# Public Document Pack

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| To: | Members of the Corporate Governance Committee | Date: | 26 August 2014 |
| | | Direct Dial: | 01824712575 |
| | | e-mail: | dcc_admin@denbighshire.gov.uk |

Dear Councillor

You are invited to attend a meeting of the **CORPORATE GOVERNANCE COMMITTEE** to be held at **10.00 am** on **WEDNESDAY, 3 SEPTEMBER 2014** in **CONFERENCE ROOM 1B, COUNTY HALL, RUTHIN**.

Yours sincerely

G. Williams
Head of Legal and Democratic Services

## AGENDA

## PART 1 - THE PRESS AND PUBLIC ARE INVITED TO ATTEND THIS PART OF THE MEETING

**1    APOLOGIES**

**2    DECLARATION OF INTERESTS**

Members to declare any personal or prejudicial interests in any business identified to be considered at this meeting.

**3    URGENT MATTERS**

Notice of items, which in the opinion of the Chair should be considered at the meeting as a matter of urgency pursuant to Section 100B(4) of the Local Government Act 1972.

**4    MINUTES**  (Pages 5 - 16)

To receive the minutes of the Corporate Governance Committee meeting held on 2$^{nd}$ July, 2014.

**5    BLESSED EDWARD JONES RC HIGH SCHOOL - UPDATE**  (Pages 17 - 24)

To consider a report by the Head of Internal Audit, which report provides the details of Internal Audit's follow up work at Blessed Edward Jones School following its initial report in October 2013 and first follow up report in June 2014 (copy enclosed).

**6    BUDGET PROCESS 2015/16**  (Pages 25 - 28)

To consider a report by the Head of Finance and Assets, which provides an update on the process to deliver the revenue budget for 2015/16 (copy enclosed).

**7    CORPORATE GOVERNANCE COMMITTEE ANNUAL REPORT**

To receive a verbal report from the Chair of the Corporate Governance Committee.

**8    TREASURY MANAGEMENT ANNUAL REPORT 1 - 2014/15**  (Pages 29 - 48)

To consider a report by the Head of Finance and Assets, on the Treasury Management activities (copy enclosed).

**9    PROCUREMENT OF CONSTRUCTION SERVICES - UPDATE**  (Pages 49 - 70)

To consider a report by the Head of Internal Audit, on Internal Audit's follow up work of Procurement of Construction Services following its initial report in October 2013 and the Wales Audit Office's (WAO) report of March 2014 (copy enclosed).

**10   REPORT ON ARM'S LENGTH COMPANIES**  (Pages 71 - 100)

To consider a report by the Head of Internal Audit, which provides details of the Head of Internal Audit's preliminary work and report on an assessment framework for the Council to gain assurance on governance and performance from its 'arms-length' organisations (copy enclosed).

**11   STRATEGIC HUMAN RESOURCES INTERNAL AUDIT REPORT - UPDATE**  (Pages 101 - 118)

To consider a report by the Head of Internal Audit, which provides details of Internal Audit's latest work in Strategic HR, following its initial report in August 2012 and previous follow up reports (copy enclosed).

**12  INTERNAL AUDIT PROGRESS REPORT**  (Pages 119 - 184)

To consider a report by the Head of Internal Audit (copy enclosed) which provides updates on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

**13  FEEDBACK ON CORPORATE EQUALITIES MEETING**

To receive a verbal report from Councillor M.L. Holland on the Corporate Equalities meeting.

**14  CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME**  (Pages 185 - 188)

To consider the Committee's forward work programme (copy enclosed).

**PART 2 - CONFIDENTIAL ITEMS**

It is recommended in accordance with Section 100A(4) of the Local Government Act 1972, that the Press and Public be excluded from the meeting during consideration of the following item of business because it is likely that exempt information (as defined in paragraph "14 and 15" of Part 4 of Schedule 12A of the Act) would be disclosed.

**15  COUNTY HALL - PFI**  (Pages 189 - 196)

To consider a confidential report by the Head of Finance and Assets, on the progress of negotiations on the future of the Ruthin PFI contract, and the risks and process to completion (copy enclosed).

**MEMBERSHIP**

**Councillors**

| | |
|---|---|
| Joan Butterfield | Martyn Holland |
| Stuart Davies | Gwyneth Kensler |
| Peter Duffy | Jason McLellan |

**Lay Member**

Paul Whitham

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**CORPORATE GOVERNANCE COMMITTEE**

Minutes of a meeting of the Corporate Governance Committee held in Conference Room 1A, County Hall, Ruthin on Wednesday, 2 July 2014 at 9.30 am.

**PRESENT**

Councillors Martyn Holland, Gwyneth Kensler (Vice-Chair) and Jason McLellan (Chair) and Mr P. Whitham (Lay Member).

Councillors M.Ll. Davies, D. Owens, B.A. Smith and J. Thompson-Hill attended as observers.

**ALSO PRESENT**

Head of Legal and Democratic Services (GW), Head of Internal Audit (IB), Chief Accountant (RW), Corporate Improvement Officer (NK), Scrutiny Co-ordinator (RE), Wales Audit Office Representatives (GB and NR) and Committee Administrator (CIW).

**1      APOLOGIES**

Apologies for absence were received from Councillors Joan Butterfield and Stuart Davies.

**2      DECLARATION OF INTERESTS**

No Members declared any personal or prejudicial interests in any business identified to be considered at the meeting.

**3      URGENT MATTERS**

In accordance with the requirements of Section 100B(4) of the Local Government Act 1972, the Chair declared that he intended to include for discussion the following matter requiring urgent attention:-

**Audit of Denbighshire County Council's 2014/15 Improvement Plan, Compliance Certificate**

A copy of the Compliance Certificate was circulated to Members of the Committee at the meeting. The Chair provided a brief summary of the contents of the letter and it was:-

*RESOLVED –* *that the Corporate Governance Committee receive and noted the contents of the Compliance Certificate.*

**4      MINUTES**

The Minutes of a meeting of the Corporate Governance Committee held on 21$^{st}$ May, 2014 were submitted.

Matters arising:-

8. Data Protection Act – In response to a question from Mr P. Whitham, the Head of Legal and Democratic Services (HLDS) confirmed that the report relating to the management and proactive prevention and reduction of requests, by the Corporate Information Manager, would be included in the Corporate Governance Committee forward work programme.

11. Delivering Good Governance and Continuous Improvement – Councillor J. Thompson-Hill provided confirmation that Cabinet had, on the 27th May, 2014, approved the proposal for the merger of Denbighshire and Flintshire Procurement Units, together with, the wider three County issue with the inclusion of Gwynedd County Council. Confirmation was also provided that the Corporate Governance Committee would be included in the consultation process with regard to CPR's.

*RESOLVED – that the minutes be received and approved as a true and correct record.*

## 5    BUDGET PROCESS 2015/16

A report, and confidential appendix, by the Head of Finance and Assets (HFA), which provided an update on the process to deliver the revenue budget for 2015/16, had been circulated previously.

**PART II**

Exclusion of press and public

**RESOLVED –** that under Section 100A of the Local Government Act 1972, the Press and Public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 14 and 15 of Part 4 of Schedule 12A of the Local Government Act 1972.

Councillor J. Thompson-Hill explained that a further update had been provided to Cabinet Briefing and all Freedoms and Flexibilities budget meetings had been completed. However, elements of the Highways and Environment Section had been delayed. The schedule of meetings had been included in Table 2 in the report, and the next stage of the process would include the three Member Budget Workshops. Details of key events, dates and status had been included in the report.

At each meeting, a detailed analysis of the service budget had been considered and a set of outcomes agreed. An example of the service analysis and outcomes relating to Adults and Business Services had been enclosed as Appendix 1 and Appendix 2. From the outcomes, a series of detailed information sheets had been produced to highlight the range and timing of potential savings, the impact, risks and suggested consultation requirements, with an example having been included in Appendix 3. Councillor Thomson-Hill confirmed that details pertaining to each of

the respective services would be provided at the Member Budget Workshops, and details of the process to be adopted were outlined.

In response to questions from Members, it was explained that the information to be presented to the budget workshops in July would be based on the appendices enclosed, and would detail each of the respective services. The view of the Corporate Governance Committee, in respect of the format and detail of the information contained in the appendices, would be key in informing the process as it continued to develop.

The CA provided the following responses to questions raised by Members:-

- With regard to Appendix 1 and the "approximate percentage of resources allocated to component" column being left blank, two different approaches had been adopted for the two pilot exercises. It was explained that the way the budget had been structured had not always provide a clear reflection of the activity and this judgement had been left to Heads of Service.

- Concerns expressed in relation to the inconsistency of detail provided in respect of the figures included under various headings and services were noted. Mr Whitham felt a comment or explanation should be included for clarity purposes.

- The CA agreed to examine the possibility of providing details to Member Workshops on the split of grant and other income. Members emphasised the importance of being made aware of the source of income for service provision and its sustainability.

- Members were informed that although various modules of the PARIS system were operating satisfactorily, the financials module had not yet been introduced.

- Councillor M.L. Holland referred to the need to ensure that any new systems introduced be fully utilised by the Council, the CA endorsed the view that a review of the Council's IT management of systems and process be undertaken, possibly with the overview of the Corporate Governance Committee.

- In reply to concerns raised by Councilllor G.M. Kensler in respect of Welfare Rights issues, the CA referred explained that one of the outcomes had been to undertake a review grants paid through the Social Care budget.

- Mr P. Whitham referred to the management of the risk element of the possibility of the Council being unable to meet the future expectations of the public in view of the reduction of resources available, and the need to inform the public of the circumstances to mitigate any future risk.

During the ensuing discussion the Chair requested that Members be provided with paper copies of the reports to be submitted to the Member Workshops.

*RESOLVED* – *that Corporate Governance Committee receives and accepts the contents of the report.*

**PART I** – The meeting resumed in open session.

6    **DRAFT STATEMENT OF ACCOUNTS**

A report by the Head of Finance and Assets (HFA), which provided an overview of the draft Statement of Accounts 2013/14 (SOA) and the process underpinning it, had been circulated previously.

Councillor G.M. Kensler and Mr P. Whitham declared a personal interest in this item as Members of the Clwyd Pensions Fund.

The HFA explained that the audited accounts would be presented to the Committee on the 26<sup>th</sup> September, 2014. Presenting the draft accounts provided an early indication of the Council's financial position and could highlight any issues in the accounts or the process prior to the accounts being audited. The audited accounts had to be formally approved by Members on behalf of the Council and this role had been delegated to the Corporate Governance Committee. The draft accounts would be finalised by the 30<sup>th</sup> June. In view of the role of the Committee in approving the final accounts, it was beneficial to provide an update and overview at draft stage for consideration prior to submitting the final accounts in September.

The publication of the SOA underpinned the financial stewardship and governance of the Council and therefore supported all Council services and priorities. The production of the accounts was regularly reviewed by the Wales Audit Office (WAO), and professional opinions were drawn from numerous other disciplines beyond finance, such as legal, property valuation, HR and pensions. The SOA was a key element of the Council's governance framework and it was important that Members received assurance that the accounts had been produced in compliance with the relevant standards and that the process underpinning the production of the accounts was robust. Members were informed that the Council would be in breach of its statutory duty if it could not approve the Accounts by the 30<sup>th</sup> September, 2014.

The CA explained that there had been a technical change to the way in which the pensions were reported and to accounting issues. He provided a summary of the SOA 2013/14 and invited Members attention to the following areas:-

-    The Foreword which provided an overview of the Council's revenue position.
-    Transfer to and from Earmarked Reserves.
-    Useable Reserves.
-    Revenue Balances.
-    Balance Sheet.
-    Members' Allowances.
-    Officers' Remuneration.
-    Related Parties.

The WAO Representative (NR) confirmed that the Statement of Accounts (SOA) had been received within the designated timescales. He outlined the advertising process and referred to the opportunity afforded to the public to submit specific and relevant questions or to challenge the Accounts. In response to a question from the Chair, the CA confirmed that an overview of the questions received or formal objections would be provided for Members.

The CA responded to a question from Councillor G.M. Kensler and provided details of the provisions introduced to address long-term issues and claims emanating from the Council's pervious insurance provider.

The Chair suggested that the Committee timetable for 2015/16 be compiled to accommodate timescales for the presentation of the SOA to the Corporate Governance Committee.

*RESOLVED* – *that Corporate Governance Committee note the position as presented in the draft accounts.*

## 7    WAO ANNUAL IMPROVEMENT REPORT - 2013/14

A copy of a report by the Head of Business, Improvement and Modernisation (HBIM), on the annual assessment of the Council's prospects for improvement undertaken by the Wales Audit Office (WAO), had been circulated with the papers for the meeting, together with, a copy of the WAO, 2014/15 Performance Audit work and Fees letter.

The WAO Representative (GB) introduced the report and explained that the Annual Improvement Report, Appendix 1, provided information on the Councils Annual Improvement Report (AIR). Under the Local Government Measure, the Wales Audit Office annually reviews the Council's progress towards meeting its objectives and its prospects for continuing to improve in the year ahead.

For the year 2013-14, the WAO had concluded that:-

- Denbighshire made good progress in delivering improvements in all its priority objectives for 2012-13 but further improvements are required in a few key areas;
- The Council's service challenge reviews and other measures to self-evaluate its performance are robust;
- The Council's planning for improvement and its arrangements to support improvement are good;
- The Council is likely to make arrangements to secure continuous improvement for 2014-15.

It was explained that if the WAO had significant concerns about the progress made by the Council or the direction it was taking, it would make formal recommendations for change. Denbighshire's report did not have any formal recommendations and this reflected the WAO's positive view of the Council's progress.

Confirmation was provided that some areas required further work and both last year's and this year's Annual Reports had made some 'proposals for improvement'. Denbighshire had made good progress with all the proposals made in the 20012/13 report and this year the Inspectors had made two further proposals which they considered would help the Council continue to progress. These included:-

- P1 - In order to achieve its objective to modernise services the Council should continue to address weaknesses in its Corporate Human Resource Service.
- P2 - The Council should ensure that roles and responsibilities are clear for the achievement of the affordable housing objective.

The Council accepted the proposals and taken action to address them. Denbighshire were continuing to work through an action plan to address the identified shortfalls in the HR service, and a Task Group was being established to review objectives in relation to the affordable housing issue,

Reference was made by the WAO Representative to paragraph 30 of the report which indicated the level of financial reserves held by schools in Denbighshire had increased significantly during 2012/13 to £2.9m. In response to a suggestion by Councillor M.L. Holland, the Committee agreed the issue pertaining to school balances be referred to the Scrutiny Chairs and Vice Chairs Group for consideration.

Councillor M.L. Holland raised issues pertaining to the following sections in the report:-

17. The reasons for the unsuccessful bid for Welsh Government funding from the Vibrant and Viable Places Fund to support initiatives within Rhyl.

45. There being any pattern to the recorded incidents of fly-tipping being higher than the average for other Councils in Wales.

52. Registration issues in the County in respect of affordable housing.

The WAO Representative gave a summary of the Wales Audit Office, 2014/15 Performance Audit Work and Fees letter, and provided responses to questions from Mr P. Whitham in respect of the WAO performance audit work 2014/15, Governance.

Members were informed that the WAO would be liaising with the relevant officers and subsequently reporting to Corporate Governance Committee. The work would be undertaken later in the year and would form part of the next Annual Improvement Report.

The HIA referred to the Audit Plan which incorporated work relating to school financial management and this report would be presented to the Corporate Governance Committee.

During the ensuing discussion the Chair explained that an item pertaining to Strategic Human Resources had been included in the forward work progamme for the 3rd September, 20124, and a Work Shop had been convened with regard to Affordable Housing.

*RESOLVED* – *that the Corporate Governance Committee:-*

*(a)      receives and notes the contents of the Annual Improvement Report.*
*(b)      receives and notes the contents of the Wales Audit Office, 2014/15 Performance Audit Work and Fees letter, and*
*(c)      the issue pertaining to school balances be referred to the Scrutiny Chairs and Vice Chairs Group for consideration.*

## 8      CORPORATE RISK REGISTER REVIEW

A report by the Head of Business, Improvement and Modernisation, to present the latest version of the Corporate Risk Register agreed at Cabinet Briefing, had been circulated previously.

