings Protocol and Guidance" available on the Council's Website.

(<http://ww5.swindon.gov.uk/moderngov/ecCatDisplay.aspx?sch=doc&cat=13338&path=0>) or from the Committee Officer named above.

**The Audit Committee - Terms of Reference**

*(the complete terms of reference and programme of activity for the Audit Committee are set out in Minute 10 of the meeting of the Audit Sub-Committee held on 16 June 2015)*

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- In relation to the authority's internal audit functions:
  - Oversee its independence, objectivity, performance and professionalism
  - Support the effectiveness of the internal audit process
  - Promote the effective use of internal audit within the assurance framework
- Consider the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risk of fraud and corruption.

- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

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**AUDIT COMMITTEE**

**TUESDAY, 15 NOVEMBER 2016**

**PRESENT:-** Councillors Steve Weisinger (Chair), Malcolm Davies, Mary Friend, Nick Martin, Des Moffatt, Kevin Small and Chris Watts

**25. Declarations of Interest**

The Chair reminded members of the need to declare known interests in any matters to be considered at the meeting. No declarations were made.

**26. Public Question Time**

There were no public questions.

**27. Minutes**

Resolved - That the minutes of the meeting held on 15<sup>th</sup> September 2016 be confirmed and signed.

**28. Corporate Risk Management Update**

The Committee received a summary report of risk management activity in the Council, including the most recently updated Corporate Risk Register for members' inspection. It was noted that it was a function of the Audit Committee to provide independent assurance to the Council on the effectiveness of the Council's risk management, internal control and its overall assurance framework and that this report summarised the areas that the Committee might wish to consider in gathering this assurance.

The Head of People, Performance and Engagement, with the Corporate Planning Lead Resources, introduced the report, providing an overview of the work done in support of the Council's Risk Management processes and to integrate and align these with the Council's performance management arrangements and changes made to the corporate risk management process and the Corporate Risk Register at the specific request of the Audit Committee.

The Corporate Planning Lead took members through the detail of the report, expanding on the main key risk areas identified in the Corporate Risk Register, attached to the report at Appendix 1, and the respective causes, impacts and mitigating actions to reduce likelihood for each of the major identified risk areas.

Resolved – (1) That the report be noted and that its conclusions around the effectiveness of the Council's Risk Management, Internal Control and overall assurance framework be endorsed.

(2) That the adjustments to the corporate risk management process and changes to the Corporate Risk Register as a result of input from the Audit Committee, as reflected in the revised report format and presentation, be also endorsed.

(3) That the officers be thanked for attending the meeting and for their full and open responses to members' questions and observations on matters relating to the

Council's Corporate Risk Management Strategy and specific issues relating to the key risk areas identified in the Corporate Risk Register.

## **29. External Audit Reports**

### **(i) The Annual Audit Letter**

The Committee received the External Auditors' Annual Audit letter. It was noted that it was the intention that the Letter should communicate the key messages of the Audit Findings report, considered by the Committee at its last meeting, to the Council and to external stakeholders, including members of the public.

Chris Hackett, the External Auditors' Audit Manager for the Council, introduced the report, summarising the key findings arising from their work at the Council for the year ended 31 March 2016, as reported in detail to the last meeting of the Audit Committee in the Audit Findings report. Mr Hackett made particular reference to the External Auditors' ongoing joint work with Council officers to address the major changes pending in relation to local authority accounting requirements in 2016/17 with regard to the inclusion in the accounts of additional information on the cost of the Council's Highways assets and the requirement, in 2017/18, for accounts to be prepared by 31 May with the audit to be completed by 31<sup>st</sup> July.

Resolved – (1) That the report be noted.

(2) That ongoing joint work by the External Auditors and Council officers to address major local authority accounting requirements changes be also noted and that the officers report to a future meeting on the specific measures and process changes to be introduced to meet the requirement to include additional information on the cost of the Council's Highways assets and how this information might be presented to the Audit Committee in a format that is meaningful and of value to members.

### **(ii) Update**

Chris Hackett (Grant Thornton) presented a report advising the Committee of the External Auditors' progress, as at 1<sup>st</sup> November 2016, in respect of the delivery of their audit responsibilities. .

The Update report also included a summary of key emerging national issues and developments that might be of interest to the Committee.

Resolved – That the update report and the summary of key emerging national issues and developments be noted.

## **30. Mid-Year Treasury Performance 2016-17**

The Committee received a joint report of the Cabinet Member for Finance and Corporate Services and the Interim Corporate Director, Resources, setting out the mid-year Treasury Management performance for 2016/17 and proposals for amendments to the Councils Minimum Revenue Policy.

Resolved – That the mid-year Treasury Management performance and the proposed changes to the Council's Minimum Revenue Provision Policy be noted.

Councillors Moffatt and Watts asked that their concerns regarding aspects of the

proposed changes to the Council's Minimum Revenue Provision Policy to make provision for the repayment of borrowing liabilities be recorded in the minutes.

### **31. Internal Audit report - Treasury Management**

The Committee received a report of the Head of Internal Audit on the key findings of the Annual Internal Audit of the Council's Treasury Management process. It was noted that the audit had found the internal control arrangements to be of a high standard resulting in only a moderate risk to the Council.

Resolved – That the report be noted.

### **32. Internal Audit Charter**

The Committee received a report of the Head of Internal Audit inviting members to review and approve the Council's Internal Audit Charter. It was noted that the Audit Charter was a requirement of the Public Sector Internal Audit Standards (PSIAS), which standards provided the mandatory guidance that constituted the principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for the evaluation of the effectiveness of Internal Audit's performance.

Resolved – That the Internal Audit Charter, appended to the report, be approved.

### **33. Changes to arrangements for appointment of an External Auditor**

The Committee received a report of the Head of Internal Audit summarising the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The report also sets out the various options the Council has with regard to appointing and putting in place new arrangements in time to make a first appointment by 31 December 2017.

Resolved – That Cabinet be recommended that Council be asked to agree the appointment of an External Auditor through the national sector led body, Public Sector Audit Appointments Ltd.

### **34. Head of Internal Audit Update**

The Committee received a report of the Head of Internal Audit summarising the main issues arising from the Internal Audit reports finalised since the last Audit Committee meeting in September 2016, progress made against the Annual Internal Audit Plan 2016/17 and Internal Audit staffing and resource issues.

Resolved – (1) That the report be noted.

(2) That the "Contract Management Review - Delivery of the Housing Capital Programme" Audit review report and management response be submitted to the next scheduled meeting of the Committee.

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## Annual Statement of Accounts Update 2016/17

**Committee: Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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Author: Interim Corporate Director Resources

Wards: All

Locality Affected: All

Parishes Affected: All

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### **1. Purpose and Reasons**

- 1.1 This report provides an update on the progress towards the completion of the 2016/17 Statement of Accounts and future changes affecting their production.
- 1.2 The audit committee is the designated body for approval of the Council's final accounts.

### **2. Recommendations**

The Committee is recommended to:

- 2.1 Confirm the accounting policies for 2016/17 and proposed amendments for 2017/18.
- 2.2 Note the content of this report.

### **3. Detail**

Statutory Deadlines and Faster Closing

- 3.1 Under statutory requirements the draft annual accounts for 2016/17 require authorisation by the Council's Section 151 Officer (S151) by 30 June 2017.
- 3.2 The draft accounts may be reported to Committee at a subsequent meeting for information, but there is not a requirement for Committee to approve them until final, by the 30 September 2017.
- 3.3 From the 2017/18 financial year the draft accounts must be authorised by the S151 Officer by the 31 May and by the Audit Committee by 31 July. For 2016/17 it has been agreed with the external auditor that we will look to close the accounts and produce the annual statements to the deadline for 2017/18. The consolidation of the 2015/16 accounts was completed in early June, so there is expectation of meeting the 31 May deadline. The actual position will be reported back to Audit Committee in the next available report on the accounts.
- 3.4 We have met with external audit and have identified the following areas as being critical to the successful delivery and audit of the accounts within the shorter timescales:
  - 3.4.1 Consolidation of Group company accounts details

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Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, dstevens@swindon.gov.uk.

# Annual Statement of Accounts Update 2016/17

**Committee: Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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- 3.4.2 Asset valuations; although the 2015/16 process was successful, timescales around the data remain one of the most critical aspects of the accounts production due to the wide range of statements/disclosures affected.
  - 3.4.3 Clarity and consistency of working papers
  - 3.4.4 Response times to audit queries and follow up
  - 3.5 We have redesigned our closedown process to incorporate:
    - 3.5.1 Tighter project management of year end activities
    - 3.5.2 Quality reviews of working papers
    - 3.5.3 Raising awareness of the earlier timescales across the council
    - 3.5.4 Escalation processes to ensure audit queries are responded to
- Highways Network Asset
- 3.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) announced in November 2016 that there will be a delay in the implementation of the Highways Network Asset (HNA). It is currently expected that the implementation will be postponed until 2017/18 financial year, but this will not be confirmed until March 2017.
  - 3.7 The reason for the delay is given by CIPFA as due to out of date central rates for the gross replacement cost element of the necessary valuation. These are now over five years old and have been unable to be updated in time for 2016/17 calculations. Without updated rates the valuation figure would be non-compliant with the Code, which requires valuations to be made/updated at no more than five-yearly intervals.
  - 3.8 Whilst work has been ongoing with the Highways service on preparedness for the 2016/17 implementation of the HNA, there have been some areas of the valuation where less data is available, and therefore more professional judgement applied in the valuation process. The postponement to the HNA inclusion enables more time to focus on higher-risk areas of the valuation data, whilst looking to clear the process in advance of the final implementation date. This should enable the final audit of the valuation to be more efficient in the year that the statutory completion dates are reduced.
  - 3.9 It remains the expectation that the process of implementation in 2017/18 will be the same as 2016/17 would have been, i.e. without the need to restate prior year figures. The first date at which the HNA could appear from (if 2017/18 implementation confirmed) would therefore be 1<sup>st</sup> April 2017.
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Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, [dstevens@swindon.gov.uk](mailto:dstevens@swindon.gov.uk).

# Annual Statement of Accounts Update 2016/17

**Committee: Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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## Accounting Policies

- 3.10 The postponement to the HNA implementation means that the previously agreed (Audit Committee 19/4/16) accounting policy update for it will also have publication delayed. The agreed HNA policy will be reviewed in 2017/18 to ensure it remains consistent on reimplementation, and confirmed to Audit Committee at a subsequent date.
- 3.11 Accounting policies for 2016/17 therefore remain as per 2015/16 with the exception that the 'Overheads and Support Services' policy will be removed. This removal relates to the new requirement for the Comprehensive Income and Expenditure Statement (CIES) to reflect internal reporting arrangements. As reporting to Cabinet does not include the reallocation of support services, the statement of accounts should also not include such apportionments. The process will still be undertaken outside of the accounting statements as it remains a requirement for Central Government Revenue Outturn returns.
- 3.12 There have been no other changes to the Code of Practice that affect the accounting policies in 2016/17.

## Other Changes Affecting the Accounts

- 3.13 The CIES will now present income and expenditure based on an Authority's internal reporting arrangements to those charged with governance. This means that the accounts will be presented showing the service analysis that our internal budget monitoring reporting to Cabinet is shown as.
- 3.14 The CIES is complemented by a new statement – the Expenditure and Funding Analysis. This statement shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities, and represents the outturn position. It also shows how this expenditure is then adjusted for accounting entries to arrive at the net balance included within the CIES. This should provide greater consistency between in-year and year-end reporting, whilst improving the ability of the reader to follow the accounting adjustments that take place after budgeted outturn position. Example of the new funding statement and restated 2015/16 CIES is attached at appendix 1.

## **4. Alternative Options**

- 4.1 None – the annual Statement of Accounts is a statutory process.

## **5. Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.
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Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, [dstevens@swindon.gov.uk](mailto:dstevens@swindon.gov.uk).

# Annual Statement of Accounts Update 2016/17

**Committee: Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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## Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

## All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no such direct implications.

## Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

## Diversity Impact Assessment

- 5.5 A Diversity Impact Assessment (DIA) has not been done as this report does not make any new recommendations that would have a detrimental impact on services.

## **6. Consultees**

- 6.1 The Corporate Director of Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

## **7. Background Papers**

- 7.1 None

## **8. Appendices**

- 8.1 Appendix 1 – New Funding Analysis statement



## Main Statements

### Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the council's service functions. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Note	2015/16 Net Exp. Chargeable to GF and HRA £000	2015/16 Changes Between Funding & Accounting Basis £000	2015/16 Net Expenditure In the CIES £000
Chief Executive	3,792	(1,423)	2,369
Resources	3,996	10,270	14,266
Economy	(258)	10,768	10,510
Children Services	27,689	969	28,658
Adult Services	72,382	(10,734)	61,648
Communities and Place	29,139	33,142	62,281
DSG Commissioning	0	3,262	3,262
Housing Revenue Account	(1,877)	(983)	(2,860)
<b>(Surplus) / Deficit on Continuing Operations</b>	<b>134,863</b>	<b>45,271</b>	<b>180,134</b>
Other income and expenditure	(136,740)	19,732	(117,008)
<b>(Surplus) / Deficit on Provision of Services</b>	<b>(1,877)</b>	<b>65,003</b>	<b>63,126</b>

Reconciliation of Movement to Balances	Total	GF	HRA
Opening GF and HRA balance at 1st April	(15,421)	(6,000)	(9,421)
(Surplus)/Deficit on Provision of Services	(1,877)	0	(1,877)
<b>Closing GF and HRA Balance at 31st March</b>	<b>(17,298)</b>	<b>(6,000)</b>	<b>(11,298)</b>

Both the funding analysis and the CIES are now reported showing the services as reported to Cabinet.

The 'Net Exp. chargeable to the GF and HRA' column agrees to the reported outturn to Cabinet.

The 'changes between funding and accounting basis' contains the adjustments needed to take the outturn position to the accounts position, and are summarised in a later table.

The 'Net Expenditure in the CIES' column agrees the last column in the CIES table.

The reconciliation of movement to balances will agree with the movement on reserves statement.

## Comprehensive Income and Expenditure Statement (CIES)

This statement summarises the income and expenditure on all functions of the Authority and shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

Note		2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
	Continuing Operations:			
5	Chief Executive	72,011	(69,642)	2,369
	Resources	30,537	(16,271)	14,266
5	Economy	23,030	(12,520)	10,510
5	Children Services	37,065	(8,407)	28,658
5	Adult Services	132,983	(71,335)	61,648
5	Communities and Place	81,813	(19,532)	62,281
5	DSG Commissioning	112,618	(109,356)	3,262
5	Housing Revenue Account	46,725	(49,585)	(2,860)
	<b>(Surplus) / Deficit on Continuing Operations</b>	<b>533,294</b>	<b>(353,160)</b>	<b>180,134</b>
7	Other operating expenditure			24,120
8	Financing & investment (income)/expenditure			16,693
10	Taxation and non-specific grant income			(157,821)
	<b>(Surplus) / Deficit on Provision of Services</b>			<b>63,126</b>
12	(Surplus) / Deficit on revaluation of PPE assets			(78,330)
25	Re-measurements on pension assets / liabilities			(34,884)
	<b>Other Comprehensive Income and Expenditure</b>			<b>(113,214)</b>
	<b>Total Comprehensive Income and Expenditure</b>			<b>(50,088)</b>

The service areas now report as per internal arrangements otherwise the purpose and layout of the CIES remains the same.

## Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made in the expenditure funding analysis and total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. 'Other' relates mainly to reserve and general grant adjustments.

Adjustments made within the expenditure and funding analysis statement:

<b>2015/16</b>	<b>Pensions £'000</b>	<b>Capital £'000</b>	<b>Treasury £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Chief Executive	(1,612)	144	0	45	(1,423)
Resources	276	639	(15,802)	25,157	10,270
Economy	123	11,307	0	(662)	10,768
Children Services	347	456	0	166	969
Adult Services	118	4,016	0	(14,868)	(10,734)
Communities and Place	378	32,444	0	320	33,142
DSG Commissioning	1,263	1,124	0	875	3,262
Housing Revenue Account	276	21,619	(26,543)	3,665	(983)
<b>Total Adjustments</b>	<b>1,169</b>	<b>71,749</b>	<b>(42,345)</b>	<b>14,698</b>	<b>45,271</b>

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## Treasury Strategy Statement 2017/18

**Audit Committee**

**Date: 21st February 2017**

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Author: Cabinet Member for Finance and Corporate Services  
Interim Corporate Director, Resources

Wards: All

Locality Affected: All

Parishes Affected: All

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### 1. Purpose and Reasons

- 1.1. To report the Treasury Management Strategy for 2017/18, including Prudential Indicators up to 2019/20, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.
- 1.2. The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

### 2. Recommendations

The Audit Committee is recommended to:

- 2.1. Endorse Cabinet's decision at its meeting on 8<sup>th</sup> February that the Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators, as set out in Appendix 1, be recommended for approval by Full Council on 23<sup>rd</sup> February 2017.

### 3. Detail

Treasury Strategy

- 3.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Available cash (resulting from the Council's day-to-day cash management processes) is invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.2. The second main function of the treasury management service is the funding of the Council's Capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses temporarily in lieu of new loans.

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Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.464384, or Email [iburbidge@swindon.gov.uk](mailto:iburbidge@swindon.gov.uk).

# Treasury Strategy Statement 2017/18

Audit Committee

Date: 21st February 2017

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- 3.3. Treasury management is defined by the CIPFA Code of Practice for Treasury Management as the:
- “management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*
- 3.4. The Treasury Management Strategy for 2017/18 has not altered significantly from the 2016/17 strategy, which was reviewed and agreed by Council in April 2016 then reported to Cabinet mid-year (Council Minute 87, 2016/17 and Cabinet Minute 72, 2016/17 refer). Cabinet recommended a further change to the Minimum Revenue Provision policy in January. (Cabinet Minute 72, 2016/17 refers) and Council agreed this change at its January 2017 meeting.
- 3.5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates, and actuals. Under the Council’s Constitution, the Audit Committee scrutinises the treasury management activities undertaken by the Board Director Resources and his team, including compliance with agreed policies.
- 3.6. **A Treasury Management Strategy Statement** (This report) - The first, and most important report covers:
- 3.6.1. The Capital spending plans (including prudential indicators) based on Cabinet and Council decisions;
- 3.6.2. A Minimum Revenue Provision (MRP) Policy (which details how capital expenditure funded by borrowing is charged to the revenue budget over time);
- 3.6.3. The Treasury Management Strategy, as set out in **Appendix 1**, which details how the investments and borrowings are managed overall, including treasury indicators; and
- 3.6.4. An Investment Strategy, which sets the parameters around how investments are to be managed on a day-to-day basis.
- 3.7. **A Mid-Year Treasury Management Report** – This updates Members on Treasury Management performance for the first half of the financial year.
- 3.8. **An Annual Treasury Management Report** – This details the full year Treasury activity and performance.
- 3.9. The Treasury Management Strategy for 2017/18 covers three main areas:
- Capital Issues:

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Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.464384, or Email [iburbidge@swindon.gov.uk](mailto:iburbidge@swindon.gov.uk).

# Treasury Strategy Statement 2017/18

**Audit Committee**

**Date: 21st February 2017**

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- the capital plans and the prudential indicators;
- the MRP strategy.

3.10. Treasury Management issues covered are:

- the current treasury position;
- the treasury indicators which will limit the treasury risk and activities of the Council;
- the prospect for interest rates;
- the borrowing strategy;
- the policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- the creditworthiness policy; and
- the policy on use of external service providers.

3.11. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

## Investment Returns

3.12. The annual Investment Strategy details priorities when making Investments of surplus funds as

- security first (i.e. ensuring we get our money back),
  - liquidity second (we get it back when we need it),
  - return on investment (we get the best possible return on our money).
- These priorities follow both CIPFA and DCLG guidance.

3.13. The impact of this guidance is that the potential return on investments is secondary to security and liquidity and these parameters have a significant impact on the interest rate achieved by the Council in comparison with some other bodies and individuals as it restricts both to whom the Council can lend, and for how long.

3.14. The current Investment Strategy currently restricts investments to a maximum of two years. The Policy also recommends that investments greater than 1 year are

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Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.464384, or Email [iburbidge@swindon.gov.uk](mailto:iburbidge@swindon.gov.uk).

# Treasury Strategy Statement 2017/18

**Audit Committee**

**Date: 21st February 2017**

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limited to £20m in total and £10m to any one Counterparty. The exact length of any investment will, as always, be based on rates available at that time, interest rate forecasts, and forward liquidity requirements.

- 3.15. The Council is part of a benchmarking club, which consists of around 12 to 13 other public bodies in the West and Wales, including a variety of Local Authorities, Fire Authorities etc. Investment returns are regularly checked against the other public bodies in this group.

## **4. Alternative Options**

- 4.1. Any alternative options for specific areas are set out within the report.

## **5. Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

- 5.1. These have been reflected in the body of the report.

### Legal and Human Rights Implications

- 5.2. All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

### All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3. There are no such direct implications.

### Diversity Impact Assessment

- 5.4. A Diversity Impact Assessment (DIA) is not relevant to this report as this is a regulatory report, which covers the Council's treasury management processes and doesn't directly affect any services.

## **6. Consultees**

- 6.1. The Interim Corporate Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

## **7. Background Papers and Appendices**

- 7.1. Appendix 1 – Treasury Management Strategy

## **8. Key Decision/Decision in Forward Plan**

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Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.464384, or Email [iburbidge@swindon.gov.uk](mailto:iburbidge@swindon.gov.uk).



# **Treasury Strategy Statement 2017/18**

**Audit Committee**

**Date: 21st February 2017**

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- 8.1. This is not a key decision for the Cabinet (as the approval of the full Council is required) it is included in the Cabinet Work Programme and Forward Plan for February 2017.

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## **Appendix 1- Treasury Management Strategy 2017/18**

**Cabinet**

**Date:** 8<sup>th</sup> February 2017

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# **TREASURY MANAGEMENT STRATEGY 2017/18**

# **Appendix 1- Treasury Management Strategy 2017/18**

**Cabinet**

**Date:** 8<sup>th</sup> February 2017

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## **Contents:**

- 1. Current Portfolio Position**
  - 2. Prospect for Interest Rates and Economic Outlook**
  - 3. Minimum Revenue Provision Policy Statement**
  - 4. Borrowing Strategy**
  - 5. Investment Policy, Creditworthiness Policy and Investment Strategy**
- 
- Annex 1 – Prudential Indicators**
  - Annex 2 - Credit and Counterparty Risk Management, Specified and Non-Specified Investments**

# Appendix 1- Treasury Management Strategy 2017/18

Cabinet

Date: 8<sup>th</sup> February 2017

## 1 Current Portfolio Position

- 1.1 The capital expenditure plans set in Annex 1 to Appendix 1 summarises the Councils current and future plans. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.
- 1.2 The Council's actual treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external borrowing (both relating to the general fund and the HRA), against the borrowing requirement (shown through the Capital Financing Requirement or "CFR"), highlighting any over or under borrowing. The CFR represents the amount of long term borrowing required to fund capital expenditure, but not yet taken out.

<b>Table 1 - Portfolio position forecasts</b>				
	<b>16/17</b>	<b>17/18</b>	<b>18/19</b>	<b>19/20</b>
	£'000's	£'000's	£'000's	£'000's
Gross Borrowing b/fwd	285,758	279,257	292,756	296,255
New Borrowing estimate	-	15,000	15,000	15,000
Maturing Debt	- 6,501	- 1,501	- 11,501	- 1,501
<b>Gross Borrowing c/fwd</b>	<b>279,257</b>	<b>292,756</b>	<b>296,255</b>	<b>309,754</b>
Net Investments c/fwd	- 72,500	- 72,500	- 72,500	- 72,500
<b>Net Borrowing c/fwd</b>	<b>206,757</b>	<b>220,256</b>	<b>223,755</b>	<b>237,254</b>
CFR	464,853	469,147	463,772	458,018
Less PFI liabilities	- 52,810	- 51,280	- 49,555	- 47,632
<b>Net Borrowing Requirement</b>	<b>412,043</b>	<b>417,867</b>	<b>414,217</b>	<b>410,386</b>
<b>(Under)/Over borrowing</b>	<b>- 205,286</b>	<b>- 197,611</b>	<b>- 190,462</b>	<b>- 173,132</b>

## 2 Prospects for Interest Rates and Economic Outlook

- 2.1 The Council has appointed Capita Asset Services (formerly Sector Group) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita central view.

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**Table 2 – Prospects for Interest Rates**

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

- 2.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.
- 2.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
- 2.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.
- 2.5 The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.
- 2.6 In summary:
- Investment returns are likely to remain low during 2017/18 and beyond;

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- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns

## 3 Minimum Revenue Provision Policy Statement

- 3.1 The Council is required to charge an element of the accumulated General Fund capital spend each year (measured through the CFR) to revenue (the minimum revenue provision or "MRP"), although it is also allowed to undertake additional voluntary payments if required.
- 3.2 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, as long as there is a prudent provision. The Council is recommended to approve the following MRP Statement for 2017/18, (unchanged from that agreed in January 2017):
  - *For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP will be based on the CFR as per the regulatory method in the MRP guidance. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.*
  - *From 1 April 2008 for all unsupported borrowing the MRP will be based on the estimated life of the assets, on an annuity basis, in accordance with the regulations. Annuity method charges will be calculated using the relevant PWLB annuity rates for the estimated asset lives as at 31<sup>st</sup> March in the year of expenditure. MRP charges commence the year after the asset becomes operational.*
  - *MRP in relation to capital expenditure funded through borrowing incurred on the Wichelstowe project, will be deferred and the liability repaid through future capital receipts from the site. Should there be a shortfall between the debt and eventual receipts, the balance will incur an annual MRP charge.*
  - *This methodology will also be applied to other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future receipts and where there is a strong likelihood that this will happen.*
  - *For PFI contracts MRP will be based on the estimated life of the assets, on an annuity basis, in accordance with the regulations. Annuity method charges will be*

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*calculated based on the PWLB annuity rates at 31<sup>st</sup> March in the year that the assets became operational.*

- *Where non-ring-fenced capital receipts are available, these can be applied to meet the cost of PFI liability repayment (or part thereof). Where capital receipts are applied in this manner, the MRP charge for the PFI would be reduced by an equal amount in that year.*
  - *For any future finance leases the MRP requirement would be met by a charge equal to the element of the charge applied to write down the liability.*
  - *No revenue charge is currently required for the HRA, although the existing voluntary policy is to repay £5m per annum.*

3.3 No revenue charge is currently required for the HRA, although the existing voluntary policy is to repay £5m per annum.

### 4 Borrowing Strategy

- 4.1 The Council is currently maintaining an under-borrowed position. This means that there is a shortfall between the amount of long-term loans required, and the actual level of long term loans taken out. Long term loans are required to fund capital expenditure which Cabinet has approved as “funded through borrowing”, but there is a timing difference between when the expenditure is made and when the long term loan is taken out. The timing of the taking of long term loans is part of the wider cash management strategy.
- 4.2 The difference between long term borrowing required and what has actually been taken out is known as “Internal Borrowing” and represents the temporary use of cash reserves and working capital to bridge the timing difference. As cash from reserves and working capital is currently invested at historically low rates, then the policy of delaying long-term borrowing and using existing cash balances as an interim measure is currently a cheaper option for the Council.
- 4.3 While the council will maintain an under borrowed position on the General Fund (the HRA is fully borrowed up to the CFR), future movements in interest rates will dictate the future policy and the timing of taking out long-term loans, and will be kept under careful review.
- 4.4 Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2017/18 treasury operations. The Board Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
  - if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an



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increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years

### **Borrowing in Advance of Need**

- 4.5 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

### **Loan Re-scheduling**

- 4.6 Opportunities from rescheduling loans to generate savings will be monitored through the year but need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 4.7 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
  - helping to fulfil the treasury strategy;
  - amending the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 4.8 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 4.9 All rescheduling will be reported to the Cabinet at the earliest meeting following its action

## **5 Investment Policy, Creditworthiness Policy and Investment Strategy**

### **Investment Policy**

- 5.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
- 5.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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- 5.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- 5.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 5.5 Investment instruments identified for use in the financial year are listed in Annex 2 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

### **Creditworthiness Policy**

- 5.6 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
  - CDS spreads to give early warning of likely changes in credit ratings;
  - sovereign ratings to select counterparties from only the most creditworthy countries.
- 5.7 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.
- 5.8 The Capita Asset Services’ creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.
- 5.9 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances

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consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

5.10 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.11 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

### Country limits

5.12 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be amended by officers should ratings change in accordance with this policy.

### Investment Strategy

5.13 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

5.14 **Investment returns expectations.** Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The estimated budgeted investment earnings rates for returns on cash investments placed for periods up to 100 days during each financial year for the next three years are as follows:

- 2017/18 0.25%
- 2018/19 0.25%

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Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 464384 or Email [iburbidge@swindon.gov.uk](mailto:iburbidge@swindon.gov.uk)

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- 2019/20 0.50%

## **Investment Periods**

5.15 Investment periods are currently restricted to no longer than 24 months. Lending to counterparties is in line with the creditworthiness policy detailed above and recommended by Capita and these are limited to a total of £20m. Any investments to banks and building societies for a period in excess of 365 days would be classed as a “non-specified investment” as detailed in Annex 2 to this strategy.

## **6 Policy on the use of external service providers**

6.1 The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **Annexes**

- Annex 1 - Prudential Indicators.
- Annex 2 - Credit and Counterparty Risk Management, Specified and Non- Specified Investments

## **Key Decision / Decision in Forward Plan**

This is not a key decision for the Cabinet (as the approval of the full Council is required) and is included in the Cabinet Forward Plan

## Annex 1 – Prudential Indicators

### 1 Capital Indicators

1.1 The Council's capital expenditure plans are a key driver of treasury management activity. The outputs from capital expenditure plans are reflected in prudential indicators, which are designed to assist the Members overview and confirm capital expenditure plans.

**Table 1 - Capital Expenditure Projections**

Capital Expenditure	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
General Fund Approved	126,021			
General Fund New		10,035	8,487	8,487
HRA Approved	35,129			
HRA Estimated New		16,528	16,600	16,600
<b>Total</b>	<b>161,150</b>	<b>26,563</b>	<b>25,087</b>	<b>25,087</b>

1.2 The figures in this indicator (General Fund approved) represent the level of current scheme approvals as reported to Cabinet in December 2016 as part of the quarterly capital monitoring process. Figures in the "general fund new" row represent approvals at Cabinet in February 2017 for 2016/17 and 2017/18, and an estimate for 2018/19 assumed at the same level as 2017/18. These represent total approvals, irrespective of funding source.

1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR represents the total long term borrowing requirement (ie borrowing required to finance capital approvals), regardless of whether the borrowing has been undertaken or not.

1.4 Details of the Council's projections for actual external debt compared to the CFR are contained in table 1 of the main Strategy. Note the figures are estimates, not commitments.

