

Audit Committee request for Internal Audit to review part of the Wi-Fi project

AUDIT COMMITTEE

Date: 20th April 2010

Author: Head of Internal Audit

Wards Affected: None

Purpose

Members requested at the January 2010 meeting of the Committee that Internal Audit review part of the Wi-Fi project and report its findings back to this Committee. This report presents the findings of that review.

Recommendation

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

1 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 properly.
- 1.2 At its meeting on 26th January 2010, this Committee requested that Internal Audit look at certain aspects of the Wi-Fi project. This report provides Members with the findings of that review.

2 Detail

- 2.1 Audit Committee raised a number of concerns/questions regarding the Wi-Fi process and asked the Head of Internal Audit, in consultation with the Director of Law and Democratic Services, to prepare terms of reference for the review.
- 2.2 The terms of reference were prepared and sent to the Chair and Vice-Chair of Audit Committee for approval.
- 2.3 The agreed scope of the internal audit review was to establish:
 - a) the arrangements regarding the security of the Council's investment including assessment of credit worthiness of Digital City (UK) Ltd.
 - b) whether the Council has complied with its own Treasury Management policy and the best practice set out by CIPFA.
 - c) what profit-sharing arrangements are in place?
 - d) whether EU directives have been breached in particular Article 87.
 - e) whether value for money can be demonstrated.
 - f) what, if any, lessons can be learned for the future?

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2.4 The full Internal Audit report is attached as Appendix 1. A summary of the conclusions from the review are as follows:

- **Security of the loan** – Digital City (UK) Limited was a start up company that therefore had no trading history. The loan was recommended on the basis of the business case presented to officers. This was a risk-based decision. The Council's External Auditors have praised the Council in the past for allowing developing a risk culture that enables innovative projects. Risks to the Council were mitigated by the staged release of the loan. The loan agreement also gives the assets of the company as security. The value would not only be the fixed assets but the actual provision of a Wi-Fi network. (See paragraph 3.1 of Appendix 1 for further details).
- **Compliance with the Council's Treasury Management Policy** – the Council's Treasury Management Policy was amended at Cabinet on 23rd July 2008. Cabinet resolved that (in respect of joint venture arrangements) the Director of Finance and the Director of Law and Democratic Services, in consultation with the Cabinet Member for Resources, to invest in such schemes provided that the overall terms of arrangement are suitably advantageous for the Council. The loan to Digital City (UK) Limited falls within this approval. (See paragraph 3.2 of Appendix 1 for further details).
- **Profit-sharing arrangements** – these are set out in the Shareholders' Agreement. The dividend policy within this agreement states that 'dividends shall be agreed by all shareholders and paid on a quarterly basis. The current shareholdings are as follows: Swindon Borough Council own 40% of the issued share capital; Avidity Consulting Limited own 25% and aQovia own 35%. (See paragraph 3.3 of Appendix 1 for further details).
- **Compliance with EU Directive: Article 87** – Article 87 prohibits specific kinds of aids that might be given by EU Member States that distorts or threatens to distort competition. By awarding the loan at market rate the Council has not breached this particular article. (See paragraph 3.4 of Appendix 1 for further details).
- **Value for money** – the loan was awarded at the top end of the market rate (as indicated by The Royal Bank of Scotland) i.e. 3%, and can therefore be shown as offering value for money. Also when compared with investment rates at that time (to invest for a year the rate was only 1.20% at the time of the loan agreement), the 3% demonstrates value for money. In addition, the Council acquired a shareholding in the company as part of the return on the loan. It is

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too early in the process to determine what the level of returns, as a shareholder, will be over the longer term. (See paragraph 3.5 for further details).

- **Lessons to be learnt** - Backbench and opposition Councillors in addition to members of the public and Members of Parliament have raised a number of concerns regarding the process adopted for making a loan to Digital City (UK) Ltd. Backbench and opposition Councillors did not become fully aware of the project until the end of the process. Decisions made during the process, such as deciding to progress via the Cabinet Member Briefing Note were selected, in part, due to the view that things needed to be progressed quickly. This restricted the openness of the decision making process although the route selected complied with due process. Options on how to augment the Council's processes for managing the transition of innovative commercial projects with private sector partners from inception to the approval and implementation of a project should be explored. The Corporate Governance Review Working Group have tasked the Director of Law and Democratic Services with producing a report regarding this. (See paragraph 3.1 for further details).

2.5 The internal audit report is submitted for Members consideration.

Alternative Options

Not Applicable

Risk Management

Financial and Procurement Implications

The overall Financial and Procurement implications associated with the Wi-Fi project are identified as part of recent reports to Cabinet.

Legal/Human Rights Implications

Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2006. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

The success of Digital City (UK) Limited and the Council's shareholding within the company is expected to assist the Council's Medium Term Resourcing Plan.

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Consultees

The Director of Finance (Section 151 Officer) and the Director of Law and Democratic Services (Monitoring Officer) are consulted on all reports.

Chief Executive

Group Director Business Transformation

Various other officers – as listed in the attached audit report (see Appendix 1)

Appendices / Background papers

Appendix 1 – Internal Audit Report on concerns raised at Audit Committee regarding Wi-Fi

Key Decision/Decision in Forward Plan

Not Applicable