The Corporate Improvement Officer (CIO) introduced the report and explained that the Corporate Risk Register (CRR) enabled the Council to manage the likelihood and impact of risks it faced by evaluating the effect of any current mitigating actions, and recording deadlines and responsibilities for further action that should enable tighter control.  The Register had been developed and was owned by the Corporate Executive Team and Cabinet.  The process for reviewing the CRR had been included in the report.

The review process for the CRR had been included in the report and following each formal review, twice per annum, the revised document was presented to the Corporate Governance Committee.  Actions identified to address corporate risks would be included in Service Plans which enabled the Performance Scrutiny Committee to monitor progress.  Any performance issues in relation to the delivery of these activities should be highlighted as part of the Service Performance Challenge process.

The Internal Audit function provided independent assurance on the effectiveness of the internal control procedures and mechanisms in place to mitigate risks across the Council. It also offered independent challenge to ensure the principles and requirements of managing risk were consistently adopted throughout the Authority. Internal Audit Services utilised information from the service and CRR to inform its forward work programme.

An annual review and report on progress of the Risk Management Policy identified weak areas which required strengthening to improve the risk management process.  The purpose of the CRR was to identify the potential future events which may have a detrimental impact on the Council's ability to deliver its objectives and its Corporate Priorities.

The CIO provided a summary of the main changes made to the CRR, Appendix 1, and the following areas were highlighted:-

- Revision to DCC004: *'The risk that the HR framework doesn't support the organisation's aims'*.
- Revision to DCC006: *'The risk that the economic and financial environment worsens beyond current expectations'*.
- Revision to DCC016: *'The risk that the impact of welfare reforms is more significant than anticipated by the council'*.
- Revision to DCC017:*'The risk that the ICT framework does not meet the organisation's needs'*.
- Revision to DCC018: Formerly worded, *'The risk that change/modernisation programme and project benefits are not fully realised'*.

In response to issues raised by Members, confirmation was provided by the CIO that the findings of the WAO's audit of risk management would be reported when available, and she explained that the reporting of 'near misses' would be added to the H&S mitigating actions. The CIO also agreed to discuss weather-related risk with CET, and obtain further detail about other mitigating actions regarding Arm's Length Organisations from the HIA.

With regard to budget-related risk, the CIO explained that the mitigating actions listed described the steps taken to enable informed and democratic decision-making around the programme of managing the budget. Budget reports presented to Cabinet on a monthly basis included a risk section. Each proposal or project associated with the programme of managing the budget would be presented to Council and/or Cabinet with a covering report which included a risk section. Risk management was an integral and active part of service and project management. It was felt that the risk management process featured the necessary components to provide assurance. The Committee advised to reference appropriate documentation for projects and proposals, including risk registers, cover reports, to seek assurance that risk was being managed.

The CIO agreed to discuss weather-related risk with CET, and obtain further detail about other mitigating actions regarding Arm's Length Organisations from the HIA. She explained that the Risk Management Policy had been reviewed at presented to the Committee in 2012, and an annual review had also been submitted to the Committee.

In response to a question from Mr P. Whitham in relation to DCC021, the CIO explained that discussions would be commencing with Cabinet and CET in September and an update report detailing any related risks would be presented to the Committee.

In reply to concerns raised by Councillor G.M. Kensler regarding the possible risks to Denbighshire which might emanate from Welfare Reforms, and the adverse findings encompassed in the Internal Audit Report, the Committee noted the concerns expressed and it was agreed that the Internal Audit Report, which refers to Welfare Reforms, be included on the forward work programme for the 3rd September, 2014.

*RESOLVED* – *that, subject to the above comments, the Corporate Governance Committee:-*

*(a) receives the report and notes the deletions, additions and amendments to the Corporate Risk Register, and*
*(b) agrees that Internal Audit Report be included on the forward work programme for the 3rd September, 2014.*

## 9   GOVERNANCE IMPROVEMENT PLAN

A report by the Head of Internal Audit (copy enclosed), which provided details of the Improvement Plan resulting from the review of the Council's governance framework for 2013/14, had been circulated previously.

Corporate Governance Committee monitored the Governance Improvement Plan on a regular basis as part of the Council's overall governance arrangements to make sure that the Council implements the necessary improvements effectively. The Council's Corporate Governance Framework included an annual assessment of the Council's governance arrangements and an 'annual governance statement' that highlights any governance weaknesses.

The Council's Governance Group managed the Corporate Governance Framework process and development of the 'annual governance statement' on an on-going basis during the financial year.  Details of the composition of the Group had been included in the report.

Appendix 1 detailed the Governance Improvement Plan arising from the review of the Council's governance arrangements for 2013/14.  The Plan had now been finalised and an update of the proposed improvement actions, responsibilities and timescales was provided for Members.

The Governance Improvement Plan formed part of the 'Delivering Good Governance and Continuous Improvement' document and details of the consultation process had been included in the report.  The document had also been distributed to Cabinet Members and the Wales Audit Office for comment.

Mr P. Whitham referred to the overall budget for the procurement of construction services, which totalled £37.7m, and suggested that the Committee consider adopting a similar monitoring process to that utilised for Strategic Human Resources.  Mr Whitham expressed the view that construction procurement and contract procedures rules could be viewed and addressed as separate governance issues.

The HIA confirmed that a further report would be presented to the Committee in September, which would provide a response to the WAO report previously presented to the Committee.  Members agreed that Mr Witham's suggestions be noted and included as potential actions arising from the report to be considered in September.

The HLDS responded to a question from Councillor M.L. Holland and outlined the requirements and progress to date on the provision of member training with regard to the Code of Conduct. Details were provided in respect of the provision of mandatory training and enforcement powers. It was confirmed that a report on member training would be submitted to County Council, and Members agreed that the report be presented to the Corporate Governance Committee for consideration prior to its submission to Council.

In response to a question from Mr P. Whitham, the HLDS confirmed that the Anti-Fraud and Corruption Policy was currently being reviewed and would be presented to the Committee later in the year.

*RESOLVED – that Corporate Governance Committee agrees that:-*

*(a)     the Governance Improvement Plan be received and noted.*
*(b)     Mr Witham's suggestions be noted and included as potential actions arising from the report to be considered in September, and*
*(c)     the Member training report be presented to the Committee prior to its submission to County Council.*

## 10      BLESSED EDWARD JONES RC HIGH SCHOOL - UPDATE

A report by the Head of Internal Audit, which provided details of Internal Audit's follow-up work at Blessed Edward Jones School following its initial report in October, 2013, had been circulated previously.

Internal Audit (IA) issued a report on Blessed Edward Jones School in October, 2013 that, despite giving a 'medium' assurance rating, included an action plan with 13 areas for improvement. The Committee had been particularly concerned that the School should address its financial pressures and requested that Internal Audit's follow-up report be presented to the Committee.

The follow-up report indicated that significant improvements had been made since the original audit report. Many of the issues raised had now been addressed, although some deadlines had been missed. Concerns were expressed that the School had yet to fully develop its financial recovery plan. The HIA explained the school had produced three-year projections and worked to reduce the forecast deficit but would still have a deficit in March, 2015.

Members were informed that robust procedures were in place to manage such situations and the School had requested permission to have a licensed deficit and would then develop a financial recovery plan. Details of the process for acquiring permission for a licensed deficit were provided by the HIA.

The Chair referred to the Constitution of the School's Board of Governors and the delays experienced in the decision making process pending appointments to the Board. The HIA agreed to convey the concerns raised to the School, and put forward the suggestion that the tasks pending be delegated to the existing Governors with a view to progressing matters.

In response to concerns raised by Members the HIA explained that a further follow-up report was imminent, and he agreed to provide Members of the Committee with an update on its outcomes.  Members also agreed that a further progress report be presented to the Committee in September, 2014.

*RESOLVED – that Corporate Governance Committee:-*

*(a)  receives and accepts the Internal Audit follow-up report.*
*(b)  agrees that a progress report on the follow-up report be circulated to Members of the Committee, and*
*(c)  requests that a further progress report be presented to the Committee in September, 2014.*

## 11  CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME

The Corporate Governance Committee's Forward Work Programme (FWP) (previously circulated) was presented for consideration.

The Committee confirmed the Corporate Governance Committee Forward Work Programme subject to the inclusion of the following reports:-

3rd September, 2014:-

- Blessed Edward Jones RC School – Update.
- Welfare Rights – Internal Audit Report
- Member Training Report.

5th November, 2014

- Fraud and Corruption Policy.
- Contract Procedure Rules Report.
- New Model Constitution.

25th March, 2015

- Information Management Strategy, Freedom of Information Report

Confirmation was provided by the HIA that additional Budget Up-date Reports could be included in the forward work programme if required.

The HIA explained that he and the Head of Customers and Education Support had been discussing and clarifying the issues to be presented in respect of the business items pertaining to "Reports of Complaints Received" and the "Annual Review of Operation of Complaints Process".  The HLDS provided details of the Terms of Reference of both the Corporate Governance Committee and the Performance Scrutiny Committee in terms of the performance and effectiveness of the Complaints Process.  Members agreed that the allocation of this item could be considered by the Scrutiny Chairs and Vice Chairs Group at its meeting on the 3rd July, 2014.

Members were informed by the HIA that assurance in respect of Risk Management would be provided by Internal Audit. He confirmed that WAO would be undertaking a Review of Risk Management, which would address the requirements of the Members, and a report would subsequently be presented to the Committee. The HLDS explained that the Terms of Reference of the Committee were to monitor the effective development and operation of Risk Management within the Council.

In response to a request by Mr P. Whitham, Members agreed that a copy of the Risk Management Policy be circulated to Members of the Committee, and a business item be included in the forward work programme for November, 2014. It was also agreed that guidance on timescales for the presentation of the WAO report be sought.

***RESOLVED*** – *that, subject to the above, the Committee approves the Forward Work Programme.*

Meeting ended at 12.25 p.m.

Report To:                  **Corporate Governance Committee**

Date of Meeting:            **3 September 2014**

Lead Member / Officer:      **Julian Thompson-Hill, Leader Member for Finance & Assets**

Report Author:              **Ivan Butler, Head of Internal Audit**

Title:                      **Internal Audit Follow-up – Blessed Edward Jones RC High School - Update**

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## 1.      What is the report about?

This report provides the Committee with details of Internal Audit's follow up work at Blessed Edward Jones School following its initial report in October 2013 and first follow up report in June 2014.

## 2.      What is the reason for making this report?

Corporate Governance Committee requested that our follow up report for Blessed Edward Jones School be presented to the Committee to provide assurance that improvements have been made at the School.

## 3.      What are the Recommendations?

Committee considers and comments on the Internal Audit follow-up report.

## 4.      Report details.

We issued a report on Blessed Edward Jones School in October 2013 that, despite giving a 'medium' assurance rating, included an action plan with 13 areas for improvement. Corporate Governance Committee was particularly concerned that the School should address its financial pressures  and requested that we follow up report be presented to the Committee.

Our follow up report to this Committee in July 2014 showed good progress overall with the action plan but the Committee expressed its concerns over the lack of a financial recovery plan at that stage, requesting a further follow up report to its September meeting.

The attached follow up action plan in Appendix 1 shows that the School has made further progress in delivering improvements and has agreed its financial recovery plan. However, there is still much discussion on how the School will meet its budget in 2016/17, so the School has been asked to send representatives to the Committee's meeting to provide further information and answer Members' questions.

**5.     How does the decision contribute to the Corporate Priorities?**

There is no decision required for this report.

**6.     What will it cost and how will it affect other services?**

There are no costs attached to this report.

**7.     What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?  The completed EqIA template should be attached as an appendix to the report.**

This report does not require a decision or proposal for change, so there is no impact on people who share protected characteristics.