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**Table 2 Capital Financing Requirement**

General Fund	16/17	17/18	18/19	19/20
CFR b/fwd	274,718	286,511	303,335	304,685
Spend from borrowing	13,427	11,906	2,569	2,569
Asset Transfer from HRA	-	6,000	-	-
Less MRP	- 1,634	- 1,082	- 1,219	- 1,400
Sub-total	286,511	303,335	304,685	305,854
Add PFI Liability	52,810	51,280	49,555	47,632
Closing CFR incl PFI	339,321	354,615	354,240	353,486
HRA	16/17	17/18	18/19	19/20
CFR b/fwd	130,532	125,532	114,532	109,532
Spend from borrowing	-	-	-	-
Asset Transfer to GF	-	6,000	-	-
Less MRP	- 5,000	- 5,000	- 5,000	- 5,000
Closing CFR	125,532	114,532	109,532	104,532
Total CFR	464,853	469,147	463,772	458,018

## 2 Affordability Indicators

2.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans and subsequent finance costs on the Council's overall finances.

2.2 Table 3 below shows the estimated financing costs (interest and debt repayment) as a proportion of the General Fund and HRA budgets.

**Table 3 - Estimate of the ratio of financing costs to net revenue stream**

	16/17	17/18	18/19	19/20
General Fund	8.2%	7.6%	7.2%	7.3%
HRA	38.2%	41.2%	41.6%	41.2%

2.3 Table 4 calculates the impact of new approvals funded from borrowing on the tax payer, based on approvals from the February Cabinet Report. It is effectively the increase in debt charges (interest and debt repayment) divided by the estimated tax base. The 2018/19 estimate is based on the assumption that approvals are at the same level as 2017/18.

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**Table 4 - Incremental impact of capital investment decisions on the band D Council Tax**

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Current Approved Programme	£11.50	£16.97	£16.73	£16.50
New Proposals	£0.11	£0.44	£0.66	£0.65

## 3 Borrowing Indicators

**3.1 The Operational Boundary.** This is the limit beyond which external borrowing is not normally expected to exceed. This limit reflects the Councils current estimated debt position, with the assumption that internal borrowing will be reduced as new external borrowing is undertaken. Other long term liabilities represent PFI and finance leases.

<b>Table 5 - Operational Boundary</b>			
<b>Op Boundary</b>	<b>17/18</b>	<b>18/19</b>	<b>19/20</b>
Debt	312,756	316,255	329,754
Other Long Term Liabilities	51,280	49,555	47,632
<b>Total</b>	<b>364,036</b>	<b>365,810</b>	<b>377,386</b>

**3.2 The Authorised Limit for external borrowing.** A further key prudential indicator, this represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited. This has been set to reflect the Council's estimate of the Capital Financing Requirement for borrowing, and for other long term liabilities (PFI and other leases) at £5m above the Operational Boundary (i.e. the expected level)

<b>Table 6 - Authorised Limit</b>			
<b>Authorised Limit for External Debt</b>	<b>17/18</b>	<b>18/19</b>	<b>19/20</b>
Borrowing	417,867	414,217	410,386
Other Long Term Liabilities	56,280	54,555	52,632
<b>TOTAL</b>	<b>474,147</b>	<b>468,772</b>	<b>463,018</b>

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3.3 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2017/18 Estimate £'000's	2018/19 Estimate £'000's	2019/20 Estimate £'000's
HRA debt cap	172,600	172,600	172,600
HRA CFR 31 <sup>st</sup> March	114,532	109,532	104,532
HRA headroom	58,068	63,068	68,068

## 4 Activity Limit Indicators

4.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rate loans ( based upon the debt position net of investments)
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates loans;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing in a single period;

**Table 7-Treasury Management Activity Limits**

£m	2017/18	2018/19	2019/20
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
<b>Maturity Structure of fixed interest rate borrowing 2016/17</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	15%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	40%	
10 years and above	0%	80%	
In any 10 year period above 10 years	0%	50%	

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 464384 or Email [iburbidge@swindon.gov.uk](mailto:iburbidge@swindon.gov.uk)



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4.2 The maximum amount the council will invest for more than 1 year is set out in the table below;

Maximum principal sums invested > 364 days			
£m	2017/18	2018/19	2019/20
Principal sums invested > 364 days	£20m	£20m	£20m

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## Annex 2 – Credit and Counterparty Risk Management, Specified and Non- Specified Investments

### 1 Treasury Management Practices

- 1.1 The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy.
- 1.2 The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on the 1<sup>st</sup> April 2008 and will apply its principles to all investment activity. In accordance with the Code, the Board Director – Resources has produced its Treasury Management Practices (TMPs). This part covering investment counterparty policy requires approval each year.
- 1.3 The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:
  - The strategy guidelines for choosing and placing investments, particularly non-specified investments.
  - The principles to be used to determine the maximum periods for which funds can be committed.
  - Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
  - Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

### 2 Specified/Non-Specified Investments

- 2.1 The main Investment guidelines are contained in the body of the Treasury Strategy statement. The paragraphs below detail the Council's use of Specified and Non Specified Investments
- 2.2 **Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a

## Treasury Management Strategy 2016/17 - Appendix 1 Annex 2

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Date: 16<sup>th</sup> March 2016

longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society) in accordance with the Councils creditworthiness Policy.

**2.3 Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Council holds 2 types of non-specified investments:

- Cash deposits > 1 year (Category (e) below)
- The Local Authority Property Fund (Category (j) below).

Other Non-specified investments that the Council could make would include any investments with:

<b>Non Specified Investment Category</b>
<b>Supranational Bonds greater than 1 year to maturity</b> <b>(a) Multilateral development bank bonds</b> - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). <b>(b) A financial institution that is guaranteed by the United Kingdom Government</b> (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. <b>(c) Gilt edged securities</b> with a maturity of greater than one year. These

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 464384 or Email [iburbidge@swindon.gov.uk](mailto:iburbidge@swindon.gov.uk)

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are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

**(d) The Council's own banker if it fails to meet the basic credit criteria.** In this instance any balances will be maintained on an instant access basis

**(e) Building societies not meeting the basic security requirements under the specified investments.** The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies but will take specific advice before doing so.

**(f) Any bank or building society** that complies with the Council's creditworthiness policy for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

**(g) Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.

**(h) Loan capital** in a body corporate. See note 1 below.

**(i) Bond funds.** See note 1 below.

**(j) Pooled property funds** – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.

**Note 1: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.**

*The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately and if required new counterparties which meet the criteria will be added to the list.*

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## **Internal Audit report – Contract management of the delivery of the Housing capital programme**

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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Author: Head of Internal Audit  
Wards: None  
Locality Affected: None  
Parishes Affected: None

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### **1. Purpose and Reasons**

- 1.1 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating effectively.
- 1.2 Members requested that at least one individual audit report be presented to each meeting of the Committee. The Internal Audit report on the contract management arrangements regarding the delivery of the Housing capital programme, that identified significant risk, was selected to be presented to this Committee meeting.
- 1.3 The initial report was finalised in October 2017. Internal Audit has since carried out a follow-up review to establish progress in implementing agreed recommendations so that Members had an up-to-date position regarding the service.

### **2. Recommendations**

- 2.1 It is recommended that the contents of the report be noted.

### **3. Detail**

#### Background

- 3.1 The annual Housing capital programme budget for 2016/17 is £16.9m. In addition to this there was a £9m underspend carried forward from 2015/16. The Council is responsible for maintaining approximately 10,300 domestic properties.
- 3.2 The capital programme has been prioritised with the aim to deliver major aids and adaptations for tenants with special needs, maintain stock to the Government's Decent homes Standard and to commence a programme of structural repairs and improvement work. The programme of works is intended to reduce the demand for responsive repairs, improve the thermal comfort and security of homes and enhance the local environment.

#### Original audit: finalised October 2016

- 3.3 Internal Audit carried out an audit of the contract management arrangements for the delivery of the Housing capital programme. The report was finalised in October
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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

# Internal Audit report – Contract management of the delivery of the Housing capital programme

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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2016. The auditor's opinion was that there were fundamental weaknesses in some of the processes and therefore there was potentially a significant risk to the Council.

3.4 The key issues raised during the report were:

- All projects in the programme of works must comply with Contract standing Orders, with specific reference to the requirements of section 28 relating to contract variations.
- All instances of where spend exceeds the authorised contract award should be identified and reported upon.
- A management process should be applied to phase, link, control and monitor the 'life of a project' between the stages from strategy, asset management, contracting, contract mobilisation and delivery.

3.5 The full report is attached as Appendix 1.

## Follow-up audit – finalised in February 2017

3.6 Internal Audit carried out a follow-up review to establish progress in implementing agreed recommendations so that Members had an up-to-date position regarding the service.

3.7 It should be noted that the target date has yet to be reached for the implementation of a number of the recommendations.

3.8 The follow-up review did, however, identify that the critical recommendation of ensuring that all contracts complied with the Council's Contract Standing orders had been implemented. The review also found that substantial progress had been made in implementing a number of the recommendations.

3.9 The audit opinion has therefore improved from 'significant risk' to 'of concern'.

3.10 Internal Audit would like to thank both the Head of Property Maintenance and the Capital and External Contracts Manager for all their efforts and contribution to both audit reviews.

3.11 The full follow-up report is attached as Appendix 2.

3.12 The Head of Property Maintenance and the Capital and External Contracts Manager will be at Audit Committee to answer any questions that Members may have.

## **4. Alternative Options**

4.1 Not Applicable

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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, [nhobbs@swindon.gov.uk](mailto:nhobbs@swindon.gov.uk).



# Internal Audit report – Contract management of the delivery of the Housing capital programme

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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## **5. Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report however the detailed audit report addresses the suitability of internal controls within the systems examined

### Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

### All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

### Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 Effective systems of internal control within the Council will help to ensure that the Council's corporate objectives and those set out in One Swindon are achieved.

### Diversity Impact Assessment

- 5.5 Not Applicable

### Risk Management

- 5.6 Not applicable

## **6. Consultees**

- 6.1 The Corporate Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

## **7. Background Papers**

- 7.1 None

## **8. Appendices**

- 8.1 Appendix 1 – initial Internal Audit report: *Contract Management – delivery of the Housing capital programme* (October 2016)
- 8.2 Appendix 2 –Internal Audit report follow-up: *Contract Management – delivery of the Housing capital programme* (February 2017)
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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

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**Contract Management Review  
Delivery of the Housing  
Capital Programme**

**October 2016  
(FINAL)**

## Swindon Internal Audit Services: Contract Management Review - Delivery of the Housing Capital Programme

### Contents and Distribution

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B – Acknowledgements	
C – Contract Standing Orders test sheet.	

#### Report Distribution – Final Report issued on 27<sup>th</sup> October 2016 to:

Corporate Director, Communities and Place  
 Head of Property Maintenance  
 Capital and External Contracts Manager  
 Director of Law and Democratic Services  
 Interim Corporate Director: Resources  
 Head of Finance, Delivery  
 Procurement Manager  
 Head of Finance: Technical  
 Finance Manager: Housing, Treasury and Growth

#### Auditor:

Principal Auditor

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

### Executive Summary

#### Background

The Head of Property Maintenance requested this audit to assist, him and his management team, as part of a review of the delivery of the Housing Capital Programme. This request follows the reintegration of Swindon Commercial Services Ltd (SCS) into the Council from November 2013. The capital programme was formerly delivered by the Company on behalf of the Council prior to it being brought back in-house to become part of the new Property Maintenance section.

The annual Housing Capital Programme is underpinned by capital funding which is approved by Cabinet and shared with the Housing Advisory Forum. The budget for 2015/16 was £16.9m. In addition there was a £9m underspend carried forward from 2014/15. The Council is responsible for maintaining approximately 10,300 domestic properties. The Capital Programme of works has been prioritised with the aim to deliver major aids and adaptations for tenants with special needs, maintain stock to the Government's Decent Homes Standard and commence a programme of structural repairs and improvement works to non-traditional housing stock. The programme of works is intended to reduce the demand for responsive repairs, improve the thermal comfort and security of homes and enhance the local environment.

The Head of Property Maintenance, his staff and the Auditor have worked collaboratively during this review to promote and develop shared understanding and knowledge. The benefit of this approach has been aimed to make effective and efficient use of resources and to derive best practice solutions.

It is planned that the Head of Property Maintenance, the Capital and External Contracts Manager and the delivery team will undertake a workshop to go through the lessons learnt from the audit review. The workshop will be supported by Internal Audit and Corporate Procurement.

#### Audit Opinion

**Fundamental weakness identified.** The impact and materiality of the delivery of the Housing Capital Programme is high and combined with the Auditor's opinion that significant improvements are required in control procedures, giving an overall risk assessment to the Council of '**significant**'.

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

### Key Messages

The Head of Property Maintenance has welcomed this review as part of an overall service improvement approach for the delivery of the Housing Capital Programme of works. During the course of the review, the Capital and External Contracts Manager, who has also taken interim responsibility for the Delivery Team from January 2016, has worked proactively and collaboratively with the Auditor. The Capital and External Contracts Manager and his staff have been very receptive to the review and committed to ensure any lessons learnt are addressed promptly. At regular meetings during the review, the Auditor and the Capital and External Contracts Manager have shared and discussed findings and recommendations. In many cases recommendations were agreed and have already been implemented.

When the service was transferred back in-house there was a lack of any short or long term contracts in place. Therefore, good progress has been made to deliver the annual programme of work in line with the local offer to tenants whilst letting long-term contracts.

The transition and alignment to long-term contracts is a major shift and good progress has been made to let contracts through the South West Procurement Portal, but delays have occurred with Gateway approval, award and mobilisation and implementation of good working practices to effectively administer contracts. In addition, some short-term contracts or contract extensions have needed to be put in place to ensure the timely delivery of works in line with the local offer. Capacity has been stretched due to staff vacancies, sickness absence and capability issues, which has put a pressure on the service. This context should be taken into account when reviewing the findings of the audit. The Head of Property Maintenance and his team are very committed and are striving to put in place the necessary controls and best working practices. However, this 'journey' of change needs to be acknowledged and seen as such with the provision of further time, staff resources and the right resources to help the service realise the outcomes they want to achieve and which are endorsed through this audit report.

Management arrangements have been found not to be robust to effectively monitor and manage the overall Housing capital programme of works. Although the Housing capital investment programme, approved by Cabinet as part of the annual budget setting, is in place, the stages of procurement, contracting, delivery, monitoring and management of the works are not detailed or fully supported by performance targets / milestones. It is therefore not possible to easily identify, or address on a timely basis, emerging risks and issues which could compromise the achievement of objectives and delivery of best value.

When the service was reintegrated from Swindon Commercial Services two teams were set up with the aim to increase efficiency to procure work and manage delivery. This helped to procure and get programmes of work on site, but identified silo working between the two teams. These teams have been combined since January 2016, which has helped create capacity to deliver programmes of work. In addition, temporary officers have been appointed to help with procurement. The staffing structure of the delivery team needs to be reviewed to ensure that it is fit for purpose to deliver future programmes of work.

A two-year procurement plan was put in place with effect from 1<sup>st</sup> April 2014, to support the Housing capital programme and to ensure the Council is compliant both legally and with the Council's Contract Standing Orders. This plan has helped with the delivery of programmes of

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

work, but still only provides medium term planning. Following the recent Stock Condition Survey, it is important that long-term contracts are put in place to ensure continuity with the delivery of the annual programme of work.

During the last twelve months a number of contracts have overspent their contract award/contract extension values.

The Auditor sample tested twenty-two live works contracts during the review. As part of the audit report clearance process this data was revisited by the Auditor as the Head of Property Maintenance advised that there had only been a small number of overspends. Following retesting, as at 1<sup>st</sup> September 2016, the Auditor found that five of the twenty-two contracts had a spend value in excess of their approved award values/contract extensions (plus the additional 15% spend permitted under section 28.2 of Contract Standing Orders). Two of the contracts had overspends of £40,000 and £45,000. The other three contracts had significant overspends i.e. £302,034, £285,138 and £522,859. Of the twenty-two contracts tested, fifteen contracts had not had a final account prepared to show the final status of works. These contracts were closed on the 'Open Housing system' at the end of March 2016. The overspends on these contracts during 2015/16 breach the Council's Contract Standing Orders requirements i.e. section 28 relating to Contract Variations specifically relating to works contracts (see action plan point 3.1).

The Head of Property Maintenance advised the Auditor that budgets and performance targets had been monitored during 2015/16 to manage works, but these were based on estimated values of works achieved at any one time. He advised that it had not been easy to effectively track project deliverables and any slippages/variances. Emerging key risks and issues have not been identified within projects and the overall programme of work. The Head of Property Maintenance also stated that the over spend for each contract will now be investigated and the service to work with procurement and legal to regularise any contracts in accordance with Contract Standing Orders.

Waivers granted from Contract Standing Orders for planned maintenance (to provide value for money and aid the service in managing the legacy of contracting non-compliance by SCS) ceased at the end of March 2016. Long term contracts have been let for planned maintenance works to the Railway Village with an initial contract period for three years with possible extension for a further two years. A long-term contract for an initial one year period with possible extension for a further four years has been put in place for planned maintenance works to be carried out to the general housing stock during 2016/17.

Completeness of information in project files (electronic and paper) and data recorded on the Open Housing system was not maintained to a good standard with incomplete management trails. Following these findings, actions to improve processes were agreed. In early 2016 Property Maintenance management started a considerable data cleansing exercise to improve the accuracy, reliability and completeness of job data held in the Open Housing system. This is to improve the control, management, reporting and monitoring of contracts from a delivery and financial perspective. As part of this, work contracts on the Open Housing system were closed at the end of the 2015/16 financial year and relevant contracts opened in the new financial year, 2016/17 i.e. to manage contract spend within contract approvals and ensure compliance with the new Council's Contract Standing Orders.

There have been delays in getting contracts mobilised due to difficulties encountered in clearing contract awards at Gateway three. Testing of four contracts found that these have taken between seven to eight months from the return of tender date until mobilisation of works.

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Contracts includes a 120 day period from date of tender submission during which the contractor is required to honour their contract, after this time they can 'walk away' from the contract.

Property Maintenance has and continues to be strong in engaging with tenants in the contracting process including selection of materials and as part of contract evaluation stages. There is also a strong emphasis on obtaining, and monitoring tenant's views on the quality of works to ensure that this is carried out to a good standard and any issues dealt with promptly.

There are service performance indicators in place including the number of homes benefitting from Decent Home improvement work. Between April 2015 and December 2015 work at 3,259 properties were completed against a target of 1,700. The Head of Property Maintenance advised the Auditor that this was achieved by utilising underspent budgets brought forward to 2015/16 and by accelerating programmes of work.



## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

### Context

Prior to November 2013, the former Housing Services Department, in the role of client, awarded work to Swindon Commercial Services Ltd (SCS) as contractor. This was done both through open market competition and the 'basket of works' (allocation of works permitted under EU Procurement Regulations to SCS as a subsidiary of the Council and approved by Cabinet). Repairs and Maintenance works in the region of £50 million per year, funded from a combination of Housing capital and revenue budgets were awarded.

On reintegration of SCS back into the Council there were insufficient legal contracts in place to support sub-contractors to SCS who had/were delivering the Housing Capital Programme of works. Substantial values of works, relating to repairs and maintenance awarded to SCS in 2008 and delivered for them by sub-contractors, had never been put out to open market tender or subject to a formal contract. Previous procurement and contracting audits conducted by Internal Audit for SCS had identified fundamental weaknesses including persistent breaches of EU Procurement Regulations and poor procurement and contract management practices.

To enable the Head of Property Maintenance to manage the high number and value of works which were required to be contracted to comply with EU Procurement Regulations, the Council's Contract Standing Orders and Procurement Policy, a two year procurement plan was devised in 2014. This was compiled in conjunction with representatives from the Council's Procurement Team and the Principal Solicitor. The two year plan was intended to prioritise and spread the scale of works to be contracted to fit with available contracting resources within the Property Maintenance Department.

To ease the pressure of the initial work load of contracting requirements to be put in place on SCS reintegration, Cabinet Member Briefing Notes (through the use of delegated powers) approved short term waivers from Contract Standing Orders for the period 1st April 2014 to 31st March 2015. This ensured continuity of service provision for the Capital Programme of Works delivered by former SCS sub-contractors, subject to due diligence checks on their capability of delivering the work and meeting the Council's minimum Health and Safety requirements, insurance and financial suitability checks.

Following reintegration, the former SCS management information system (TASK) was 'switched off'. The Housing Services management information system (Open Housing) continues to be developed both in terms of the modules made available for contracting and delivery but also to improve the use of the system and completion of data for monitoring and reporting purposes.

From an external context, the Government's new system of Housing Finance effective from April 2012 requires the Council to plan over the longer term and develop a thirty year Housing Revenue Account (HRA) Business Plan to manage and maintain its housing assets.

The HRA Capital Programme contributes significantly to ensure that homes are maintained to the Decent Homes Standard. However, at this time the Housing Strategy has yet to have clear priorities set in relation to the non-traditional housing stock, high-rise blocks of flats and plans to provide modern facilities such as kitchens and bathrooms. The strategy is also expected to set out the means to manage an overall short-fall in available investment and repayment of debt, but this is yet to be determined. Therefore an annual programme of works

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

has been set and agreed with tenants which includes a three year forecast that reflects anticipated spend levels in the absence of a detailed programme of work.

The Head of Property Maintenance commissioned a 10% sample stock condition survey with final reports available from April 2016. At the time of clearing this audit report to final stage the survey has been used to update the Medium Term Resource Plan (MTRP) with the outcomes reported to Cabinet in June 2016. The report sets a significant annual funding shortfall of at least £4m per year to meet the investment need. This funding gap remains since the previous survey Stock Condition Survey carried out in 2011.

The service has started to implement their long-term programmes for structural repairs to the non-traditional housing stock; however this is having a significant impact on the available resources for modernisation work such as kitchens and bathrooms. Consequently, Pennington Choices have been appointed to support the service in developing its five year investment programme.

The service has a key objective in their 2016/17 Business Plan to put together an Asset Management Strategy (AMS), which will include a five year investment programme with links between the different elements of work.

### Risk Areas Examined and Findings

In accordance with best practice, a risk-based approach was adopted that identified the key risks to the business objectives and those mitigating actions/controls that should be in place. The auditor then assessed the effectiveness of the mitigating controls through examination of relevant documents, procedures and detailed testing.

The key risks to the achievement of the business objectives were discussed and agreed with the Head of Property Maintenance before the commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of controls in place for each area of risk examined:

<i><b>Risk Area Examined and Findings</b></i>	<i><b>Audit Conclusion</b></i>
<p><b>Risk: Management arrangements for delivery of the capital programme of works.</b></p> <ul style="list-style-type: none"> <li>A framework is in place for monitoring and controlling delivery of the Housing capital programme. However this is at a high level and does not provide the visibility and detail to ensure there are effective relationships and communications to phase, link, control and monitor the 'life of a project' between the stages from strategy, asset management, contracting, contract mobilisation and delivery.</li> </ul>	<p><b>Significant improvements required</b></p>

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Risk Area Examined and Findings	Audit Conclusion
<p><b>Risk: The Property Maintenance service structure has the right people in place, with the authority, responsibility and knowledge and ability to deliver the programme of works to time, cost and quality.</b></p> <ul style="list-style-type: none"> <li>• Officers in the delivery team have a mix of qualifications and experience of contracting and project management which need to be reviewed to ensure that there is adequate capacity and capability to effectively and efficiently support delivery of the Housing capital programme of works.</li> <li>• Appointment of a Delivery Team Manager (or similar) is required to take forward the delivery team and to build on and assist in implementing the findings from this audit and the service review to improve service controls and outcomes.</li> <li>• Capacity, capability and resourcing within the contracting team require review. The team needs to put in place process and procedures to enable effective contract management to deliver long-term programmes of work and enable a step up between short, medium and long term contracts to fit the two year procurement plan. This is impacting delivery and putting the service at risk of not achieving business objectives to time, best value and quality.</li> </ul>	<p style="text-align: center;"><b>Significant improvements required</b></p>
<p><b>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</b></p> <ul style="list-style-type: none"> <li>• The service has a strong tenant focus and desire to deliver the Housing Capital Programme of works.</li> <li>• Testing indicated a level of non-compliance with the Council's Contract Standing Orders. Overspends were identified in five of twenty-two contracts tested i.e. exceeded Form C/Pad approval and any contract extensions permitted using Cabinet Member Briefing Notes or Procurement Approval Documents. Three of these contracts had significant overspends ranging from £285,138 to £522,859. Budget and contract monitoring controls exercised during 2015/16 failed to manage and prevent these overspends occurring. Consequently, to continue delivery of the programme of works, existing approvals had been overcommitted. This represents a breach of the Council's Contract Standing Orders, s28 relating to contract variations for works.</li> <li>• The planned stepping up from short to long term contracts has gained momentum but further work is still required for the next phase of contracting for mobilisation works.</li> <li>• It is evident that new contracts, i.e. works for upgrades to Electrical, Central Heating and Bathrooms, are taking between seven to eight months from return of tender to mobilise and start work on site, which is far too long and beyond the contract time line for this process. The delays in this process have in part been due to problems encountered by the contracting team in achieving approval at the Gateway three stage which has taken at least three months for each of the contracts tested.</li> </ul>	<p style="text-align: center;"><b>Fundamental weaknesses identified</b></p>

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Risk Area Examined and Findings	Audit Conclusion
<p><b>Risk: Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</b></p> <ul style="list-style-type: none"> <li>• The number of Council homes benefitting from Decent Homes improvement work for the period April 2015 to December 2015 was 3,259 which significantly exceed the target of 1,700.</li> <li>• Formal and comprehensive performance measures and standards are not embedded across the service or with contractors to allow effective reporting, monitoring and management of the delivery of the Capital Programme.</li> <li>• The management team undertake high level monthly budget monitoring with the Finance Manager Housing, Treasury and Growth. Consequently, this does not currently provide effective visibility and reconciliation between the value of job commitments / payments for individual projects on the Open housing system and that processed in the Oracle Financial accounting system. This compromises the ability to monitor commitments/spend within that approved by either the internal form of approval (Form C) of the new Procurement Approval Document.</li> <li>• In the absence of wider performance management framework i.e. for key operational targets, milestones and contract measures for both the contract and delivery teams the service cannot demonstrate the achievement of business objectives, best practice or value for money.</li> <li>• A robust set of standard reports can be produced from the Open Housing system; however these are not in place for regular reporting of contracting and delivery performance at an individual project and overall programme level.</li> <li>• Standard Forms of Contract do not include performance criteria for delivery of works including key performance targets and required documentation for monthly contract management meetings between the client and contractor. However, KPI targets are detailed in section 5, Employers requirements, of the invitation to tender documents.</li> <li>• Effective risk management is not formally demonstrated at a contracting or project delivery level from which to manage emerging risks or issues and mitigate risks. There is no evidence of escalation of risks to the service risk register or any acknowledgement of risks found in this audit review i.e. fundamental breach and non-compliance with Contract Standing Orders.</li> <li>• The Open Housing system, whilst being developed, is not being used fully to capture and monitor job information within projects to help the management of delivery. The value of commitments (order at job code 06) has not been found to be reliable and there is need for data cleansing to ensure data integrity for reporting and monitoring.</li> </ul>	<p><b>Fundamental weaknesses identified</b></p>

## Overall Opinion

**Materiality and Impact: High.** The annual Housing Capital Programme budget for 2015/16 is £16.9m with a £9m underspend carried forward from 2014/15. The Council is responsible for maintaining approximately 10,300 domestic properties. Materiality is therefore **high**. The Capital Programme of works has been prioritised with the aim to deliver major aids and adaptations for tenants with special needs,

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

maintain stock to the Government's Decent Homes Standard, commence a programme of structural repairs and improvement works to non-traditional housing stock. The programme of works is intended to reduce the demand for responsive repairs, improve the thermal comfort and security of homes and enhance the local environment. Impact is therefore **high**.

**Opinion on system controls: Fundamental weaknesses identified** (see Appendix A) i.e. the auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.

**Overall Assessment of Risk:** the combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being '**Significant**':

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

## Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of the Contract Management review for Delivery of the Housing Capital Programme, together with the recommendations to mitigate risks, the manager's response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>1</b>	<b><i>Management arrangements relating to delivery of the capital programme of works</i></b>	
1.1	<p>The framework in place for monitoring and controlling delivery of the Housing capital programme has fundamental control weaknesses which are challenging the achievement of business objectives.</p> <p>Connectivity and co-ordination of the programme is not in place to ensure that the outcomes required from delivery of works are achieved. This is because the pace and volume of work is not effectively phased, linked, controlled and monitored between the stages from strategy, asset management, contracting, contract mobilisation and delivery.</p> <p>There is also a low level of understanding and appreciation of the importance of the 'golden thread' necessary to unite the overall control and risk environment i.e. Enterprise Management (vision, mission and strategy), Portfolio Management (resource allocation, project prioritisation and performance tracking) and Project Management (needs assessment levels, project proposals and project deliverables).</p>	<p>The connectivity, roles and responsibilities and fit of the enterprise, portfolio and project management model set out below should be evaluated and embedded for the delivery of the Housing Capital Programme of works. This management process should be applied to phase, link, control and monitor the 'life of a project' between the stages from strategy, asset management, contracting, contracts mobilisation and delivery.</p> <div style="text-align: center;"> </div> <p><b>Priority: High</b>  <b>Responsible Officer:</b> Head of Property Maintenance. <b>Timescale:</b> April 2018</p>

**Management response: Agreed.** Detailed five-year investment programme to be developed, which will reshape the procurement plan.

At present, we are only operating on annual targets and haven't set out the different phases or packages of work, but we have already implemented some long-term contracts which will enable us to deliver the work more smoothly on an annual basis. Please note that these contracts are let on the basis of the available annual budget. Contracts have sufficient break points to enable us to reshape these, as needed, when we have developed our five year investment programme.

We have already started to introduce more control measures to manage the phasing for the different packages of work, which includes a monthly / quarterly review on any contract issues. Also design risk assessments and a risk register are in place which are reviewed and updated at monthly progress meetings. We have also revised our Project Quality Plans (PQP's) to ensure that our team fully understand the link with the Council's priorities and delivery of our programme of work.



## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>1</b>	<b><i>Overview of management arrangements relating to delivery of the capital programme of works</i></b>	
1.2	<p>A programme of projects is in place. The Head of Property advised the Auditor that weekly meetings took place during 2015 to monitor the estimated delivery of individual projects as part of the overall programme for 2015/16. However, there are no consistent governance arrangements in place for each project i.e. budget monitoring, milestones and other performance measures that allow management of the whole programme.</p> <p>Performance is monitored for customer feedback and achievement of works completed against a global figure of improvements against the overall programme. There is a lack of performance targets set to monitor the stages of works from the strategy through to the contracting and delivery stages.</p> <p>With service information retained in a variety of paper and electronic files there is no easy means to establish the status of contracting and delivery for works in the programme. The Open Housing system has and continues to be developed to improve the management information, but this is not being fully or effectively used to monitor the overall service.</p> <p>At a detailed working level contracting time lines and delivery targets/milestones are not brought together from which to help measure and monitor the whole programme.</p> <p>There is evidence of monitoring at an individual project stage but this is not consistently applied across all projects. A standard suite of reports from the Open Housing system that could provide a dash-board of overall and individual project status, i.e. for performance and financial commitment / spend at key reporting dates within the contract is not in place.</p>	<p>The Housing Capital programme should be supported by a comprehensive delivery plan. This should be utilised for monitoring and managing individual projects and the programme as a whole. Stages of monitoring for the programme of projects should detail:</p> <ul style="list-style-type: none"> <li>the project delivery plan and key milestones for contracting and delivery of each new contract and any permitted contract extensions,</li> <li>procurement arrangements entering their final stage of delivery period/spend including procurements under waiver which are reaching their end date/value.</li> <li>the stage of each contract in the step-up procurement plan i.e. short, medium or long term contract.</li> <li>for each works the contract period, number of properties to be repaired/refurbished and the approved contract award value i.e. as agreed in the relevant Form C or Procurement Approval Document.</li> <li>the contracting lead time required for going to market for each procurement.</li> <li>key reporting dates/values and milestone dates within the contract and delivery to ensure these are achieved.</li> </ul> <p>All relevant staff should be provided with training on completing and maintaining performance data and the importance of this in managing the service.</p> <p>From the Open Housing system compile a standard set of reports which can be refreshed to monitor performance and financial spend/commitments against the project plan. Also set up an early alert system to notify projects nearing their spend limits/contract period to prevent delivery exceeding authorised limits/waivers.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>
<p><b>Management response: Agreed</b> – revised project plan with key milestones to be put in place for all projects.</p> <p>The Project Team identified a problem to control actual commitment, through different financial years. Therefore, from March 2016 the Project Team has implemented a procedure to close all contracts on the Open Housing system on an annual basis at the end of each financial year end. Consequently, live capital contracts for 2015/16 were closed at 31<sup>st</sup> March 2016. Where necessary, new or on-going contracts which span financial years contracts have been initiated for 2016/17.</p> <p>Monthly financial/quantity reports are provided by officer leads for each contract they are responsible for have been initiated from the start of the financial year 2016/17. This provides a clear commitment of spend for all contracts.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>1</b>	<b><i>Overview of management arrangements relating to delivery of the capital programme of works</i></b>	
1.3	<p>An overview of the Housing Investment Programme is presented to Cabinet for approval annually as part of the budget setting process. This is also presented to the Housing Advisory Forum.</p> <p>Whilst the 2016/17 – 2018/19 programme covers new spend authorisations it does not provide a position statement for unspent funds that will be carry forward from 2015/16 or whether these funds will be used as originally approved. The Auditor has sought to trace a sample of 2016/17 Housing Investment Programme works through the procurement Gateways process (gates 1, 2 and 3) from strategy and budget approval, going to market and contract award, to ensure that business objectives are achieved.</p>	<p>To improve the governance and visibility of the Housing Investment Programme, any unspent budget to be carried forward into the next financial year should be explained and presented to both Cabinet as part of the budget setting process and also to the Housing Advisory Forum.</p> <p>If the use of any financial underspend is expected to change from that agreed in the Housing Strategy this should also be recorded and approved by Cabinet. This will provide an effective management trail and link to Gateway papers for procurements which include the use of underspend from previous or the current financial year.</p> <p>There should be consistency of procurement intention with regard to the type of works; value of contract being put to market and the value of award which the service is actually seeking to make.</p> <p>Any changes to the nature or value of works put to market to that to be offered should be recorded on the Procurement Approval Document and approved by Corporate Procurement, Legal Services and Corporate Finance.</p> <p><b>Priority: High</b>  <b>Responsible Officer:</b> Finance in conjunction with Head of Property Maintenance  <b>Timescale:</b> April 2017</p>
<p><b>Management response: Agreed</b> – any significant changes to future programmes of work to be reported to Cabinet</p> <p>We have monthly budget monitoring meetings with our Finance Team. We agreed and took a revised budget alignment report to Cabinet in September 2016. Finance advised that it would be more appropriate to vire any budgets in 2016/17 as this would provide actual outturn spend position and carry forward rather than projection on estimated spend. Our contracts are let within the available budget to provide flexibility to enable us to develop the programme on annual basis. We currently have an investment need of approximately £30m per year and available budget of £26m per year, which means at least an annual shortfall of approx. £4m per year.</p> <p>We currently develop the annual programme with tenants and leaseholders and have a need to reduce spend for this element work to enable us to commence the External Wall Insulation (EWI) programme.</p>		



## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>2</b>	<b><i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i></b>	
2.1	<p>A restructure was implemented when the service returned from Swindon Commercial Services in 2013. At the time, virtually no contracts were in place for the delivery of the capital programme and there was additional funding for works as part of the Housing Revenue Account self-funding process.</p> <p>Separate service teams were instigated for Contracting (to procure and appoint contactors as quickly as possible) and also Delivery (to deliver the programmes of work and to be proficient in compiling specifications and contract documents to go to market).</p> <p>However, the continuity of contract knowledge and understanding gained through the procurement of work as part of the review and evaluation of tenders was not effectively carried over into the Delivery team to more effectively manage and monitor delivery. As part of this audit review and the findings it is not apparent whether the Delivery Team is fit for purpose and has the following :-</p> <ul style="list-style-type: none"> <li>• working practices and standards to effectively deliver the Housing Capital programme of works.</li> <li>• necessary technical qualifications, skills and knowledge required,</li> <li>• the necessary professional and commercial behavioural skills so that Officers can competently manage the high value of works being delivered.</li> </ul>	<p>The purpose, working practices and standards required from the Delivery Team and the Service Manager in delivering the overall capital programme of works and individual projects should be assessed to determine if the Delivery Team is fit for purpose and has the necessary capacity and capability.</p> <p>From this assessment the relevant service roles and responsibilities should be determined including the necessary technical qualifications, skills and knowledge required from Officers. The necessary professional and commercial behavioural skills should be determined and specified so that Officers can competently manage the high value of works being delivered.</p> <p>Staff appointed to jobs should have the necessary level of capacity and competency to achieve business objectives. Where necessary, training should be put in place to enable staff to continuously develop and demonstrate best practice.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance in conjunction with the Capital and External Contracts Manager</p> <p><b>Timescale:</b> Sept 2017</p>
<p><b>Management response: Agreed</b> – skills matrix to be undertaken to assess existing capability of Delivery Team.</p> <p>We have role profiles in place for the project delivery team. We have also appointed two temporary members of staff to support our procurement whilst we review the proposed structure to procure and deliver the annual programme of work. A temporary project delivery manager has been appointed whilst we work with HR to combine the two teams and provide a structure with capacity to deliver the programmes of work.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>2</b>	<b><i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i></b>	
2.2	<p>The Delivery Team is located at the Waterside Depot working remotely most of the time from managers and contracting staff based in Wat Tyler House, on the Civic Offices campus. This silo working has not promoted effective development and learning or reintegration of staff.</p> <p>There has been a relatively high turnover of staff in the position of Delivery Team Manager. From interviews conducted by the Auditor, with a sample of four team members, management practices applied under the last two managers appear to have been inconsistent e.g. the treatment of raising cost commitments at financial year-end in the Open Housing system without issuing the orders raised to contractors (significant control issue detailed later in this report).</p> <p>The Auditor believes these factors have contributed to a low level of staff morale and value in terms of job satisfaction, outlook, and feelings of well-being amongst staff in the Delivery Team.</p> <p>At the time of Audit, 1:1 meetings were not in place and team meetings had just started on a monthly basis.</p>	<p>Where possible promote joined up working between the contracting and delivery roles for the Capital Programme. This could include:</p> <ul style="list-style-type: none"> <li>• rebranding the two teams as one group,</li> <li>• locating staff together on one site,</li> <li>• having an early 'buddy' working relationship between Officers responsible for undertaking contract procurement and the Officer responsible for delivering this.</li> </ul> <p>This should achieve greater visibility of contracts and understanding at the hand over stage. It will also ensure that both parties have an overall appreciation and understanding of the whole process and both able to learn each other and bring further efficiencies and effectiveness to the process.</p> <p>Hold regular 1:1 meetings between delivery staff and the Manager i.e. at least every two-weeks, with a focus on performance against work based performance objectives/ indicators for each contract together with personal development objectives. This will also provide individual members of staff an opportunity to discuss any concerns/issues or seek assurance as well as agree any necessary action. Building of strong officer and manager relationships should improve staff morale, value and improve job satisfaction and outcomes.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager;</p> <p><b>Timescale:</b> April 2017</p>
<p><b>Management response: Agreed</b> – 1-1s to be focused on measuring performance against contract objectives. Both the Procurement and Delivery teams were based at Waterside and staff raised concern about the quality of accommodation and need to be based at Waterside. This was not required, but at the time we only had sufficient space to bring the Procurement team back to Wat Tyler House, East.</p> <p>We appointed a Delivery Manager on secondment position for up to 12 months to enable development within our team, but this didn't work out. Since December 2015 we have combined the Contracting and Delivery teams so that we can try to alleviate the problem of the delivery team not fully knowing what contractors have committed to delivering when they are appointed. We have far exceeded our targets for delivery of individual projects and overall programme of works for 2015/16.</p> <p>The previous manager instigated delivery of work elements outside of the programme, which meant that the project team was dealing with repair enquiries, which put unnecessary pressure on them. When we ceased the secondment role and reverted back to delivering the programmes of work the team became much more settled again and able to focus on contract administration of the works. 1:1 and team meetings and weekly training sessions are taking place and the team has been transferred back to Wat Tyler House East on a gradual basis over the last few months.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>2</b>	<b><i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i></b>	
2.3	<p>The Delivery Team has a mix of staff including Project Surveyors, Contract Manager, Housing Responsive Supervisor, Electrical Surveyor, Gas Engineer etc.</p> <p>A review of Corporate Financial Signatory limits and Open Housing access rights found, on the whole, delivery officers had an appropriate and consistent level of order and variation approval for £10,000 per property. There was a segregation of duties between the order and payment approval stage.</p> <p>On the Financial Authorised Signatory list the Electrical Surveyor has approval to raise orders up to £20,000 and authorise payment of invoices up to £10,000. The system does not enforce a segregation of duties and the order limit is higher than Project Surveyors.</p> <p>The former Delivery Manager, who moved to another post within the Council on 1<sup>st</sup> January 2016, has approval levels in both the Financial signatories set in Open Housing i.e. £50,000 for orders and £150,000 for payments. These access rights and authorisation limits have not been reviewed following his change of job role.</p>	<p>Review the Corporate Finance authorised signatories for Officers in the Contract Delivery Team to ensure there is segregation of duties between the stages of ordering and approving invoices for payment, adequacy of financial limits and consistency of limits throughout the team.</p> <p>Following the review of financial signatory limits, for consistency, apply these to the access rights and financial limits set with the Open Housing system.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance</p> <p><b>Timescale:</b> September 2016</p>
<p><b>Management response: Agreed and implemented.</b> New signatories are now in place for the officers responsible for delivery of each contract. Addresses are raised on the Open System as inspections (job stage 02) for individual properties and then converted to orders (job stage 06) once the schedule of works has been approved. Work is not to commence on site before receipt of the order.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
2	<b><i>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</i></b>	
2.4	<p>The project delivery team's working practices and standards have not been determined to establish if the right contract and project management skills, IT systems knowledge/skills, professional and commercial behaviours, quality assurance and performance management are currently in place.</p> <p>However, from this audit review gaps have been identified in:</p> <ul style="list-style-type: none"> <li>• the standard and consistency of effective contract, programme, project and financial management,</li> <li>• familiarity and use of the Open Housing system</li> <li>• commercial skills to effectively manage contracts at monthly contract management meetings and in the event of arbitration.</li> </ul> <p>There is a lack of written working procedures and guidance to support the delivery team.</p> <p>The former Delivery Manager produced a step by step checklist for members of the delivery team to use to embed good practice. This was found by the Auditor to be a good base document to work from.</p> <p>Working practice in the delivery of the UPVC window contract provided the best working approach seen by the Auditor during the review.</p>	<p>Standard and consistent working practices should be established for the delivery team. This should be captured in written working procedures and supported with examples of good practice including the checklist produced by the former Delivery Manager and UPVC window contract management.</p> <p>All staff should be issued with the written procedures and provided training to support the roll out of the new standard.</p> <p>Training in project and contract management should be provided to all relevant staff to ensure they know and understand the level of performance standard required in performing their duties.</p> <p>As part of the staff appraisal process, delivery team staff performance should be assessed against these standards and working practices.</p> <p>Contractors should be issued with copies of relevant procedures i.e. dealing with contract variations, extensions, other potential changes to the contract and contract closure.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2018</p>
<p><b>Management response: Agreed</b> – new procedures to be implemented in line with good working practices.</p> <p>Project quality plans (PQP) have now been introduced to ensure the project officer has a clear understanding of the available budget and expectations for the monitoring of delivery. Risk registers and Project Quality reports and also completed on a monthly basis through the delivery of the contract and any actions identified and discussed at the monthly progress meetings.</p> <p>Contract administration training has already been implemented.</p> <p>An Employers Agent is also being appointed to provide support with the Contract Administration of the major works.</p> <p>A monthly reporting process is now in place which includes financial and quality information.</p>		

# Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
2	<b>Risk: The Delivery team structure has the right people in place, with the authority, responsibility and knowledge and ability to make decisions in a timely manner.</b>	
2.5	<p>The Keepmoat contract for kitchen refurbishments has resulted in an arbitration relationship between the contractor and the Council. (This is still ongoing to agree the final account.)</p> <p>The Contract Manager allocated delivery of this project went on long-term sick leave. There was a lack of adequate business continuity arrangements to assume day to day project management arrangements in his place. This was a contributory factor that led to the arbitration type relationship.</p>	<p>Adequate business continuity plans should be put in place and tested to ensure these are effective in the event of long term staff absence in either the contracting or delivery team.</p> <p>As part of weekly/two weekly 1:1 meetings, between the respective Manager and officers in the contracting and delivery teams, the status of projects should be recorded and supported by documentation, including minutes of the latest contract monitoring meetings.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>
<p><b>Management response: Agreed</b> – resource allocation to be finalised to enable continuity plan to be implemented and tested to cover any long-term sickness absence.</p> <p>We always had a Project Surveyor assigned for the contract administration of the kitchen refurbishment. Keepmoat failed to fully complete snagging work and payment was withheld until work was completed to a satisfactory standard. Keepmoat also changed their management team and took a much more contractual and adversarial approach with the delivery of this contract.</p> <p>Business continuity plans are to be implemented to ensure that we have appropriate cover in place for any long term staff absence.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>3</b>	<b><i>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</i></b>	
3.1	<p>The service has a strong tenant focus and desire to deliver the Housing capital programme of works. However, there has been a breach of the Council's Contract Standing Orders where contracts have been significantly over committed against approved values i.e. by more than £100,000.</p> <p>From sample testing of twenty-two works contracts, five have overspent their approvals/contract extensions (plus 15 % additional spend permitted under the revised Contract Standing Orders, subject to conditions). Two of the contracts had overspends of £40,000 and £45,000. The remaining three contracts had significant overspends, £302,034, £285,138 and £522,859. This unapproved spend is a breach of the Council's Contract Standing Orders as detailed out below.</p> <p><i>28. Contract Variations</i>  <i>28.1 During the course of a contract, factors may arise that may result in the need to vary a contract. Senior Officers are empowered to investigate and negotiate potential variations to a contract after contract award, subject to the provisions of the Public Contracts Regulations 2015.</i>  <i>28.2 Contract variations can be made by Senior Officers, subject to formal budget approval, in accordance with the scope of the original Contract as follows;</i>  <i>i) Goods and services up to 10% of the original total contract value</i>  <i>ii) Works up to 15% of the original total contract value</i>  <i>28.3 All contract variations proposed to be <u>in excess of the quoted percentages</u> in 28.2 above, must formally consult with the Director of Law and Democratic Services and the Head of Procurement as EU laws may apply.</i>  <i>28.4 Any changes deemed to be "substantial" will require a tender process for a new Contract.</i>  <i>28.5 All variations or changes that are agreed will need to comply with the Council and Cabinet Schemes of Delegation and these Contract Standing Orders.</i>  <i>28.6 Subject to the original provisions of the contract, every extra or variation must be evidenced and authorised in writing by the Council Officer responsible for the contract (or the agent acting on behalf of the Council) and a copy kept with the Contract File. <u>For all contracts exceeding £100,000, a copy of the variation must be forwarded to the Director of Law and Democratic Services for filing with the original contract.</u></i></p> <p>None of the 22 contracts tested, with the exception of the one (Roof Renewal works 2015/16) had a final account prepared at the end of the contract as a final status of works so the accountability and visibility of the contract outcome</p>	<p>All projects in the Housing capital programme of works must comply with Contract Standing Orders, with specific reference to the requirements of section 28 relating to Contract Variations.</p> <p>A gap analysis should be conducted across all Housing Capital Projects in the Programme of works to identify any spend/commitments in excess of authorised contract awards. An amnesty should be sought on all contracts which have exceeded the contract award value/waiver period. The value and reasons for any overspends should be identified and reported to Cabinet.</p> <p>A revised procurement plan should be devised going forward for the next three years, including the step ups from short to medium and long term contracts, which should be monitored at a corporate performance level to ensure that this is managed and achieved.</p> <p>Adequate contract lead time must be put in place and observed when taking individual procurements to market at a local or EU level. Medium and long term contracts should be upheld and not replaced with short-term arrangements which impact and frustrate contracting and ultimately delivery of the Housing Capital Programme of works.</p> <p><b>Priority: Critical</b>  <b>Responsible Officer:</b> Head of Property Maintenance in conjunction with the Procurement Manager and the Director of Law and Democratic Services  <b>Timescale:</b> April 2017</p>

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
	<p>against the approved contract and budget are lost. See Appendix C for details.</p> <p>The planned stepping up from short to medium and eventually long term contracts has not yet gained momentum, hence there are gaps emerging between many current arrangements ending and the next phase of contracting being put in place and mobilised. Consequently, to continue delivery of the programme of works, existing contracts are being overcommitted.</p>	
<p><b>Management response: Agreed</b> – long-term contracts already being put in place for replacement and renewal works.</p> <p>A full investigation is to be undertaken to identify the cause of overspend without appropriate authorisation.</p> <p>Established procedures are in place for ordering replacement and renewal works within the Open Housing system with single orders for individual properties.</p> <p>It is clear that the keeping contracts 'live' in the Open Housing system spanning different financial years caused difficulty with monthly monitoring of commitment and spend for the Financial Year, 2015/16.</p> <p>New contracts have been set up on the Open Housing system for all capital works to be delivered during 2016/17. Monthly Project Quality Reports (PQR's) have also been put in place to improve monitoring of delivery and spend to date against the available budget.</p>		



## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>3</b>	<b><i>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</i></b>	
3.2	<p>A sample of contract delivery arrangements tested, found contract extensions, where provided, had not been formalised on a timely basis and in some instances, the value of works (committed and spent) had also exceeded the available contract extension value.</p> <p>In one case tested, an initial contract award was made of £500,000 with the option to extend to £750,000. However, the contract extension option was not formally applied to the contract before the value of spend was incurred.</p> <p>At the beginning of March 2016 the value of commitments and spend against this contract was reported from the Open Housing system as exceeded £1 million. There was no approval in place to support this increased value of spend.</p> <p>Following the review of Contract Standing Orders and approval of the new version in October 2015, a Procurement Approval Document (PAD) was introduced and replaced the old internal form of approval Form C. This new form enables extensions of contracts to be sought and subject to approval by both Procurement and Legal can be applied. This form was used in March 2016 to apply for a retrospective extension to the contract. This was awarded on Best Value grounds and the overall spend increased to £1.125m.</p> <p>As at 1<sup>st</sup> September 2016, the reported final account and spend on this contract has risen to £1,379,275. This represents an overspend of £302,034 against the £1.125m PAD approved value. This significant overspend is a breach of the Council's Contract Standing Orders.</p>	<p>Contracts which include the option to extend must be noted on the contracting and project delivery plan, including the number and period of these extensions.</p> <p>The need to put these arrangements in place should be acted upon at least, say four to six months, prior to the current contract period coming to an end. Contract extension should be communicated and formalised in writing to the contractor by way of a legal extension as required by Contract Standing Orders.</p> <p>Contracts and related schedule of rates should be closed on the Open Housing system to coincide with the end date and award value of contracts. This is to ensure that contracts are not used beyond the approved contract period and value.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>
<p><b>Management response: Agreed</b> – critical dates to be identified to extend or let new contracts.</p> <p>The contract extension was agreed with Procurement and Legal prior to any additional works being issued to them. The proposed extension of work was formalised through a procurement surgery meeting, which was followed-up with PAD authority to proceed. This was put in place to help us achieve our local offer to tenants due to Keepmoat failing to keep to their contract conditions. The extra spend with Smiths Roofing was discussed and agreed with Procurement, which related to external planned maintenance and emergency storm damaged roofs. It was agreed that we would utilise the scaffold being erected and delivered external planned maintenance works, but this was not part of the PAD documentation.</p> <p><b>Audit comment:</b> The proposed extension of the contract was discussed with both Procurement and Legal, but this was to agree the process to seek approval. The extension was not agreed verbally or otherwise at this time. Approval was obtained retrospectively in March 2016 for a spend value of £1.125m. However, a further £300,000 was spent using this contract. This additional spend was not approved and the opportunity to achieve an extension to cover this value are unlikely.</p>		



## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>3</b>	<b><i>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</i></b>	
3.3	<p>The pre-contract stage for setting up procurements required to go to market are not timely to provide compliance and continuity of contracting to support the pace of delivery required.</p> <p>The reasons for this are in part due to capacity and capability of the contract team to manage a backlog of contracting work.</p> <p>This is impacting lead times to put planned contract works to market.</p> <p>A reoccurring 'sticking point' is the considerable delay in achieving the Gateway three procurement stage. It is understood that this is due to differing views and changes required by Officers to the gateway three paper. The Gateway three stage has taken three months for each of the contracts reviewed i.e. including works for upgrades for Electrical, Central Heating and Bathrooms. These contracts have taken between seven to eight months from return of tender to start of work on site.</p> <p>There is a lack of performance indicators set to monitor the contracting period and contract mobilisation stages.</p>	<p>The project plan should cover and monitor the stages of contracting and delivery, with performance indicators set to ensure that contracts are mobilised within 120 days from the date of contract submission and the date of mobilisation. Within this time period a target should be set for achieving the Gateway 'three' process to support the contract award.</p> <p>The Contract Team and the Corporate Procurement Team, Legal Services and relevant Finance Officer should meet to clear the Gateway three process at one or two meetings. These meetings should be booked in advance to secure all necessary staff are present and any changes required are made to agree the Gateway three process promptly and within timescales.</p> <p>In the event of any delays mobilising contracts within 120 days of receipt of tender these should be raised with the Board Director, Service Delivery for resolution.</p> <p>The Procurement Team and the Housing Capital Programme Contracting Team should resolve any lessons learnt from the Gateway process to ensure the content and timeliness of the papers submitted to this process are reasonable to support contractor award.</p> <p>Handover arrangements between the contract award (by the contracting team) and project mobilisation process (by the delivery team) should be reviewed with both teams. This is to ensure that adequate awareness, timing and communication are in place to implement.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> December 2016</p>
<p><b>Management response: Agreed</b> – already working closely with Procurement to ensure that Gateway papers are cleared within 10 weeks of tender evaluation being completed. We are making good progress to go to market and let contracts as previously advised. Due to the volume of work we are always likely to be going to procure work, but wouldn't refer to it as backlog work. We will need to investigate the reason for delays and will report back on any that passed the 3 month stage. Gateway three papers are not cleared due to them not being specific in relation to the contracts being let. Service area leads need to take responsibility for obtaining internal clearance including the Gateway process.</p> <p>When tenders are returned there is quite often a need for tender clarifications etc. We should not set performance indicators for the contract period as we have to comply with procurement legislation and good practice. Mobilisation should be agreed with the contractor for the type of work to be delivered in line with the CDM regulations.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.1	<p>The Open Housing system can be used to order jobs and to also provide reports i.e. on the status of individual jobs and by contract /project codes. However, the project team have not had sufficient training to support them to use Master Query or the Planned Maintenance module which means that they are unable to fully report, monitor and manage the status of work across the life cycle of the current Capital Programme of Works (or works carried forward from previous financial years).</p> <p>In the Open Housing system it is not possible to track property repairs required in the asset management plan through to the high level strategy and subsequent stages of contracting and delivery of individual work projects.</p> <p>The Open Housing system is being developed and currently holds asset management data, tendered contract schedules of rates from which to generate orders and also the status of works at individual properties. However, there is no contracting or project management functionality within the Open Housing system.</p> <p>Microsoft project is available within the service but this has not been explored to define, manage and report the stages of contracting and delivery of projects in the overall programme of works. It is therefore not possible to report and demonstrate whether works are completed on time, to cost and quality and achieved within contract award values and permissions or extensions of contract where approved.</p>	<p>Provide training to the project team to enable them to use Master Query or the Planned Maintenance module so they can effectively manage and monitor their projects.</p> <p>Evaluate the feasibility of developing the Open Housing system to add functionality to provide contract and project management so that a comprehensive management information system supports delivery of the capital programme of works for the Housing asset.</p> <p>Evaluate utilising Microsoft Project for management, reporting and monitoring of the contracting delivery stages and seek to link this information with asset management, contracts and individual property job status information in the Open Housing system.</p> <p>The above actions are required to:</p> <ul style="list-style-type: none"> <li>• provide the service with an effective management information system from which to report, monitor and manage the life cycle of the Capital Programme of Works i.e. to track property repairs required in the asset management plan through to the high level strategy and subsequent stages of contracting and delivery of individual work projects.</li> <li>• enable the defined stages required for contracting and project management to be set out and monitored to ensure that these are achieved to time, cost and quality and in accordance with contract award values and permissions or extensions of contract where approved.</li> </ul> <p>This recommendation links with action plan number 1.2.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager in conjunction with the Systems Development Manager and the Head of Information and Technology.</p> <p><b>Timescale:</b> March 2018</p>
<p><b>Management response: Agreed</b> – to deliver training, but IT Housing Management system being put out to tender for market testing.</p> <p>We have operated the Open system to ensure that each property has a job logged for each element of work. This is particularly important for maintaining information and status of components for individual properties (on the basis that every element has an order to show that it has been completed). It should be acknowledged that we have good records for completed work over the last 15 years. We also have a project to update components in Open which is planned to go live in Aug. 2016. It is agreed that we need to implement Microsoft Project/Excel for managing all contracts, particularly during the procurement stage.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.2	<p>At a high level, the service reports delivery of the number of works completed each year against an overall Decent Homes target which includes refurbishment works for Roofing, Bathrooms, Kitchen, Windows and Electrical Upgrades. This data is sourced from the relevant job status codes recorded on the Open Housing system.</p> <p>However, there is a lack of performance indicators / measures in place to effectively monitor the contracting and delivery stages of the Housing Capital Programme of works to time, cost and quality (not including tenant satisfaction). Therefore, in the event of any delays, slippage or overspends these are not promptly identified or reported for management action.</p>	<p>Additional performance indicators should be evaluated to improve visibility and overall delivery of the Capital Programme of works, from the Gateway process through to delivery.</p> <p>Examples of performance targets include:</p> <ul style="list-style-type: none"> <li>• each of the Gateway stages,</li> <li>• the value of commitments/spend compared to the contract award value approved and any overspend identified against relevant contracts including justification and approval,</li> <li>• contract delivery against an agreed and phased delivery plan,</li> <li>• timely provision of property addresses for inclusion in the tender document,</li> <li>• timely contract hand over and mobilisation stage (within 120 days),</li> <li>• the level of both pre and post work inspections required across each contract,</li> </ul> <p>Evaluate a Best Value measure to drive 'added value' from contracts i.e. the number of properties refurbished above the contract target but within the contract award value.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance in conjunction with the Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>
<p><b>Management response: Agreed</b> – performance targets to be set against each contract.</p> <p>From the start of this financial year 2016/17 monthly monitoring is being undertaken on spend and the number of units completed. This information is taken from reports from the Open Housing System to ensure a consistent approach.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.3	<p>From a report of Capital contracts set up in the Open Housing system, the Auditor has reviewed the value of works at the order status for a sample of twenty-two contracts. Of these, nine contracts had orders (job status 06) raised for an aggregated value in excess of £100,000 each although this did not necessarily represent a true statement of work in progress (please refer to appendix C for details).</p> <p>The status of orders for the roofing contract (£636,000) and the kitchen refurbishment contract (£205,449) were not true orders, but committed values instead. These values do not represent work in progress.</p> <p>Year-end creditor provisions based on the order values with the Open Housing system for work in progress could consequently be compromised and/or overstated.</p>	<p>Open Housing job status data should be reviewed and cleansed as a one off exercise and regularly thereafter to ensure this is reliable and complete for reporting and monitoring the service.</p> <p>Spot checks on a sample of jobs should be conducted by an independent Officer to ensure jobs are progressing and the job status correctly reflects the job stage and financial commitments. These checks should be recorded and used to support a quality assurance process.</p> <p>The Auditor estimates that in excess of £2 million will be realised from the order status review and be shown in the value of underspend for the 2015/16 financial year.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>
<p><b>Management response: Agreed</b> – quarterly independent checks to be carried out.</p> <p>We have previously agreed with Finance that we would implement new contracts for capital works to be undertaken during each financial year (contracts are ceased at year-end). This has already been implemented to ensure that commitment is not over stated and provide a true assessment on available resources for the current year.</p> <p>This statement is misleading – when contractors have been appointed work orders have been raised with a commitment, which was rescheduled when actual surveys were complete.</p> <p>The orders can be placed with contractors at the start of the programme or in phases, as needed. Performance is not measured against commitment and is only measured on outturn.</p> <p>We have reviewed our process to control the level of work issued to contractors to help with the control and management of contractors. If they fail to perform we can utilise this tool to control the level of work that is being issued to the contractor. For example, if a contractor failed to clean up after themselves and we were continually getting complaints we would want this resolved before we issued them with further works, accepting that this may cause some contractual issues.</p> <p>We issued the work orders to the contractor as detailed above. Subsequently, the contractor failed to deliver the programme and SBC is citing that they had issued the programme to get on with the work. In this case, if we had not placed orders SBC may have been more at risk of a claim by not providing the orders.</p> <p>We will investigate the issue of the kitchen units, but this is going to be the same as the other contracts.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.4	<p>The current JCT Standard Form of Contract used for delivery of the Capital Programme of works was reviewed by the Auditor. Relevant performance indicators and reporting requirements to support monthly contract management and monitoring meetings are not included in contracts.</p> <p>Individual key performance indicators were noted in the contract management and monitoring meetings, however these are not contractually enforceable as they are outside of the contract.</p> <p>The Auditor contacted the Service Manager Planned Programme at Bristol City Council and established that they use a mix of JCT and NEC standard forms of contract. NEC contracts were used for contracts over £3 million but the Manager advised that officers using these contracts require a robust working knowledge and understanding to operate this contract form.</p>	<p>Review the appropriateness of the current JCT Standard form of contract used for the Housing Capital Programme of works to establish if the current form is:</p> <ul style="list-style-type: none"> <li>• fit for purpose and fits with the procurement cycle to step up from short to medium and then to long term contracts.</li> <li>• appropriate for the value of contract award,</li> <li>• suitable for implementing project management principles and practices.</li> </ul> <p>In future, contracts should detail the required monthly contract monitoring arrangements and documentation required to be provided by the contractor. Contract monitoring templates should be published on the Internet for easy access by contractors. Templates should include reporting of actual achievement against the agreed phased delivery plan and budget.</p> <p>Key risks should be discussed with the contractor and documented. These should be at contract management meetings and where necessary risks carried into the client officer's risk register. Mitigating actions should be agreed and reviewed for implementation.</p> <p>Evaluate if the NEC suite of contracts could offer a better fit for larger value, medium/longer term contracts which require strong project management principles and practices i.e. to empower project officers to deliver projects on time, on budget and to the highest standards.</p> <p>If the NEC contracts are deemed a option for contracting specific works, ensure Officers responsible for delivery are trained and competent in the use of relevant contract forms.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager;</p> <p><b>Timescale:</b> September 2016</p>
<p><b>Management response: Agreed and implemented.</b> We have worked with Procurement and Legal to agree on the most suitable contracts to be used for the type of work that is delivered through our contracts. Procurement also attended the recent external training on JCT contracts to ensure that we are using the correct form for replacement components and planned maintenance. We also recognise the need to improve our CA arrangements, therefore we would not, at this stage, want to introduce further complexity by using NEC contracts. The option for the selection of contract should remain within the Gateway1 and 2. Risk registers are being provided for all contracts.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.5	<p>In the four contracts reviewed during the audit (refurbishment contracts for gas central heating, roofing, UPVC window and kitchens), there had been considerable delays in notifying the appointed contractor of the properties allocated to their contracts. This information is obtained from the asset management module in the Open Housing system.</p> <p>The lists compiled by the Property Maintenance Asset Manager and provided to the delivery team were found to be unreliable. Works previously completed were included as the asset management module had not been updated.</p> <p>The Gas Engineer explained that before he released the property list to the contractor he checked addresses against a spreadsheet he maintained of gas installations completed. From a list of some 200 properties sourced from the asset management for Gas Central Heating refurbishments, the Gas Engineer established that approximately 150 properties had to be discounted either because a new heating system had been installed (P H Jones heating contract, 2013-2014) or the tenant declined works.</p> <p>The late provision and notification of property addresses attributed to contracts is compromising the prompt mobilisation of the contract, the ability of the contractor to plan works and where possible arrange welfare facilities centrally to work locations.</p>	<p>The management module within the Open Housing system should be updated promptly on satisfactory completion of works and provision of completion certificates/quality assurance inspections. This is to establish the link between delivery, maintaining decency and providing robust data for futures programmes of work.</p> <p>The gas central heating spreadsheet of completed works as maintained by the Gas Engineer should be used to update the asset management module. This should be undertaken in conjunction with the necessary property gas completion certificates etc.</p> <p>The property lists or street names for each contract should be produced and included at contract award. This will enable contractors to plan works and welfare facilities and mitigate related delays in mobilising contracts.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Project Surveyors in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2017</p>
<p><b>Management response: Agreed</b> – new components set up in Open Housing system and process to be implemented to update data from surveys and completed programmes of work. At present, we have a standalone data base, but are implementing the component module within the Open system and this is planned to be implemented during August 2016. Consultancy days have been booked to start this work in June 2016.</p> <p>As this is a one-off piece of work and should be implemented within the project to use the component module within the Open system.</p> <p>We are delivering works on an area basis, but don't need to include this level of detail when we go to tender – it could delay going to market.</p> <p>Our Asset Manager was taking the opportunity to revisit properties that had previously declined works, but we accept that this is frustrating for the appointed contractors.</p> <p><b>Audit response:</b> The lack of timely and detailed address information is a frustration throughout the contracting and delivery process. The instruction of addresses at the contracting stage is viewed by the Auditor as a catalyst and it is not perceived that with proper planning this should cause any delay in contracting.</p>		



# Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.6	<p>There is a lack of visibility and alignment of capital contract budgets to individual contracts set up on the Open Housing system.</p> <p>Capital budget management is conducted monthly by the Head of Property Maintenance and relevant managers. However, this is performed at a high level as capital budget codes cover a number of projects, i.e. three projects are funded from one roofing repair budget, for which there are no individual project analysis codes to align each project.</p> <p>It is therefore not possible to align and monitor the status of contracts 'live' in the Open Housing system with a specific and related budget allocated within the Housing Capital programme. This compromised budgetary control and management.</p>	<p>Further analysis codes should be provided under each Housing Capital Programme budget code to achieve visibility for individual projects which make up the overall budget. An example is the capital budget code for roofing works which has been split over three contracts. Each contract should have a further analysis code allocated under the main roofing capital code and the budget split across the contract budget sub-codes in accordance with approved award value (Form C or Procurement Approval Form).</p> <p>When aligned to the further analysis code for individual contracts this will enable a reconciliation of payment made and to forecast commitments (to cover work in progress and complete but not paid). This will provide a greater degree of control and allow challenge on variances on a timely basis.</p> <p>Any emerging risks and issues should be captured in the project and where significant escalated to the service risk register with mitigation actions with timescales agreed.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Finance Manager in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>
<b>Management response: Agreed</b> – contract reference or coding structure to be used to identify specific contracts for different elements of work.		

# Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.7	<p>New contracts and their schedule of rates have to be independently checked for correctness and approved by the Capita Contracts Manager before they 'go live' in the Open Housing system.</p> <p>The Auditor observed, from Open Housing contract screen that contracts were not closed down promptly once the award value and/or period of works had either been reached and/or contracts fulfilled. Consequently, contracts have been overspending and being used beyond approved dates/values e.g. M2010, LX1404 and LX1405.</p> <p><i>The Head of Property Maintenance and the Capital and External Contracts Manager acknowledge this finding.</i> They are now applying close dates to contracts which have come to an end/spent to the full value of the contracts award/waiver. Also, going forward all contracts will be closed down at the end of each financial year and only valid contracts will be set up on the Open Housing system and subject to quarterly review.</p> <p>It is evident during the audit that contracts have been closed to prevent further use, however from further sample testing thirteen 'live' contracts have over spent their contract award/approved waivers, (see Appendix B for contracts with spend in excess of Form C approval).</p>	<p>A financial limit should, where possible, be applied to each contract in the Open Housing system. The limit should be the contract award value. This limit should prevent works from being ordered when the combined value of commitment and payments on a contract has reached the limit value (contract award value).</p> <p>All contracts and related schedule of rates should be closed down on the Open Housing system once the approved contract spend or contract period has been reached.</p> <p>At the end of each financial year close all contracts on the Open Housing system to improve governance and management of contracts. At the start of each new financial year, where necessary, enliven contracts in the Open Housing system, which have approval to continue and available budget.</p> <p>Conduct quarterly reviews of the contracts 'live' in the Open Housing system to ensure that spend is within the total budget and period of contract is valid.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager in conjunction with Finance Manager</p> <p><b>Timescale:</b> April 2017</p>
<p><b>Management response: Not agreed</b> – This function is not available in the Open system, but we are implementing monthly review meetings and only making contracts live for short periods to enable more robust control on commitment and spend levels. We are to give an update on the spend levels against the list on contracts.</p> <p><b>Audit Comment:</b> The alternative solution offered here is acceptable, subject to the value for monitoring being compared to the approved Form C/Procurement Approval Document, to ensure the contract award value is not exceeded. The figure to be used for job monitoring should be extracted each contract set up on the Open system and comprise of the value of work completed and paid (job status 93), work completed but not paid (job status 90) and the value of orders/commitments (job status 06). For each contract the value of work completed at survey stage (job stage02) should not be released to order stage if the overall monitoring figure (as outlined above) reaches the contract award value (subject to any approved tolerances).</p>		



## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>4</b>	<b><i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i></b>	
4.8	<p>Risk registers are not maintained or linked to performance at the mobilisation and delivery phase of each contract to demonstrate and provide assurance on the effectiveness of controls in place and operating for delivery.</p> <p>There is little risk escalation at this level to the Service risk register. The Service risk register is very outcome and tenant focussed and silent with regard to the fundamental risks of compliance with Contract Standing Orders, service capacity and capability, effectiveness of management and monitoring arrangements, staff morale and 'sticking' points in achieving delivery of the Capital Programme or works etc.</p> <p>Decision making is therefore compromised and assurance on the efficiency, effectiveness and efficacious strategy is heavily compromised and this in itself is a fundament risk.</p>	<p>Programme and project risk registers should be maintained throughout the life of the Capital Programme of works. In the event of a significant emerging risk or issue it should be escalated to the Delivery Leadership Team Risk register.</p> <p>Risk registers should be proactively used, as part of contract management, with the delivery officer recording any risks/issues to the achievement of projects and/or the overall programme of works. Mitigating actions should be agreed and put in place to manage risks and reviewed periodically for implementation.</p> <p>Risks identified in this review should be included in the relevant risk registers.</p> <p>All Project and Portfolio management staff should complete the on-line managing risk training to ensure they are aware of the risk management documentation and process.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2018</p>
<p><b>Management response: Agreed</b> – risk management training is required to ensure that contract risks are identified and mitigation actions are put in place.</p> <p>We have exceeded our delivery targets during 2015/16 and are reviewing the list of contracts that have been cited as being over spent. At the monthly contract progress meetings a standard item on the agenda has been included to review and update the risk register.</p>		

# Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.9	<p>From a sample of twenty-two NJC standard form of contracts tested to see if contract final accounts were being or had been prepared, seventeen contracts had ended for which only one final account was prepared, this was for the Roof Renewal contract 2015/16, awarded to Smiths Roofing Contractors.</p> <p>In the absence of a final account type process there is no wrapping up of all that has gone on over the term of the contract i.e. including a final statement setting out the sum of payments made against the original contract value and any contract variations or extensions awarded. Consequently, there is a lack of transparency of activity and closure of the contract.</p>	<p>Each Project Manager should prepare, on completion of their relevant contracts, a final account. This final statement should include a final statement setting out the sum of payments made against the original contract value and any contract variations or extensions awarded.</p> <p>To improve transparency, details of contract final accounts should be reported to Housing Advisory Forum and Cabinet to demonstrate completion of works in accordance with contract approvals and the Capital Programme of Works.</p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2017</p>
<p><b>Management response: Agreed</b> – Final account to be finalised within six months of contract completion date.</p> <p>Contracts have been closed in the Open Housing system and final accounts are to be agreed upon completion of the works. Formal notice is to be issued in accordance with contract conditions to confirm full and final payment.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

Ref.	Finding	Recommendation
<b>4</b>	<b><i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i></b>	
4.10	<p>Contract variations invoiced by Keepmoat for kitchen refurbishment works (agreed post completion of works) were being coded to adjustment codes in the Open Housing system.</p> <p>This was to reduce the time taken to process invoices for payment. However, this has reduced visibility of works paid and whether these related to the items set up from the contract schedule of rates or subsequent rates agreed (as part of arbitration).</p> <p>During 2015/16 £29,966 had been charged to adjustment codes (code set upon the Open Housing system - ADJSOR, ADJSORNEG, ATCOST and ATCOSTNEG).</p> <p>Following a further sample of contracts it was evident that this practice is also happening on other contracts including:</p> <ul style="list-style-type: none"> <li>• M0715, Bathrooms - £71,283</li> <li>• M0624, Kitchens - £29,966.</li> <li>• M0210, Roof repairs - £220,862</li> <li>• M313, UPVC Windows - £281,950</li> </ul>	<p>Evaluate deleting or limiting access to and use of adjustment codes in the Open Housing system for coding works for payment i.e. ADJSOR, ADJSORNEG, ATCOST and ATCOSTNEG.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2016</p>
<p><b>Management response: Agreed and implemented.</b></p> <p>From the start of the new financial year 2016/17 ATCOST adjustments cannot be used for additional payments on any contracts.</p>		

## Swindon Internal Audit Services: Contract Management review – Delivery of the Housing Capital Programme

### APPENDIX A

Standard Audit Opinions	Standard Audit Opinion System Control
<p>The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.</p> <p>The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).</p> <p>The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).</p>	<p><b>Audit Opinion 1. High standard</b></p> <p>The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made</p>
	<p><b>Audit Opinion 2. Satisfactory standard</b></p> <p>The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.</p>
	<p><b>Audit Opinion 3. Significant improvements required</b></p> <p>The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.</p>
	<p><b>Audit Opinion 4. Fundamental weaknesses identified</b></p> <p>The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.</p>

## Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

### Job Title

Head of Property Maintenance  
Capital and External Contracts Manager  
Senior Quantity Surveyor  
Procurement Manager  
Senior Procurement Officer  
Head of Technical Finance  
Finance Manager for Housing, Treasury and Growth  
Senior Project Surveyor  
Senior Project Surveyor  
Gas Engineer  
Contract Manager  
Commissioner Supporting People  
Business Services and Support Officer  
Systems Development Manager  
Systems Development Officer  
Strategic Commissioner Adults

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**Contract management review  
Delivery of the Housing  
Capital Programme - Follow Up**

**February 2017  
(FINAL)**

## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

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#### Report Distribution – Final report issued on 9<sup>th</sup> February 2017 to:

Corporate Director, Communities and Place  
 Head of Property Maintenance  
 Capital and External Contracts Manager  
 Director of Law and Democratic Services  
 Interim Corporate Director: Resources  
 Head of Finance, Delivery  
 Procurement Manager  
 Head of Finance: Technical  
 Finance Manager: Housing, Treasury and Growth

#### Auditor:

Principal Auditor



## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

### Executive Summary

#### Background

An Internal Audit review of the *contract management arrangements for the delivery of the Housing Capital Programme* was finalised in October 2016. The audit identified that there were fundamental weakness in internal control arrangements resulting in a 'significant' risk to the Council. A summary of the findings of this initial review were presented to Audit Committee at its November 2016 meeting. Members requested that the full report be brought to their February 2017 meeting.

A follow-up audit was undertaken in January to establish what progress had been made in implementing agreed recommendations. It should be noted that the agreed implementation dates of recommendations from the original report range between September 2016 and April 2018 and therefore it should not be expected that all recommendations have been implemented.

The annual Housing Capital Programme is underpinned by capital funding which is approved by Cabinet and shared with the Housing Advisory Forum. The budget for 2016/17 is £16.9m. In addition to this there was a £9m underspend carried forward from 2015/16. The Council is responsible for maintaining approximately 10,300 domestic properties. The Capital Programme of works has been prioritised with the aim to deliver major aids and adaptations for tenants with special needs, maintain stock to the Government's Decent Homes Standard and commence a programme of structural repairs and improvement works to non-traditional housing stock. The programme of works is intended to reduce the demand for responsive repairs, improve the thermal comfort and security of homes and enhance the local environment.

Testing conducted for this follow-up review included examining the contracting arrangements for the delivery of three new projects i.e. External Wall Insulation – phase two; Replacement window and doors and the 2016/17 Bathroom refurbishment programme. It also included the delivery of the following contracts: Replacements Bathrooms; Gas Central Heating; Aids and Welfare Adaptations; and Kitchen Refurbishments.

#### Audit Opinion

Due to the work carried out since the last audit, particularly relating to ensuring compliance with standing orders, the audit opinion has improved as shown below. Many of the processes are relatively new and assurance that these are working effectively will be needed before the opinion will improve to 'satisfactory'.

The overall audit opinion following this review is '**significant improvements required**' with existing procedures needed to be improved to ensure that they are fully reliable, giving an overall risk assessment to the Council of '**of concern**'.

## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

### Key Messages

Since the last review both the Head of Property Maintenance and the Capital and External Contracts Manager have made good progress in implementing the Internal Audit recommendations to bring together and realign the contract and delivery functions supporting the Housing Capital Programme. This change is being progressed and although in the early stages it is beginning to put in place the key controls necessary to take forward best practice, a commercial culture, effective delivery and ensure value for money can be demonstrated across all stages of the programme lifecycle.

The transformation of the service following the merger in November 2013 of both the former Swindon Commercial Services, property delivery team with the former Housing Services contract team is now being fully realised. Achievement of this step change has and continues to impact and challenge the service alongside business as usual. The service is commended and encouraged to maintain the good level of progress in addressing the key control weaknesses reported by Internal Audit in October 2016.

The auditor found that the implementation of the majority of recommendations made in the initial review should be achieved in accordance with the agreed timescales. A critical priority recommendation has already been achieved ensuring that all works are contracted, and then delivered and managed within authorised contract award values. At an individual contract level this should ensure compliance with the Council's Contract Standing Orders and support contract management and budgetary control in accordance with contract awards.

Implementation dates for two recommendations have been extended to enable recommendations to be fully implemented. Some further actions have also been provided as part of this review to further improve controls.

The recommendations being implemented at this time are required to ensure that there is efficient and effective management for both the contracting and delivery stages that support the Housing Capital Programme of Works i.e. as set out in the draft delivery plan and draft contract register.

The staffing structure and roles and responsibilities of staff necessary to support the programme are being reviewed to ensure there is adequate staffing with the appropriate qualifications, expertise and on the job training to perform their duties. Processes and working procedures to support performance and risk management of the programme of works are evolving with further key performance indicators to be introduced to enable emerging risks and issues to be managed and mitigated on a timely basis.

Further development and embedding of the step change brought about from the initial audit review is essential to achieve best practice and value for money to achieve the Capital Programme of works outcomes for all stakeholders.

Full details of the follow-up review and testing supporting the status of the implementation of recommendations are set out in the action plan follow-up form together with management responses/comments.

## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

### Key improvements made since the last audit

The following improvements in controls and practices have been noted as being implemented since the last audit review:

- Projects in the Housing capital programme of works comply with Contract Standing Orders, with specific reference to the requirements of section 28 relating to Contract Variations.
- A revised procurement plan is in place, including the step ups from short to medium and long term contracts. The plan is now starting to be monitored at a corporate performance level to ensure that this is managed and achieved.
- Contracts which include the option to extend are noted on the contracting and project delivery plan, including the number and period of these extensions.
- Open Housing job status data was cleansed as a one off exercise at the end of March 2016. However, data is now starting to be reviewed on a more regular basis to ensure that data is reliable and complete for reporting and monitoring of the service.
- The management module within the Open Housing system is updated promptly on satisfactory completion of works and provision of completion certificates/quality assurance inspections.
- Further analysis codes for new projects have been provided under each Housing Capital Programme budget code to achieve visibility for individual projects which make up the overall budget. All existing projects will have a further analysis code set up from the start of the new financial year 2017/18.
- At the end of 2015/16 all contracts on the Open Housing system were closed down to improve governance and management of contracts. At the start of the new financial year 2016/17, where supported by approval to continue and available budget, on-going contracts were reopened in the Open Housing system.
- Final accounts have been prepared for contracts which have completed since the last review and were outstanding during the last review.
- Authorised signatories for Officers in the Contract Delivery Team are now in place ensuring segregation of duties between the stages of ordering and approving invoices for payment. The financial limits are also adequate and consistent across members of the team. These authorisations and approval levels are satisfactorily reflected in the Open Housing System.

### Overall Opinion

**Materiality and Impact: High.** The annual Housing Capital Programme budget for 2016/17 is £16.9m with an additional £9m underspend carried forward from 2015/16. The Council is responsible for maintaining approximately 10,300 domestic properties. Materiality is therefore **high**. The Capital Programme of works has been prioritised with the aim to deliver major aids and adaptations for tenants with special needs, maintain stock to the Government's Decent Homes Standard, commence a programme of structural repairs and improvement works to non-traditional housing stock. The programme of works is intended to reduce the demand for responsive repairs, improve the thermal comfort and security of homes and enhance the local environment. Impact is therefore **high**.

### Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

**Changes since the last audit:** Below is a summary of the progress made in implementing the recommendations from the initial audit:

Priority of Recommendations	Total	Implemented	Being Implemented	Not Implemented	Unable to test
<b>Critical</b>	1	1	0	0	0
<b>High</b>	6	3	3	0	0
<b>Medium</b>	15	6	8	0	1
<b>Total</b>	<b>22</b>	<b>10</b>	<b>11</b>	<b>0</b>	<b>1</b>

**Opinion on system controls: Significant improvements required** (see Appendix A) i.e. the auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failings controls.

**Overall Assessment of Risk:** the combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being of **'Of concern'**.

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

### Action Plan: follow-up form

The purpose of this action plan follow-up form is to provide an update on the status of recommendations made in the initial audit of the Contract Management review: Delivery of the Housing Capital Programme, together with the service manager's comments.

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
1	<b>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</b>	
1.1	<p>All projects in the Housing capital programme of works must comply with Contract Standing Orders, with specific reference to the requirements of section 28 relating to Contract Variations.</p> <p>A gap analysis should be conducted across all Housing Capital Projects in the Programme of works to identify any spend/commitments in excess of authorised contract awards. An amnesty should be sought on all contracts which have exceeded the contract award value/waiver period. The value and reasons for any overspends should be identified and reported to Cabinet.</p> <p>A revised procurement plan should be devised going forward for the next three years, including the step ups from short to medium and long term contracts, which should be monitored at a corporate performance level to ensure that this is managed and achieved.</p> <p>Adequate contract lead time must be put in place and observed when taking individual procurements to market at a local or EU level. Medium and long term contracts should be upheld and not replaced with short-term arrangements which impact and frustrate contracting and ultimately delivery of the Housing Capital Programme of works.</p> <p><b>Priority: Critical</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance in conjunction with the Procurement Manager and the Director of Law and Democratic Services</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Head of Property Maintenance response:</u></p> <ul style="list-style-type: none"> <li>• Gap analysis underway with Procurement team.</li> <li>• Not identified any contracts that have exceeded spend/commitments in excess of authorised contract awards.</li> <li>• Contracts have been put in place to step up from short to long term contracts to support nine different packages with a range of £600,000 and £8.9m.</li> <li>• 5-year investment programme developed with Pennington Choices Ltd, which links into existing contract arrangements.</li> <li>• Revised procurement programme to be updated in line with overall project plan.</li> <li>• Contract critical path analysis drafted.</li> </ul> <p><u>Internal Audit update:</u> <u>Status of recommendations – Implemented</u></p> <p><u>Further action:</u></p> <ul style="list-style-type: none"> <li>• From an overall review of current contracts as at the end of November 2016 these were observed as being managed in accordance with Contract Standing Orders with spend within that authorised in the contract award and budget. Monitoring of contract spends and performance needs embedding to ensure that reliable information is consistently in place to support this process.</li> <li>• Procurement approvals to contract are captured using the Procurement Approval Documents with contract variations agreed through the Procurement Clinics and formalised with legal variations issued to contractors.</li> <li>• The monthly suspension of contracts on the Open Housing System for monitoring of spends and performance should be limited to no more than two working days. This two day suspension should be set as a performance target to mitigate the impact on delivery of contracts.</li> </ul>

## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
1	<b>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</b>	
<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 90</div>	<p>1.2 Contracts which include the option to extend must be noted on the contracting and project delivery plan, including the number and period of these extensions.</p> <p>The need to put these arrangements in place should be acted upon at least, say four to six months, prior to the current contract period coming to an end. Contract extension should be communicated and formalised in writing to the contractor by way of a legal extension as required by Contract Standing Orders.</p> <p>Contracts and related schedule of rates should be closed on the Open Housing system to coincide with the end date and award value of contracts. This is to ensure that contracts are not used beyond the approved contract period and value.</p> <p><b>Priority: High</b></p> <p><b>Responsible officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Capital and External Contracts Manager comments:</u></p> <ul style="list-style-type: none"> <li>• Complete - all contract extensions to be approved as part of PAD Contract Extension Documentation.</li> <li>• Open system contracts closed at year-end and new procedure implemented April 2016.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations - Implemented</u></p> <ul style="list-style-type: none"> <li>• The option to extend contracts (from the invitation to tender documents) is set out in both the contracts register and also in the service delivery plan. Although both documents cover contracts which are live in 2016/17 these documents need to be fully populated from 2017/18.</li> </ul> <p><u>Further action:</u></p> <p>To monitor and manage the PAD and Gateway process introduce KPI's for the contracting stage:</p> <ul style="list-style-type: none"> <li>• PAD – process in one week</li> <li>• Gateway process – each stage of the gateway to be processed within one week</li> <li>• Where the targets cannot be achieved the procurements should be referred to the weekly Procurement Clinic for resolution.</li> </ul>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
1	<b>Risk: Accountability and compliance with Contract Standing Orders and Procurement Policy.</b>	
Page 91 1.3	<p>The project plan should cover and monitor the stages of contracting and delivery, with performance indicators set to ensure that contracts are mobilised within 120 days from the date of contract submission and the date of mobilisation. Within this time period a target should be set for achieving the Gateway 'three' process to support the contract award.</p> <p>The Contract Team and the Corporate Procurement Team, Legal Services and relevant Finance Officer should meet to clear the Gateway three process at one or two meetings. These meetings should be booked in advance to secure all necessary staff are present and any changes required are made to agree the Gateway three process promptly and within timescales.</p> <p>In the event of any delays mobilising contracts within 120 days of receipt of tender these should be raised with the Board Director, Service Delivery for resolution.</p> <p>The Procurement Team and the Housing Capital Programme Contracting Team should resolve any lessons learnt from the Gateway process to ensure the content and timeliness of the papers submitted to this process are reasonable to support contractor award.</p> <p>Handover arrangements between the contract award (by the contracting team) and project mobilisation process (by the delivery team) should be reviewed with both teams. This is to ensure that adequate awareness, timing and communication are in place to implement.</p> <p><b>Priority: High</b>  <b>Responsible Officer:</b> Capital and External Contracts Manager  <b>Timescale:</b> April 2017</p>	<p><u>Capital and External Contracts Manager comment:</u>          Still need to adopt monitoring system for gateway papers.</p> <p><u>Internal Audit update:</u>  <u>Status of recommendations: Being implemented</u>          This is also covered in action plan point 1.1</p> <p><u>Further action:</u></p> <ul style="list-style-type: none"> <li>To ensure that contracts are mobilised within 120 days from the date of contract submission and the date of mobilisation a key performance indicator should be introduced to monitor and manage performance.</li> </ul>



# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
2	Management arrangements relating to delivery of the capital programme of works	
2.1.	<p>The management process should be applied to phase, link, control and monitor the 'life of a project' between the stages from strategy, asset management, contracting, contracts mobilisation and delivery.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Head of Property Maintenance comments:</u></p> <ul style="list-style-type: none"> <li>• 5 year investment programme developed with Pennington Choices Ltd during 2016/17 with phasing of works in line with available budget.</li> <li>• Monitoring of all stages to be implemented for 2017/18 programme</li> <li>• Project team briefing sessions have been put in place.</li> <li>• Reviewing allocation of resources.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations: Being Implemented</u></p> <p>The 'golden thread' required to unite the enterprise, portfolio and project management stages that make up the programme is being realised across the Property Maintenance Team. This represents a significant shift in culture and working practices that are realising improved controls and management practice to connect and co-ordinate the programme as a whole.</p> <p>The implementation date for this action is revised to September 2017. This extended period is necessary to embed the process with 'smoothing' of work flows transitioning between each stage of the programme lifecycle. This will enable resources to be balanced across the programme to effectively manage and mitigate the risk of 'bottle necks' and 'gluts' of work that impact staff, contractors (and their cash flow) and enable timely property improvements for tenants.</p>



## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
2	<b>Management arrangements relating to delivery of the capital programme of works</b>	
<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 93</div> <div>2.2</div>	<p>The Housing Capital programme should be supported by a comprehensive delivery plan. This should be utilised for monitoring and managing individual projects and the programme as a whole. Stages of monitoring for the programme of projects should detail:</p> <ol style="list-style-type: none"> <li>1. the project delivery plan and key milestones for contracting and delivery of each new contract and any permitted contract extensions, done - BS</li> <li>2. procurement arrangements entering their final stage of delivery period/spend including procurements under waiver which are reaching their end date/value.</li> <li>3. the stage of each contract in the step-up procurement plan i.e. short, medium or long term contract.</li> <li>4. for each works the contract period, number of properties to be repaired/refurbished and the approved contract award value i.e. as agreed in the relevant Form C or Procurement Approval Document.</li> <li>5. the contracting lead time required for going to market for each procurement.</li> <li>6. key reporting dates/values and milestone dates within the contract and delivery to ensure these are achieved.</li> </ol> <p>All relevant staff should be provided with training on completing and maintaining performance data and the importance of this in managing the service.</p> <p>From the Open Housing system compile a standard set of reports which can be refreshed to monitor performance and financial spend/commitments against the project plan. Also set up an early alert system to notify projects nearing their spend limits/contract period to prevent delivery exceeding authorised limits/waivers.</p> <p><b>Priority: High</b>  <b>Responsible Officer:</b> Capital and External Contracts Manager;  <b>Timescale:</b> April 2017</p>	<p><u>Capital and External Contracts Manager comments:</u></p> <ul style="list-style-type: none"> <li>• Good progress made with development of high level delivery plan with assistance from Procurement and Legal.</li> <li>• Detailed Project Plan to be monitored and updated on a monthly basis from April 2017.</li> <li>• Performance Management training being arranged.</li> <li>• Standard set of reports in place to monitor performance on a monthly basis.</li> </ul> <p><u>Internal Audit update</u></p> <p><u>Status of recommendations - Being implemented</u></p> <p>Governance arrangements for delivery of the programme of projects are becoming more formalised with new and standard processes being introduced to monitor and manage delivery. Although challenging, this is improving staff understanding, working practices and controls for contract management across the delivery team.</p> <p>At this time a detailed project delivery plan and key milestones for contracting and delivery is evolving for the Housing Programme. Further work is in hand to define and implement key performance measures, milestones and provide risk alerts across the programme to enable timely investigation and action where necessary.</p> <p>A draft Contracts Delivery Register (spreadsheet) is currently being populated with details of the Housing Capital Programme of work contracts for monitoring and managing delivery at a management level. This is to provide an overall monitoring dashboard of individual contract performance against contract award criteria.</p> <p>Once the detailed project delivery plan and the Contract Delivery Register are fully operational these should be linked to monitor and manage both the contracting and delivery stages so to achieve a consistent and smooth flow of works against targets.</p>



# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
3	<b>The Delivery team structure has the right people in place, with the authority, responsibility; knowledge and ability to make timely decisions.</b>	
3.1	<p>The purpose, working practices and standards required from the Delivery Team and the Service Manager in delivering the overall capital programme of works and individual projects should be assessed to determine if the Delivery Team is fit for purpose and has the necessary capacity and capability.</p> <p>From this assessment the relevant service roles and responsibilities should be determined including the necessary technical qualifications, skills and knowledge required from Officers. The necessary professional and commercial behavioural skills should be determined and specified so that Officers can competently manage the high value of works being delivered.</p> <p>Staff appointed to jobs should have the necessary level of capacity and competency to achieve business objectives. Where necessary, training should be put in place to enable staff to continuously develop and demonstrate best practice.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance in conjunction with the Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2017</p>	<p><u>Head of Property Maintenance comments:</u></p> <ul style="list-style-type: none"> <li>• A temporary Capital Delivery Manager was appointed in November 2016.</li> <li>• We are reviewing working practices and defining roles and responsibilities for technical officers (delivery).</li> <li>• HR support will be obtained to manage capacity and competency issues.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations - Being implemented</u></p> <p>A temporary Contract Delivery Manager was appointed in November 2016 to assist in the management of the contract delivery function. This was to enable the Capital and External Contracts Manager, who has covered this role for the last 12 months, to provide more focus on the contracting of works. Management are reviewing working practices and defining roles and responsibilities for technical officers in these areas. Each work type i.e. roofing, bathrooms, gas central heating etc. has been allocated a member of the Property Maintenance Management Team to monitor individual contracts with contracting or projects officers to ensure best practice/lessons learnt are consistently applied and contracts effectively managed and delivered across the lifecycle.</p>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
3	<b>The Delivery team structure has the right people in place, with the authority, responsibility, knowledge and ability to make timely decisions</b>	
<div>Page 96</div> <div>3.2</div>	<p>Where possible promote joined up working between the contracting and delivery roles for the Capital Programme. This could include:</p> <ul style="list-style-type: none"> <li>• rebranding the two teams as one group,</li> <li>• locating staff together on one site,</li> <li>• having an early 'buddy' working relationship between Officers responsible for undertaking contract procurement and the Officer responsible for delivering this.</li> </ul> <p>This should achieve greater visibility of contracts and understanding at the hand over stage. It will also ensure that both parties have an overall appreciation and understanding of the whole process and both able to learn each other and bring further efficiencies and effectiveness to the process.</p> <p>Hold regular 1:1 meetings between delivery staff and the Manager i.e. at least every two-weeks, with a focus on performance against work based performance objectives/ indicators for each contract together with personal development objectives. This will also provide individual members of staff an opportunity to discuss any concerns/issues or seek assurance as well as agree any necessary action. Building of strong officer and manager relationships should improve staff morale, value and improve job satisfaction and outcomes.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale: April 2017</b></p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• teams combined to deliver programme.</li> <li>• Performance objectives being agreed for each contract.</li> <li>• One to one meetings taking place.</li> </ul> <p><u>Internal Audit update – Status of recommendations - Being implemented</u></p> <p>The contact and delivery teams have been merged and located on one site.</p> <p>One to one meetings are gaining momentum for monitoring and providing feedback of individual performance by managers with their line reports. Monthly contract monitoring meetings are in place between the project manager and a member of the management team dedicated to managing an area of works from the programme. This is to keep an overview and monitor contract performance and to provide support in the implementation of new working practice.</p> <p>At an individual contract delivery level a Project Quality Plan (PQP) checklist has been introduced for each contract. This sets out the key contract details, roles and responsibilities and guidance to be adopted in administering and managing the contract.</p> <p>From September 2016 monthly performance reports have been introduced to monitor actual spend and delivery against that stated in relevant contracts and invitation to tender documentation. Each month performance data is reported from the Open Housing system. This should help to manage the administration of repairs and improvements work on properties by contract and individual property job/work status. The PQP has started to be used in contractor management meetings to manage performance and to mitigate risks/issues.</p> <p>This process is a significant step forward in contract management.</p> <p><u>Further action:</u></p> <ul style="list-style-type: none"> <li>• Further refinement is needed to clarify the actual contract start date and align this date in the contract and Form C/PAD documentation. The introduction of a contract start certificate should be applied to clarify the start date for all parties. This will enable reliable profiling of financial commitments/ spend and units to be delivered each month/cumulatively from which to monitor delivery. Further understanding of the 'Invitation To Tender' is also required by project managers to ensure that the value of annual spend, where a contract is deliverable over more than one year, is used for</li> </ul>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
Page 97		<p>monitoring delivery.</p> <p>From sample testing of three procurements it is evident that there are delays in clearing procurements through the gateway process and awarding works i.e. delays between four weeks and four months. In one case, following tender evaluation, an award has yet to made but the contract is close to expiry of the 120 day period i.e. between the return of tender date and award of contract date after which time the contractor is not bound to honour their contract submissions. This is impacting delivery and potentially frustrating both staff responsible for contracting works and contractors awaiting the outcome of the tender process.</p> <p>Four current contracts tested that were in delivery had large values of orders accumulating on each i.e. between £100,000 and £300,000 as at December 2016. From an initial check of these by the Auditor it is evident that the following issues need to be investigated and addressed:</p> <ul style="list-style-type: none"><li>• the monthly suspension of contracts for monitoring of comments/spend for approximately four weeks which meant work orders, payments etc. could not be processed in the Open Housing System,</li><li>• delays in payment of contractors within 28 days as the JCT contract,</li><li>• a high number of defects.</li></ul> <p><u>FURTHER ACTIONS</u></p> <ul style="list-style-type: none"><li>• Introduce Key performance targets/measures to fit with each stage of the lifecycle to enable management to monitor and manage programme outcomes on a monthly basis.</li><li>• Applied risk rating (high/red, medium/amber and low/green) to performance targets to easily highlight emerging risks and issues for mitigation.</li><li>• Ensure there is visibility of any performance risks, issues and mitigating actions highlighted on the Contract Delivery Register with these linked to contract monitoring meetings with contractors for follow up and mitigating actions where necessary.</li><li>• Keep a constant review of any individual contract order values to ensure a smooth turnover of work in progress to ensure consistency of delivery. In any contract order values exceed £100,000 these should be investigated to ensure there are no blockages in processing of jobs</li></ul>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
3	The Delivery team structure has the right people in place, with the authority, responsibility, knowledge and ability to make timely decisions.	
3.3	<p>Review the Corporate Finance authorised signatories for Officers in the Contract Delivery Team to ensure there is segregation of duties between the stages of ordering and approving invoices for payment, adequacy of financial limits and consistency of limits throughout the team.</p> <p>Following the review of financial signatory limits, for consistency, apply these to the access rights and financial limits set with the Open Housing system.</p> <p><b>Priority: Medium; Responsible Officer:</b> Head of Property Maintenance; <b>Timescale:</b> September 2016</p>	<p><u>Head of Property Maintenance comments</u> Financial limits set for all officers.</p> <p><u>Internal Audit update – recommendations Implemented</u> Segregation of duties is now in place between the stages of ordering and approving invoices for payment. There is also adequacy and consistency of financial limits across members of the team. These authorisations and approval levels are satisfactory with these reflected in the Open Housing System.</p>

## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
3	<b>The Delivery team structure has the right people in place, with the authority, responsibility, knowledge and ability to make timely decisions.</b>	
3.4	<p>Adequate business continuity plans should be put in place and tested to ensure these are effective in the event of long term staff absence in either the contracting or delivery team.</p> <p>As part of weekly/two weekly 1:1 meetings, between the respective Manager and officers in the contracting and delivery teams, the status of projects should be recorded and supported by documentation, including minutes of the latest contract monitoring meetings.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Head of Property Maintenance in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Head of Property Maintenance in conjunction with Capital and External Contracts Manager comments:</u></p> <p>Allocated management support to high risk projects listed as follows:</p> <ul style="list-style-type: none"> <li>• Head of Property Maintenance – lead support for roof renewal works.</li> <li>• Capital Delivery Manager – lead for External Wall Insulation project and support kitchen modernisation programme.</li> <li>• Capital Contracts Manager – lead support for bathroom modernisation and replacement gas central heating programme.</li> <li>• Tender and contracts Manager – lead support for external planned maintenance.</li> <li>• Status to be recorded for all projects from January 2017.</li> </ul> <p><u>Internal Audit update – Status of recommendations - Being implemented</u></p> <p>Business continuity arrangements for delivery have progressed with the introduction of managers working with technical officer on specific projects, so there is greater sharing and awareness of works. This supported manager/technical officer working is also applied to periodic client /contractor management meetings. This working process has not been so evident for the contracting of works technical staff.</p> <p><u>Further action:</u></p> <ul style="list-style-type: none"> <li>• Put in place standard and consistent documentation for monitoring the performance of works in the programme.</li> <li>• Apply working practices consistently across the both contracting and delivery functions.</li> </ul>



## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
3	<b>The Delivery team structure has the right people in place, with the authority, responsibility, knowledge and ability to make timely decisions.</b>	
3.5	<p>Standard and consistent working practices should be established for the delivery team. This should be captured in written working procedures and supported with examples of good practice including the checklist produced by the former Delivery Manager and UPVC window contract management.</p> <p>All staff should be issued with the written procedures and provided training to support the roll out of the new standard.</p> <p>Training in project and contract management should be provided to all relevant staff to ensure they know and understand the level of performance standard required in performing their duties.</p> <p>As part of the staff appraisal process, delivery team staff performance should be assessed against these standards and working practices.</p> <p>Contractors should be issued with copies of relevant procedures i.e. dealing with contract variations, extensions, other potential changes to the contract and contract closure.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2018</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• JCT Contracts Management training completed with Procurement in June 2016.</li> <li>• Researching good practice and in dialogue with Wrekin Housing Trust to share good practice.</li> <li>• Completed briefing sessions with Capital Delivery team listed as follows: Quality Assurance; PAD completion &amp; Procurement Toolkit; Pre Start &amp; Monthly Progress Meetings; Open Housing Master Query Reports; Project Quality Report; Contract Administration – issuing CA variations; Updating components in the Open system</li> <li>• Still need to define structure for written procedures.</li> <li>• Started working on producing a standard set of documentation for contract management which includes start and completion certificates, variation orders, site instruction etc.</li> </ul> <p><u>Internal Audit update – Status of recommendations - Being implemented</u></p> <p>Working practice is evolving. JCT Standard Form of Contract training has been provided to technical managers to build their understanding of the contract and application in management of delivery. New procedures have been instigated to ensure that the key contract information is understood and applied to manage and monitor delivery effectively i.e. time, cost and quality criteria. Monitoring of outcomes from each contract is occurring monthly using a standard monitoring sheet which is uploaded into an overall programme spreadsheet to identify any variance for investigation and action if necessary.</p> <p>As part of new working arrangements a manager is supporting a technical officer on a 1:1 basis to endorse learning and ensure a standard and consistent approach is applied on a day to day basis for contract management. This process is extended to the monthly (or more regular) contract performance meetings with the contractor to manage any emerging risks and issues. This process is also being used to ensure that the contractor's management and monitoring of the contract is achieved to a good and consistent standard.</p> <p>A training template is in place for the contract delivery staff which sets out the type of training and the date provided. However, it is not clear what is mandatory or desirable for specific jobs.</p> <p>A standard contract template file has been brought together for delivery staff to adopt as standard approach and contract documentation required in administering contracts.</p> <p><u>FURTHER ACTION</u></p> <ul style="list-style-type: none"> <li>• Written procedures are currently not in place to support the new processes and documentation used for contract and performance management.</li> <li>• New procedure notes should be issued to both staff and a version adapted for contractors. The procedures should be drafted and checked by members of the procurement clinic to ensure these are appropriate and fit for purpose.</li> </ul>



## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
		<ul style="list-style-type: none"> <li>The training template should be reviewed to identify what training is mandatory or discretionary for each job type. The training delivered for each job profile should be recorded and all mandatory training completed as part of the job induction process.</li> </ul>
4	<p><i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i></p>	
Page 101 4.1	<p>Provide training to the project team to enable them to use Master Query or the Planned Maintenance module so they can effectively manage and monitor their projects.</p> <p>Evaluate the feasibility of developing the Open Housing system to add functionality to provide contract and project management so that a comprehensive management information system supports delivery of the capital programme of works for the Housing asset.</p> <p>Evaluate utilising Microsoft Project for management, reporting and monitoring of the contracting delivery stages and seek to link this information with asset management, contracts and individual property job status information in the Open Housing system.</p> <p>The above actions are required to:</p> <ul style="list-style-type: none"> <li>provide the service with an effective management information system from which to report, monitor and manage the life cycle of the Capital Programme of Works i.e. to track property repairs required in the asset management plan through to the high level strategy and subsequent stages of contracting and delivery of individual work projects.</li> <li>enable the defined stages required for contracting and project management to be set out and monitored to ensure that these are achieved to time, cost and quality and in accordance with contract award values and permissions or extensions of contract where approved.</li> </ul> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Capital and External Contracts Manager in conjunction with the Systems Development Manager and the Head of Information and Technology.</p> <p><b>Timescale</b> :March 2018</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>Master Query training complete.</li> <li>Open system functionality not available for contract management.</li> <li>Standard reports available through master query in Open system to manage delivery of programmes of work</li> </ul> <p><u>Internal Audit update – Status of recommendations - Being implemented</u></p> <p>From sample testing three technical officers responsible for contract delivery confirmed they had received Master Query training.</p> <p>Reports have been produced to monitor both the number and value of works committed, completed and, completed and paid works.</p> <p>On-going work is in hand to refine management information for reporting, monitoring and managing the whole lifecycle of the programme of works.</p>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.2	<p>Additional performance indicators should be evaluated to improve visibility and overall delivery of the Capital Programme of works, from the Gateway process through to delivery.</p> <p>Examples of performance targets include:</p> <ul style="list-style-type: none"> <li>• each of the Gateway stages,</li> <li>• the value of commitments/spend compared to the contract award value approved and any overspend identified against relevant contracts including justification and approval,</li> <li>• contract delivery against an agreed and phased delivery plan,</li> <li>• timely provision of property addresses for inclusion in the tender document,</li> <li>• timely contract hand over and mobilisation stage (within 120 days),</li> <li>• the level of both pre and post work inspections required across each contract,</li> </ul> <p>Evaluate a Best Value measure to drive 'added value' from contracts i.e. the number of properties refurbished above the contract target but within the contract award value.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer:</b> Head of Property Maintenance in conjunction with the Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Head of Property Maintenance in conjunction with the Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• Performance targets to be set for all projects and schemes on the capital programme for 2017/18.</li> <li>• Project Quality Plans (PQP) has been put together for projects/schemes on capital programme for 2016/17.</li> <li>• Project Quality Reports (PQR) are produced monthly to monitor delivery with individual projects or schemes</li> <li>• Best Value to be demonstrated through procurement and number of properties delivered against target.</li> </ul> <p><u>Internal Audit update – Status of recommendations – Being implemented</u></p> <p>Agree with the status presented above.</p> <p>Additional performance indicators have been included as further actions in this follow-up review.</p> <p>Revised action date: July 2017</p>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.3	<p>Open Housing job status data should be reviewed and cleansed as a one off exercise and regularly thereafter to ensure this is reliable and complete for reporting and monitoring the service.</p> <p>Spot checks on a sample of jobs should be conducted by an independent Officer to ensure jobs are progressing and the job status correctly reflects the job stage and financial commitments. These checks should be recorded and used to support a quality assurance process.</p> <p>The Auditor estimates that in excess of £2 million will be realised from the order status review and be shown in the value of underspend for the 2015/16 financial year.</p> <p><b>Priority:</b> Medium</p> <p><b>Responsible officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• Complete.</li> <li>• Contracts updated on Open system to ensure that reports are reliable. Monthly spot check and review of jobs planned to take place with Finance lead for Housing.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations - Implemented</u></p> <p>The period reviews look to monitor spends and performance within the contract award criteria. The last monitoring process was observed by the Auditor for month 8 - November 2016. Individual contract award values and performance targets taken from contract awards are used to monitor actual performance from the Open Housing System. From the November 2016 monthly monitoring this process was found to be satisfactory, except for the Gas Central Heating Contract awarded to K&amp;T. The target figures could not be reconciled to the contract award value. This was checked with both the technical officer responsible for the contract and the Senior Quantity Surveyor but it was not resolved. It was concluded that the target figures had been overwritten.</p> <p><u>Further action:</u></p> <p>On the monthly monitoring sheet produced to monitor actual spend against target, the target figure should be based on the contract award figure and applied to the financial year and apportioned to the relevant months. This figure should be 'locked' on the monitoring spreadsheet to prevent any error or unauthorised changes which could compromise the reliability of monitoring.</p>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.4	<p>Review the appropriateness of the current JCT Standard form of contract used for the Housing Capital Programme of works to establish if the current form is:</p> <ul style="list-style-type: none"> <li>fit for purpose and fits with the procurement cycle to step up from short to medium and then to long term contracts.</li> <li>appropriate for the value of contract award,</li> <li>suitable for implementing project management principles and practices.</li> </ul> <p>In future, contracts should detail the required monthly contract monitoring arrangements and documentation required to be provided by the contractor. Contract monitoring templates should be published on the Internet for easy access by contractors. Templates should include reporting of actual achievement against the agreed phased delivery plan and budget.</p> <p>Key risks should be discussed with the contractor and documented. These should be at contract management meetings and where necessary risks carried into the client officer's risk register. Mitigating actions should be agreed and reviewed for implementation.</p> <p>Evaluate if the NEC suite of contracts could offer a better fit for larger value, medium/longer term contracts which require strong project management principles and practices i.e. to empower project officers to deliver projects on time, on budget and to the highest standards.</p> <p>If the NEC contracts are deemed a option for contracting specific works, ensure Officers responsible for delivery are trained and competent in the use of relevant contract forms.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2016</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>Complete</li> <li>The type of contract has been reviewed depending on the project. The JCT suite of contracts are being used with the Measured Term Contract being the best suited for a number of projects. The NEC contracts have been review but don't fit well with the type of work being delivered.</li> <li>Risk register are in place for each contract and are reviewed as part of the monthly progress meetings.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations - Being implemented</u></p> <p>Acknowledge the review of the JCT Contract and continue with its use as it best fits the type of works conducted by the service. The Measured Term JCT contract will be used for some projects.</p> <p>Risk registers are in place for contracts, but from testing completed there are variable updates since the contract award stage. It is noted that all actions reviewed have an on-going status rather than a date of implementation. In these cases the level of risk was minimal (green status) yet the risks remain on the register.</p>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.5	<p>The management module within the Open Housing system should be updated promptly on satisfactory completion of works and provision of completion certificates/quality assurance inspections. This is to establish the link between delivery, maintaining decency and providing robust data for futures programmes of work.</p> <p>The gas central heating spreadsheet of completed works as maintained by the Gas Engineer should be used to update the asset management module. This should be undertaken in conjunction with the necessary property gas completion certificates etc.</p> <p>The property lists or street names for each contract should be produced and included at contract award. This will enable contractors to plan works and welfare facilities and mitigate related delays in mobilising contracts.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Project Surveyors in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2017</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• Complete.</li> <li>• Component data has been uploaded on to OPEN, the open Housing System has been reconfigured to implement automatic updating when a component is renewed, and this is on track to be completed for end of financial year.</li> <li>• We will review the spreadsheet of completed Gas works to ensure that data in consistent in OPEN.</li> <li>• Address lists will be provided with contract documentation where it is appropriate to do so.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations - Implemented</u></p> <p>Gas and associated work completion certificates and inspection reports have been viewed satisfactorily for a sample of three properties. The certificates are submitted with the works invoice and then scanned onto the Open Housing system. Before payment the certificates are independently checked to ensure these are in place and complete before certifying payment. The three properties tested showed that the gas central heating works completed on the asset management module.</p>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.6	<p>Further analysis codes should be provided under each Housing Capital Programme budget code to achieve visibility for individual projects which make up the overall budget. An example is the capital budget code for roofing works which has been split over three contracts. Each contract should have a further analysis code allocated under the main roofing capital code and the budget split across the contract budget sub-codes in accordance with approved award value (Form C or Procurement Approval Form).</p> <p>When aligned to the further analysis code for individual contracts this will enable a reconciliation of payment made and to forecast commitments (to cover work in progress and complete but not paid). This will provide a greater degree of control and allow challenge on variances on a timely basis.</p> <p>Any emerging risks and issues should be captured in the project and where significant escalated to the service risk register with mitigation actions with timescales agreed.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Finance Manager in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• Complete.</li> <li>• Further analysis codes are now being provided for each new contract as part of the new contract set up.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations – implemented for new projects during 2016/17 and expected to be in place for all projects from 2017/18.</u></p> <p>Corporate Finance has provided details of the further analysis expenditure codes set up for new projects during 2016/17. The intention is to roll out further analysis codes across existing projects that progress in to the new financial year 2017/18.</p>

# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.7	<p>A financial limit should, where possible, be applied to each contract in the Open Housing system. The limit should be the contract award value. This limit should prevent works from being ordered when the combined value of commitment and payments on a contract has reached the limit value (contract award value).</p> <p>All contracts and related schedule of rates should be closed down on the Open Housing system once the approved contract spend or contract period has been reached.</p> <p>At the end of each financial year close all contracts on the Open Housing system to improve governance and management of contracts. At the start of each new financial year, where necessary, enliven contracts in the Open Housing system, which have approval to continue and available budget.</p> <p>Conduct quarterly reviews of the contracts 'live' in the Open Housing system to ensure that spend is within the total budget and period of contract is valid.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Capital and External Contracts Manager in conjunction with Finance Manager</p> <p><b>Timescale:</b> April 2017</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• Complete</li> <li>• Open systems does not have a function to set contract limits however contracts are turned off on project review date on a monthly basis and monitored monthly and reviewed in line with the PQR reports for each contract.</li> <li>• All contracts are set up with the relevant schedule of rates and monitored for the period from the contract start date as well as financial year end.</li> <li>• At the end of financial year all contracts are closed and job orders not started are also closed down. New contracts to be set up with further analysis for each contract</li> <li>• At-cost are not used as part of any schedule of rates on any contract</li> <li>• Contract reviews weekly/monthly/quarterly</li> <li>• Contracts register shows when contracts are live.</li> <li>• Contracts closed down when they exceed contract values.</li> <li>• Reviews taking place and verified to Head of Property Maintenance</li> </ul> <p><u>Internal Audit update – Status of recommendations - Implemented</u></p> <p>Contracts on the Open Housing system were closed down as at 31.3.16 to enable the data in the system to be cleansed. This process cleansed and released a large value of historic work in progress (at job stage 06 – orders) which could no longer be substantiated. This process is to be repeated as at the 31.3.17. At the start of each year any contracts which contractually run into the new financial year are activated on the Open Housing System and subject to periodic review.</p>



# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4.8	<p>Evaluate deleting or limiting access to and use of adjustment codes in the Open Housing system for coding works for payment i.e. ADJSOR, ADJSORNEG, ATCOST and ATCOSTNEG.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2016</p>	<p><u>Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• Complete.</li> <li>• Codes are not to be used without authorisation.</li> <li>• Contract variations are being implemented for any new agreed schedule of rates.</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations – Unable to test – pending reports form IT</u></p>
<div>Page 108</div> <div>4.9</div>	<p>Programme and project risk registers should be maintained throughout the life of the Capital Programme of works. In the event of a significant emerging risk or issue it should be escalated to the Delivery Leadership Team Risk register.</p> <p>Risk registers should be proactively used, as part of contract management, with the delivery officer recording any risks/issues to the achievement of projects and/or the overall programme of works. Mitigating actions should be agreed and put in place to manage risks and reviewed periodically for implementation.</p> <p>Risks identified in this review should be included in the relevant risk registers.</p> <p>All Project and Portfolio management staff should complete the on-line managing risk training to ensure they are aware of the risk management documentation and process.</p> <p><b>Priority: High</b></p> <p><b>Responsible officer:</b> Head of Property Maintenance in conjunction with Capital and External Contracts Manager</p> <p><b>Timescale:</b> April 2018</p>	<p><u>Head of Property Maintenance in conjunction with Capital and External Contracts Manager</u></p> <ul style="list-style-type: none"> <li>• Risk registers are in place for each contract and reviewed at monthly progress meetings. It has been identified that further training is required on risk register management which has been include as a topic on the weekly training programme, see appendix.</li> <li>• Property Maintenance risk register in place for all activities across the team.</li> <li>• Specific risk register to be developed for capital programme</li> </ul> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations – Being Implemented</u></p> <p>Risk registers are evident as part of the contract award process, but are not regularly maintained thereafter. There are a few exceptions, but more work needs to be done to embed risk management as part of everyday working and contract management best practice.</p>



# Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

NO	ORIGINAL RECOMMENDATIONS	AUDIT COMMENTS / ACTIONS BY DEPARTMENT
4	<i>Projects have clearly defined deliverables, timescales and budgets which are effectively communicated and supported by documentation and performance management criteria.</i>	
4.10	<p>Each Project Manager should prepare, on completion of their relevant contracts, a final account. This final statement should include a final statement setting out the sum of payments made against the original contract value and any contract variations or extensions awarded.</p> <p>To improve transparency, details of contract final accounts should be reported to Housing Advisory Forum and Cabinet to demonstrate completion of works in accordance with contract approvals and the Capital Programme of Works.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible officer:</b> Capital and External Contracts Manager</p> <p><b>Timescale:</b> September 2017</p>	<p><u>Capital and External Contracts Manager</u></p> <p>Final Accounts being completed for all completed works.</p> <p><u>Internal Audit update:</u></p> <p><u>Status of recommendations - Implemented</u></p> <p>From the audit finalised in October 2016 a sample test of contracts reported at that time as not having a final account has been conducted and final accounts have now been completed.</p>

## Swindon Internal Audit Services: Delivery of the Housing Capital Programme - Follow Up

### APPENDIX A

Standard Audit Opinions	Standard Audit Opinion System Control
<p>The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.</p> <p>The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).</p> <p>The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).</p>	<p><b>Audit Opinion 1. <i>High standard</i></b></p> <p>The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made</p>
	<p><b>Audit Opinion 2. <i>Satisfactory standard</i></b></p> <p>The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.</p>
	<p><b>Audit Opinion 3. <i>Significant improvements required</i></b></p> <p>The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.</p>
	<p><b>Audit Opinion 4. <i>Fundamental weaknesses identified</i></b></p> <p>The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.</p>

## Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

### Job Title

Head of Property Services

Capital and External Contracts Manager

Senior Quantity Surveyor

Procurement Manager

Finance Manager for Housing, Treasury and Growth

Senior Project Surveyor

Gas Engineer

Contract Manager

Commissioner Supporting People

Quantity Surveyor

Business Services and Support Officer

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## Internal Audit report – Stores and Equipment Management

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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Author: Head of Internal Audit  
Wards: None  
Locality Affected: None  
Parishes Affected: None

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### **1. Purpose and Reasons**

- 1.1 Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating effectively.
- 1.2 Members requested that at least one individual audit report be presented to each meeting of the Committee. The Internal Audit report on Stores and Equipment Management was presented to the June 2017 meeting. At that meeting Members requested that Internal Audit carry out a follow-up review and report back to their February 2017 meeting.

### **2. Recommendations**

- 2.1 It is recommended that the contents of the report be noted.

### **3. Background**

- 3.1 An audit review of Stores and Equipment Management was included in the audit plan for 2015/16 following an investigation in to an allegation of fraud in that area.
- 3.2 The management of equipment and stock issued by Stores is a vital component of ensuring frontline delivery is operated efficiently and effectively. The maintenance of equipment is also important for ensuring the Health and Safety of staff and the public. There is also a financial risk to the Council in the event of loss or misappropriation of these assets.
- 3.3 Following the reintegration of Swindon Commercial Services with the Council in November 2013, a number of work streams were identified to drive service improvements and deliver savings. One of these work streams related to Stores and Purchasing, which has led to improvements in many areas, including: relocation of the Store to a more secure environment; reintroduction of the operation of imprest van stocks for craft workers; development of core product imprest stock lists with the Housing department; introduction of monthly stores and purchasing meetings with the Housing service to improve communication and engagement between the teams.

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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, [nhobbs@swindon.gov.uk](mailto:nhobbs@swindon.gov.uk).

# Internal Audit report – Stores and Equipment Management

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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- 3.4 An update of this project was produced in July 2015 which outlined significant further work to improve controls, ensure value for money and explore all options for the future operating model of the Stores and Procurement function.
- 3.5 In early 2016, a restructure of the Depot Operations function took place, to provide additional capacity across fleet, stores, depot management and the Council's operator's licence. The Stores and Procurement functions have now been separated, and the Fleet and Stores Management is no longer part of the old Depot Operations Manager role. Therefore responsible officers for implementing many of the recommendations in this report are not yet appointed. Overseeing implementation in the interim is the Head of Corporate Finance and the Waterside Integration Programme Manager.

## **4. Findings**

### Initial Internal Audit report (March 2016)

- 4.1 The key findings from the Internal Audit review were:
- The accuracy of the current equipment asset register (held on a system called DATAstox) is in doubt and a combined effort across Trade Teams is needed to identify equipment in use by staff to ensure an accurate record can be collated centrally and any items that cannot be identified formally written off and removed from the register.
  - The use of the DATAstox system for equipment management should be reviewed to determine whether it is the most appropriate software for equipment management. The system is not currently supported by the Supplier (or Capita), and there are inadequate access controls.
  - Wherever possible, all stock should be brought together and stored in one location.
  - CCTV coverage is needed in the main stores and for other areas where coverage is inadequate around the Depot to provide a deterrent and means to identify potential theft of stock.
  - The access controls for the Waterside Depot, particularly for doors leading to offices or other sensitive areas such as Stores, should be reviewed to establish where further controls may need to be resourced, as currently access to key areas is not restricted.
  - The instalment of an electronic stock management system for fleet stores is already in the process of being implemented. In order to improve controls in the stock management process, introducing an electronic barcode system for the Main Stores is also being sought to replace the current manual process. This needs to ensure the resources required can be sufficiently justified (a

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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, [nhobbs@swindon.gov.uk](mailto:nhobbs@swindon.gov.uk).

## Internal Audit report – Stores and Equipment Management

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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Business Case for this has recently been produced and is due to be reviewed in this context).

- Responsibilities for Trade Supervisors to review the stock items issued to their staff should be reinforced to reduce the likelihood of staff abusing issues from Stores.
- All current contracts and purchasing arrangements for stores and equipment are being reviewed to ensure best value is being achieved.
- The Stores Procedures should be updated. In particular, these should include a suitable schedule and method for stocktakes and disposal of equipment.

4.2 The audit opinion regarding internal controls was that significant improvements were required resulting in an overall opinion of 'Of Concern'

4.3 The full Internal Audit report was presented to Audit Committee in June 2016. Members requested that internal Audit complete a follow-up review in order to establish what progress has been made against agreed recommendations.

### Internal Audit follow-up review

4.4 The follow-up review has now been completed. The key findings of the review are:

- There has been clear engagement of responsible officers to undertake improvements and implement the previous recommendations from the original audit. As a result fourteen of the eighteen recommendations made in the previous audit have either been implemented or are in the process of being implemented.
- One key recommendation has yet to be fully implemented. This relates to the introduction of a new tool and plant equipment register. An old and unsupported version of DATAstox is still currently in use as the equipment management system and therefore the inherent risk to the safety of staff (and to the exposure to the Council that this presents) means it is not appropriate to change the level of audit opinion at this stage. It should be clear that the responsibility for this recommendation is the Fleet and Workshops Team, who are progressing with the process of implementing a new software system. It is understood that this system has received IT approval and will now be procured, after which further time will be required to ensure records going forward are up to date and reliable.
- The follow-up has found that there are no high risk area recommendations outstanding relating specifically to stores. Lower priority recommendations that are not yet fully implemented are considered to be in hand and covered within the Stores action plan.

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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, [nhobbs@swindon.gov.uk](mailto:nhobbs@swindon.gov.uk).

## Internal Audit report – Stores and Equipment Management

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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4.5 The full follow-up audit report is attached as Appendix 1.

### **5. Alternative Options**

5.1 Not Applicable

### **6. Implications, Diversity Impact Assessment and Risk Management**

#### Financial and Procurement Implications

6.1 There are no direct financial implications arising from this report however the detailed audit report addresses the suitability of internal controls within the systems examined

#### Legal and Human Rights Implications

6.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

#### All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

6.3 None

#### Links to One Swindon, Strategic Objectives, Plans and Policies

6.4 Effective systems of internal control within the Council will help to ensure that the Council's corporate objectives and those set out in One Swindon are achieved.

#### Diversity Impact Assessment

6.5 Not Applicable

#### Risk Management

6.6 Not applicable

### **7. Consultees**

7.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

### **8. Background Papers**

8.1 None

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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, [nhobbs@swindon.gov.uk](mailto:nhobbs@swindon.gov.uk).