**8.     What consultations have been carried out with Scrutiny and others?**

Not applicable – information report only

**9.     Chief Finance Officer Statement**

Not applicable – information report only

**10.    What risks are there and is there anything we can do to reduce them?**

Not applicable – information report only

**11.    Power to make the Decision**

Not applicable – information report only

# Action Plan

**Audit Follow-up Review of:**     Blessed Edward Jones School

**Date:**                          August 2014

**Action Plan Owner:**             Head Teacher

| Corporate Risk/Issue Severity Key | |
|---|---|
| 🟥 | **Critical** – Significant CET and Cabinet intervention |
| 🟧 | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| 🟨 | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 1. | The composition of the Governing Body is incomplete as there is a vacancy for a LEA governor and also a vacancy for the clerk to the governors. | Chair of Governors aware of the vacancy and approach to be made to prospective governor<br><br>**Chair of Governors – Feb 2014**<br><br>**Previous Follow Up Progress**<br>Chair of Governors has been ill so no action taken to date. New Clerk made aware of the vacant position and will take forward with Deputy Chair in next few weeks. | **In progress – overdue**<br><br>The Governing Body is still incomplete as there is still a vacancy for a LEA governor.<br><br>The Clerk to the governors has been made aware of the LEA vacancy and will be taking the information forward to the Deputy Chair at the next Governing Body meeting to action in the Chair of Governors' absence. | Delegation of task of vacant LEA role to Deputy Chair of Governors in absence of the Chair of Governors to take action to find a suitable person for the vacancy. |
| 2. | Not all governors have been checked by the Disclosure and Barring Service (DBS) and other qualification/disqualification checks, including Bankruptcy and Company Directors Disqualifications need to be completed for all governors. | Other checks to be investigated and undertaken for all governors when new Clerk is appointed.<br><br>**New Clerk to the Governors – Feb 2014**<br><br>**Previous Follow Up Progress**<br>New Clerk to review existing records and arrange for other checks to be investigated and completed. Further update June 2014 prior to next Governors meeting. | **Complete**<br><br>DBS checks are all complete for members of the Governing Body. We have received an updated spreadsheet confirming that all members of the Governing Body have had the DBS checks.<br><br>All disqualification and bankruptcy checks have been carried out and nothing has been found regarding the governors. **Awaiting evidence from Clerk of Governors**. | n/a |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 4. | Governing Body minutes need to be improved in the following areas: | | | |
| | • They do not include who is to complete actions and by when. | New Clerk to receive training to ensure actions agreed in meetings are allocated to members with estimated time for completion.<br><br>**New Clerk to the Governors – asap after appointment by Feb 2014**<br><br>**Previous Follow Up Progress**<br>In progress. Training for new Clerk arranged for 9 June 2014. | **Complete**<br><br>The Clerk to the governors attended a governors minute taking course on 9 June 2014, which was beneficial for their role. A new template for recording the minutes has been produced and will be going to the next Governing Body meeting for approval. Once approved, the minutes template will be used for future meetings (Copy of the template provided)<br><br>Awareness of school policies has also been provided by the Business and Finance Manager as part of their training for the role. | n/a |
| 5. | The School needs a robust financial recovery plan to significantly reduce its budget deficit and prevent removal of its delegated powers. | Budget figures for 2014/15 awaited, together with projections for next two years. Upon receipt, revised three-year projections to be prepared.<br>**Business & Finance Manager – Jan 2014**<br><br>**Previous Follow Up Progress**<br>Three-year projections for 2014-17 currently being finalised. Deficit reduced from £414K to £250K in 2013. Further reduction of £146K forecast for 2014 but budget will still be in deficit at end March 2015. Email sent to Education Planning & Resource Manager on 9 April 2014 requesting licensed deficit. | **In progress – overdue**<br><br>We received a copy of the draft recovery plan dated 2013-2017 and a copy of the application for a licensed deficit, which has been approved by the Education Planning and Resource Manager.<br><br>The recovery plan shows a predicted cumulative deficit of £24k for 2014/15, a predicted surplus of £31k in 2015/16 but a predicted deficit of £143k in 2016/17.<br><br>The draft recovery plan is being monitored on a quarterly basis by the School Funding Manager and by the Finance and Business Manager on a monthly basis to ensure that the budget is in line with the draft recovery plan. They are aware that the School cannot set a balanced budget but | From the amended figures received by the Business and Finance Manager there is a predicted deficit of £143,159 for 2016/17.<br><br>The school has introduced as many efficiencies and savings without impacting on the provision of the education of the pupils. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| Page 21 | | | are working with the School to assist where necessary.<br><br>The Education Resource and Planning Manager does not have concern currently as the School is addressing the deficit as best it can without seriously affecting the educational provision or standards (as set out in the Challenge and Intervention Framework for schools in financial difficulties).<br><br>The Business and Finance Manager said that the current efficiencies being achieved are not having a big impact on the educational provisions or standards. There is also the added pressure of the reducing numbers at the School, which impacts on the financial plan. The concern is that if further efficiencies are made, it would have serious impact on the educational provisions. | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 7. | The number of stand-alone invoices that the School processes is too high, increasing the risk of unauthorised purchases and making budgetary control more difficult. | Data to be obtained from Proactis team to monitor % improvement during the year.<br><br>**Business & Finance Manager – December 2013 (ongoing data collection)**<br><br>**Previous Follow Up Progress**<br>Initial report obtained to act as baseline data. Termly review to be undertaken by Business & Finance Manager from April onwards. | **Complete**<br><br>The Centralised Invoice Registration process is now in place. As part of this process, quarterly reviews will be carried out by the Proactis team and reported to Heads of Service or Head Teachers advising them of the number of retrospective orders raised. This information will also be reported to the Senior Leadership Team quarterly.<br><br>During April to June 2014, the total number of stand-alone invoices was 117 with 89 of them relating to agency staff and exam fees (which are now exempt from needing purchase orders). The total number of stand- alone invoices where a purchase order was required was 28 (totally 24%) of the total invoices raised. This is a significant improvement from our previous review. | n/a |
| 9. | There are some security and access issues that the School needs to address: | | | |
| | • It would be beneficial to carry out a risk-assessment of the Reception area, where there is no CCTV, panic alarms and limited exits | Risk assessment of the Reception area to be completed as advised<br><br>**Previous Follow Up Progress**<br>Not complete | **Not complete**<br><br>The School has yet to take action to carry out a risk assessment. | We suggested that the Business and Finance Manager should contact Corporate Health and Safety for guidance and the best approach on how to address the health and safety issues, panic alarms and the exit areas for the reception area. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 10. | Members of staff do not have any formal guidance on lone working, which is needed for robust health and safety management. | Lone working policy to be developed using DCC guidance and made available to all staff. Hardcopy to be issued to key holders (Caretakers/ Head teacher/ Business & Finance Manager) **Business & Finance Manager – Feb 2014**<br><br>**Previous Follow Up Progress** Not complete | **In Progress – overdue**<br><br>The draft lone working policy has been developed and is going to the next Governing Body meeting on 15 July 2014. Once the policy has been approved, it will be issued to all members of staff.<br><br>The draft lone working policy (copy provided) appears to be clear and robust. | Circulate the lone working policy to all members of staff once it has been approved. |
| 11. | The School's CCTV in the 'Inclusion' Room may be breaching Data Protection requirements relating to overwriting and retention of data. | Review of School's CCTV usage and data retention requirements to be undertaken. Data Protection guidance to be reviewed and CCTV policy to be prepared for Governing Body approval.<br><br>**Business & Finance Manager / Governing Body – Mar 2014**<br><br>**Previous Follow Up Progress** **In progress – overdue** CCTV guidance obtained from ICO website but policy not yet written. | **Complete**<br><br>The location of the 'Inclusion' room is being relocated to an area of the School where there is a higher concentration of staff. There are currently no plans in place to have new CCTV installed where the new Inclusion room will be.<br><br>The Finance and Business Manager said that they will be reviewing the need for CCTV in the inclusion room on a termly basis. | n/a |

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**Report To:**       **Corporate Governance Committee**

**Date of Meeting:**    3rd **September 2014**

**Lead Member / Officer:**    **Councillor Julian Thompson-Hill /Paul McGrady**

**Report Author:**      **Richard Weigh, Chief Accountant**

**Title:**            **Budget Process 2015/16**

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**1.**      **What is the report about?**

The report gives an update on the process to deliver the revenue budget for 2015/16.

**2.**      **What is the reason for making this report?**

To provide an update of the latest position.

**3.**      **What are the Recommendations?**

To consider the latest update and comment as appropriate.

**4.**      **Report details**

Since the last update, all of the Freedoms & Flexibilities budget meetings have taken place with services. The schedule is shown below:

*Table 1 – Schedule of Freedoms & Flexibilities Service Budget Meetings*

| Service | Date |
|---|---|
| Adults & Business Services | 7th May |
| Business Improvement & Modernisation | 13th May |
| Communication, Marketing & Leisure | 22nd May |
| Children & Family Services | 29th May |
| Legal & Democratic Services | 30th May |
| Housing & Community Development | 5th June |
| Schools, School Improvement, Customers & Education Support | 17th June |
| Strategic HR | 25th June |
| Planning & Public Protection | 25th June |
| Finance & Assets | 26th June |
| Highways & Environment (Part 1) | 30th June |
| Communication, Marketing & Leisure (Youth Services) | 21st July |
| Highways & Environment (Part 2) | 4th August |
| Housing Revenue Account (HRA) | 4th August |

The outcomes from each meeting, along with a full analysis of the service budget, have been presented for consideration at the member budget

workshops. So far, two workshops have taken place and because of the level of discussion and debate, it became obvious quite quickly that more time would need to be allocated to allow members sufficient opportunity to discuss each service budget and service saving proposals. In response, additional member workshops have been arranged and these have been added to the table below. Those in red text are the additional dates. The workshop noted for 28th August will only take place if the preceding workshop overruns.

*Table 2 Key Events*

| Key Events | Dates | Status |
|---|---|---|
| Corporate Governance Committee | 15th April 2014 | Completed |
| Council Briefing | 28th April | Completed |
| First Round of Budget Meetings with Services | 7th May – 4th Aug | Completed |
| Update to Cabinet Briefing | 12th May | Completed |
| CET Review of Process | 19th May | Completed |
| Update to Corporate Governance Committee | 21st May | Completed |
| Update to Cabinet Briefing | 2nd June | Completed |
| Update to Corporate Governance Committee | 2nd July | Completed |
| Update SLT | 3rd July | Completed |
| Update to Cabinet Briefing | 7th July | Completed |
| First Member Budget Workshop | 9th July | Invites Issued |
| Second Member Budget Workshop | 14th July | Invites Issued |
| Third Member Budget Workshop | 26th August | Invites Issued |
| Extra Workshop If Needed | 28th August | Invites Issued |
| Fourth Member Budget Workshop | 2nd September | Invites Issued |
| Update to Corporate Governance Committee | 3rd September | |
| County Council | 9th September | |
| Fifth Member Budget Workshop | 22nd September | Replaces Council Briefing |
| Second Round of Budget Meetings with Services | September/early October | |
| Update to Cabinet Briefing | 22nd September | |
| Update SLT | 2nd October | |
| Update to Cabinet Briefing | 6th October | |
| Sixth Member Budget Workshop | 8th October | Invites Issued |
| Seventh Member Budget Workshop | 13th October | Invites Issued |
| Eighth Member Budget Workshop | 20th October | Invites Issued |
| Ninth Member Budget Workshop | 27th October | Invites Issued |
| Update to Cabinet Briefing | 3rd November | |
| Update to Corporate Governance Committee | 5th November | |
| Update to Cabinet Briefing | 8th December | |
| County Council | 9th December | |

| Tenth Member Budget Workshop | 12th December | Invites Issued |
|---|---|---|
| Update to Corporate Governance Committee | 17th December | |
| County Council | 3rd February 2015 | |

The papers for all workshops have been issued in advance electronically and in hard copy. The workshops held so far have been well attended with wide ranging debate taking place and numerous questions being asked. Members have been asked to express views as to whether saving proposals should be 'adopted', developed', or 'deferred'. A number of proposals that members indicated they would be content to adopt will be taken to County Council for approval on 9th September.

A verbal update will be presented to the Committee incorporating any points emerging from the latest budget workshops and any other relevant issues.

5.      **How does the decision contribute to the Corporate Priorities?**

Effective management of the council's budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

6.      **What will it cost and how will it affect other services?**

The council may need to deliver savings of up to £18m over the next two financial years.

7.      **What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?**

An EqIA will be completed for all relevant proposals as the process develops.

8.      **What consultations have been carried out with Scrutiny and others?**

The process has been considered by CET, SLT, Cabinet Briefing, Council Briefing and the Corporate Governance Committee.

9.      **Chief Finance Officer Statement**

This will be an extremely challenging process with some tough decisions to make along the way. The engagement and support of elected members in the decision making and scrutiny of the process is crucial.

10.      **What risks are there and is there anything we can do to reduce them?**

This is the most challenging financial period the council has faced and failure to deliver an effective budget strategy will put further pressure on services in future financial years.

11.      **Power to make the Decision**

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.

**Report To:**  Corporate Governance Committee

**Date of Meeting:**  3 September 2014

**Lead Member / Officer:**  Cllr Julian Thompson-Hill

**Report Author:**  Head of Finance and Assets

**Title:**  **1.** Annual Treasury Management (TM) Report 2013/14 (Appendix 1)
**2.** TM Update Report 2014/15 (Appendix 2)

## 1  What is the report about?

1.1  The Annual TM Report 2013/14 (Appendix 1) is about the Council's investment and borrowing activity during 2013/14. It also provides details of the economic climate at that time and shows how the Council complied with its Prudential Indicators. The TM Update Report (Appendix 2) provides details of the Council's TM activities during 2014/15.

1.2  The term 'treasury management' includes the management of the council's borrowing, investments and cash flow. Approximately £0.5bn passes through the council's bank accounts every year. The council's outstanding borrowing at 31 March 2014 was £141.65m at an average rate of 5.63% and the council held £32.5m in investments at an average rate of 0.66%.

## 2  What is the reason for making this report?

2.1  It was agreed by Council on 27 October 2009 that the governance of TM be subjected to scrutiny by the Corporate Governance Committee. Part of this role is to receive an update on the TM activities twice a year and to review the enclosed Annual TM Report for 2013/14.

2.2  **Role of Corporate Governance Committee**

2.2.1  The TM team will provide reports and training to the Corporate Governance Committee in accordance with the timetable below:

| Committee | Date | Report Title | Report Content |
|---|---|---|---|
| Corporate Governance | January | TM Update/Training Session | - External environment<br>- Risks<br>- Activity<br>- Controls<br>- Future Activity |
| Corporate Governance | January | TM Strategy | - Policy<br>- Strategy<br>- Prudential Indicators |
| Council | February | TM Strategy | As above |
| Corporate Governance | September | TM Update | As TM Update above |

| Corporate Governance | September | TM Review | - Review of TM activities during the preceding year<br>- Performance of TM function |
|---|---|---|---|
| Cabinet | September | TM Review | As above |

2.2.2 TM is a complex area which takes time to understand fully and regular updates are provided. It was deemed therefore that the Corporate Governance Committee was more appropriate than Council to receive these updates so that the required amount of time and commitment could be devoted to this area.

2.2.3 The Committee is required to have a certain level of understanding in this area and this is achieved through regular updates and training sessions.

2.2.4 The role of the Committee includes the following:

- To understand the Prudential Indicators

- To understand the impact of borrowing on the revenue position

- To understand the wider drivers impacting on the Council's TM activities

- To ensure that the Council always acts in a prudent manner in relation to its TM activities

**3      What are the Recommendations?**

3.1    That members note the performance of the Council's Treasury Management function during 2013/14 and its compliance with the required Prudential Indicators as reported in the Annual TM Report 2013/14 (Appendix 1).

3.2    That members note the TM update report (Appendix 2).

**4      Report details**

4.1    The purpose of the Annual TM Report (Appendix 1) is to:

- present details of capital financing, borrowing, debt rescheduling and investment transactions in 2013/14;
- report on the risk implications of treasury decisions and transactions;
- confirm compliance with treasury limits and Prudential Indicators.

4.3    The TM update report (Appendix 2) provides details of the following:

- External economic environment
- Risks
- Activity
- Controls
- Future Activity

**5        How does the decision contribute to the Corporate Priorities?**

5.1      Good investment and borrowing decisions allow additional resources to be directed to other Council services.

**6        What will it cost and how will it affect other services?**

6.1      Not applicable.

**7        What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?**

7.1      This is not required as a part of this report.

**8        What consultations have been carried out?**

8.1      The Council has consulted with its treasury advisers, Arlingclose Ltd.


**9        Chief Finance Officer Statement**

9.1      TM involves looking after significant sums of cash so it is a vital part of the Council's work. It requires a sound strategy and appropriate controls to safeguard the Council's money, to ensure that reasonable returns on investments are achieved and that debt is effectively and prudently managed.

9.2      Council adopted the revised CIPFA Code of Practice on TM (Nov 11) at its meeting on 28 February 2012. It is a requirement of that Code for this committee to receive an update on the TM activities twice a year and to review an Annual TM Report.

9.3      The Council has approved an ambitious Corporate Plan that involves investing approximately £124m in delivering its priorities over a five year period. It is vital that the Council has a robust and effective TM function underpinning this investment and all other activities.

**10       What risks are there and is there anything we can do to reduce them?**

10.1     Treasury Management is inherently risky but the Council is monitoring and controlling these risks as outlined in the main report. However, it is impossible to eliminate these risks completely. The council's treasury management strategy and procedures are audited annually and the latest internal audit review was positive with no significant issues raised.

**11       Power to make the Decision**

11.1     The Local Authorities (Capital Finance and Accounting) (Wales) Regulations require local authorities to have regard to the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management which determines the requirement for the Council to prepare regular TM updates and an annual report on treasury activities for the previous financial year.

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# Appendix 1

# DENBIGHSHIRE COUNTY COUNCIL

# *ANNUAL TREASURY MANAGEMENT REPORT 2013/14*

**Paul McGrady**
**Head of Finance & Assets**

**CONTENTS**

## 1.    Background

The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.  Reports are made twice a year to the Corporate Governance Committee which is the committee with responsibility for the scrutiny of the Council's treasury policy, strategy and activity, as well as the annual report made to cabinet and the report to full council for approval of the annual treasury strategy.

Treasury management is defined 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."

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.  The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

## 2.    Economic Background

At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan.  Lack of growth in the UK economy and the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) were a concern for the Bank of England's Monetary Policy Committee.

With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016.  Although the Bank stressed that this level was a *threshold* for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

The recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth. Worries of a housing bubble were

tempered by evidence that net mortgage lending was up by only around 1% annually.

## 3.  Borrowing Activity

The table below shows the level of the Council's PWLB borrowing at the start and the end of the year.

|  | Balance at 01/04/2013 £000 | Maturing loans £000 | Premature repayments £000 | New Borrowing £000 | Balance at 31/03/2014 £000 |
|---|---|---|---|---|---|
| Fixed rate loans – Public Works Loan Board (PWLB) | 133,269 | 1,621 | 0 | 10,000 | 141,648 |
| **Total borrowing** | **133,269** | **1,621** | **0** | **10,000** | **141,648** |

The Council's strategy in 2013/14 was to internally borrow to fund part of its borrowing requirement and to undertake new external borrowing to fund the remainder. Two new loans for £10m were undertaken at the start of 2014 to take advantage of relatively low rates before the anticipated increase in rates.  The first loan was for £5m in February at a rate of 3.5% over a 17.5 year period on an Equal Instalment of Principal (EIP) basis. The second loan was for £5m in March at a rate of 3.38% over a 17.5 year period on an EIP basis.

The use of internal resources to fund the borrowing requirement was sustainable during 2013/14 because the Council had sufficient reserves and balances to avoid the need for external borrowing. We took the view however that the Corporate Plan is progressing so our reserves will reduce and we will come to a point where we need to borrow in the future.  We reviewed our strategy and decided to borrow to take advantage of the low rates at that time.  The EIP basis means that we will pay off an equal amount of principal each year so it will not have an adverse impact on our maturity profile. The borrowing we undertook was also affordable as we have a capital financing budget to fund the cost of the borrowing.

Although this will create a cost of carry while the proceeds are temporarily held as investments, we will save in the long term because of the anticipated increase in borrowing rates which will result in higher interest costs. For example, a 1% increase in the rates would cost us approximately £900k more in interest based on the example above of a £10m loan over a 17.5 year period.

As a result of maturities and new borrowing during the year, the average rate on the Council's debt decreased from 5.77% at 1 April 2013 to 5.63% at 31 March 2014.

Appendix A shows how interest rates for borrowing have moved over the course of the year.

## 4. Investment Activity

The Council held average cash balances of £30.8m during the year. These represent the Council's Balances and Reserves, working cash balances and also where money has been borrowed before capital expenditure is incurred.

The Welsh Government's Investment Guidance requires local authorities to focus on security (keeping the money safe) and liquidity (making sure we never run out of cash) as the primary objectives of a prudent investment policy. The Council's aim was to achieve a return on investments in line with these principles. The return is important but is a secondary consideration and the priority is the security of the sums invested.

The table below shows the level of the Council's investments at the start and the end of the year.

|  | Balance at 01/04/2013 £000 | Investments Raised £000 | Investments Repaid £000 | Balance at 31/03/2014 £000 |
|---|---|---|---|---|
| **Investments** | **11,000** | **242,550** | **221,050** | **32,500** |

The Council's investment income for the year was £0.265m compared to £0.239m in 2012/13 which meant that the low interest rates available in the market continued to have a significant impact on the investment return earned by the Council.

Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Investments with banks and building societies were held in call accounts and fixed-rate term deposits. The maximum duration of these investments was 12 months in line with the prevailing credit outlook during the year as well as market conditions.

**Credit Risk Management:**

Counterparty credit quality was assessed and monitored with reference to the following:

- credit ratings (minimum long-term counterparty rating of A- across rating agencies Fitch / S&P / Moody's);
- credit default swaps;
- GDP of the country in which the institution operates;
- the country's net debt as a percentage of GDP;
- any potential support mechanisms;
- share price.

In July Moody's placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Authority reduced its duration to overnight for new investments with the bank(s). In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Authority's minimum credit criterion of A-, RBS was withdrawn from the counterparty list for further investment. Natwest is the Council's banker and will continue to be used for operational and liquidity purposes.

**Liquidity Management**:

In keeping with the WG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and instant access call accounts. The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed.

**Yield:**

The Council sought to achieve the best return balanced against its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels which had a significant impact on investment income.

All investments made during the year complied with the Council's agreed Treasury Management Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits. Maturing investments were repaid to the Council in full and in a timely manner.

## 5.    Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2013/14, which were set in February 2013 as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix B.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2013/14. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

## 6.    Money Laundering Update

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it maintains procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that relevant staff are properly trained.

The Head of Finance and Assets has been appointed as the Money Laundering Reporting Officer. There haven't been any cases of money laundering reported since the start of Denbighshire to date and we consider the risk to the Council to be minimal.

**Interest Rates 2013/14**

Public Works Loan Board (PWLB) borrowing rates and UK Money Market rates during the year were:

Example PWLB Borrowing rates % (The rate at which the Council could borrow money from the Government)

| Start Date | | Length of Loan | |
|---|---|---|---|
| | **1yr** | **19½-20 yrs** | **49½-50 yrs** |
| 02-Apr-13 | 1.11 | 3.87 | 4.22 |
| 30-Sep-13 | 1.30 | 4.36 | 4.48 |
| 31-Mar-14 | 1.46 | 4.43 | 4.49 |

Example Bank Rate, Money Market rates (The rate at which the Council could invest with banks)

| Date | Bank Rate % | 7-day Investment Rates % | 1-month Investment Rates % | 6-month Investment Rates % |
|---|---|---|---|---|
| 01-Apr-13 | 0.50 | 0.50 | 0.40 | 0.51 |
| 30-Sep-13 | 0.50 | 0.38 | 0.41 | 0.51 |
| 31-Mar-14 | 0.50 | 0.39 | 0.42 | 0.56 |

**Compliance with Prudential Indicators 2013/14**

**1   Estimated and Actual Capital Expenditure**

This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and, in particular, to consider the impact on the Council Tax and in the case of the HRA, housing rent levels.

| Capital Expenditure | 2013/14 Estimated February 2013 £000 | 2013/14 Revised February 2014 £000 | 2013/14 Outturn March 2014 £000 |
|---|---|---|---|
| Non-HRA | 29,727 | 30,559 | 30,228 |
| Corporate Plan | 6,603 | 7,139 | 5,250 |
| HRA | 9,182 | 7,384 | 6,525 |
| **Total** | **45,512** | **45,082** | **42,003** |

**2   Estimated and Actual Ratio of Financing Costs to Net Revenue Stream**

This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending.  The financing costs include existing and proposed capital commitments.

| Ratio of Financing Costs to Net Revenue Stream | 2013/14 Estimated February 2013 £000 | 2013/14 Revised February 2014 £000 | 2013/14 Outturn March 2014 £000 |
|---|---|---|---|
| Financing Costs | 12,168 | 12,669 | 12,530 |
| Net Revenue Stream | 190,687 | 191,573 | 191,573 |
| **Non-HRA Ratio** | **6.38%** | **6.61%** | **6.54%** |
| Financing Costs | 3,092 | 2,973 | 2,914 |
| Net Revenue Stream | 12,662 | 12,727 | 12,727 |
| **HRA Ratio** | **24.42%** | **23.36%** | **22.90%** |

**3   Capital Financing Requirement**

3.1   The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.  In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.  This is demonstrated in the following table:

| Capital Financing Requirement - Non-PFI Basis | 31/03/2014 Estimated February 2013 £000 | 31/03/2014 Revised February 2014 £000 | 31/03/2014 Outturn March 2014 £000 |
|---|---|---|---|
| Non-HRA | 150,707 | 145,486 | 145,801 |
| HRA | 33,375 | 30,669 | 29,508 |
| **Total** | **184,082** | **176,155** | **175,309** |
| **Borrowing** | **153,460** | **141,648** | **141,648** |
| PFI Liability | 10,526 | 10,526 | 10,526 |

NB    The outturn figures are taken from the pre-audited Statement of Accounts 2013/14 so they may be subject to change.

Note that the projected debt level at 31/03/14 was originally estimated in February 2013 to be £12m higher than the revised estimate because the original estimate was based on the capital expenditure in the Capital Plan to be funded by borrowing for 2013/14. In practice, the Council internally borrowed during the year to fund part of its borrowing requirement and undertook new external borrowing of £10m to fund the remainder.

## 4    Authorised Limit and Operational Boundary for External Debt

**Summary Table:**

| 2013/14 | February 2014 £000 |
|---|---|
| **External Borrowing** | 141,648 |
| **Internal Borrowing** | 33,661 |
| **Operational Boundary** | 160,000 |
| **Authorised Limit** | 165,000 |

4.1    **Operational Boundary**: This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set originally at £170m in February 2013 and revised downwards to £160m in February 2014 for the reasons outlined above.

4.2    **Authorised Limit**: This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set originally at £175m in February 2013 and revised downwards to £165m in February 2014 for the reasons outlined above.

4.3    The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary.  The Council maintained its total external borrowing and other long-term liabilities within both limits; at its peak this figure was £141.7m. In addition to external borrowing, the Council uses its own reserves and balances to fund capital

expenditure and this is known as internal borrowing as shown in the table above.

**5      Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

5.1     These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.  The exposures are calculated on a net basis i.e. fixed rate debt net of fixed rate investments.  The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

|  | 2013/14 Estimated % | 2013/14 Actual Peak Exposure % |
|---|---|---|
| **Upper Limit for Fixed Rate Exposure** | 100 | 100 |
| **Upper Limit for Variable Rate Exposure** | 40 | 0 |

**6      Maturity Structure of Fixed Rate borrowing**

6.1     This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

6.2     It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

| Maturity structure of fixed rate borrowing | Upper limit % | Lower limit % | Actual Borrowing as at 31/03/2014 £000 | Percentage of total as at 31/03/2014 % |
|---|---|---|---|---|
| under 12 months | 5 | 0 | 6,662 | 4.70 |
| 12 months and within 24 months | 5 | 0 | 3,227 | 2.28 |
| 24 months and within 5 years | 20 | 0 | 10,087 | 7.12 |
| 5 years and within 10 years | 25 | 0 | 12,702 | 8.97 |
| 10 years and above | 100 | 50 | 108,970 | 76.93 |
| **Total** | | | **141,648** | **100** |

**7 Total principal sums invested for periods longer than 364 days**

This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2013/14 this limit was set at £6m. The Council did not have any investments which exceeded 364 days during 2012/13 because the policy was to limit investments to a shorter period than 1 year.

**8 Adoption of the CIPFA Treasury Management Code**

The Council confirms its adoption of the CIPFA Code of Treasury Management at its Council meeting on 26 March 2002.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

**Treasury Management (TM) Update Report**

**1        Changes in the external environment**

**1.1     Economic Outlook**

The UK economy has shown continued signs of improvements over the course of 2014. The growth in the economy can largely be attributed to an increase in consumer confidence due to a rise in UK house prices and a falling unemployment rate. Despite strong growth, risks remain that this consumer led recovery will not take hold.

**1.2**   The economic recovery is at a delicate stage so we will continue to be cautious in relation to our current investment strategy and this is likely to continue for the medium term until we see stronger signs of sustained economic growth.

**2        Investment Strategy**

**2.1**   Our current investment time limits with the banks which we invest with have changed slightly since the last update as follows:

- Royal Bank of Scotland (RBS) and National Westminster Bank suspended,

- Close Brothers and Leeds Building Society for a maximum period of **100 days**,

- Nationwide BS, Barclays Bank, Santander UK, Lloyds Bank and Bank of Scotland for a maximum period of **13 months**.

**2.2**   The Council has also been investing with the UK Government's Debt Management Office which is currently paying a rate of 0.25% and this option has been used when safe limits have been reached with financial institutions.

**2.3**   Since the last update, we have diversified our investments across a larger number of financial institutions to reduce our reliance on a limited number of UK banks.  This action has been taken because of a lower likelihood that the UK and other governments will support failing banks in the future.  As the Banking Reform Act 2014 is implemented, banks will no longer be able to rely on bail-outs and they will be expected to stand on their own feet.  This increases the risk to large investors such as local authorities who may be required to provide a proportion of the amount required to cover the bank's losses in the event of default.  This new risk has been termed 'bail-in' risk and is potentially a greater risk to investors than the 'bail-out' risk of the past.

**2.4** Consequently, we have reduced our banking group limit from 1.5 times the individual bank limit for a group of banks under the same ownership to the same level as the individual bank limit. For example, our limit with the Lloyds banking group was £12m previously and our individual bank limit is £8m. This meant that we had to reduce the amount invested with the Lloyds banking group from £12m to £8m.

**2.5** In March 2014, Moody's downgraded the long-term ratings of RBS and Natwest Banks to Baa1. As this rating is below the Authority's minimum credit criterion of A-, RBS was withdrawn from the counterparty list for further investment. The Council had £12m invested with the RBS banking group at that time. Natwest is the Council's banker and will continue to be used for operational and liquidity purposes up to a maximum limit of £1m.

**2.6** The impact of this was that the cash had to be invested elsewhere and the following counterparties were added to accommodate this:

- Santander UK
- Nationwide Building Society (see note below)
- Leeds Building Society (see note below)

As a result of an improvement in the housing market and a strengthening of building societies' balance sheets, the 2014/15 strategy added a number of building societies to our investment list which has helped us to spread our investments over a larger number of financial institutions. This includes building societies without credit ratings where an external credit assessment by our treasury advisers, Arlingclose Ltd, shows them to be suitably creditworthy.

**3      Borrowing Strategy**

**3.1** Following the loans we undertook earlier in the year, it was anticipated that rates would increase. The rates have remained low however and we took advantage of this in August by taking out a new loan for £10m at a rate of 3.5% over a 23.5 year period on an Equal Instalment of Principal (EIP) basis.

**3.2** This action was taken as the Corporate Plan is now progressing so we will be using our reserves. Borrowing rates are expected to rise at some point so we will continue to monitor interest rates throughout the year to ensure that we undertake further borrowing if required at the most advantageous time.

**3.3** Although this will create a cost of carry while the proceeds are temporarily held as investments, we will save in the long term because of the anticipated increase in borrowing rates which will result in higher interest costs. For example, a 1% increase in the rates would cost us approximately £1.2m more in interest based on the example above of a £10m loan over a 23.5 year period.

**4       Controls**

**4.1     Prudential Indicators**

The Council sets prudential indicators which set boundaries within which our treasury management activity operates. The indicators are calculated to demonstrate that the Council's borrowing is affordable and include measures that show the impact of capital and borrowing decisions over the medium term. The Council has remained within all of its borrowing and investment limits for 2014/15 agreed by Council in February 2014.  The Council has not deviated from the Capital related indicators either.

**4.2     Audit Reviews**

The Internal Audit review undertaken in February 2014 concluded that key risks within the TM function continue to be well managed. The report listed the following key areas which are managed well:

- There is regular reporting to elected members on the Council's treasury management activities, and the Corporate Governance Committee approved the annual Treasury Management Strategy Statement in January 2014.

- Sufficient business continuity arrangements are in place to provide cover within the treasury management function in the absence of the Technical Accountant. A clear separation of duties also exists within the process.

- The contract with the Council's external treasury management advisors, Arlingclose ended in December 2013. An appropriate tendering exercise for contract renewal was carried out with the involvement of the Strategic Procurement Unit. A new contract has been awarded to Arlingclose based on value for money and the quality of service provided.

- Treasury management processes and procedures are robust, well established and our testing of a sample of investments and cash flow statements identified that procedures are followed meticulously. Key risks are effectively managed, with only a few low risk areas for improvement identified, which have been discussed with the Technical Accountant.

- While there has been no recent loans taken out, the Council will need to borrow to fund the Corporate Plan.

**5      Future**

**5.1     TM Strategy for next six months**

As the Corporate Plan is progressing, we will review our cash position throughout the year to ensure that we undertake further borrowing if required. The Council will also monitor market conditions and interest rate levels to ensure that external borrowing is undertaken at the optimal time in line with our TM strategy.

**5.2     Housing Revenue Account Subsidy Reform**

The Welsh Government is in negotiations with HM Treasury regarding the reform of the HRA subsidy system in Wales. Details of the precise mechanism & timing are not available at this stage. The authority will monitor developments in this area as further details become available. It is likely the changes will be implemented from 2015/16 but we will need to borrow approximately £39m to buy ourselves out of the subsidy scheme before the end of 2014/15.

**5.3     Private Finance Initiative (PFI)**

The Council has a PFI scheme which is shown on the Balance Sheet at a value of £10m.  We are currently reviewing the TM implications of the scheme and a separate paper is included on the agenda which provides further details of this review.

**5.4     Reports**

The next reports will be the Treasury Management Strategy Statement and Prudential Indicators 2015/16 and the TM Update Report 2014/15 which will be reported to the Corporate Governance Committee in January.

| Report To: | Corporate Governance Committee |
|---|---|
| Date of Meeting: | 3 September 2014 |
| Lead Member / Officer: | Julian Thompson-Hill, Leader Member for Finance & Assets |
| Report Author: | Ivan Butler, Head of Internal Audit |
| Title: | Procurement of Construction Services - Update |

## 1. What is the report about?

This report provides the Committee with details of Internal Audit's follow up work of Procurement of Construction Services following its initial report in October 2013 and the Wales Audit Office's (WAO) report of March 2014.

## 2. What is the reason for making this report?

The Corporate Governance Committee requested that our follow up report for Procurement of Construction Services be presented to the Committee to provide assurance that improvements have been made.