# Internal Audit report – Stores and Equipment Management

**Audit Committee**

**Date: 21<sup>st</sup> February 2017**

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## **9. Appendices**

Appendix 1: Internal Audit follow-up report: *Stores and Equipment Management*  
(February 2017)

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**Stores and Equipment  
Management  
Follow Up  
February 2017  
(Final)**

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

### Contents and Distribution

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B – Acknowledgements	
C - Update of Original Recommendations	

#### Report Distribution – Final Follow-up Report issued on 9<sup>th</sup> February 2017 to:

Head of Streetsmart  
 Transport and Stores Manager  
 Warehouse Manager  
 Tool and Plant Coordinator  
 Head of Corporate Finance

#### Auditor:

Senior Auditor

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

### Executive Summary

#### Background

Stock issued by Stores and the management of tool and plant equipment through Fleet, is a vital component of ensuring frontline delivery is operated efficiently and effectively. The maintenance of equipment is also important for ensuring the Health and Safety of staff and the public. There is also a financial risk to the Council in the event of loss or misappropriation of these assets.

An audit of Stores and Equipment Management took place in March 2016 and found that there were significant improvements required to ensure controls were fully reliable. The Council's Head of Corporate Finance, Head of StreetSmart and the Warehouse Manager attended Audit Committee in June 2016 and provided an update as to the implementation of recommendations. At this meeting, the Audit Committee requested that a further follow up review be conducted in six months' time. This review has therefore been conducted to provide the Audit Committee with assurance regarding the implementation status of recommendations and any issues that remain outstanding.

#### Audit Opinion

**Significant improvements required.** The Auditor completing the review has concluded that existing procedures still need to be improved to ensure that they are fully reliable. A significant recommendation remains outstanding to improve a missing or failing control. This, combined with the high impact of the system, gives an overall assessment of risk to the Council **of concern**.

#### Key Messages

Since the previous audit, there has been clear engagement of responsible officers to undertake improvements and implement the recommendations from the original audit. As a result, fourteen of the eighteen recommendations made in the previous audit have either been implemented or partially implemented.

One key, high risk recommendation has not yet been fully implemented, which relates to the introduction of a new tool and plant equipment register. An old and unsupported version of DATAstox is still currently in use as the equipment management system and therefore the inherent risk to the safety of staff (and the exposure to the Council that this presents) means it is not appropriate to change the level of audit opinion at this stage. It should be clear that the responsibility for this recommendation is the Fleet and Workshops Team (rather than Stores), who are progressing with the process of implementing a new software system, it is understood that the system has received IT approval and will now be procured (after which further time will be required to ensure records going forward are up to date and reliable).

Regarding Stores specifically, the follow up has found that there are no outstanding high risk areas and any remaining, lower priority recommendations not yet fully implemented are considered to be in hand and covered within the current Stores Action Plan.

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

### Context

Equipment and stores management is a vital part of the supporting infrastructure to ensure frontline services are able to operate effectively and efficiently. As well as ensuring equipment is available there is also the requirement to ensure the equipment is in safe working condition.

Due to the nature of the work, equipment and stock may be stored across different sites and staff may also store equipment and materials e.g. in their vans, for use out in the field. Therefore, it is imperative that there is a structured programme in place to ensure stock and equipment is available and in safe, working order. The Council's Financial Regulations provides the framework to support the security and disposal of assets.

An audit of Stores and Equipment Management took place in 2015/16 and found that there were significant improvements required to ensure controls were fully reliable. As the overall risk assessment to the Council was deemed to be 'of concern,' the Audit Committee required that an update be provided by the Service Area.

The Council's Head of Corporate Finance, Head of StreetSmart and the Warehouse Manager attended Audit Committee in June 2016 and provided a position statement in relation to the implementation of the original internal audit recommendations and also responded to members' questions where necessary.

The Audit Committee requested that a further follow up review be conducted in six months' time; this review has therefore been conducted to provide the Audit Committee with assurance regarding the implementation status of recommendations and any issues that remain outstanding.

### Key improvements and changes made since the last audit

The following improvements in controls and practices have been noted as taking place since the last audit review:

#### Governance

- In early 2016, just prior to finalising the original Internal Audit report, a restructure of the Depot Operations function took place to provide additional capacity across fleet, stores, depot management and the Council's operator's licence. The Stores and Procurement functions were separated in this restructure and the responsibilities for fleet and stores is no longer part of the old Depot Operations Manager role.
- A new post of 'Transport and Stores Manager' has been created, which sits above a newly created 'Warehouse Manager' (who has direct responsibility for stores) and the 'Fleet and Workshop Manager' (who has responsibility for tool and plant equipment).
- A Business Plan for the Stores and Fleet Workshop functions is in place for 2016/17 which outlines key plans for the service. A specific Stores Action Plan is in place for 2016/17, which includes planned delivery dates and RAG rating of tasks associated with the initial Internal Audit recommendations. The end of December 2016 was the timeframe for outstanding actions to be completed, but some are taking longer to complete.

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

### Tool and Plant Equipment

- A newly created 'Tool and Plant Coordinator,' (reporting directly into the Fleet and Workshop Manager) is now in post. The Tool and Plant Coordinator has the responsibility for securing improvements in the equipment management process and has been out to different departments to list items of tool and plant that are in use and to reclaim obsolete and unsafe items. Some items previously assumed lost have been located, but there are still many items that have not been found.
- Further plans are being discussed to introduce further controls of tool and plant. For example, a new store space has been secured and is being prepared to act as a base for all tool and plant issues to staff. The Tool and Plant Coordinator will have more control over the purchase and management of inventory. Once there is a better record of items, there are plans to reduce the level of hire, by better identifying equipment on hand and keeping a small holding of equipment that can be used temporarily i.e. when an item is to be serviced. However, this is budget permitting as there is not presently a tool and plant budget (although a reduction in hires is expected to be able to offset this cost).
- Smartwater (an anti-theft traceable liquid that carries a unique forensic 'code' which is registered to an address or location) is used on all plant and equipment to act as a deterrent to theft of items.

### Stores

- Most stock items have been incorporated into main stores. Stock is still stored elsewhere in the Depot, mainly due to space issues, where this is the case, further access controls have been imposed.
- Recommendations regarding access into main stores have been implemented.
- CCTV is now in place throughout the store.
- There is still no insurance coverage for van stock, but there is evidence that, as recommended, this issue has been reviewed and discounted at present due to the likely costs outweighing the benefits of coverage. The Insurance Manager informed the Auditor that monitoring of claims in this area will take place over the next twelve months to assess if there is a business case for this type of insurance in future.
- Management information packs are now in place for most trades; these are taken from the Open Housing system and provided to Managers at the start of each month, and then followed by a meeting between Stores and the department to discuss feedback and any issues arising.
- Stock takes have been completed in March and September 2016 and the Warehouse Manager is to continue scheduling these biannually.
- The Warehouse Manager has also introduced weekly 'cycle checks' whereby a specific location within main store is chosen each week and stock checked. Accuracy during these checks is only at approximately 75%, which the Warehouse Manager stated was not ideal, but initial accuracy was reported at 42% and so there is evidence that this is improving. Most errors are the result of human error in the issuing or picking of items. Accuracy figures are published in the staff room notice board and discussed with staff.
- Stores aim to undertake stocktakes of two vans a week, with each van checked at least annually. The schedule is currently being reviewed to marry up stocktake of vans with the time they are serviced, to eliminate the time vehicles are off road. However, this scheduling still needs to be finalised.
- A lot of obsolete stock has been identified and segregated and is awaiting the development of disposal procedures before being written off.
- Fleet imprest stock is no longer in use. Fleet stock has been incorporated into main stores and is managed by the Warehouse via the use of the Fleetmaster system. All records are electronic and paper job cards are no longer in use.

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

### Outstanding areas of concern / risk

The following areas of concern remain outstanding since the last audit. Some of these are being implemented (**Appendix C**)

- DATAstox is still used as the equipment management system and the version of the system currently in use is old and no longer supported by the software provider. The procurement of its replacement (or renewal) has now been approved and it is expected that this will now be in place in February 2017. Until in place, there is a key risk around safety. At present, there is not an accurate record of equipment in use and no clear process for flagging service of items to ensure they are safe to use. If items are used when out of service, the Council could be liable for damages in the event of an accident. The cost of the system (currently estimated at approximately £13,000 over a five year period) appears therefore to provide value for money and should be implemented as a matter of priority.
- Out of Hour (OOH) stock issues are still in use and the Warehouse Manager confirmed these are unlikely to be stopped in the foreseeable future. The Open Housing system cannot report specifically on OOH issues and managers are not currently notified of issues of stock in their area, unless there is an issue with the S-ticket (booking out) procedure. This may present a risk that abuse of the system goes unnoticed.
- There is not a documented procedure for direct purchases (i.e. the purchase of non-stock items) and still not currently a formal feedback process for staff to request items to be added to stock, where necessary. The update to the Audit Committee in June 2016 referred to the creation of a pro forma requiring staff to indicate non stock item(s) that are required and detail the cost, usage, and justification for why an item should be held as stock prior to purchase / incorporated into stock. This has not been progressed. The Warehouse Manager has regular meetings with the Senior Procurement Officer to discuss items that are regularly ordered via direct purchasing. However, although reports are run from the Open Housing system, the Warehouse Manager was concerned that it is not always clear what items have been ordered and whether items ordered are / should be available in stores, or to notice trends in similar types of items. In addition, items that are ordered via direct purchasing do not currently get entered onto the stock system. Further work in this area is therefore required for direct purchases to be secure.
- As per the original audit finding, so long as an S-ticket is appropriately authorised and has been attributed to a cost or job code, Stores will issue the stock. Stores staff are not in a position to know whether the stock that has been booked out is reasonable. This is the responsibility of the Trade Supervisors and Managers, who should check that issues to their staff are reasonable when reviewing jobs. During the last audit it was difficult to conclude on the efficacy of controls in this area as there was a lack of engagement from Trade Supervisors when contacted for their views. This Audit has focussed on controls within Stores and therefore no further testing in this area has been undertaken for this follow up. A themed review of individual monitoring within trades may be necessary in future.
- Although regular stock takes have been introduced, there are some issues with procedures that require improvement. For example, introducing independent stock takes and signoff outside of Stores, the inclusion of stock outside of main stores (e.g. fleet stock, waste bags, street lighting), increased reporting of results and the creation of written procedures to guide the process.
- Procedural notes are not yet fully documented. It is understood that to date, five have been completed.
- Officers using the Stores module on Open Housing are still reporting issues with its functionality. Some concerns have been raised (and witnessed by the Auditor) of 'glitches' within some records of stock and of the system's reporting capabilities. There is a need to continue to monitor the use of the system to ensure it is fit for purpose (although the cost benefits of replacing the system may not be realistic).



## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

### New / emerging areas of concern / risk

The following additional areas of concern have been identified during the review:

- Security staff currently based at Waterside are due to move to the Civic offices from 19th December 2016 and a permanent security presence at the Depot will no longer be in place. This will be replaced with a mobile patrol for both normal opening and out of hours. Although continued 24/7 monitoring of the site will take place via CCTV and Security staff will travel from the Civic when an out of hours issue is required, there could be a risk to the security of Stores.
- Within the Business Plan for 'Warehouse Fleet and Workshop Services' there is a priority to create "a culture of effective performance monitoring" and to "Develop Management Information and actively benchmark performance." However, at present there is not a clear performance framework in place and no KPIs in place to measure stores performance. Baseline data referred to in the Business Plan has not yet been established and therefore no benchmarking is currently undertaken.
- A disciplinary investigation covering allegations of the theft of parts from stock, which was conducted at the same time of this audit review, found the lack of reliable stock records on vans and the lack of control in the use of S-tickets, as noted in the section above. Due to these weaknesses, determining whether an employee had stolen parts was difficult and resulted in a prolonged investigation.

### Overall Opinion

**Materiality and Impact: High:** The management of equipment and stock is a vital component of ensuring frontline delivery is operated efficiently and effectively. Maintenance of equipment is important for ensuring the Health and Safety of staff and the public. The stock valuation for Stores (main stores only) at the time of the last stocktake in September 2016 was approximately £377,000, and stock is issued through stores on a daily basis. There is also therefore, a fairly significant financial risk to the Council in the event of these assets being lost or stolen.

**Status of Recommendations:** Of the recommendations made in the previous audit, there are eight that have been fully implemented and a further six that have been partially implemented. Two (relating to the production of Stores procedures) remain entirely outstanding. Some recommendations that relate to actions required outside of Stores have been considered complete, where stores have satisfied their responsibilities for the recommendation.

A summary of the original recommendations and the implementation status is as follows:

### Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

Priority of Recommendations	Implemented	Being / Partially Implemented	Not Implemented	Other
High	3	3	0	0
Medium	4	3	2	1
Low	1	0	0	1
<b>Total</b>	<b>8</b>	<b>6</b>	<b>2</b>	<b>2</b>

Key findings of this follow up have been summarised above, with a full overview provided at **Appendix C**. Those referred to as 'being or partially implemented' will require further action, as directed.

**Opinion on system controls: Significant improvements required** (see Appendix A) i.e. the Auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.

**Overall Assessment of Risk:** the combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

## APPENDIX A

### Standard Audit Opinions

The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.

The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).

The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).

### Standard Audit Opinion System Control

#### **Audit Opinion 1. *High standard***

The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made

#### **Audit Opinion 2. *Satisfactory standard***

The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.

#### **Audit Opinion 3. *Significant improvements required***

The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.

#### **Audit Opinion 4. *Fundamental weaknesses identified***

The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.

## Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

### **Job Title**

Warehouse Manager

Plant and Tool Coordinator

Stores Supervisor

Head of Corporate Finance

Head of StreetSmart

Transport and Stores Manager

## Update on Original Audit Recommendations and Management Responses - December 2016

### General Management Response from the Transport and Stores Manager

*I would like to take this opportunity to thank the Audit team for all of their hard work and assistance in the generation of this much needed audit of the Stores function. Although there are still some outstanding items, these are recognised and are to be addressed in order for Stores to gain further compliance. I would also like to draw attention to the significant journey that the Stores Team have been on over the last 12 months and highlight the significant steps taken by the team to improve the operation, as well as the positive attitude of those involved in making the recommendations of the audit report a reality.*

*A significant step is the approval for the procurement of the Tool & Plant management system, Datastox. I envisage this as being instrumental in the management of our higher risk items, namely the Tool & Plant equipment used by SBC, and am confident that this will drive significant improvements and compliance in this area.*

*Finally, I would like to thank the Audit Team for their professionalism, approachability and assistance to date, and look forward to forging strong relationships between our functions in the future.'*

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>1</b>	<b>Servicing of Equipment</b>			
1.1	<p><b>Servicing of Equipment</b></p> <p>In addition to the asset register on DATAstox, all Teams using equipment should be required to identify the items of tool and plant under their control (i.e. issued to their staff).</p> <p>In the first instance, the details of this equipment should be collated and forwarded to the Horticultural Supervisor within a defined timeframe, together with information regarding the date it was last inspected. This should be compared to the register currently held on DATAstox to establish discrepancies.</p> <p>Missing equipment should be investigated and where necessary, written off or removed from the register to enable a cleansed version of the equipment register.</p> <p>Once this exercise has been completed, equipment management processes should be sufficient going forward to manage the assets (subject to the additional recommendations at AP5.1).</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer and Timescale:</b> Fleet and Workshop Manager in conjunction with Head of StreetSmart, August 2016</p>	<p><b>Agreed</b></p> <p><b>Head of Corporate Finance:</b> This is a significant piece of work affecting all operational services at Waterside and the Fleet and Stores teams and is at a very early stage.</p> <p><b>Stores and Procurement Manager:</b> Responsibility for tool and plant is to be incorporated into Stores, although timescales are unknown. When this happens there needs to be a full review of the equipment register to establish where items are.</p> <p>The Horticultural Supervisor has done a good job recovering missing items, but the integrity of the asset register at the outset was poor. Need to get a base by calling in craft and trade workers team by team to identify, record, test, calibrate and formally sign equipment out to workers. There needs to be an agreement for writing off lost stock and then regular review going forward.</p> <p>Line Manager / Supervisor support will be vital to ensure staff in their areas are compliant with new procedures.</p>	<p><b>Status: Being Implemented</b></p> <p>An arrangement is now in place whereby requests for new items are also provided to the workshop supervisor so that he can account for the item.</p> <p>Once the item is received he then records the item on the asset database.</p> <p>Since May 2016 work has also been taking place to assess the tool and plant used, identify missing equipment and clarify the full specification and to build an inventory of items required. In addition, new accountable procedures are being developed along with a business case to create a service delivery model for implementation of new more accountable ways of working to control these assets better.</p> <p>To deliver this, a new post Tool and Plant Coordinator is being created and should be recruited and in post by July 2016.</p> <p>The version of DATAstox SBC is utilising is no longer supported and a procurement project to obtain an appropriate asset management database is underway.</p> <p>It is unlikely all items will be in place by August 2016 as new software procurement is required. Delivery by December 2016 is more realistic.</p>	<p><b>Status: Being Implemented</b></p> <p>Equipment (i.e. tool and plant) is managed within Fleet, rather than Stores.</p> <p>Reporting into the Workshop Manager, a Tool and Plant Coordinator is now in post, with responsibility for getting the equipment management process in place. This is currently ongoing, but is dependent on a new system being procured.</p> <p>A Business Case for the replacement (or renewal) of the old DATAstox system has now been approved and is in the process of being procured. The system is expected to be in place in February 2017.</p> <p>Until the new system is in place, there is a key risk around safety. The new proposed system will be capable of flagging service dates with the Tool and Plant Coordinator and the manager responsible for items. At present, there is still a manual element of notifying people of services due, which is difficult as the details recorded in DATAstox are out of date. If items are used when services are out of date, then the Council could be liable for damages in the event of an accident, and there is a risk of injury or death to those using the equipment.</p> <p>New 'accountable procedures' that were to be developed (as per the update in June) have not yet been produced, due to other priorities.</p> <p><b>Priority: High</b></p>
<p><b>Management Response by the Transport and Stores Manager :</b></p> <p>The business case for the Datastox system is now approved and I am confident that the procurement will be complete within 2-4 weeks. The T&amp;P Coordinator currently runs a manual spreadsheet to monitor the Health &amp; Safety status of equipment and I am confident that this is working well in the interim whilst we wait for the full integration of Datastox.</p>				

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>2</b>	<b>Risk Area: Security and Storage</b>			
2.1	<p><b>Stock Locations</b> Wherever possible, all stock should be brought together and stored securely in one location. Where this is not possible, suitable access controls or other preventative measures should be taken to reduce the risk of theft from these areas (i.e. adequate CCTV coverage, stock access only by Stores staff, etc.).</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager, June 2016</p>	<p><b>Agreed</b> <b>Stores and Procurement Manager:</b> The stock in the old stores needs to be integrated into main stores, but there is a space issue. It is being identified which stock has been unused since the move into the current Stores and this will be catalogued and sold at auction with the remainder incorporated into stores. However, some stock will never be able to move into the main stores - for example, the lamp columns are too large and it would be impractical to incorporate the salt stock. Fleet stock has now been incorporated into the main store and access is now restricted. Items are dispatched via a serving hatch between the main store and the Fleet Workshop.</p>	<p><b>Status: Being Implemented</b> A review of all stock and locations is currently being undertaken by the Warehouse Manager with appropriate action to relocate and/or secure the stock will be taken as this exercise is completed. A more secure area within the old warehouse is being created to accommodate the excess / obsolete stock ready prior to auction. Completion date : December 2016</p>	<p><b>Status: Being Implemented (no longer deemed high priority due to action taken)</b></p> <p><b>Stores</b> Most items are now within main stores, although there is still stock stored elsewhere in the Depot, mainly due to space issues. Where this is not possible, further access controls have been imposed. Some obsolete stock is being stored in the Old Stores awaiting disposal. Identifying obsolete stock is on the Stores' current Action Plan and is still in the process of being completed. There is some stock still to be identified and some small items in the old store (e.g. old fireplaces and single pane glass) that remain in need of securing, but this recommendation is no longer considered high priority.</p> <p><b>Vans</b> Imprest stocks have been rolled out to all plumbing staff and electricians, with gas fitters being rolled out presently. Each van has its own unique stock location in OHS. Stocks are replenished weekly. The Warehouse Manager meets with managers regularly to review the stock on vans and to discuss whether there are issues with this and to adjust imprest stocks accordingly. The value of van stock (according to Stock Status Report run on 9<sup>th</sup> December 2016) is approximately £150,000, with average stock holdings of £3,000).</p> <p><b>Priority: Low</b></p>
<p><b>Management Response by the Transport and Stores Manager :</b> Significant steps have been taken by the Warehouse Manager and his Team to identify, reduce and dispose of all stock around the depot. We currently have circa 70 pallets of obsolete stock awaiting disposal by auction, this forms a bulk of stock outside of the main store. The Warehouse Manager is actively engaging with services to identify remaining stock and reduce/remove as appropriate. The small items identified by the Auditor in the old store are now secure and all stock has now been identified.</p>				



**Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17**

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>2</b>	<b>Risk Area: Security and Storage</b>			
2.2	<p><b>Main Store Access</b></p> <ul style="list-style-type: none"> <li>The shutter door should be open only for deliveries.</li> <li>Side door access should be restricted to Stores personnel only.</li> <li>The fire door between Fleet and Stores should be alarmed.</li> </ul> <p>Consideration should also be given to:</p> <ul style="list-style-type: none"> <li>Implementing further access controls to the Stores office (i.e. swipe access).</li> <li>Whether the counter access should be removed entirely.</li> </ul> <p><b>Priority: High</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager, June 2016</p>	<p><b>Agreed</b></p> <p><b>Stores and Procurement Manager:</b> Staff will be reminded of the procedure for the shutter door until compliant. The ID badge access has now been reviewed and Admin have been contacted with a list of staff whose access should be removed. The door between Stores and Fleet is now the serving hatch for the fleet stock.</p> <p><b>Head of Depot Operations:</b> There is a desire for access to the Store and the Depot in general to be better controlled, but there are considerable cost implications. These will be looked at as part of the wider integration project going forward.</p> <p><b>Head of Corporate Finance:</b> CCTV monitoring and shutter door closure are the priorities; consideration is currently being given to ways to restrict counter access.</p>	<p><b>Status: Being Implemented</b></p> <p>Staff reminded of closing the shutter door at Tool Box talk 02.06.16 and this is being monitored daily. There are difficulties with restricting badge access therefore alternative options are being explored. The likely solution is to replace badge access to key access so entry will only be made via the main door which would be tightly controlled. However the health and safety implications need to be considered, in particular in the event of a fire The door between fleet and stores is the serving hatch for fleet stores. This is not alarmed however the whole of the warehouse is now covered by CCTV which will pick up access into the warehouse from all entry points. Access to the warehouse via the counter has been re-configured so that access is now made via a concealed bolt on the stores side of the counter. All activities have been completed with the exception of the badge controlled door. This will be completed by the end of July 2016.</p>	<p><b>Status: Implemented</b></p> <ul style="list-style-type: none"> <li>Key points have now been installed on the outside of the door so that the door can be easily shut from the outside when vehicles have exited. Observation whilst on site (albeit restricted to two visits) was that the shutter door was shut.</li> <li>Side door access has been removed and the door is now only a push bar fire door, opening outwards.</li> <li>The fire door between Fleet and Stores has not been alarmed, but cannot be used to provide access between stores and fleet. Store hours have also been extended on a Friday to cover the Fleet Workshop hours and therefore this has restricted the need for fleet staff to have access.</li> <li>The office door is now locked from the inside and access to stores is no longer possible without a key.</li> <li>The counter is opened via two concealed bolts on the stores side. Staff could technically jump this barrier, but the area around the counter should be manned and CCTV also covers this. No valuable stock is accessible from the customer side.</li> </ul>



## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>2</b>	<b>Risk Area: Security and Storage</b>			
2.3	<p><b>CCTV</b></p> <p>Quotes should be obtained for CCTV in the main stores and for other gaps identified in the Depot and a decision made whether to improve coverage in these areas.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager and Depot Manager, April 2016</p>	<p><b>Agreed in principle</b></p> <p><b>Head of Depot Operations:</b></p> <p>Quotes for CCTV in stores have been gathered; however the decision to implement this will be taken into account when reviewing access to the entire Waterside depot, rather than stores in isolation. As above, this will be considered in the context of costs.</p>	<p><b>Status: Implemented</b></p> <p>The CCTV coverage in the warehouse has been extended to ensure that the whole warehouse is covered and the review of other stock locations will ensure that the stock is located with appropriate security.</p> <p>CCTV coverage for the rest of the depot remains part of the wider Waterside Depot review and a decision on whether further CCTV is required will be made as part of that review.</p>	<p><b>Status: Implemented</b></p> <p>CCTV is now in place throughout the store. There are a small number of 'dark areas' that are technically not covered by the CCTV (due to narrow isles), but the entrance to these areas are covered by CCTV.</p> <p>The Security Manager was asked to comment on the coverage and he was satisfied that all areas, entrances and exits were sufficiently covered, with images recorded and monitored 24/7.</p>
2.4	<p><b>Depot Access</b></p> <p>The access controls for the Depot, particularly for doors leading to offices or sensitive areas, should be reviewed to establish where there are exposures to unauthorised access.</p> <p>Depending on the level of exposure, a solution should be sought to improve controls, balanced with the cost of implementing the control.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer and Timescale:</b> Depot Manager in conjunction with Warehouse Manager and Security Manager, July 2016</p>	<p><b>Agreed in principle</b></p> <p><b>Head of Depot Operations:</b></p> <p>As above, there is a desire to make improvements in this area, but these will be considered in line with the Waterside Improvement Project. Funding will need to be in place and this is not a priority at the moment.</p> <p>Some improvements are going on already, for example the separate public entrance to the tip is currently being constructed, which will help separate the Depot from the public in future.</p>	<p><b>Status: Being Implemented (in relation to stock)</b></p> <p>Access to stock locations has been or is in the process of being addressed. Other access across the depot will be considered as part of the depot review.</p> <p>Completion date: July 2016</p>	<p><b>Status: Implemented (in relation to stock)</b></p> <p>The wider issue of access to the rest of the Depot has not changed, but for the purposes of Stores, this is considered complete, as per AP2.2.</p>

**Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17**

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>2</b>	<b>Risk Area: Security and Storage</b>			
2.5	<p><b>Insurance</b></p> <p>Managers should be aware of the level of contents SBC are insured to hold at the Depot to ensure contexts do not exceed this amount.</p> <p>Regarding van stock, it should be considered whether there is a cost benefit to introducing insurance cover in this area.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager in conjunction with Insurance Manager, April 2016</p>	<p><b>Head of Corporate Finance:</b> <b>Agreed</b></p>	<p><b>Status: Being Implemented</b></p> <p>Currently reviewing cover with the Council's insurers. This should be completed by the end of July 2016.</p>	<p><b>Status: Implemented</b></p> <p>Insurance coverage of van stock is still not in place, but there is evidence that this issue has been reviewed and discounted at present due to the likely costs outweighing the benefits of coverage.</p> <p>The Insurance Manager informed the Auditor that they intend to start reviewing and monitoring these types of claims to assess if the business case is there for this type of insurance in future. It was reiterated that the advice to staff who park vehicles at home overnight is that they are asked that where practical, tools and equipment are stored in their house overnight, although this is not always practical and so there is a level of risk exposure to an uninsured loss.</p> <p>The Insurance Manager also stated that this risk is understood and in the event of a claim the service area would be charged for the loss.</p> <p>In regards to current cover, the Insurance Manager confirmed that the Council insure on a combined building and contents sum insured basis and therefore there is not a specific amount that relates to contents, but the insurers generally assume around 10% of the sum insured relates to contents.</p>

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Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>2</b>	<b>Risk Area: Security and Storage</b>			
2.6	<p><b>Out of Hours (OOH)</b> It should be explored whether there is a way of identifying out of hour issues on the Open Housing System. S-Tickets should be filled out in full and procedures should be reinforced to staff where non-compliance is identified, and where necessary, should be raised with the appropriate Trade Supervisor. Consideration should be given to providing Security with basic knowledge of S-ticket procedures to allow them to notice any obvious, improper use.</p> <p><b>Priority: Low</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager, May 2016</p>	<p><b>Stores and Procurement Manager:</b> <b>Agreed</b> There is a process question to be answered of whether there is still a need for out of hours at all, especially with imprest stock on vans being reintroduced. Ideally it would be preferable to remove this, but this needs to be discussed and monitored going forward.</p> <p><b>Head of Corporate Finance:</b> Security supporting access OOH is a workaround to services requiring supplies outside of Stores opening hours. Work is underway to understand the OOH requirement with a view to exploring alternative solutions. In the meantime the Security Manager and the Trade Managers have been asked to reinforce the requirement to complete the necessary paperwork.</p>	<p><b>Status: Being Implemented</b> OOH tickets are being reviewed for accuracy and correct completion, if not the issue is being raised with appropriate managers and Security. A review is also being undertaken on the use of the OOH facility with a view to reducing or removing the requirement. Completion date: August 2016</p>	<p><b>Status: No further action required outside continued monitoring of OOH issues</b> OOH issues are still in use and the Warehouse Manager stated it is unlikely that these will be stopped all together. The Open Housing system cannot report specifically on OOH issues. Managers are not notified as a matter of course of when there is an OOH issue of stock in their area, unless there is an issue with the S-ticket (booking out) procedure. The Security currently based at Waterside is due to move to the Civic from 19<sup>th</sup> December 2016. There will be day and night mobile patrol of the Waterside site and out of hours will still be managed by Security, but via callouts as requested. Continued 24/7 monitoring of the site via CCTV will also be in place. The Security Manager confirmed that no issues with theft have been picked up through CCTV and no issues have been reported for review.</p>

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>3</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
3.1	<p><b>Direct Purchasing</b></p> <p>Work to review direct purchasing (and stock issues in general) in order to improve the stock items in use, should continue as planned.</p> <p>It should be decided whether there should be a set limit above which an item will be incorporated into normal stock (this could be incorporated into procedures).</p> <p>There should also be a more formal feedback process established for trades staff to request particular items be held on stock.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Senior Procurement Officer (Waterside), in conjunction with Warehouse Manager, July 2016</p>	<p><b>Agreed</b></p> <p><b>Stores and Procurement Manager:</b></p> <p>We are on top of this and are able to produce a record of all stock issues, with direct purchase to be continually reviewed.</p> <p>A pro forma is being produced that will require staff to indicate non stock item(s) that are required and detail the cost, usage, and justification for why an item should be held as stock before being purchased or incorporated into stock.</p>	<p><b>Status: Being Implemented</b></p> <p>This is currently being reviewed to ensure direct purchases are not being used for items that are stock items and to inform if any items should become stock items. This information will also be discussed as a standard agenda item for the monthly Stores Engagement meetings with service managers.</p> <p>Initial review to be complete by October 2016</p>	<p><b>Status: Partially Implemented</b></p> <p>There is not a documented procedure for direct purchases or a formal feedback process for staff to request items to be added to stock (the update in June referred to the creation of a pro forma requiring staff to indicate non stock item(s) that are required and detail the cost, usage, and justification for why an item should be held as stock prior to purchase / incorporated into stock. This has not been progressed).</p> <p>The Warehouse Manager has regular meetings with the Senior Procurement Officer to discuss items that are regularly ordered via direct purchases.</p> <p>However, although reports are run from Open Housing, the Warehouse Manager was concerned that recording of what is being ordered is not always clear and this makes it difficult to identify in reports whether items ordered are / should be available in stores, or to notice trends in similar types of items.</p> <p>In addition, items that are ordered via direct purchasing are not entered into the stock system and therefore there is less control of monitoring the stock ordered.</p> <p>Further monitoring of work in this area is required for direct purchases to be secure.</p> <p><b>Priority: Medium</b></p>
<p><b>Management Response by the Transport and Stores Manager :</b></p> <p>Direct purchasing remains an area for improvement. The Warehouse Manager is currently investigating the opportunity to have all direct purchasing activities under the control of Stores, which will bring greater control around this. The reporting within OPEN Housing continues to be inaccurate and the Warehouse Manager is making continued efforts to identify and improve on the reports generated within OPEN.</p>				