## 3. What are the Recommendations?

Committee considers and comments on the Internal Audit follow-up report.

## 4. Report details.

Internal Audit issued a report on Procurement of Construction Services in October 2013 that gave a 'low' assurance rating, with an action plan that included 11 areas for improvement. Our review concluded that *"…there is considerable scope for improvement. By developing a strategic approach, there is potential to make construction procurement much more efficient through streamlining processes and making them more consistent, with the benefit of removing duplication."*

The WAO report covered school building maintenance work, concluding that *"Improvements need to be made to the current procurement arrangements to ensure that the Council can demonstrate that it is achieving value for money. In addition, the Council is not complying fully with its current contract procedure rules."* The WAO Recommendation Action Plan included six areas for improvement.

The attached follow up action plan in Appendix 1 incorporates all actions from both the Internal Audit and WAO action plans and shows lack of progress to date in delivering the improvements identified by the relevant services within timescale. Only 2 of the 17 risks have been addressed in full, with others in progress at various stages. In particular:

- there is no procurement strategy in place;

- framework agreements have been delayed by several months of the agreed implementation date;

- e-sourcing roll-out is delayed by a year of the agreed implementation date; and

- revised contract procedure rules (CPRs) have not been agreed and will be delayed by a year of the agreed implementation date. This is affecting the implementation of several other improvement actions.

## 5.     How does the decision contribute to the Corporate Priorities?

There is no decision required for this report.

## 6.     What will it cost and how will it affect other services?

There are no costs attached to this report.

## 7.     What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?  The completed EqIA template should be attached as an appendix to the report.

This report does not require a decision or proposal for change, so there is no impact on people who share protected characteristics.

## 8.     What consultations have been carried out with Scrutiny and others?

Not applicable – information report only

## 9.     Chief Finance Officer Statement

Not applicable – information report only

## 10.    What risks are there and is there anything we can do to reduce them?

Not applicable – information report only

## 11.    Power to make the Decision

Not applicable – information report only

# Action Plan

## Audit Follow-up Review of: Procurement of Construction Services

## Date: August 2014

## Action Plan Owner: Head of Finance & Assets

| Corporate Risk/Issue Severity Key | |
|---|---|
| | **Critical** – Significant CET and Cabinet intervention |
| | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 1. | The Council's Procurement Strategy ran until March 2012. Setting the direction for Council procurement is vital to ensure that it is aligned with national, corporate and service requirements. A risk analysis of current spend should be assessed against the Council's requirements to show how procurement can contribute more effectively. | Develop a robust Procurement Strategy that will encompass the requirements in the latest Denbighshire Economic and Community Ambition Strategy, the Welsh Procurement Policy Statement and the Welsh Government's Construction Procurement Strategy. **Strategic Procurement Manager (January 2014)** <br><br> **Response at February 2014:** The revision of the Procurement Strategy is currently in progress with a target to have a draft document completed by 31 March 2014 | **In progress – overdue** <br><br> The creation of the draft Procurement Strategy has been delayed by the merger of the DCC and FCC Procurement Teams and is now scheduled to be available by the end of October 2014. | A robust Procurement Strategy needs to be implemented and communicated to members of staff. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 2. | Given the high value of construction-specific procurement across various Council services, not having a construction procurement strategy could lead to the key issues continuing without effective action and the area showing little or no improvement. In addition, the Council could suffer scrutiny if it does not adopt the National Construction Procurement Strategy. | The construction procurement strategy will be incorporated within the corporate procurement strategy. The SPU and Property Services will develop the construction procurement strategy element jointly with input from the other Council services that undertake construction procurement activity. This will need to align with the National Construction Procurement Strategy. **Strategic Procurement Manager & Property Manager (January 2014)**<br><br>**Response at February 2014:** This is on-going through the Construction Procurement Working Group. The basic premise has been established comprising: 21st C Schools Framework for OJEU works; Advertising on Sell 2 Wales for project over £250K and frameworks for work below this threshold. | **In progress – overdue**<br><br>Work is ongoing with regards to the Construction Working Group. Work has now started on establishing framework agreements for Reactive Maintenance services and also Asbestos Surveying and Removal. The expectation is to have these agreements available for use by December 2014. The remainder of the Approved List categories are being reviewed on a case by case basis with a view to having alternative solutions in place by March 2015.<br><br>The construction procurement strategy is still under development and should be available for inclusion in the main procurement strategy by October 2014. It will be aligned to the principles of the National Construction strategy and will include the need for early contractor involvement and the move away from price only tendering to a price and quality basis. | The construction procurement strategy needs to be implemented as part of the corporate Procurement Strategy. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 3. | The SPU has previously identified several initiatives to improve construction procurement but little progress has been made, as resources are being pulled in different directions e.g. collaboration.<br><br>Unless a clear procurement plan is developed and prioritised, with sufficient steer from a senior level, initiatives such as introducing an e-sourcing system corporately and category leads, are likely to slip further and result in longer delays. | E-sourcing will be rolled out by March 2014 but it does not include interfaces for third party job costing systems e.g. asset management. A project plan and Verto is being used for this.<br><br>To ensure that this programme is rolled out effectively there is a need to establish a project board with a senior member of staff as chair to ensure the project plans are implemented efficiently.<br>**Acting Strategic Procurement Manager (March 2014)**<br><br>**Response at February 2014:**<br>Delays in the creation of project templates and documentation has caused a slip in the expected roll-out date.  This should now commence during April 2014.  Some departments are using the system on small projects with assistance from the SPU. | **In progress – overdue**<br><br>Due to issues with the project manager, delays have been encountered with the project. A new project management team has been established. Roll out is expected in Q1 of 2015/16.<br><br>Project templates have now been created for 60% of  the type of requirements needed. All main types are available for use.  The remainder should be completed late in Q3 of 2014/15.<br><br>Roll out of the system is expected to be completed by March/April 2015. | Improve construction procurement through previously identified initiatives, including an e-sourcing system. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 4. <br><br> Page 54 | Management information and performance measurement of construction-related spend has its limitations. This hinders the Council in identifying opportunities for price savings and cost reduction. <br><br> The introduction of a corporate e-sourcing system over the next two years promises additional tools to help management and provide continuous improvement. | The SPU will develop reports to introduce better management information to services and senior managers. E-sourcing will introduce performance information by way of customer feedback logged against each supplier. <br><br> Performance feedback will be input to the e-sourcing system and will be more transparent. The system can set reminders to prompt customers/clients to input their feedback. <br><br> As part of the 21st Century Schools procurement project, Key Performance Indicators (KPIs) are being established to promote continuous improvement. **Acting Strategic Procurement Manager (July 2014)** <br><br> **Response at February 2014:** This is currently on target. The introduction of M-Power in Finance will greatly assist this requirement. | **In progress** <br><br> KPI's have been developed for 21st Century Schools project by the Project Manager. These are currently under consideration with the project Operations Board and contractors to ensure suitability. Once agreed, the Proactis system will be updated to make them available electronically for contract monitoring. <br><br> The M-Power system for expenditure analysis will be made available by Finance in October 2014. This will allow a more informed scrutiny of who the Council places business with. | Once the KPIs are approved, they need to be made available to improve contract monitoring. Expenditure analysis will also ensure that more informed decisions are made about our contractors. |
| 5. | Awareness of and adherence to CPRs are weak in some services. For example: <br> • when requested, Bridges and Structures were unable to produce a signed contract for works valued over £50k <br> • aggregate spend on suppliers on the approved lists often exceeds £100k, but little comparison is done to make sure the Council | Revised CPRs have been developed and are currently out for consultation. CPR awareness workshops will be held with various services to promote awareness and understanding of CPRs. Schools and Public Realm are a priority for this training due to recent cases of non-compliance. **Acting Senior Procurement Manager (January 2014)** <br><br> **Response at February 2014:** All comments have been correlated and issued to the individuals for further review. The comments are now under review by Legal Services. Once these have been received Procurement and Legal will meet to identify the issues raised. The intention is to have a final Draft copy available for 31 March 2014. | **In progress – overdue** <br><br> The draft CPRs are now with Legal Services for final scrutiny. Due to current workload in the department, it is anticipated that the review will be completed by the end of September 2014 and taken through the committee processes by the end of December 2014. | Implementation of the approved revised CPRs. <br><br> Awareness workshops will then need to be held to ensure that employees understand their responsibilities in order to comply with the new procedures. |