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Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>3</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
3.2	<p><b>Monitoring Use of Stock</b></p> <p>Responsibilities for Trade Supervisors to review the stock items issued to their staff should be reinforced to reduce the likelihood of staff abusing the S-ticket process.</p> <p>Management information available from OHS should be reviewed by Trade Supervisors to ensure that information is sufficient for this purpose.</p> <p>This should also be a consideration of any barcode management system that is purchased for use.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b></p> <p>Head of StreetSmart, in conjunction with Head of Infrastructure Assets and Warehouse Manager, April 2016</p>	<p><b>Agreed</b></p> <p><b>Head of Corporate Finance:</b></p> <p>Developing of these reports and the engagement with service managers is underway to ensure stock usage and direct purchases are understood.</p>	<p><b>Status: Being Implemented</b></p> <p>Work is underway with service managers to provide reports on stock usage with trends and recommendations being discussed and actions being agreed at the Stores Engagements.</p> <p>To be implemented by September 2016.</p> <p>The Warehouse Manager will make recommendations about the appropriate system for processing stock transactions once the wider review of processes has been completed.</p> <p>Target date for recommendations is November 2016.</p>	<p><b>Status: Implemented</b> (in relation to stores)</p> <p>As per the original finding, so long as an S-ticket is appropriately authorised and has been attributed to a cost or job code, Stores staff will issue the stock. They are not in a position to know whether the stock booked out is reasonable. This is the responsibility of the Trade Supervisors and Managers, who should check that issues to their staff are reasonable.</p> <p>During the original audit, it was difficult to conclude on the efficacy of controls in this area as there was a lack of engagement from Trade Supervisors when contacted for their views. The two (out of ten) that replied, admitted at the time there was no definitive method of checking misuse and it is possible for an employee to accumulate a certain amount of materials.</p> <p>So far as Stores is concerned, Management Information packs are now in place for most trades (taken from Open Housing). These are provided by Stores to Trades at the start of each month, and then followed up with a meeting to discuss feedback / issues.</p> <p>Reports include information on direct orders, stock issues (to whole trade and by individual where available) and PPE.</p> <p>No further testing in this area has been undertaken for this follow up, but a themed review of individual monitoring within trades may be necessary in future.</p>

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Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>3</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
3.3	<p><b>Stock Take</b></p> <p>A suitable schedule for stocktakes should be produced and incorporated into procedures.</p> <p>Where possible, the stocktakes in future should be undertaken by staff independent of Stores.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager, June 2016</p>	<p><b>Agreed</b></p> <p><b>Head of Corporate Finance:</b></p> <p>It is the intention to arrange a full stock take for main stores for year end and then establish a cycle of stock takes thereafter.</p>	<p><b>Status: Implemented</b></p> <p>A stocktake of the main warehouse was undertaken at the end of March 2016 and a full stocktake will be undertaken every year end hereafter.</p> <p>Cycle counts commenced w/c 06.06.16. Each rack is being reviewed week by week with a full cycle taking place at least once per year with the aim to being twice per year. A stocktake procedure meeting took place 08.06.16.</p> <p>All processes will be documented as part of the process improvement work.</p>	<p><b>Status: Partially Implemented</b></p> <p>Stocktakes of main stores stock were completed in March and September 2016<sup>1</sup> and are planned biannually in future.</p> <p>Weekly cycle checks are also in place and evidence of these being conducted was confirmed on site. Accuracy is only at approx. 75%, which the Warehouse Manager acknowledged was not ideal with errors mostly down to human error in the issuing or picking of items, but this is up from 42% when these were first introduced. Accuracy figures are published in the staff room notice board and discussed with staff as necessary.</p> <p>Stores also aim to undertake a stocktake of two vans a week, with each done at least annually. In future, it is planned to align checks with when vehicles are being serviced within fleet to eliminate the time vehicles are off the road, but this is still being reviewed. Managers are currently being notified of issues arising from these checks, but are not provided with the results as a matter of course.</p> <p><i>Despite progress in this area, there are a number of further issues that should be addressed for procedures to be fully secure. These are outlined overleaf:</i></p>
<p><b>Management Response by the Transport and Stores Manager :</b></p> <p>Progress is being made on stock takes by the Warehouse Manager and the need for improved accuracy is communicated to all. Sadly, inaccurate report generation within OPEN continues to be the Achilles heel for stores improvement efforts. The Warehouse Manager is currently writing procedures and SLA for van stock checks. The need for independent stock checks is recognised as an area to develop further going forward.</p>				

<sup>1</sup> The September stocktake records were reviewed for the audit of main stores stock. The pre-count total of stock was £406.3k and post-count values were £377.8k, a difference of £28.5k. This was investigated and an anomaly found for one item (ES9991- lamp columns) where 256 items were recorded in the pre-count, but 75 identified in the count. Upon investigation, there was no evidence on the system that 256 items were ever ordered or held and therefore this appears to be a system error (the likes of which were noted in the original audit and reported on at AP5.2 - see below). This error amounts to £27.3k of the difference. As a further quick audit test, five stock numbers were selected randomly and traced to their location. All were found to be correct.



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<b>3</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
3.3 cont.	<p><b>Stock Take Outstanding Issues</b></p> <ul style="list-style-type: none"> <li>The stock checks (and cycle counts) undertaken only relate to main stores; these have not included fleet stock and have not included stock held in other locations at the Depot. The Warehouse Manager has been working to identify and locate all outstanding stock not in main stores (as per AP2.1) and once this task is complete, future stocktakes will include all areas and a true value of stores stock will be available. <i>It is understood that all outstanding stock has now been identified.</i></li> <li>When the Open Housing system is adjusted after a stocktake, the differences are effectively written off. The Warehouse Manager is the budget owner of the stock and so these are authorised to be written off in this way. However, it is not clear whether these should require an additional level of oversight to ensure segregation of duties independent of Stores. The Warehouse Manager stated that since completing the September 2016 stocktake, the results have not been reviewed by anyone outside of Stores, despite being available for review.</li> <li>Write offs / adjustments of imprest van stocks are also treated as belonging to Stores and losses absorbed by the Stores budget, despite them having no control of the stock when on vans.</li> <li>No stocktake procedures have been produced or agreed. An SLA for vans is being looked at to outline the expectations for preparation of vans for stock checking and the timeframe in which checks will be delivered, but this has not yet been completed.</li> <li>Stock checks are currently carried out by Stores staff and so are not yet independent. This is an objective in future, but currently not the case and therefore should be reviewed as necessary.</li> <li>The cycle checks report on the number of items only. The monetary value of differences are not currently recorded or reviewed.</li> <li>Stock values in Open Housing fluctuate and are based on cost of items when they were purchased and so do not necessarily provide an accurate value of stock held (especially as there is not a first in / first out procedure in place). Furthermore, Open Housing does not acknowledge that a stock count has occurred if there are no variances recorded between pre and post counts. See also AP5.2 for Open Housing.</li> </ul> <p><b>Priority: Medium</b></p>			

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Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>3</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
3.4	<p><b>Disposal</b></p> <p>A suitable disposal policy should be written and incorporated in to the Stores Procedures.</p> <p>This should include, the process that will be taken for when some money will be attempted to be retrieved for obsolete stock and when items will be written off entirely.</p> <p>There should be a robust process decided for how stock will be sold, including who will be involved and ensuring adequate authorisation and segregation of duties in the process.</p> <p>Where stock does not belong to Stores, a standard procedure should be decided for how any income received is allocated to the owner of stock / equipment.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager, April 2016</p>	<p><b>Agreed</b></p> <p><b>Stores and Procurement Manager:</b></p> <p>We are looking at a review of our procedure for disposals as part of a wider strategic review of Stores, to ensure there is a clear and documented audit trail. The preference is to sell items at auction wherever possible.</p>	<p><b>Status: Being Implemented</b></p> <p>Current obsolete stock to be segregated into a single area and Service Managers to be consulted on whether the stock is still required.</p> <p>Any stock proposed for disposal or write off by the Warehouse Manager following the review process will be subject to review by the Head of Streetsmart and the Head of Corporate Finance before being agreed.</p> <p>Specific policies and procedures will be written that are compliant with the Council's Contract Standing Orders and Financial Regulations</p> <p>Completion date: November 2016</p>	<p><b>Status: Partially Implemented</b></p> <p>There is not a stores-specific disposal policy in place, although Finance Regulations do provide guidance in this area.</p> <p>Disposals have not actually taken place yet but the Warehouse Manager has been working to identify obsolete stock. The stock identified has been segregated into a single area and Service Managers consulted on whether the stock is still required. As in AP2.1, this stock currently totals approximately £63,000, but there is likely to be further items to be identified (with some missing items requiring write off).</p> <p>It is still to be confirmed how the items will be disposed of. The Warehouse Manager and Transport and Stores Manager have met with an auction house to establish the potential process, but there may also be some items that are scrapped, or offered publicly on a more informal bid basis.</p> <p>Once these disposals of obsolete stock have been completed, the Warehouse Manager will be moving on to slow moving and surplus stock.</p> <p><b>Priority: Medium</b></p>
<p><b>Management Response by the Transport and Stores Manager :</b></p> <p>All surplus stock is currently awaiting disposal via auction. Once completed, the Warehouse Manager is to develop a formal stores disposal policy.</p>				



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<b>3</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
3.5	<p><b>Fleet Imprest Stock</b></p> <p>Fleet stock should be incorporated into the main stores as planned, as soon as possible.</p> <p>It should be ensured that imprest stock for fleet is checked against stock charged for by the manufacturer, to ensure invoices are genuine and has been charged to jobs.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager in conjunction with Waterside Integration Programme Manager, December 2015</p>	<p><b>Agreed</b></p> <p><b>Stores and Procurement Manager / Head of Corporate Finance:</b></p> <p>Fleet Stock has now been incorporated into the main store and all future stock for fleet will be purchased from the manufacturers directly and therefore this will eliminate the issues raised in this area.</p>	<p><b>Status: Implemented</b></p> <p>Since December 2015 fleet stock has been moved into stores and is controlled by the stores operators.</p> <p>No imprest stock is used.</p> <p>Stock is bought and levels and issues controlled through the Fleetmaster database and linked to the specific job.</p> <p>Regular meetings take place between the fleet workshop and stores to address concerns and develop the arrangement as necessary.</p>	<p><b>Status: Implemented</b></p> <p>Fleet imprest stock is no longer stocked. Risk terminated.</p>
3.6	<p><b>Fleet Job Processing</b></p> <p>There should be appropriate cover for processing fleet issues when the Fleet Buyer is away. An appropriate person should be trained in the process when the electronic system is installed.</p> <p>Whilst the paper based job cards are used, an appropriate storage place for these should be identified to reduce the opportunity for these to be lost.</p> <p><b>Priority: Low</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager in conjunction with Waterside Integration Programme Manager, December 2015</p>	<p><b>Agreed</b></p> <p><b>Stores and Procurement Manager:</b></p> <p>The new Fleet Master system will negate the need for manual processing of job cards.</p>	<p><b>Status: Implemented</b></p> <p>December 2015 fleet stock is controlled through Fleetmaster using a barcoding system. Stock levels are controlled and managed through the stores service.</p> <p>The system is fully electronic.</p>	<p><b>Status: Implemented</b></p> <p>Fleetmaster is electronic and paper job cards are no longer in use. Risk removed.</p>

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Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>3</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
3.7	<p><b>Performance Management / Culture</b></p> <p>The revised Stores Procedures should include responsibilities of staff for stock and equipment.</p> <p>These should be reinforced by Trade Supervisors to staff and instances of non-compliance with these procedures thereafter should be raised and escalated to Supervisors and Managers accordingly.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Head of StreetSmart in conjunction with Head of Warehouse Manager, March 2016</p>	<p><b>Head of Corporate Finance:</b> <b>Agreed</b></p>	<p><b>Status: Being Implemented</b></p> <p>Procedures documented as part of the improvement work will include clear roles and responsibilities that are developed and agreed with the users of the service.</p> <p>Completion date: December 2016</p>	<p><b>Status: Not Implemented</b></p> <p>This is the responsibility of managers and supervisors, rather than Stores and has therefore not been followed up on during this follow up.</p> <p>It should be noted however that Stores procedures are still to be written (see AP4.2, below).</p>
<p><b>Management Response by the Transport and Stores Manager :</b></p> <p>Progress has been made on the documentation of procedures. Since the internal audit fieldwork was completed, five procedure notes have been prepared.</p>				

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Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>4</b>	<b>Risk Area: Policy and Procedures</b>			
4.1	<p><b>Stores and Procurement Project Action Plan</b></p> <p>The Stores project action plan should be updated and appropriate information regarding revised timescales, resource and risk should be included and monitored going forward.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager in conjunction with Head of Corporate Finance, May 2016</p>	<p><b>Agreed</b></p> <p><b>Head of Corporate Finance:</b></p> <p>Following some structural changes the project plan will be revisited and refreshed.</p>	<p><b>Status: Being Implemented</b></p> <p>The Warehouse Manager is now in post and will be refreshing and managing the improvement plan going forward. Completion date: July 2016</p>	<p><b>Status: Implemented</b></p> <p>A revised Action Plan is in place for the rest of 2016/17, with planned delivery dates and RAG rated tasks. The end of December 2016 is the timeframe to be working through all outstanding actions, but some are taking longer.</p> <p><b>Additional Finding and Recommendation:</b></p> <p>A Business Plan for the Stores and Fleet Workshop functions is also in place for 2016/17, outlining key plans for the service.</p> <p>The majority of priorities are in the process of being improved, but there is a gap in regards to building "a culture of effective performance monitoring" and to "actively benchmark performance." There are currently no KPIs in place to measure stores performance (the Plan expects targets in relation to reduction in costs of stock, reduction in unaccounted stock losses, reduction in direct purchase orders and requisitions) and no benchmarking is undertaken.</p> <p><b>Priority: Medium</b></p>
4.2	<p><b>Procedures</b></p> <p>The Stores procedures should be updated. This should include all processes covered by Stores and where necessary incorporate the recommendations from elsewhere in this action plan.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Warehouse Manager, June 2016</p>	<p><b>Agreed</b></p> <p><b>Head of Corporate Finance:</b></p> <p>A full process review is underway which will lead to process improvements and provide up to date procedural guidance.</p>	<p><b>Status: Being Implemented</b></p> <p>Refreshed policies and procedures will be a product of the improvement plan. Additional resource is in place to provide the capacity to progress this work at pace in the form of store person capacity and Business Improvement capacity.</p> <p><b>Completion date: December 2016</b></p>	<p><b>Status: Not Implemented</b></p> <p>No procedures are yet in place - some business improvement work is being undertaken which may inform future processes, but there has not been enough time to action this at present.</p> <p><b>Priority: Medium</b></p>
<p><b>Management Response by the Transport and Stores Manager :</b></p> <p>Progress has been made on the documentation of procedures. Since the internal audit fieldwork was completed, five procedure notes have been prepared.</p>				

**Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17**

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>5</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
5.1	<p><b>Reporting Restrictions - DATAstox</b> A review of the use of the DATAstox system should be conducted to determine whether it is the most appropriate software for use at the Depot. If it is, then this should be properly backed up and supported by the Supplier or Capita. An opportunity exists to ensure this requirement is considered when assessing options for a new barcoding system within Stores. Going forward, access to the DATAstox software (or equivalent) should be properly controlled with specific User IDs and passwords given to staff with instructions not to share access. More than one member of staff should be trained in using the DATAstox system to provide cover should the Horticultural Supervisor be unavailable.</p> <p><b>Priority: High</b></p> <p><b>Responsible Officer and Timescale:</b> Fleet and Workshop Operation Manager in conjunction with Transport and Stores Manager, August 2016</p>	<p><b>Agreed</b> <b>Stores and Procurement Manager:</b> A business case is in draft outlining the intention of introducing an electronic barcoding and stock management system, for which DATAstox is a potential supplier. As Stores will administer the equipment management process in future (see AP1.1), if the business case is successful, DATAstox could continue to be used to support the equipment management process, albeit with an up to date and supported system.</p> <p><b>Head of Corporate Finance:</b> Refer to AP1.1</p>	<p>A review of DATAstox is taking place. A business case to be developed in June 2016 to inform the procurement options for a tool and plant management system.</p> <p>It is recognised that an updated system is needed and resilience is needed so appropriate training will be given to key individuals so that the system can be updated even if the tool and plant coordinator is out of the office.</p> <p>It is expected that the new tool and plant coordinator post will populate the database and run regular reports.</p> <p>More control over the issue of tool and plant is needed and the tool and plant coordinator will provide this control.</p> <p>The timescale for software implementation may be longer than August 2016, but it is expected to be in place by December 2016.</p>	<p><b>Status: Being Implemented</b> As above in AP1.1. The Horticultural Supervisor is still the only person officially trained in using DATAstox and accesses this system using a former employee's User ID and password. The back-up arrangements for this software are still unknown and the software licence remains expired and is no longer supported by the supplier. The business case process is still ongoing, but the new IT software package is now expected to be in place by the end of January 2017.</p> <p><b>Priority: High</b></p>
<p><b>Management Response by the Transport and Stores Manager :</b> The business case for the Datastox system has now been approved by IT and I am confident that the procurement will be complete within 2-4 weeks.</p>				

## Swindon Internal Audit Services: Stores and Equipment Management Follow Up 2016/17

Ref.	Original Recommendation March 2016	Original Management Response March 2016	Update - June 2016 (Provided by Responsible Officers)	Audit Update - December 2016
<b>5</b>	<b>Risk Area: Inventory, Purchasing and Disposal of Stock and Equipment</b>			
5.2	<p><b>Reporting Restrictions - OHS</b> Those with access to the purchasing, stock and invoice processing within OHS should be identified to ensure that this is reasonable. It should be identified whether it is possible to run the following reports:</p> <ul style="list-style-type: none"> <li>• Stock held by physical location</li> <li>• Stock levels vs. minimum / maximum stock levels.</li> </ul> <p>If available, these should be reviewed regularly to ensure that the level of stock held outside of main stores is monitored and to ensure stock levels are held in accordance with set limits.</p> <p><b>Priority: Medium</b></p> <p><b>Responsible Officer and Timescale:</b> Systems Development Manager in conjunction with Warehouse Manager, May 2016</p>	<p><b>Agreed</b> <b>Stores and Procurement Manager:</b> Since the transfer to OHS there have been real problems with some reporting. For example, stock descriptions in some reports do not match the stock number (<i>Audit Comment: this is also an issue identified in reports obtained from OHS by Internal Audit</i>). In other reports, items are identified as being on order that have never been ordered. There is therefore more work required to ensure system reporting is fit for purpose.</p> <p><b>Head of Corporate Finance:</b> It should be possible to identify stock by physical location if it is set up that way in the system; it effectively needs to be set up as a separate warehouse in the same way as is one for imprest van stock.</p>	<p>A request is with IT to get physical locations set up so that these can be reported on. Also checking on the status of the development of the stores reports with IT. Completion date: September 2016 (subject to no technical issues arising)</p>	<p><b>Status: Superseded</b> The original recommendations are superseded by a more general need to ensure the Open Housing System is effective and fit for purpose. As reported above, there are many reports available for measuring performance. Management's requirements for information are being continually reviewed between Stores, Trade Teams and the Systems Development Team in Housing. However, Open Housing is still a 'bolt on' in regards to stores and is not always reliable in regards to reporting. Barcoding is still to go ahead at some point in the future and the Warehouse Manager is looking at this and how it fits with the Open Housing system. The business case for this is still being put together (which is separate to the business case discussed above in relation to a tool and plant system). It is aimed for this to be in place for the start of 2017/18.</p> <p><b>Priority: Medium</b></p>

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# Audit Committee Progress and Update Report for Swindon Borough Council *Year ended 31 March 2016*

21 February 2017

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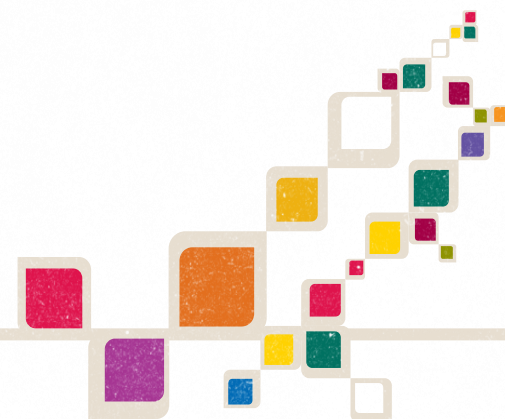
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Agenda Item 9



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.





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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications including:

- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government = transitioning successfully (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

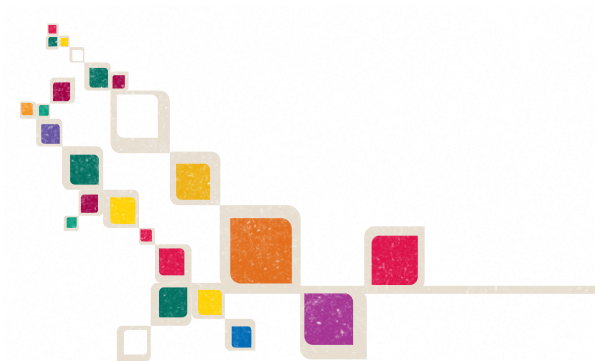
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



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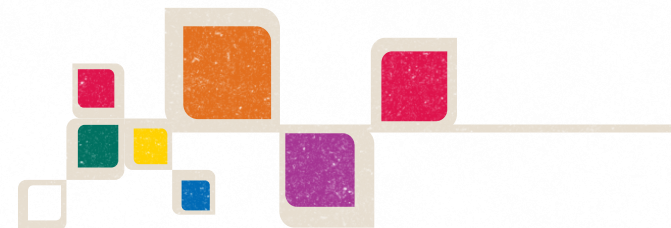


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# Progress at February 2017

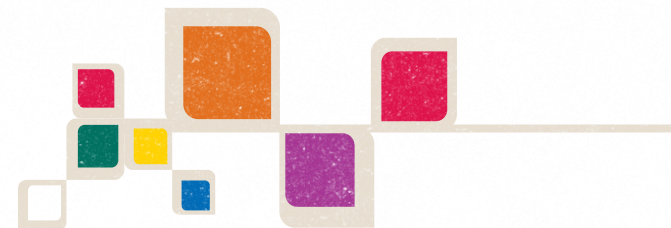
## Grant Certification work 2015-2016



2015/16 work	Completed	Comments
<p><b>Grant Certification</b></p> <p>At the Audit Committee meeting in November 2016 we reported that our only remaining 2015/16 work related to the certification of grants. We are required to complete work on the following returns:</p> <ul style="list-style-type: none"> <li>- Housing Benefit</li> <li>- Homes and Communities Agency return</li> <li>- Teachers Pension Return</li> <li>- Pooled capital receipts return</li> </ul>	See below	<p>We have charged the following fees:</p> <p>Housing Benefit £10,476</p> <p>Homes and Communities Agency return £2,500</p> <p>Teachers Pension Return £4,200</p> <p>Pooled capital receipts return £2,200</p>
<p><b>Housing Benefit</b></p> <p>We are required to complete the work specified by Public Sector Audit Appointments which comprises the following:</p> <ul style="list-style-type: none"> <li>- A random sample of 60 cases, 20 each on rent allowances, HRA rent rebates and non HRA rent rebates. For each case we are required to test all transactions in detail to supporting information.</li> <li>- A test of software controls to ensure the computer system used by the Council includes up to date parameters and software up-dates</li> <li>- An analytical review comparing HB payments to national trends and prior year spend at the Council</li> <li>- Specific tests on a range of risk areas such as un-cashed cheques, reconciliations from the claim to the system and to the accounts.</li> </ul>	Work was completed on November 17 <sup>th</sup> ahead of the national deadline of November 30 <sup>th</sup> .	We identified two minor issues relating to the documentation of evidence, neither case impacted the subsidy claimed by the Council.

# Progress at February 2017

## Grant Certification work 2015-2016 continued



2015/16 work	Completed	Comments
<p><b>Homes and Communities Agency return</b></p> <p>The Council is claiming support of £325,000 from the Homes and Communities Agency (HCA) towards the cost of refurbishing 15 flats at Townsend House. We were required to complete a detailed checklist specified by the HCA. This required us to review detailed information relating to the project.</p>	<p>Work was completed on November 8th ahead of the deadline of November 21st.</p>	<p>We reported our findings to the HCA in line with their requirements. Some documentation was not available for us to review, although this mainly arose where the contract was not at final completion. One key item not available related to the contractor not having signed and dated a formal contract, although a formal Progress Report was available after start on site, as was evidence to support the tender process.</p>
<p><b>Teachers Pension Return</b></p> <p>We undertook a review in line with the requirements of the Teacher's Pensions Agency (TPA). During the year the Council paid employer's pension contributions of £4m and Council employed teachers paid employee contributions of £2.3m.</p>	<p>Work was completed on November 17<sup>th</sup> ahead of the national deadline of November 30<sup>th</sup>.</p>	<p>We reported one issue. We found the monthly build-up of pensionable pay based on returns to the TPA totalled £3,067,592.40. This differed from the year-end total on the payroll system of £3,072,942.90 by £5,350.50. Officers understand this reflects alterations to monthly payroll done in subsequent months but have not provided a breakdown.</p>
<p><b>Pooled capital receipts Return</b></p> <p>The Department for Communities and Local Government requires independent certification and reporting on capital receipts received by councils in respect of right to buy sales of Council houses. The value of the return was £3.3m.</p>	<p>Work was completed on November 17th ahead of the national deadline of November 30th.</p>	<p>We had no issues to report.</p>

# Progress at 21 February 2017

## 2016/17 audit



**Progress against plan**  
On track



**Opinion and VfM conclusion**  
On Track

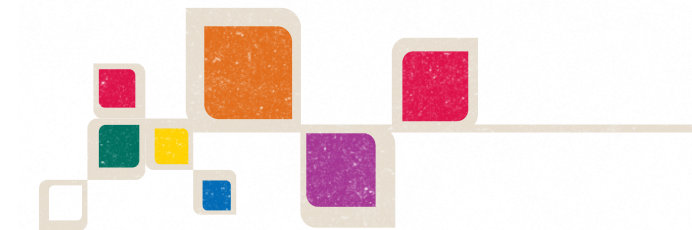


**Outputs delivered** Fee letter

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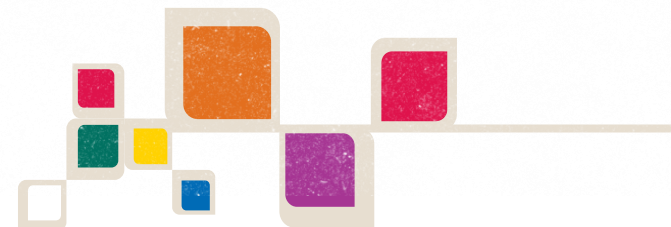
2016/17 work	Completed	Comments
<b>Fee Letter</b> We issued the 'Planned' fee letter for 2015/16 in April 2015.	April 2016	
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.  We also inform you of any subsequent changes to our audit approach.	No	To be reported to the April Audit Committee meeting
<b>Interim accounts audit</b> Our interim fieldwork visit includes: <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> </ul>	No	Underway currently. Due to complete end of February 2017.

# Progress at 21 February 2017



2016/17 work	Completed	Comments
<b>Final accounts audit</b> Including: <ul style="list-style-type: none"> <li>Audit of the 2016-17 financial statements</li> <li>proposed opinion on the Council's accounts</li> </ul>	No	The matters arising from our work will be reported to the September Audit Committee.
<b>Grant Certification</b> We are required to complete work on the following returns: <ul style="list-style-type: none"> <li>Housing Benefit</li> <li>Homes and Communities Agency return</li> <li>Teachers Pension Return</li> <li>Pooled capital receipts return</li> </ul>	N/A	Our work will be completed by the deadline of 30 November 2017.
<b>Other activities</b> We provide a range of workshops, along with network events for members and publications to support the Council.  Annual Audit Letter	On-going  No	Our accounts workshop is scheduled for 1 <sup>st</sup> March 2017.  The Annual Audit Letter will be completed by October 2017.

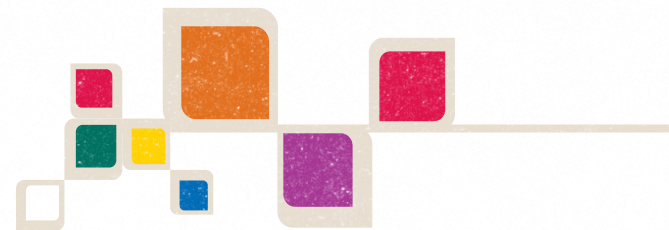
# Progress at 21 February 2017



2016/17 work	Sub-Criteria	Comments
<p><b>Value for Money conclusion</b></p> <p><b>Background</b></p> <p>The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.</p> <p>The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.</p> <p>The guidance identifies one single criterion for auditors to evaluate:</p> <p><i>In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.</i></p> <p>This is supported by three sub-criteria as set out opposite:</p>	<p>Informed decision making</p> <p>Sustainable resource deployment</p> <p>Working with partners and other third parties</p>	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

# Progress at 21 February 2017

## 2016/17 Value for Money Continued



### 2016/17 work

#### **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

#### **Reporting**

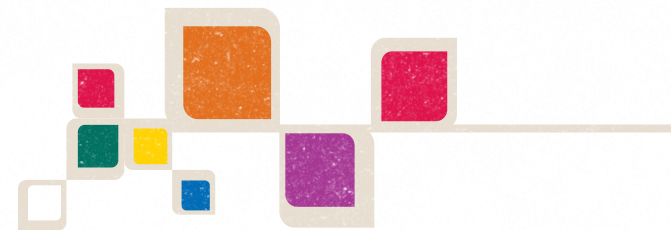
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 18 September 2017.



# Progress at 21 February 2017

## 2016/17 Value for Money Continued



Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Financial Planning</b></p> <p>The Council forecast currently it will overspend its 2016/17 revenue budget by £6.5m. Delivery of the 2017/18 budget remains a risk. Savings of £7.5m have been assessed and a contingency of £4.1m has been established to cover non-delivery.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>To support our work to give our conclusion on the Council's arrangements for planning finances we will review how the Council has built up its savings plans and risk assessed the prospects for delivering them.</p>
<p><b>Adult Social Care</b></p> <p>In common with many other councils nationally Swindon's Adult social Care Services are under considerable pressure. It is projected currently the Service will overspend its budget by £4.6m this year. There is a risk demand cannot be managed and the service cannot be funded in the medium term.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>We will review:</p> <ul style="list-style-type: none"> <li>- actions to contain the current overspend,</li> <li>- longer term actions to manage demand and to transform services.</li> </ul>

# Technical Matters

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# Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

# Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

# Grant Thornton





# Apprentice Levy-Are you prepared?

Grant Thornton update

## What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

## What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

## What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill:  $250 \times £20,000 = £5,000,000$

Levy sum:  $0.5\% \times = £25,000$

Allowance:  $£25,000 - £15,000 = £10,000$  annual levy

## How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

## What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

# Grant Thornton Events

## *Joint Venture Seminar , 6th December - Taunton*

Following the publication of our 'Better Together' report we hosted a seminar in Taunton. The session included presentations from some of the practitioners interviewed in researching our report.