| Risk/Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| Page 55 | gets value for money<br><br>There is also limited awareness that the SPU could be contacted as a source of knowledge on procurement activity.<br><br>The introduction of the e-sourcing system over the next two years along with associated training is an opportunity to reach out to service representatives and promote compliance. | A Construction Procurement Working Group has been convened comprising the main construction procuring services and the SPU. This group will consider and determine what is achievable and drive forward changes in respect of framework agreements and how to deal with reactive small works procurement. This will be tied in with the new framework manager role within Property. **Acting Strategic Procurement Manager and Property Manager Informally by August 2013 with more formal arrangements from March 2014. First group meeting held September 2013.**<br><br>**Response at February 2014:**<br>The working group has been established and includes representation from Property, Procurement, Housing and Housing Renewals.<br>An agreed way forward in terms of reactive maintenance and asbestos removal procurement has been agreed and frameworks for these elements are being developed.<br>There are some issues with the procurement of Housing renewals works which are individually tendered. The procurement of works between £5K - £250K is now being considered. The Group meets monthly. | **In progress – original action complete but has led to an additional action**<br><br>See Item 2 for comments.<br><br>Work will commence on the next phase as soon as possible following completion of the two services being tendered.<br><br>A separate meeting is to be convened with Housing and Area Renewals, as it has now determined that its list of contractors needs reviewing and replacing with a framework agreement with a reduced number of contractors. Work on this project is expected to commence in October 2014 with new arrangements in place by March 2015. | Ensure that the Construction Procurement Working Group meets its outcomes, and that improvements with the procurement of Housing and Area Renewals are made. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| | | HR to be requested to provide a procurement training element into the standard induction training provided to all new starters within Denbighshire. **Acting Strategic Procurement Manager (October 2013)**<br><br>**Response at February 2014:**<br>HR have been requested to include a Procurement Awareness session into their induction training. This will be a brief explanation on CPR's and Procurement procedures. | **In progress – overdue**<br><br>The SPU has been informed that Strategic HR no longer undertakes a corporate induction programme. This is now the responsibility of each department. The SPU will now have to confer with all Heads of Service to establish how the Council can inform new members of staff of the requirements of procurement.<br><br>Once the new CPRs have been finalised it is intended to hold CPR training workshops for all members of staff with any procurement responsibility. This will be undertaken on a service by service basis. | Ensure that members of staff are clear of their responsibilities in respect of procurement. |
| 6. | The Council does not maintain a corporate contracts register, which is required for transparency and is an important management tool. Signed contracts are vital documents that should be easily accessible in case the Council needs to resolve disputes with any of its contractors.<br><br>*Note: Services may be spot purchasing goods or services but contracts specific to other departments may offer advantageous pricing if accessible.* | Each service needs to start collating a list of service specific contracts in order to populate a central contract register. This requirement is already set within the revised CPRs for Heads of Service to action. In order to capture this information, the SPU has developed a spread sheet to issue to all 'tier 1' managers to populate with details of their current contracts. The spread sheet will be issued to departments in October 2013. **Acting Strategic Procurement Manager (January 2014)**<br><br>**Response from February 2014:**<br>Information has been received from the majority of departments and is currently undergoing review. Completion of the review by 31 March 2014 | **In progress – overdue**<br><br>Information has been received from departments but, due to other priorities and the merger of the DCC and FCC procurement teams, this has been delayed. It is anticipated that this will be reviewed in September 2014. | Have an up-to-date corporate contracts register in place. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| | | Create contract register for Highways & Environment. **Performance Officer (December 2013)** | **In progress – overdue** Highways Services is currently compiling the information required, with completion scheduled for the end of August 2014. | Have an up-to-date contracts register for Highways & Environment in place. |
| | | E-sourcing will have a separate contract management module and any tenders going through this will automatically be included as and when services begin using it following roll-out. **Acting Strategic Procurement Manager (July 2014)** **Response from February 2014:** Currently on target | **COMPLETE** Any tenders undertaken by the SPU are now automatically added into the contract management module. . | Roll out of the e-sourcing system |
| 7. | The Council has several different lists used for construction-related works. All have control deficiencies to different extents that could put the Council at risk of health and safety sanction, financial losses and reputation damage. There is an opportunity to combine approved lists, which should reduce errors, improve consistency and remove the duplication of their upkeep to reveal efficiencies. | The revised CPRs (out for consultation at the time of this report) reduce the limit for using approved lists for construction works to £250k (these are for individual items). It also specifies that the 'Head of Procurement' must approve the use of approved lists. **Acting Strategic Procurement Manager (January 2014)** Highways will review the Highways & Environment approved list to ensure that all suppliers and contractors comply with the Council's criteria for inclusion. **Performance Officer (November 2013)** In the medium to long term, framework agreements for highways minor works will negate the need for approved lists in this area (See Risk Issue 9). Property will work with the SPU and the Construction Procurement working Group to: • introduce a managed and transparent rotation system for tender invitation (look at Housing Renewals system); • instigate quality monitoring and | **In Progress – overdue** See Item 2 for comments. The SPU and Highways are currently working on the establishment of a framework agreement for Minor Works. The original intention was to advertise this by the end of July 2014, with the intention of having a new framework agreement in place by Q1 of 2015. This is currently on schedule and will replace the current approved list system. Once the new property services frameworks are completed the new rotational selection procedure will be in place. | Reduce the number of approved lists in place, and adopt a framework agreement for Minor Works. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| Page 58 | | recording system (not just health and safety); and<br><br>• investigate integration of an approved list system with Proactis.<br><br>The development of framework agreements for smaller building projects, particularly reactive maintenance works will be undertaken by the Construction Procurement Working Group (See Risk Issue 9). **Acting Strategic Procurement Manager & Property Manager (January 2014)**<br><br>**Response from February 2014:**<br><br>Following the establishment of the Construction Procurement Working Group the use of Approved Lists will be discontinued for the majority of services and replaced by Framework Agreements.  This removes the need for the Head of Procurement to approve their use. | | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 8. | On occasion, services and schools contract suppliers that are not on an approved list and without first consulting Property Services for advice. A contributing factor may be that they have concerns about the transparency of the costs they are being committed to without their consent or knowledge.<br><br>Without clear communication channels and more cohesive working relationships, the Council and schools could fail in their obligation to maintain suitable health and safety arrangements, and poorly specified jobs could result in higher costs and inferior quality work. | CPRs will be formulated to cover schools using the same format as the revised Council CPRs. This will give the necessary guidelines on acceptable procurement practices, with scope for sanction where there are any breaches.<br><br>To support this, the SPU, Property and Internal Audit will work together to provide awareness training for schools (Finance Managers) to promote compliance. **Acting Strategic Procurement Manager, Education Planning & Resource Manager, Property Manager and Head of Internal Audit (January 2014, Procurement Training to be provided October 2013)**<br><br>**Response from February 2014:**<br>The School Cluster Groups will be used to disseminate training once CPR's have been developed. Legal Services and School Improvement are currently working on a version for schools.<br><br>An initial awareness session with schools Finance and Business Managers has been undertaken. | **In progress – overdue**<br><br>The CPRs for schools have been drafted and are now out with schools for consultation. This is being co-ordinated by Legal Services in conjunction with the Education Planning & Resource Manager.<br><br>In addition to this, an "Introduction to Procurement" training course is being arranged for all the schools Business and Finance managers for August / September 2014 to make them aware of the requirements of procurement legislation. This course has already been provided for all corporate finance staff. | Implement the CPRs for schools along with increasing staff awareness of their responsibilities to comply with the procurement legislation. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| Page 60 | | Enhance the Purchasing Systems (Proactis P2P) to create additional workflow approval for construction-related purchase orders i.e. before placing an order with a supplier, a nominated construction lead will have to approve it. A prototype has been tested in Flintshire County Council.  A pilot project using the procurement of furniture will be established in this Council in October 2013. This will then be extended to other commodity areas including construction once the principle has been proved. **Acting Strategic Procurement Manager to lead, with assistance from Construction Working Group and Senior Management Accountant (April 2014)**<br><br>**Response from February 2014:**<br>Further discussion is required with Finance on this in order to create the additional workflow required. | **In progress – overdue**<br><br>Discussions with the FCC P2P team are being undertaken to establish the procedure required to set this facility up in the P2P portal.  The new Central Invoicing Process has temporarily delayed this from being reviewed.<br><br>Preliminary discussions are being held with the P2P finance team to establish a procedure where schools purchase orders for construction activities are routed to Property Services for approval. | Update the Proactis P2P system to include construction-related purchase approval. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| 9. | There is an opportunity for services to collaborate and pool resources to reduce costs on minor works. A framework agreement, if arranged properly, should save time and money in the long term. The challenge is to maintain a transparent and fair process that gives local suppliers (Small Medium Enterprises) an equal opportunity to win the tender. This promotes diversity and competition and ties in with the National and Council's Corporate priority of economic regeneration. | The SPU will formulate a working group to develop both projects (Highways and Property minor works framework agreements). The building minor works framework agreement will be developed separately to highways but using the same method/approach (see specific action below). The working group will carry out analysis of all construction spend. Based on the analysis, procurement action plans will be developed for the different areas of spend. **Acting Strategic Procurement Manager & Construction Working Group (September 2013)**<br><br>**Response from February 2014**:<br><br>Working groups for both Highways and Property have now been established. Spend analysis is ongoing at this point in time along with identification of areas of spend to establish frameworks. The intention is to commence work on establishing frameworks for asbestos removal during April 2014 with other areas by July 2014. | **In progress – overdue**<br><br>See Items 2 and 7 for comments.<br><br>Under the new procurement structure, specific officers have now been assigned to review the expenditure in category areas. Due to the merger of the DCC and FCC procurement teams it is intended to have the review completed as quickly as possible during Q3 of 2014/15.<br><br>Work commenced on the establishment of frameworks for asbestos surveying and removal in July 2014 and will commence on reactive maintenance works in August 2014. Work also commenced on the Highways Minor works framework in July 2014. | Analysis of construction spend so that the necessary frameworks can be put in place. |
| | | Property Services will work with the SPU business partner to develop frameworks for lower value work. Efficiencies should be possible through reducing management costs, but the cost needs to be balanced with quality and legislative compliance. **Acting Strategic Procurement Manager & Procurement Manager (Proposals will be developed by March 2014)**<br><br><br>**Response from February 2014:**<br><br>This is currently in progress with the intention of having relevant frameworks in place by July 2014 | **In progress – overdue**<br><br>See Item 2<br><br>Work has commenced on the frameworks for asbestos surveying and removal and reactive maintenance and these will be advertised in August with the intention of having frameworks in place by October/November 2014 | Develop frameworks for lower value work. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| | | The Highways & Environment Service Plan for 2013-14 contains an improvement activity under Outcome 1 for "Developing a minor works framework" (HES101a). Once developed, this can be rolled out to other areas of the service. **Works Unit Manager / Performance Officer (with assistance from SPU) Completion date for HES101a is 31 March 2014, but can possibly be brought forward should the need arise** <br> **Response from February 2014:** <br> This is currently in progress with the intention of having relevant frameworks in place by July 2014 | **In progress – overdue** <br> The SPU and Highways are currently working on the establishment of a framework agreement for Minor Works. The original intention was to advertise this by the end of July 14, with the intention of having a new framework agreement in place by Q1 of 2015/16. | Implementation of a minor works framework. |
| 10. | Tendering and contract-related templates (e.g. H05s and pre-qualification questionnaires) are inconsistent and direct the selection of suppliers to be based on lowest value instead of best value. <br><br> In line with Welsh Government requirements, services need to standardise PQQs (pre-qualification questionnaires), tender and contract templates to make it easier for suppliers to tender for work. If possible, this | A construction procurement working group will be formed to review all current PQQ and tender documentation (including supplementary terms and conditions) and agree on a common set of construction-related documents. The Strategic Procurement Manager is developing a set of generic templates in line with the values set within the revised CPRs. These will be circulated as part of the CPR awareness training (see action again Risk Issue 8). **Acting Strategic Procurement Manager (January 2014)** <br><br> **Response from February 2014:** <br> This action is on target for completion by end March 2014 | **In progress – overdue** <br> Under the new procurement structure, specific officers have now been assigned to review the current PQQ and tender documents, as these will be used in the Proactis e-sourcing system. Due to the merger of the DCC and FCC procurement teams it is intended to have the review completed as quickly as possible during Q3 of 2014/15. <br><br> There is a need to get agreement from all service areas to move to a standard form of contract for similar types of construction works to avoid confusion with contractors e.g. JCT, NEC, PPC2000 etc. | Standardisation of pre-contract qualification questionnaires, tender and contract templates. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| Page 63 | should be in coordination with other local authorities to be most effective. | Standardise the relevant Highways & Environment documents and incorporate them into the service's ISO 9001 document control system. **Performance Officer (December 2013)**<br><br>**Response from February 2014:**<br>This is currently in progress and due for completion during April 2014 | **Complete**<br><br>Owing to the volume of documents involved, documents are now being integrated into a single quality management system on a document by document basis, i.e. whenever an existing Highways & Infrastructure document is used, the Quality & Performance Officer is informed and it is then given a control reference and revision number in accordance with the service's ISO 9001 accreditation. | |
| | | In partnership with the SPU business partner, Property Services will review forms/letters etc. used across the Council and develop a standard set of documents. These could be used as a model for use by other local authorities (consensus on the forms has proved difficult in the past). **Acting Strategic Procurement Manager & Property Manager (January 2014)** | **In progress – overdue**<br><br>Under the new procurement structure, specific officers have now been assigned to review the current PQQ and tender documents, as these will be used in the Proactis e-sourcing system. Due to the merger of the DCC and FCC procurement team,s it is intended to have the review completed as quickly as possible during Q3 of 2014/15. | Property Services to review forms/letters used and to develop a standard set of documents. |
| 11. | Many procurement projects fail if they are not properly planned and adequately resourced. Such problems could be minimised if better links were established between procurement and project management. A large, complex procurement exercise should not be able to progress without a sound business case and agreed procurement plan. | The SPU is developing a checklist for procurements valued over £100k and this will shortly be available as a spread sheet. These will be linked to CPRs, the project management system (Verto) and the procurement section of the business case template. **Acting Strategic Procurement Manager (October 2013)**<br><br><br>**Response from February 2014:**<br><br>The checklist has been completed and is now under review following comments received during the CPR consultation exercise.  This should be finalised in conjunction with the CPR's | **In progress – overdue (although reliant on the approval of the CPRs)**<br><br>The checklist is complete and is waiting the completion of the review of the CPRs by Legal Services. The SPU is unable to progress this any further at this point in time. The indication from Legal Services is that the review will be completed by the end of September 2014 and taken through the committee processes by the end of December 2014. | Approval of the revised CPRs before implementation of a checklist of procurements valued over £100k. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| | | New CPRs state that a procurement checklist must be completed for contracts valued over £100k. The SPU must give approval and, if the construction relates to Property, HR or ICT, additional approval is required from each of the affected services. If valued less than £100k, the questionnaire should still be completed; however, the SPU approval is not required (note: approval from HR, ICT and/or Property still applies). **Acting Strategic Procurement Manager and Corporate Programme Office Manager (October 2013)**<br><br>**Response from February 2014:**<br><br>The checklist has been completed and is now under review following comments received during the CPR consultation exercise.  This should be finalised in conjunction with the CPR's | As above.<br><br>Discussions have commenced with the Corporate Programme Office Manager to amend the Verto system to include procurement related questions into the system. | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| 12. | **Wales Audit Office Recommendation The current practices adopted by the Council for allocating work in respect of schools' building maintenance need to be more transparent .** The Council should review and strengthen their procedures in respect of their use of approved contractor lists. The Council should: <br>• clearly communicate to contractors how to apply and access the approved list; <br>• establish agreed procedures or criteria as to how contractors will be selected from the approved list in terms of work allocations; and <br>• establish agreed processes to evidence the selection of contractors from the approved list based on price, quality or past performance. | Work is ongoing to establish framework arrangements for reactive maintenance works to all public buildings. This is in conjunction with the work being undertaken by the Construction Procurement Working Group which is considering procurement of construction projects corporately (not just within Property). **July 2014 for agreed ITT and consultation.** While an approved list is likely to remain for specialist contractors and, in the medium term, contractors wishing to be considered for higher value non-reactive works, this will be advertised on the Council's website. The Proactis e-sourcing system being rolled out through the Strategic Procurement Unit will facilitate the selection of contractors and recording and monitoring of cost, quality and performance. **User training will take place May/June 2014. System configuration for monitoring will commence once users have been trained.** | **In progress** <br><br>Work has now started on establishing framework agreements for Reactive Maintenance services and also Asbestos Surveying and Removal. The remainder of the Approved List categories are being reviewed on a case by case basis with a view to having alternative solutions in place by March 2015. <br><br>Due to issues with the previous project manager, delays have been encountered with the project. A new project management board has been established. Roll out is expected in Q1 of 2015/16. | Put in place framework arrangements for reactive maintenance works, and roll out the Proactis e-sourcing system |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| 13. | **Wales Audit Office Recommendation** **Whilst the Council has provided a rationale for allocating work to a small number of contractors, current processes need to improve to enable the Council to check and monitor work allocations** • Management information needs to be available to enable Council officers to check and monitor the levels of work allocated to contractors. | No automated system currently in place. The Proactis e-sourcing system being rolled out through the Strategic Procurement Unit will provide an electronic information management tool for this purpose. **User training will take place May/June 2014. System configuration for monitoring will commence once users have been trained.** | **In progress – overdue** Due to issues with the previous project manager, delays have been encountered with the project. A new project management board has been established. Roll out is expected in Q1 of 2015/16. The system is being configured to ensure a selection process is created within the portal to select contractors based on pre-set criteria rather than the current procedure utilised. | Roll out of the Proactis e-sourcing system. |
| 14. | **Wales Audit Office Recommendation** **The Council is not fully adhering to its current contract procedure rules in respect of school building maintenance works.** • Officers should be reminded of the requirement to obtain quotes for all works for less than £10,000 unless it can be demonstrated that a quote would not be practicable, eg for emergency works. | Evidence shows that over the last two years (2012/13 to February 2014) from a total of 2,148 jobs completed, 44.5% were for a value of less than £100 and 37.5% were for a value below £500. Only 7.5% of jobs were for a value over £1,000. Given the volume, diverse nature of the jobs and client expectations to have service delivery restored ASAP, it is not considered practicable in terms of internal resource (when coupled with the workload generated through planned, capital and client request works), customer needs and the availability of contractors willing to undertake reactive works, to routinely obtain quotes for reactive works. **April 2014** | **Complete** Justification for not obtaining quotes for works between £1,000 and £10,000 is now required on works requisition forms – to be reviewed on a case by case basis by approving officers. | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| 15. | **Wales Audit Office Recommendation Arrangements to check the pricing of quotations submitted are inadequate.** The Council need to introduce appropriate and sufficient procedures with regards to price checking quotations. In this respect: <br>• criteria needs to be established to select and check a sample of jobs <br>• quotes received against approved pricing lists; <br>• price checking needs to be clearly documented and evidenced; and <br>• all jobs less than £10,000 should be supported by at least one quotation (unless there is a justifiable reason not to obtain a quote such as emergency works). | A process will be incorporated into the F&M procedures initially based on random selection of 25% of single quotes received to be reviewed by the relevant manager with the appropriate surveyor. <br>Due to the diverse and sometimes specialist nature of reactive works, standard pricing guides are not readily available, particularly where local markets can dictate rates etc. Subsequently, the professional judgement of officers with recorded justification will need to be recognised as acceptable criteria. <br>See previous note re: CPR's **April 2014** | **In progress – action overdue** <br>Restructuring within the department has resulted in an amalgamation of the F&M and Design & Construction teams under new line management. A full review of procedures is ongoing, which will cover monitoring of cost and quality. The anticipated introduction of frameworks will reduce the volume of quotations required and this action needs to be reviewed in light of this. | The full review of the relevant procedures, and the introduction of appropriate frameworks. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| 16. | **Wales Audit Office Recommendation The quality control procedures need to be strengthened.** In this respect: <ul><li>criteria setting out minimal levels or target levels for quality checks are</li><li>required;</li><li>surveyors need to ensure that they consistently and more frequently</li><li>evidence quality checks; and</li><li>schools need to be actively reminded to complete feedback forms on a regular basis.</li></ul> | The existing F&M procedures require quality signoff by surveyors. This is now being regularly monitored by management. **Ongoing.** The introduction of the Proactis e-sourcing system currently being rolled out through the Strategic Procurement Unit will provide an improved method for recording and monitoring information. **User training will take place May/June 2014. System configuration for monitoring will commence once users have been trained.** As well as issuing feedback forms for schools to complete, the Building Maintenance Help Desk now also telephones schools in an effort to gain the feedback required on the questionnaire. Property do not have the remit to compel response nor the ability to sanction non-compliance. **Auto-generated emails to clients will contain satisfaction questionnaires based on the current system.** | **In progress** The SPU has been provided with the current "paper" questionnaires used by Property Services for this requirement. Development of electronic questionnaires will be completed during September 2014. Access to this element of the Proactis portal can be made available to users following the set up. | Roll out of the Proactis e-sourcing system, and development of electronic questionnaires via the Proactis portal. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| 17. | **Wales Audit Office Recommendation Arrangements to declare, manage and monitor relationships between Council Officers and contractors needs to improve.**<br>• Arrangements need to be put in place to ensure that declaration of interests are proactively managed and procurement officers are regularly reminded of the importance and the requirement to declare any interests. The Council should review its guidance and training procedures, particularly in respect of staff involved in procurement procedures. | A local arrangement for Property is now in place. | **Complete**<br><br>The standard tender documentation in the Proactis portal has been amended for suppliers to declare any relationships with Council officers through questions in the system. | |

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| **Report To:** | **Corporate Governance Committee** |
| **Date of Meeting:** | **3 September 2014** |
| **Lead Member / Officer:** | **Julian Thompson-Hill, Leader Member for Finance & Assets** |
| **Report Author:** | **Ivan Butler, Head of Internal Audit** |
| **Title:** | **Governance in Arms-Length Organisations** |

## 1. What is the report about?

This report provides the Committee with details of the Head of Internal Audit's preliminary work and report on an assessment framework for the Council to gain assurance on governance and performance from its 'arms-length' organisations.

## 2. What is the reason for making this report?

Performance Scrutiny initially requested a report on how it could gain assurance on the performance of 'arms-length organisations', which the Head of Internal Audit agreed to develop into his project for CIPFA's Certificate in Corporate Governance. It was later agreed that the report should be presented to the Corporate Governance Committee as it covers a wider remit than performance.

## 3. What are the Recommendations?

Committee considers and comments on the Head of Internal Audit's report.

## 4. Report details.

The Head of Internal Audit's report is included in Appendix 1 and forms the first phase of a project to develop a robust framework to monitor governance arrangements in 'arms-length organisations' or, as the report refers to them, Council funded service providers' (CFSPs). The report provides examples of good practice and guidance from Scotland and suggests a way forward for the Council to develop a simple but effective framework that is hopefully not too bureaucratic.

At this stage, the recommendations are generic, but the next phase is to develop a specific framework for the Council for implementation by 1 April 2015, consulting with services, CFSPs and elected members along the way. The framework could also be developed for use in partnerships and large third party contract arrangements, where the Council relies heavily on third parties to deliver key services.

The new framework for monitoring CFSPs will contribute significantly to the Council's own governance arrangements and address a significant governance weakness highlighted in its 'annual governance statement' so that its stakeholders are assured

that public money is fully accounted for and used for its intended purpose in delivering DCC's corporate priorities and statutory duties.

Further reports will be made to this Committee as phase two progresses.

**How does the decision contribute to the Corporate Priorities?**

There is no decision required for this report.

**5.      What will it cost and how will it affect other services?**

There are no costs attached to this report.

**6.      What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?  The completed EqIA template should be attached as an appendix to the report.**

This report does not require a decision or proposal for change, so there is no impact on people who share protected characteristics.

**7.      What consultations have been carried out with Scrutiny and others?**

Corporate Executive Team discussed the report on 28 July 2014, agreeing continuation to phase two.

**8.      Chief Finance Officer Statement**

Not applicable – information report only

**9.      What risks are there and is there anything we can do to reduce them?**

Not applicable – information report only

**10.     Power to make the Decision**
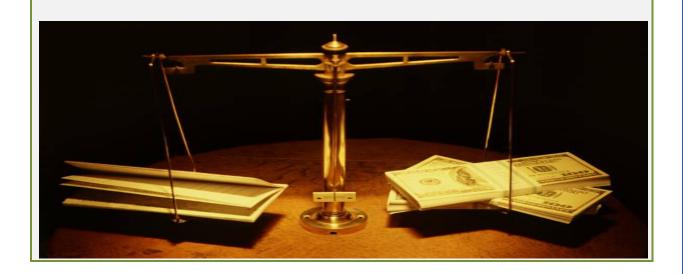
Not applicable – information report only

# CIPFA WALES
# Certificate in Corporate Governance Project

## An assessment framework for Denbighshire County Council to gain assurance on governance and performance from its 'arms-length' organisations



## Submitted by – Ivan Butler
## May 2014

# Contents

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## Introduction

### Background

While government funding to local authorities has reduced year on year, the public's expectations for good quality services has increased and there has also been an increasing interest from stakeholders in the governance of local authorities. Welsh local government also faces a period of change following the publication in January 2014 of the *'Commission on Public Service Delivery'* report (commonly called the 'Williams review'), which examined public service provision in Wales. The main message from this review is that things must change for public services to survive, as they cannot cope with the financial pressures and increasing demand on their resources, but that this change cannot be incremental. The report stresses that organisations need to look at new delivery models, for example, collaboration and third party delivery but also insists that scrutiny of governance and performance needs to improve.

Denbighshire County Council (DCC) has already recognised the need to change and has recently introduced a concept called '*Sharpening our Act'*, which recognises that the public's expectations of its services are increasing and that performance in some areas needs to improve. DCC realises that it must become better at focusing on what is really important, accepting that some services and functions will stop or be transferred to others who may be able to deliver them at lower or no extra cost.

This is not a new way of delivering services, as DCC has funded external service providers for several years in various guises, e.g. through trusts, grants, and general funding assistance but it has not set up robust and consistent processes for establishing and monitoring these arrangements. In the last few months, the most significant of these arrangements came under close scrutiny and significant media and public interest when the 'arms-length' body faced financial pressures. My redacted follow up report of an external due diligence report is included as *Appendix 1*and highlights a lack of a robust governance framework and questionable HR policies and practices, which finally contributed to DCC withdrawing its funding support and the organisation ceasing trading and closing its facilities.

To put this risk into context, a Wales Audit Office (WAO) report into *'The Welsh Government's relationship with the All Wales Ethnic Minority Association'* (known as AWEMA) highlighted AWEMA's significant and fundamental failures in financial control and governance and ended up in a criminal case. It is a good example of poor governance and control at government level and in monitoring of arms-length organisations. The WAO report criticised the Welsh Government for its poor management and coordination of grant funding of over £7m to AWEMA, poor performance in some of its units, poor monitoring of AWEMA's spending and failure to act on concerns raised over the organisation. AWEMA eventually went into liquidation, owing the Welsh Government over £500k, which it could not recover and was found to be almost totally reliant on the Welsh Government for its funding. The WAO report includes recommendations that this CIPFA project is taking account of in developing a governance framework in that DCC should:

- make sure that it and the funding recipient understand their roles and responsibilities, building this into the funding award process;

- ensure that the purpose and objectives of the funding are clear from the outset;

- establish monitoring arrangements proportionate to the level of funding and type of organisation funded to ensure that the purpose and objectives are achieved;

- consider risks associated with the funding arrangement;

- seek annual assurance on the funded body's governance arrangements;

- undertake regular financial and operational reviews of the funded organisation; and

- ensure that robust legal and contractual arrangements are in place from the outset of the arrangement.

The above case, and the potential changing service delivery methods in public sector organisations, mean that DCC's elected members need to be aware of and understand their accountabilities and responsibilities when scrutinising and representing DCC on 'arms-length' body boards, committees etc., including conflicts of interest. DCC's Performance Scrutiny Committee has asked for assurance on the performance of other 'arms-length' organisations but, during the development of DCC's 'annual governance statement', subsequent discussions and committee reports, it has become clear that DCC cannot be fully assured that bodies that it funds and which deliver services on its behalf have robust governance arrangements in place. This has now been raised as a significant governance issue in DCC's 'annual governance statement' as recognition that it cannot transfer this accountability. *Appendix 2* provides extracts from DCC's draft 'annual governance statement' relating to monitoring of 'arms-length' organisations.

## Project Scope

*Appendix 3* shows the original brief for this CIPFA course project, which was to cover  the three main 'arms-length' organisations referred to in DCC's Statement of Accounts to develop a basic framework for them to provide an annual self-assessment of their governance arrangements for DCC to consider when agreeing future funding. The project was also to include a review of the current monitoring arrangements for these bodies and the legal arrangements in place; however, following subsequent discussions with DCC's Corporate Executive Team and Corporate Governance Committee, it became clear that DCC needs to apply its governance principles to a wider range of council-funded organisations providing services on its behalf and that a framework needs to be developed to cover a wider range of organisations. This CIPFA course project and report therefore forms part of a larger DCC project shown in *Appendix 4*, which means that some parts of the original project brief will not now form part of this CIPFA course project report, although they will still be carried out within the larger DCC project in the coming months.

The organisations within the scope of this course project are not necessarily defined as 'arms-length' organisations, as these are normally organisations set up by the funder to provide services. This review will cover all organisations receiving funding to provide services on DCC's behalf other than contractors, suppliers and partners, which will be subject to separate reviews during 2014/15. For the purpose of this review, the organisations within its scope will be referred to as 'Council funded service providers' (CFSPs). The definition used is that they *'...are separate from the Council but are subject to Council control or influence, either through having representation on the board and/or through being a major funder or shareholder in the organisation.'*

# Outcome of research

## Desktop review

In developing the scope for this project, reviewing DCC's arrangements for monitoring CFSPs and assessing them against good practice, the main research sources have been:

- **Accounts Commission/Convention of Scottish Local Authorities** *'Code of Guidance on Funding External Bodies and Following the Public Pound'* – this document provides guidance to local authorities in Scotland on how to maintain public accountability when using public money to provide services through 'arms-length' bodies.

- **Audit Scotland's** *'Following the Public Pound'* - reports on its review of local authority progress in implementing the above code of guidance. The report concluded that the Commission had concerns about councils' funding of 'arms-length' bodies, in particular the lack of information available to inform their survey.

- **Audit Scotland's** *'Arms–length external organisations (ALEOs): are you getting it right?'* – this document is aimed at promoting and encouraging good practice in councils that are planning on setting up new ALEOs to deliver services as well as those with existing ALEOs.

The above documents are particularly useful, as they highlight the risks and provide useful guidance on how to get the governance arrangements right from the start and then maintain them effectively. This project aims to use and, where relevant, adapt guidance from these documents to develop specific guidance for DCC on how to implement, monitor and review such arrangements consistently, to prevent a repeat of the problems DCC has recently faced. In summary, the guidance states that local authorities must ensure that:

- they are clear about the reasons for delivering services in this way;

- they receive assurance that the objectives of the service are delivered;

- they understand the financial commitment they are making and the risks involved;

- they have effective financial and operational performance monitoring arrangements in place;

- the funding is used for the intended purposes;

- all necessary legal and contractual arrangements are in place, including an exit strategy;

- roles and responsibilities of both organisations are defined;

- they have audit access to the third party organisation; and

- where they appoint elected members or officers to the third-party's board etc., they understand their role and responsibilities.

## Areas of good practice

The above three research documents and further documents researched relating to specific Scottish local authorities highlighted some specific examples of good practice for inclusion in the DCC framework for setting up and monitoring CFSPs:

- Consider establishing a nominated lead department for each CFSP that coordinates monitoring functions and grant payments.

- Provide training to elected members or members of staff who sit on boards or committees on behalf of DCC.

- Develop written procedures and guidance to ensure compliance with the main requirements of DCC's framework.

- Develop standard conditions of funding that reflect DCC's framework requirements for monitoring, access to records, and defined outcomes.

- Produce a guide for CFSPs and DCC staff setting out good practice in financial administration and management.

- Ensure that all substantial funding relationships are subject to a formal written agreement.

- Internal audit should undertake a 'health check' of a sample of funding relationships each year.

- Maintain a central database of funded bodies, including a checklist of documents required/seen e.g. Constitution, Deeds of Trust, last audited accounts, Memorandum and Articles of Association, bank statements, and signed undertakings from members of management committees.

- Financial vetting should be undertaken by a qualified accountant, for example, DCC could designate an accountant to each funded body depending on funding level.

- DCC policy should be not to pay elected members representing it on a CFSP board or committee (other than expenses).

- DCC should consider a policy that no officer will hold a trustee or directorship position in a CFSP.

- Designate one committee to scrutinise performance of CFSPs – including performance, risks, financial management, partnership working, contractual compliance and equalities compliance.

- The designated 'scrutiny' committee could receive themed reports across CFSPs, e.g. complaints handling, sickness absence.

# Recommendations for developing a governance framework

## Using a risk-based approach

Under CFSP arrangements, delivery of a service becomes the responsibility of a separate organisation and DCC loses direct control over day-to-day management of the service but remains accountable for how public money is spent and the quality of services delivered. There are also on-going financial and reputational risks if things go wrong. In *'A Statement on the Role of the Finance Director in Local Government',* CIPFA recognises that 'the statutory role of the finance director does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest'.

This means that not only does DCC need to have good governance arrangements in place itself, but it needs to ensure that CFSPs also have robust governance arrangements. It is also important that DCC can provide assurance to its stakeholders that the funding it is providing to third parties is being used for the intended purpose and is delivering the required objectives. However, it is important that the level of monitoring introduced is commensurate with the risk involved, which is mainly linked to the level of funding provided and the impact that failure of the service would have on DCC's reputation and on the public.

To develop a risk-based approach to monitoring CFSPs, the first task was to identify all DCC payments in excess of £1,000 to such bodies during 2013/14 to establish the level of funding and what services the CFSP is providing. This analysis identified 71 CFSPs with payments ranging from £1,700 to over £175,000. Further discussions identified that several of these payments were for grants that may be monitored through external regulators such as Estyn, but these remain within the scope of this project, as DCC still needs to ensure that it receives assurance on these CFSPs, even if it comes from an external source.

Given the range of payments and the fact that several will only require assurance that the external regulators have inspected the CFSP, the organisations have been stratified based on risk as shown in *Appendix 5*, together with a summary of suggested set up, approval and monitoring arrangements. However, this proposal will be subject to Corporate Executive Team (CET) and elected member consideration and approval as part of the larger DCC project on CFSP governance.

## Getting it right from the start

Given the pressures on DCC's funding and the need to concentrate on statutory services and corporate priority delivery, it is critical that agreements are only entered into with CFSPs to help DCC deliver in these core areas and that the CFSPs share DCC's vision, priorities and values. This means that both parties need to have a shared purpose, building good relationships and understanding each other's needs and priorities, particularly in the more significant CFSP arrangements.

DCC should therefore have an overarching policy statement that sets out its stance and strategic approach to using CFSPs, supported by a framework to provide guidance to officers, elected members and CFSPs that takes account of the suggested risk-based approach in *Appendix 5*. DCC already has guidance for elected members as part of its Constitution, but this will need to be reviewed to take account of the outcome of this project and the good practice identified in the research mentioned above. This elected member guidance should be supported by training to ensure that elected members understand their roles, not only in scrutinising CFSP arrangements but when representing DCC on CFSP boards and committees, in particular relating to potential conflicts of interest.

To ensure that arrangements for considering and setting up CFSPs are robust, the following points are crucial:

- DCC's officers and elected members must comply with its guidance when considering use of and developing arrangements with CFSPs.

- DCC's officers and elected members must base any decision to use a CFSP on a sound options appraisal and an approved business case, including risk assessment and EQIA (Equality Impact Assessment). *Appendix 6* provides guidance on options appraisals and business cases.

- CFSPs should only be used to help meet a statutory need or to help deliver DCC's corporate priorities (there may be exceptions, e.g. where Welsh Government provides grant funding that DCC administers on its behalf).

- Governance arrangements should be considered at the outset (based on the risk stratification in *Appendix 5*) to ensure that DCC and the CFSP can effectively scrutinise performance and be held accountable; monitor costs, performance and risk; and engage service users and citizens.

- DCC's officers and elected members must clearly understand the role of boards, committees and DCC in the articles of association or other constitutional documents of the CFSP.

- DCC must set clear criteria for appointing representatives to boards of CFSPs, including skills, experience and payment.

- All CFSPs should be subject to some form of legal agreement, the level and type of which will again be based on the risk stratification shown in *Appendix 5*. Suggested content for a comprehensive legal agreement is shown in *Appendix 7* and must include clauses to terminate or review delivery arrangements at the outset, taking into account the impact on services and their users, employees and assets.

In addition to the above, there are some critical governance questions that CET and elected members need to ask when considering use of a CFSP and when approving business cases for their use:

- Are we clear about our overall expectations of the CFSP?

- Do these expectations align with DCC's corporate priorities?

- How well do we understand the financial commitment and risks flowing from the decision to use the CFSP?

- How do we ensure that the governance arrangements in the CFSP are sound and that those with an active role receive adequate training and advice?

- How will we safeguard our interests, such as assets and other resources made available to the CFSP?

- How will we know how well the CFSP is doing, through our scrutiny of both operational and financial performance?

## Keeping it right – monitoring CFSPs

*Appendix 5* shows the suggested monitoring arrangements for each type of CFSP; however, monitoring of CFSP governance arrangements will inevitably be more difficult than assessing DCC's governance arrangements, not just in accessing information but in assessing leadership, values, culture and other intangible elements of governance. The suggested arrangements are therefore largely based on the tangible elements of governance, such as policies, procedures, financial accounts, performance reports etc.

To enable effective monitoring of CFSPs performance, DCC should set out its expectation of the use of the funding from the outset. This should contain a broad and general statement of aims or goals and should also contain clear targets with timescales and methods of measurement whenever possible, as well as any conditions and reporting requirements.

Formal agreements with CFSPs should also provide DCC's internal and external auditors with access to CFSP records and personnel if required. In particular, internal audit should review the overall arrangements for using CFSPs regularly to ensure that the process remains robust, effective, the overall risk is being well-managed and the framework is complied with. This review should contribute to DCC's 'annual governance statement' as part of the Internal Audit Annual Report on DCC's governance, risk and internal control arrangements. Internal Audit should also review a sample of specific CFSP arrangements on a risk basis each year.

DCC should consider very carefully the question of representation on CFSP boards or committees. For example, members or officers who become directors will assume personal responsibilities under the Companies Act and it is possible that conflicts of interest will arise for such members and officers between the company and DCC. It is crucial for DCC to ensure that elected members and officers are properly advised of their responsibilities to DCC and to the CFSP. In particular, they should be fully aware of their respective codes of conduct within DCC's Constitution, which state that they have a duty to act in DCC's interests as a whole but outline the impact of becoming a director or trustee of a CFSP where they must act in the interests of the CFSP.