Local government continues to innovate and change, as it looks for ways to protect front line services we are expecting to see an increase in the number of Joint Ventures (JVs) for service delivery being established. Our event provided an invaluable insight into setting up and running JVs and was attended by 22 officers and members from Councils in the South West, including x from x Council.

Attendees heard from Arthur Hooper, Group MD of CORSERV, who shared his experiences of developing the newly formed JV with Nottinghamshire County Council for Highways, highlighting the importance of collaborative partnership working and staff engagement.

Mark Cook, Partner at Anthony Collins Solicitors discussed the legal implications to consider when setting up a JV.

Sophie Hosking, Executive Director – Service Delivery and Commercial Development, South Ham District and West Devon Borough Council highlighted their journey so far in establishing a joint local authority company and why they are exploring this route.

Mike Britch, Norse Group MD discussed how the Norse Group have established 25 JVs with local authority partners and highlighted the importance of using JVs to change the outcome in service delivery and client commissioning as well as ensuring arrangements are not too complex.

The morning ended with a panel session where our speakers were joined by Sally McKinlay (Tax Director – Grant Thornton).

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## Head of Internal Audit Update

### **Audit Committee**

**Date: 21<sup>st</sup> February 2017**

Author: Head of Internal Audit  
Wards: None  
Locality Affected: None  
Parishes Affected: None

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### **1. Purpose and Reasons**

- 1.1 To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in November 2016, to update Members with regard to progress against the annual internal audit plan and other key issues.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

### **2. Recommendations**

The Committee is recommended to:

- 2.1 It is recommended that the contents of the report be noted.

### **3. Detail**

Progress on completion of Internal Audit Plan 2016/17

- 3.1 Details of audits finalised since the September Audit Committee meeting are set out in Appendix 1. The appendix sets out the key audit recommendations made along with the overall risk assessment to the Council.
- 3.2 Appendix 2 sets out progress against the 2016/17 plan as at the year-end. As at the end of September 2016, 67% of the number of audits in the audit plan has been completed against a target of 74%.
- 3.3 Customer Feedback received during 2016/17 shows that 82% of respondents rate the audit provided as between good and excellent against a target of 86%. The remaining 18% rated the service provided as between good and average. No respondents have rated the service as below average or poor.

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Further information on the subject of this report can be obtained from Nick Hobbs,  
Direct Dial Telephone Number: 01793 463940, [nhobbs@swindon.gov.uk](mailto:nhobbs@swindon.gov.uk).

## Head of Internal Audit Update

### **Audit Committee**

**Date: 21<sup>st</sup> February 2017**

#### Section update

- 3.4 As reported at the last Audit committee meeting one of our Senior Auditors has handed in his resignation after nine years of working in the section. He has now moved to New Zealand. Where possible audits allocated to the Senior Auditor have been reallocated over the rest of the section with lower priority audits being either carried over to next year or dropped altogether. The following audits will no longer be included in the plan for 2016/17:
- Tenant strategy
  - Statutory compliance – corporate buildings: follow-up
  - Youth Offending team
  - Strategy for capacity building
  - Health and Safety – Corporate Manslaughter: follow-up
  - Mobile devices

#### Corporate Fraud Team

- 3.5 The Corporate Fraud Team has received a total of 236 referrals in the seven months to 31/10/16, compared to a total of 88 in the whole of 2015/16. To the end of August the team has:
- 7 housing properties recovered (estimated savings £126,000)
  - 5 Right to Buy applications stopped (discount value: £206,400)
  - £12,975 raised in invoices relating to Council Tax, Housing Benefits and Parking
  - Total nominal savings: £345,375.67 for 2016/17

#### Appointment of External Auditor

- 3.6 Audit Committee has received updates regarding the new arrangements for the appointment of an External Auditor. Audit Committee agreed that the Council should look to make the appointment through a sector led body. The Government has recently confirmed that Public Sector Audit Appointments Ltd (PSAA) has been authorised to make future appointments on behalf of principal local authorities.
- 3.7 A paper regarding this went to Cabinet and had subsequently been agreed at Full Council. The Chief Executive has since written confirming that the Council's wish to have the external auditor appointment made through PSAA.

### **4. Alternative Options**

- 4.1 Not Applicable

## Head of Internal Audit Update

### **Audit Committee**

**Date: 21<sup>st</sup> February 2017**

#### **5. Implications, Diversity Impact Assessment and Risk Management**

##### Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

##### Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

##### All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

##### Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 Internal Audit's remit is to examine the adequacy of the Council's governance, risk management and internal controls. Effective systems of governance, risk management and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

##### Diversity Impact Assessment

- 5.5 None

##### Risk Management

- 5.6 Potential risks to the Council are identified in the individual audit reports summarised in Appendices 1 and 2.

#### **6. Consultees**

- 6.1 The Corporate Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.
- 6.2 All Heads of Service, Board Directors and Members who have contributed to individual audits to date during the course of 2016/17.

#### **7. Background Papers**

- 7.1 None

## Head of Internal Audit Update

***Audit Committee***

**Date: 21<sup>st</sup> February 2017**

### **8. Appendices**

Appendix 1 – Internal Audit Reports finalised since the November 2016 Audit Committee.

Appendix 2 – Progress against the Internal Audit plan 2016/17

## Internal Audit reports finalised since the last Audit Committee meeting (November 2016)

<b>Audit Title:</b>	Orchid Vale Primary School				<b>Date of Report:</b>	December 2016	
<b>Number of 'High Priority' Recommendations:</b>	4	<b>Current Audit Opinion:</b>	2	<b>Previous Audit Opinion:</b>	2	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<b><u>Key Recommendations</u></b> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> <li>Plans of how the School can align their expenditure to their income should be produced and discussed and approved by Governors in order to prevent an eventual deficit position.</li> <li>The School should ensure that, in accordance with Financial Regulations, three quotes are obtained for all purchases of £5,000 and above. Authorisation for the expenditure should be obtained in line with the School's Scheme of Delegation and the selection of the supplier should be carried out by those authorising the expenditure.</li> <li>Analysis of the cost to the school for running the breakfast club should be carried out on a regular basis e.g. annually, to ensure that the price charged covers the cost to the school, but does not exceed this. Governors should monitor this, and should be aware of any subsidy by the School to run this service.</li> <li>The School Financial Value Standards (SFVS) self-assessment should be completed by the Full Governing Body and evidence of approval should be documented. Section C should be reviewed with consideration to the findings of the audit. If a 'No' or 'In Part' answer is given, an action plan of how this will be addressed should be created.</li> </ul>							

<b>Audit Title:</b>	NNDR3 Claim				<b>Date of Report:</b>	20/09/2016	
<b>Number of 'High Priority' Recommendations:</b>	N/A	<b>Current Audit Opinion:</b>	N/A	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>N/A</b>
The NNDR3 claim was submitted and no high priority recommendations were made.							

<b>Audit Title:</b>	Red Oaks Primary School				<b>Date of Report:</b>	December 2016	
<b>Number of 'High Priority' Recommendations:</b>	5	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	2	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<b><u>Key Recommendations</u></b> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> <li>• A deficit recovery plan for the mainstream budget should be created and monitored in order to ensure that the School can set a balanced budget when required (currently planned for 2019/20). This should be agreed and monitored by Governors to help ensure that identified actions are implemented.</li> <li>• The Governors should seek explanations for budgets set with high rollovers to establish that they are for commitments required for future years and that they are within the balance tolerance levels set by Schools Forum. Governors should seek explanations for significant variances to cost centres identified through budget monitoring, and the impact on the year-end balance to establish whether these are due to unforeseen expenditure or additional income, or poor budget setting.</li> <li>• Governors should be presented with, or question information presented to them that has a financial impact to the School, to establish whether there was adequate provision made in the budget for the items, whether the school is staying within the budgets and if not, the overall impact on the School's financial position. The key points of the discussions held at meetings should be documented in the minutes.</li> <li>• The School should ensure that, in accordance with Financial Regulations, three quotes are obtained for all purchases of £5,000 and above. Authorisation for the expenditure should be obtained in line with the School's Scheme of Delegation and the selection of the supplier should be carried out by those authorising the expenditure.</li> <li>• Analysis of the cost to the school for running the breakfast club and after school club should be carried out on a regular basis e.g. annually, to ensure that the price charged covers the cost to the school, but does not exceed this. Governors should monitor this, and should be aware of any subsidy by the School to run this service.</li> </ul>							

<b>Audit Title:</b>	Residential Care Homes Financial Checklist						
<b>Date of Report:</b>	February 2017			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	0	<b>Current Audit Opinion:</b>	NA	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Consultancy Review</b>
<b><u>Key Recommendations</u></b> Following a number of high-profile national closures of residential care homes, this piece of work was requested as a consultancy review. A detailed checklist was produced for the Swindon Borough Commissioners that can be used to obtain assurance that sound financial management processes and controls are in place in privately-owned residential care homes.							

<b>Audit Title:</b>	Housing Benefits-Overpayments				<b>Date of Report:</b>	28/11/16	
<b>Number of 'High Priority' Recommendations:</b>	2	<b>Current Audit Opinion:</b>	2	<b>Previous Audit Opinion:</b>		<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<b><u>Key Recommendations</u></b> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> <li>Mitigating action for improving the percentage of checks completed should be reviewed to establish whether there are further ways to increase the amount of checking that can be undertaken.</li> <li>The schedule for additional checks should be reviewed to ensure it is appropriate in identifying issues, especially in areas where the risk of fraud is high.</li> </ul>							

<b>Audit Title:</b>	South West Local Economic Partnership Assurance						
<b>Date of Report:</b>	November 2016			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	0	<b>Current Audit Opinion:</b>	NA	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Consultancy Review</b>
<b><u>Key Recommendations</u></b> At the request of the Council's senior management team, a review of the South West Local Economic Partnership has been included in the 2016/17 Internal Audit plan.  Various reports and reviews of governance arrangements and processes have been produced by a number organisations since the introduction of the SWLEP. Prior to carrying out a review of the SWLEP we have identified the work that has already been carried out to provide assurance on SWLEP governance arrangements and processes and avoid duplicating work where possible.  As a result of this piece of work, the key audit area that has been identified for review is the new Assurance Framework for the SWLEP that has been produced, to ensure it sets out clear and appropriate governance arrangements for the body.  We are waiting for a copy of the Assurance Framework from the service area to undertake this second piece of work.							

<b>Audit Title:</b>	Transformation Programme						
<b>Date of Report:</b>	November 2016			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	6	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	Of Concern
<b><u>Key Recommendations</u></b> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> <li>• The Council's senior leadership cohort needs to agree on a clear direction for change and unite behind this direction to ensure the organisation works effectively and collaboratively towards shared goals.</li> <li>• The Council should design and deliver a leadership development programme to help support achievement of wider organisational change. As part of this programme, it should define the leadership behaviours, qualities and capabilities that are required to deliver the various elements of the Council Plan and carry out analysis to determine where further recruitment or staff development is necessary. The Council should ensure that collaborative, distributed leadership principles are included in the design of the leadership programme, to help promote innovation, collaboration/systems-thinking and to increase organisational capability and capacity.</li> <li>• Work to produce the organisational blueprint should be prioritised to ensure the foundations to inform the new phase of change programme definition and design are in place.</li> <li>• As part of re-invigorating and rebuilding momentum behind change, the Council should revisit governance arrangements for programmes to ensure that they are fit for purpose.</li> <li>• Alongside the leadership development programme in the Council, a cultural development programme should be introduced, to ensure the Council's culture is aligned to and supports delivery of the Vision and Plan.</li> <li>• The Council should produce a resourcing plan for the next 12 months for change, identifying internal and external resources required to deliver programmes and projects and securing resources accordingly. This should include enabling functions, for example ICT support.</li> </ul>							

<b>Audit Title:</b>	PCI-DSS Compliance						
<b>Date of Report:</b>	January 2017			<b>Materiality/Impact:</b>		N/A	
<b>Number of 'High Priority' Recommendations:</b>	N/A	<b>Current Audit Opinion:</b>	N/A	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	N/A
It was identified at the start of this review that a project had recently started to review the Council's status and to become compliant with the standard. The outline of the project was reviewed and general recommendations were made to provide additional guidance to the project.							



<b>Audit Title:</b>	Oracle: Spreadsheet Payments						
<b>Date of Report:</b>	December 2016			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	0	<b>Current Audit Opinion:</b>	NA	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Consultancy Review</b>
<b><u>Key Recommendations</u></b> <p>The Council is processing an increasing amount of payments by loading spreadsheets of payment details directly into the Oracle E-Business Suite application.</p> <p>Internal Audit was requested to review the process, to identify where there are potential risks and advise on controls to help mitigate these risks.</p> <p>Recommendations have been made in relation to secure storage and processing of files and also in relation to authorisation processes and management trails. Internal Audit has been requested to review how the process has been working after an initial trial period and will complete this work as part of the Creditors audit review in 2017/18.</p>							

<b>Audit Title:</b>	Contract Management Review - Delivery of the Housing Capital Programme						
<b>Date of Report:</b>	27/10/2016			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	1 Critical 6 High	<b>Current Audit Opinion:</b>	4	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Significant</b>
<b><u>Key Recommendations</u></b> <p><u>Critical recommendations</u></p> <p>All projects in the Housing capital programme of works must comply with Contract Standing Orders, with specific reference to the requirements of section 28 relating to Contract Variations. A gap analysis should be conducted across all Housing Capital Projects in the Programme of works to identify any spend/commitments in excess of authorised contract awards. An amnesty should be sought on all contracts which have exceeded the contract award value/waiver period. The value and reasons for any overspends should be identified and reported to Cabinet.</p> <p>A revised procurement plan should be devised going forward for the next three years, including the step ups from short to medium and long term contracts, which should be monitored at a corporate performance level to ensure that this is managed and achieved.</p> <p>Adequate contract lead time must be put in place and observed when taking individual procurements to market at a local or EU level. Medium and long term contracts should be upheld and not replaced with short-term arrangements which impact and frustrate contracting and ultimately delivery of the Housing Capital Programme of works.</p> <p><u>High Recommendations</u></p> <p>A number of high level recommendations were also made. The full report is on agenda item on the February Committee.</p>							

<b>Audit Title:</b>	Oracle: Master Supplier File and Cheque Payment Analysis						
<b>Date of Report:</b>	February 2017			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	0	<b>Current Audit Opinion:</b>	NA	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Consultancy Review</b>
<b><u>Key Recommendations</u></b> Internal Audit was requested to analyse the supplier records and cheque payments using our data analysis and interrogation software. From this, areas to rationalise duplicate suppliers and unnecessary cheque payments have been identified, with a view to increasing efficiency and economy of processes and decreasing the risk of fraud.							

<b>Audit Title:</b>	Affordable Housing						
<b>Date of Report:</b>	October 2016			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	3	<b>Current Audit Opinion:</b>	2	<b>Previous Audit Opinion:</b>	2	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<b><u>Key Recommendations</u></b> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> <li>• Targets for the number of new affordable houses delivered in Swindon annually should be reviewed to ensure that whilst they should be achievable, that they sufficiently address the most up to date demand requirements so that the gap can be managed.</li> <li>• Additional performance monitoring on the delivery of affordable housing should be carried out by management. This could include:               <ul style="list-style-type: none"> <li>○ Performance against the 30% target, as set out in policy HA2.</li> <li>○ Achievement on 70:30 tenure mix, as set out in policy HA2.</li> <li>○ Monitoring of the proportions of dwelling sizes delivered in comparison to the need as identified through the housing register.</li> <li>○ Monitoring of the potential AH that could be delivered on the Council's key housing growth sites against that agreed at planning stage and that completed.</li> </ul> </li> <li>• Action should be taken to find an innovative solution to meet the Council's affordable housing requirements. Consideration should be given to a solution that could create a source of income for the Council. An evaluation of whether any of the options included at Appendix C could be adopted by the Council should be carried out.</li> </ul>							

<b>Audit Title:</b>	Public Power Solutions Ltd – Solar Business						
<b>Date of Report:</b>	January 2017			<b>Materiality/Impact:</b>		Medium	
<b>Number of 'High Priority' Recommendations:</b>	4	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<b><u>Key Recommendations</u></b> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> <li>Review the Company's' authorised signatories and where possible restrict the nature and value of authorisation that company personnel involved with solar projects are permitted. This is to provide segregation of duties and bring about independent check where practical within company resources.</li> <li>The five staged gatekeeper process should be supported by an internal form of approval which sets out the operational requirements to be satisfied at each of the five project stages. The process should be supported by independent check and segregation of duties at each stage to provide an assurance on compliance including:               <ul style="list-style-type: none"> <li>advertising and award of EU Procurement Contracts,</li> <li>supplier suitability checks completed (financial, technical and health and safety),</li> <li>due diligence checks,</li> <li>contract 'page turning' exercise with contracting parties to ensure clarity of understanding of terms and conditions, especially regarding payment</li> </ul> </li> <li>Review the payment contract terms and conditions in the legal agreements to the projects Agreement for future projects. This is to ensure these are clear and include necessary payment protection and sureties to protect the interests of PPS and to mitigate the risk of circumstances that lead to the delayed payment to PPS for the Wroughton Solar Farm project. Evaluate conducting a 'page turning' exercise of the agreement with both the seller and the buyer sharing understanding and to provide clarity of agreement prior to signing and as part of the due diligence process.</li> <li>Future solar projects must be procured in compliance with the EU Procurement Regulations where the value of works, services or supplies exceed the relevant threshold limits. This should include advertising the contract invitation and award stages in the Official Journal of European Countries.</li> </ul>							

<b>Audit Title:</b>	NNDR						
<b>Date of Report:</b>	6 <sup>th</sup> February 2017			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	0	<b>Current Audit Opinion:</b>	2	<b>Previous Audit Opinion:</b>	1	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<b><u>Key Recommendations</u></b> There are no key recommendations as a result of the review.							

<b>Audit Title:</b>	Public Power Solutions Ltd – Dynamic Purchasing System Review						
<b>Date of Report:</b>	January 2017			<b>Materiality/Impact:</b>		Medium	
<b>Number of 'High Priority' Recommendations:</b>	4	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<b><u>Key Recommendations</u></b> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> <li>• The Dynamic Purchasing System should only be used in accordance with the OJEU approved registration as part of the Public Contracts Regulations which is currently set up to procure using the 'lot' process. A 'wrap' approach should not be entered into using the Dynamic Purchasing System unless this is specifically set up as part of the company registration otherwise this would be in breach of the terms and conditions of the Public Procurement Directive.</li> <li>• In order to maintain the 'dynamic' status of the DPS, approved suppliers should be reviewed at least every six months to ensure that they continue to meet the pre-qualification questionnaire criteria i.e. financial, health and safety and technical suitability. This is to ensure that the pre-approved suppliers list is fit for purpose for the submission of bids as they come to market. All suppliers currently 'approved' on DPS should be required to notify PPS of any material change in their status that could affect their pre-qualified status and any subsequent award offer, i.e. financial, technical and health and safety. A record of suitability checks and criteria including documentation to evidence these should be produced to support the appointment of the successful bidder. The suitability of suppliers should be reviewed throughout the life of a project with copies of checks performed/documentation retained, including insurance certificates. Following the appointment of suppliers to solar projects a credit alert should be set up. This would be used to monitor their financial stability during the life of the contract. Any current supplier warnings should be managed to mitigate the risk of business interruption or financial loss.</li> <li>• Award super user access rights and system administration training to another member of PPS. Rotate DPS systems administration between these two officers. They should both be aware of how to post tender information on the system and update to the Official Journal of the European Union (OJEU), run a tender bid and award process and assist with the pre-qualification. Ensure that a core training on the DPS system is provided to staff to ensure that deputies are in place in the absence of key personnel i.e. notably for the setting up and award of contracts.</li> <li>• Conduct a procurement appraisal to determine the needs of both the solar and waste activities of the business including the value and frequency of contracting activities and those which require compliance with the European Procurement Regulations. Evaluate whether the existing solar procurement process using the Dynamic Purchasing System is flexible enough to meet the future needs of both the solar and waste activities operated by the business.</li> </ul>							

<b>Audit Title:</b>	Open Door						
<b>Date of Report:</b>	January 2017			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	4	<b>Current Audit Opinion:</b>	NA	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Consultancy Review</b>
<b><u>Key Recommendations</u></b> The piece of work was carried out as a consultancy review to provide additional contract management support to Swindon Borough Council Commissioners and the Open Door Centre. The review appraised commissioning arrangements for day opportunities for adults with Learning Disabilities, as well as processes in the centre for financial and performance management. Recommendations made are being implemented.							

<b>Audit Title:</b>	Investigations				<b>Date of Report:</b>		11/10/16	
<b>Number of ‘High Priority’ Recommendations:</b>	N/A	<b>Current Audit Opinion:</b>	N/A	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>N/A</b>	
A number of investigations have been completed since the November Committee meeting: <ul style="list-style-type: none"><li>• Inv. 16/17 – 4</li><li>• Inv. 16/17 – 6</li><li>• Inv. 16/17 – 9 (a)</li><li>• WB 16/17 – 2</li><li>• WB 16/17 – 3</li><li>• Inv. 16/17 – 9 (b)</li><li>• Inv. 15/16 – 3</li><li>• Inv. 16/17 – 8</li></ul>								

<b>Audit Title:</b>	Domestic Abuse Strategy						
<b>Date of Report:</b>	December 2016			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	3	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	Of Concern
<b><u>Key Recommendations</u></b> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> <li>• A more pragmatic approach to action planning is needed, with the Strategy clear as to what the key areas of focus are for domestic abuse activities. In particular the Action Plan should be reviewed in the context of providing clarity around: <ul style="list-style-type: none"> <li>▪ Detail of actions and related objectives</li> <li>▪ Outcomes expected</li> <li>▪ Clear priorities for actions and realistic timescales. An ongoing assessment of implementation should flag when actions will not be completed, with mitigation or reprioritising undertaken as necessary</li> <li>▪ Outputs and resources required and from where these will be provided</li> <li>▪ Appropriate Lead Officers across the Council and partner agencies</li> <li>▪ Removal of duplicated actions</li> <li>▪ Clear review of actions at the appropriate Domestic Abuse sub-group.</li> </ul> </li> <li>• A performance framework for measuring the success of the Strategy should be established between partners, through discussions at the Community Safety Partnership and the Domestic Abuse and Violence against Women and Girls (VAWG) Strategic Board. The framework should define the strategic outcomes, performance targets and indicators of success, to be measured going forward for each theme in the Strategy. Any measures should be jointly agreed between partners and compliment the need to increase domestic abuse reporting. Targets should aim to measure the reactive and proactive / preventative aspects of the Strategy and include a combination of quantitative and qualitative formats where necessary. Where good practice is available, benchmarking should take place with other local authorities, to inform Swindon's approach in this area.</li> <li>• The Community Safety Partnership or the Domestic Abuse and VAWG Strategic Board should identify the data needs regarding domestic abuse. Methods for collection and analysing of this data should be established and then used to continually inform the basis of the Strategy and priorities in the Action Plan, especially for providing proactive strategies for tackling domestic abuse. Responsibilities of agencies for domestic abuse should be clearly defined, with clear ownership and commitment gained from all partner agencies for future resourcing of activities. For example, this could be via a formal (but not overly burdensome), three to five year partnership agreement to ensure all key partners are committed to the Domestic Abuse Strategy in the short, medium and long-term. At the very least, key partners should contribute to a foreword for the Strategy to endorse their commitment to domestic abuse. Exploration for establishing a pooled fund for domestic abuse should also be undertaken to evaluate if this is a viable option for funding activities going forward.</li> </ul>							

<b>Audit Title:</b>	Consultation Process						
<b>Date of Report:</b>	November 2016			<b>Materiality/Impact:</b>		High	
<b>Number of 'High Priority' Recommendations:</b>	11	<b>Current Audit Opinion:</b>	2	<b>Previous Audit Opinion:</b>	n/a	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<p>The Internal Audit review sought to provide assurance that the Council's Consultation Policy was sufficiently embedded. It found that the Policy sets out a clear commitment to consultation in order to meet the Council's legal requirement and sets out ten principles of effective and efficient consultation.</p> <p>The Director of Law and Democratic Services stated that he is comfortable that there are sufficient processes in place, including overview by the Legal Department of those referred to Cabinet for decision. Testing identified that there is broad compliance with the key Principles of the Consultation Policy and feedback of consultation exercises are reported to Cabinet. However, further work is needed to ensure compliance with all Principles, including more easily accessible details of outcomes of consultation exercises, communicating how feedback has influenced decision making and evaluations of exercises to assess value for money.</p> <p><b><u>Key Recommendations</u></b></p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> <li>• The 'owner' of the Consultation Policy should be identified.</li> <li>• A decision should be made as to whether the ambitions of the Consultation Policy are still affordable, given the current budget pressures.</li> <li>• Adequate resources should be identified, depending on the decision made, to allow the owner to deliver, monitor and review the Policy, as approved by Cabinet.</li> <li>• The Consultation Policy should be reviewed to ensure that the differences between consultation and engagement are clearly defined and the levels of influence the public will have on any decisions are stated.</li> <li>• The roles and responsibilities of officers embarking on a consultation process should be defined and communicated.</li> <li>• A consultation awareness and training programme should be devised and implemented.</li> <li>• A review of the current corporate resourcing levels should be conducted to determine whether additional staff time is required.</li> <li>• A specific budget amount should be identified and resourcing plan prepared at the time a consultation process is being planned.</li> <li>• Guidance on the key considerations and actions that should be undertaken during a consultation process should be devised, approved and published.</li> <li>• Consultation results should be published so that stakeholders can be satisfied that all relevant arguments have been presented and considered.</li> <li>• In accordance with Council Policy, a formal evaluation of each consultation should be conducted.</li> </ul>							

<b>Audit Title:</b>	Purchase Cards						
<b>Date of Report:</b>	October 2016			<b>Materiality/Impact:</b>		Medium	
<b>Number of 'High Priority' Recommendations:</b>	8	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	n/a	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>

#### **Key Recommendations**

The key recommendations made as a result of the review are:

- Appropriate action should be taken against Staff that continually fail to follow the Purchase Card Guidelines. This could be the removal of the purchase card and/or disciplinary action.
- The importance of keeping transaction logs and reconciling them to the monthly statements should be emphasised and this should be communicated to all Cardholders and their Managers. Cardholders should be reminded of the requirement to reconcile purchase card statements to transaction logs. To ensure budgetary control and legitimacy of the purchases made, Managers should always review and counter sign the Cardholder's statements. This requirement should be communicated to Cardholders and their Managers and appropriate disciplinary action should be taken against those who fail to comply.
- Clear instruction should be given to Cardholders on how to identify VAT on transaction logs and the system. Managers should be instructed to check that VAT has been correctly recorded when counter signing statements. A monitoring check should be conducted to identify potential Cardholders who never separate VAT on their purchases. These purchases should be investigated. A review of purchase card payments which have not had VAT accounted for should be conducted to determine whether any could be liable for VAT and, if so, adjustments should be made in order for the VAT to be reclaimed.
- Clearer guidance should be provided on the type of allowable expenses with regards to staff costs.
- Cardholders should be reminded of the Financial Regulations to demonstrate value for money on all purchases. Managers should be reminded to carefully review the purchases made from the purchase cards by their staff to determine whether they have demonstrated value for money in their purchases.
- All Cardholders and Managers should be reminded of the requirement to surrender the cards before their employment terminates. Spot checks should be carried out to identify inactive cards and determine the necessity for the Cardholder to have a purchase card. A reconciliation exercise should be conducted, at least on a quarterly basis, between the leavers list and the active Cardholders to identify any cards that have not been surrendered.
- The application forms for the three Cardholders should be found and maintained. If the forms cannot be located the Cardholders should be asked to complete new ones to confirm their acceptance of the requirements and these should be countersigned as necessary.
- All Cardholders should be reminded to obtain receipts in all cases. Cardholders, who buy on behalf of clients such as Appointees and Deputyships clients, should be instructed to obtain receipts for all purchases to ensure that sufficient evidence is kept to be able to reclaim the amounts paid from the clients' bank accounts. Consideration should be given to the practicalities of staff retaining hard copies of receipts, statements and transaction logs for six years and whether alternative methods of storage would be more appropriate.



Key Audits Completed (Audits) - Draft - Total 27

	April	May	June	July	August	September	October	November	December	January	February	March
Key Audits Completed	Business Continuity		Consultation	Better Care Fund	Transformation Programme	Safeguarding - CSE	NNDR	Domestic Abuse Strategy	Forward Swindon	Main Accounting		
				Housing capital programme	LEP	Treasury Management	IT Governance & Policies			Debtors		
						Council Tax	HB Overpayments					
							NFI submission					
Key audits Month Total	1	0	1	2	2	3	4	1	1	2	0	0
Key audits Cumulative Total	1	1	2	4	6	9	13	14	15	17	17	17
Key audits Target %	5	8	12	20	25	30	50	60	70	80	90	100
Key audits Achieved %	4%	4%	7%	15%	22%	33%	48%	52%	56%	63%	63%	63%

Total other Audits Completed - Draft

	April	May	June	July	August	September	October	November	December	January	February	March
Other Audits Issued	RIPA Compliance	Westrop - VAT	Youth Engagement benchmarking	CRC claim	SEQOL	Affordable housing	TUPE	PPS Dynamic Purchasing System	Stores and Equipment follow-up	Emergency Duty Service		
	DEFRA Flood resilience grant	Troubled Families Claim - May 2016	WB 16/17-2	Adoption	Purchasing Cards	NNDR 3 claim	Allocating resources: disabled children	LEP Assurance work to date	Spreadsheet payments	WB 16/17-3		
	Public Health Grant certification	Housing Voids: follow-up	IT Training	Brindley Close f/up	Refunds	WB 16/17-2	Street Works	Residential Care Homes - Financial checklist	DWP - MoU	Inv 16/17-9(b)		
	Corporate ICT issues: follow-up	WB 16/17-1	CCG invocing		Isambard Community School		Orchid Vale school	PPS Wroughton - Lessons Learned	Inv 16/17-9	Master supplier file		
			Inv 16/17-1		Play Areas		PCI compliance	Red Oaks	Inv 16/17-4	Inv 16/17-5		
			ICT Asset Management		Open Door				Troubled Families Claim - Nov 16	Housing capital programme: f/up		
			Garage Strategy (update)		Day Services Strategy				HB Bank reconciliation			
Other audits total for month	4	4	7	3	7	3	5	5	7	5	0	0
Cumulative other audits	4	8	15	18	25	28	33	38	45	50	50	50

	April	May	June	July	August	September	October	November	December	January	February	March
Overall Month Total Audits	5	4	8	5	9	6	9	6	8	7	0	0
Overall Total Audits	5	9	17	22	31	37	46	52	60	67	67	67
Target Completion of Plan %	4	12	20	28	35	43	52	60	67	74	82	90
Audit Plan Achievement %	5%	9%	17%	22%	31%	37%	46%	52%	60%	67%	67%	67%

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