One very important point to stress is that having elected members or senior managers on CFSP boards or committees does not constitute adequate monitoring and there should be systematic and regular monitoring of service and financial performance of CFSPs with formal reports to the relevant DCC committee. In particular, DCC representatives on CFSPs must:

- be aware of  how well corporate priorities are being met by the EFSP;

- carry out scrutiny or management roles effectively, taking action on shortcomings or under-performance;

- be risk aware and satisfied that risks to DCC and the CFSP are identified and managed effectively;

- act quickly on potential conflicts of interest;

- take action to ensure that funding is withheld or reviewed or the agreement terminated, particularly where services or public money are at risk;

- take action where the intended objectives of the CFSP are not being met, or diverge from DCC's corporate priorities;

- periodically review delivery arrangements to ensure that best use is made of resources and that robust governance is in place;

- take action to ensure that CFSPs are reviewed or wound up where they are no longer active or effective, or contribute to DCC priorities.

## Final thoughts

This CIPFA project forms only a small part of a larger DCC project to improve its assurance on governance arrangements in CFSPs. There is still a lot of work to do to develop the governance framework, but this project provides a foundation for the larger project, with examples of good practice, a recommended approach and a firm basis on which to develop a robust governance framework for the future. In fact, DCC will be able to develop the way forward suggested in this project report in other areas such as partnerships and Town and Area Plans, where services and/or projects are delivered by other bodies on DCC's behalf.

One particular difficulty in implementing the new framework will be dealing with relationships with current CFSPs that have been delivering services for several years without being asked to report regularly on performance and possibly not having formal legal agreements in place. DCC will have to manage this change carefully to maintain good relationships and its reputation, highlighting the benefits and need for the new arrangements.

However, the new framework will ensure that DCC addresses the following key risks, particularly if it adopts the suggested toolkit adapted from the research documents shown in *Appendix 8*:

- Having guidance and consistent arrangements for setting up and recording CFSPs means that it will be fully aware of all CFSPs that it deals with.

- Having regular and robust monitoring arrangements means that it will not fund CFSPs that do not deliver intended outcomes and will be aware of CFSPs that perform poorly, operationally and/or financially.

- Having robust governance arrangements over CFSPs reduces the likelihood of failure in its stewardship of public funds.

- Having early warning mechanisms through regular monitoring information reduces the likelihood that it will suffer financial loss due to a CFSP ceasing to exist and should not have to step in with contingency arrangements to deliver services.

- Having robust business cases for approval of CFSP arrangements means that it can ensure that CFSPs share DCC's values and should not bring the Council into disrepute through its behaviour.

- Having robust legal agreements and service level agreements ensures that both organisations understand their roles and responsibilities and strengthens DCC's position in the event of dispute.

- Providing robust guidance and support to its elected members who sit on outside bodies protects their interests, improves the likelihood of robust scrutiny and clarifies the legal position and conflicts of interest relating to directorships and trustees.

- Overall, the framework means that DCC should not suffer significant damage to its reputation due to failure of a CFSP.

In conclusion, a new framework for monitoring CFSPs will contribute significantly to DCC's own governance arrangements and address a significant governance weakness highlighted in its 'annual governance statement' so that its stakeholders are assured that public money is fully accounted for and used for its intended purpose in delivering DCC's corporate priorities and statutory duties.

# *Denbighshire Internal Audit Services*
## *Caledfryn, Smithfield Road, Denbigh, LL16 3RJ*

**Report to:**   Corporate Director: Customers
Head of Finance & Assets
Head of Legal & Democratic Services
Head of Communications, Marketing & Leisure

**Report By:**  Ivan Butler:   Head of Internal Audit

**Date:**       12 November 2013

**Subject:**    Internal Audit Follow Up to Due Diligence Report on ▆▆▆▆ Ltd

**Introduction:**

1. ▆▆▆▆ recently carried out a due diligence exercise on ▆▆▆▆ Limited to identify risks and opportunities relating to the possible takeover of the Company by the Council. This exercise concentrated on four key areas:

   - legal matters appertaining to the Council taking over the Company;

   - HR and finance matters;

   - a property and plant survey; and

   - an assessment of the implications for Leisure Services if the Council was to operate these facilities from April 2014 onwards.

2. At the conclusion of the due diligence exercise, there were still some queries outstanding and further detailed checks required, which I was asked to review as a matter of urgency.

**Outcome & Conclusions:**

## Directors & Corporate Governance

3. There are currently 10 Directors of the Company and one Secretary, who is also an employee of the Company. Each Director may claim a set fee of £350 for 'reasonable expenses' but does not have to provide evidence of actual expenditure. These expenses include telephones, printing etc. Not all Directors claim these expenses but, for those that do, there may be tax implications from this arrangement as there is no proof of expenditure.

4. **There are no formal terms of reference, contractual arrangements or terms of appointment for the Directors. The Council will need to clarify the terms and timescale of any continued liability for Directors after they cease that role if the Council takes over the Company.**

5. During the course of my work, it became clear that there are inadequate governance arrangements and that the Board of Directors is not carrying out its role properly and effectively. There is no governance framework, no formal policies and procedures, financial regulations, risk management framework, performance management framework, codes of conduct etc. that should be in place for such an organisation. The Company does not produce an annual governance statement.

6. **The Council will need to consider what governance arrangements need to be put in place if it takes over the Company. The majority of these arrangements can be tied in with the Council's own governance framework, but there will be specific areas needed if there is to be a board structure and there may be a need for a separate annual governance statement.**

## HR Issues

### *Staffing & Payroll*

7. I was provided with two staffing lists - one for the summer season and a current list now that most of the seasonal employees have completed their contracts for the season. The list for the summer season included 149 employees, which reduces to 84 in the current list. There are two more posts due to terminate in November at the end of their contract.

8. At present the breakdown of staffing is as follows:

   - 16 employees work 37 hours per week
   - 22 employees work between 20-31 hours per week
   - 24 employees work less than 20 hours per week
   - 22 others had no hours on the list provided, therefore I assume these may be variable

9. During the summer season, the main change is in the variable hours contracts, where there were 83 employees on the list provided.

10. **There are a significant number of employees being paid the minimum wage - approximately 30 currently and 70 during the summer season. The Council needs to consider the impact of potential equal pay claims if it takes over the Company, as it is likely that its own leisure staff are paid higher rates than those at ███████.**

11. ███████ were provided with a list of employees due to receive an increment in the coming months; however, this list did not take into account the recent increase in the minimum wage or the fact that some employees will move from one age category to the next, which increases their minimum wage. It is difficult to calculate the exact impact of the minimum wage change, as the employee list provided did not show the hours worked by several of the employees who are on the minimum wage.

12. **Including the known increments provided to ███████ and the impact of the increased minimum wage on the employees where I was provided with hours worked, there is an increased payroll cost of over £5k for 2014/15 (not including on-costs).**

### Sickness Absence

13. There are currently no employees on long-term sickness absence at the Company. One employee who had recently been on long-term absence has now returned to work and I was informed that this was a work-related absence.

### Policies & Procedures

14. The Company has no HR policies and procedures of its own. I was informed that, when needed, they use the Council's current arrangements. This includes recruitment, disciplinary and redundancy policies. The Company has no 'enhanced policies', over and above the Council's own policies.

15. **When recruiting new employees, there are no checks carried out to ensure that the person is eligible to work in the UK. The Company cannot be 100% certain that all employees have permission. They always get a National Insurance number before employing anyone, but there are no checks on the validity of these. The Council therefore needs to consider whether this is a significant risk, although the main risk is in the employment of seasonal employees, which the Council will carry out using its own recruitment procedures that require eligibility checks.**

### Other Terms & Conditions

16. From the current staffing list, 21 employees receive a straight 28 days annual leave per year (pro rata for part-time employees), while the remaining 63 employees receive 20 days basic leave, plus 5 days after 5 years' service, then one additional day after 10, 15 and 20 years (28 days total). During the summer season, all additional employees receive the latter arrangements.

17. The Company also operates different sickness pay for employees, where the majority receive no sick pay if they are absent. Although I did not confirm this at the time, I assume the employee split is the same as for holiday entitlement, as these 21 employees appear to be on different terms and conditions.

18. **There are anomalies in the terms and conditions of employees, as the Company has adopted a 'two-tier' approach in relation to sick pay and holiday entitlement. This could give rise to claims of unfair treatment by the Company and claims for equality if the Council takes over the Company.**

*Employee Contracts*

19. I was unable to access employees' personal files during my visit due to concerns raised over Data Protection. The Company has consulted its legal advisors to see whether it can grant access. I was therefore unable to check whether all files contained contracts of employment, job descriptions or CRB checks and whether there are any issues of concern on the files, such as outstanding disciplinary issues or other disputes.

20. **I was informed that it is unlikely that all current employees have a contract of employment and that some establishments (████) are much more efficient at this that others (███).**

21. I was also informed that the Company recently undertook a major exercise with the Council's HR services to ensure that all relevant employees have CRB checks in place. I have not confirmed this with HR, but there will need to be robust arrangements in place throughout the year, particularly when appointing seasonal employees.

*Financial Issues*

22. I reviewed the current year's budget and actual performance to date and have no issues to highlight on financial arrangements that have not already been discussed. The only points to consider are:

   - There will be some savings on support staff as it is unlikely that all employees will transfer across, although there shorter-term costs associated with this.

   - There could be some savings on the financial services budget of £27k, which covers payroll, banking charges and accountants, depending on what new arrangements are put in place.

   - The pension deficit repayment of £36k is likely to increase once the reassessment is received.

   - There is nothing in the budget for major works to the buildings etc., just £35k for routine maintenance.

   - The Company does not carry out any formal cash flow analysis, but there is a monthly bank reconciliation and they use a main interest earning bank account that all subsidiary accounts flow into, so there have been no cash flow issues. This main account holds approximately £650k on average.

## Appendix 2 – Extracts from DCC's 'annual governance statement'

### Review of effectiveness

We are required to review the effectiveness of our governance arrangements each year, which includes:

- maintaining an on-going evidence framework showing how we can give assurance on our governance arrangements;

- regularly reviewing the effectiveness of the Council's Constitution;

- reviewing governance arrangements within services delivered on our behalf by partnerships, arms-length organisations etc.;

### Significant Governance Issue 1

In future, we accept that some services and functions will stop or be transferred to others who may be able to deliver them at lower or no extra cost. We need to review our governance arrangements to take account of this, ensuring that public money is spent wisely and the public continues to receive good services and value for money.

| | |
|---|---|
| **Proposed action to address the issue** | We will be implementing new monitoring arrangements during 2014 to ensure that any third party or arms-length service providers have robust governance arrangements, and will implement scrutiny arrangements to monitor their financial and operational performance. |
| **Responsibility for the action** | Initial review by Head of Internal Audit, which will lead to further action plan for implementation of new arrangements |
| **Timescale for improvement** | Preliminary report by 31 May 2014, with further action plan for implementation of new arrangements to be agreed |

## Appendix 3 – Original project brief

Denbighshire County Council's Performance Scrutiny Committee has raised the question of how it can gain assurance that the Council's Arms-Length organisations (ALMOs) are performing effectively. I was asked to review this area but have taken the opportunity to agree an increased scope with the Committee and relevant Corporate Director to cover corporate governance assurance, which will include financial and operational performance.

This project is particularly important, as one ALMO has recently folded, significantly affecting the Council's reputation. In addition, the Council provides a significant level of funding to these organisations, so needs to protect its interests and use public money wisely. I am hoping to extend the framework to develop arrangements for the Council to use for agreeing funding to any external organisation, but this work falls outside the scope of this project.

The project will cover three ALMOs but will not include a review of their governance arrangements, as I have no rights of access into the organisations. The project aims to develop a basic framework for the ALMOs to provide an annual self-assessment of their governance arrangements to the Council to consider when agreeing future funding.

The key areas of work will be:

- Develop an information report to Performance Scrutiny Committee for mid-March 2014 outlining the scope of the project.
- Hold discussions with the relevant Corporate Director to evaluate the level of assurance sought, weighing up the burden of work this poses on the ALMOs.
- Hold discussions with the Council's Head of Legal & Democratic Services to ascertain the current legal and funding agreements with ALMOs.
- Review the Council's own Corporate Governance Framework and identify the key governance areas where ALMOs need to provide assurance.
- Design and develop an easy to use self-assessment framework to gather evidence of good governance in the ALMOs (a mini Annual Governance Statement)
- Present the draft self-assessment to the relevant Corporate Director for comment and agreement.
- Present the framework to the relevant committee for approval, outlining its responsibilities when scrutinising self-assessments that ALMOs will provide.

The key risks faced are:

- Legal and funding arrangements may need to be changed before the self-assessment framework can be introduced.
- The Council may refuse funding in future if a self-assessment is not received or is not robust, therefore media interest is likely. My work during this project will need to remain confidential, so I need to ascertain the best way to report progress and present the self-assessment to the relevant committee.

### Denbighshire Internal Audit Services
#### Caledfryn, Smithfield Road, Denbigh LL16 3RJ

# Internal Audit Project Scoping Document

| Project area: Governance assurance from externally funded bodies providing services on the Council's behalf | Project no. D141505 |
|---|---|

| Prepared By | Ivan Butler | Date | 06/05/14 |
|---|---|---|---|
| Agreed With | Chief Executive | Date | 12/05/14 |

| Reason for Project |
|---|
| Initial request by Performance Scrutiny to review how the Council receives assurance on the performance of 'arms-length' external organisations (ALEOs). During development of 'annual governance statement', subsequent discussions and Corporate Committee reports, it is clear that the Council cannot be fully assured that bodies that it funds and which deliver services on the Council's behalf have robust governance arrangements in place. |

This project now forms part of the governance action plan and will also include the role of elected members on outside bodies. Despite researching guidance on managing ALEOS, this review does not solely cover ALEOs, as these are normally organisations set up by the funder to provide services. This review will cover all organisations receiving funding to provide services on the Council's behalf other than contractors and partners. This will include ALEOs and those organisations receiving grant funding and contributions to assist their service provision.

For the purpose of this review, these organisations will be referred to as 'Council funded service providers' (CFSPs). The definition used is that they '...*are separate from the Council but are subject to Council control or influence, either though having representation on the board and/or through being a major funder or shareholder in the organisation.*'

## Scope of Project

- Desktop review to learn lessons from elsewhere and identify areas of good practice:
  - *the Accounts Commission/Convention of Scottish Local Authorities 'Code of Guidance on Funding External Bodies and Following the Public Pound'*
  - *Audit Scotland's 'Following the Public Pound'*
  - *Audit Scotland's 'Arms-length external organisations: are you getting it right'*
- Identify CFSPs to be reviewed (not Partnerships, contractors or suppliers)
- Identify the level of funding provided to CFSPs and stratify to provide 'risk groups'
- Identify the current monitoring arrangements for CFSPs
- Identify the legal arrangements for CFSPs
- Develop governance assurance requirements for each risk group
- Develop a clear and concise process and identify responsibilities for recording, monitoring and scrutinising governance assurance from each risk group
- Contribute to the protocol for elected members sitting on outside bodies

## Anticipated 'Added Value' of Project

The Council will receive regular assurance that CFSPs have robust governance arrangements in place, commensurate with the risk that it faces in funding these organisations. This will address a significant governance weakness in the Council, highlighted in its 'annual governance statement' and will provide assurance that CFSPs are using the money for its intended purpose and providing value for money.

## Estimated Project Days

| Auditor | Project Role | Estimated days |
|---|---|---|
| Ivan Butler | Scope, deliver project and report | 10 |
| | Totals | 10 |

## Risks to be Reviewed

The Council:
1. Is not fully aware of all CFSPs
2. Funds CFSPs that do not deliver intended outcomes
3. Is deemed to have failed in its accountability over public funds
4. Is not aware of CFSPs performing poorly, operationally and/or financially
5. Loses funding because of an CFSP ceasing to exist
6. Funds CFSPs that have different values that bring the Council into disrepute
7. Has to step in to deliver services where CFSPs fail or cease to exist
8. Does not have robust service level agreements or legal arrangements with CFSPs
9. Does not provide robust guidance and support to its elected members who sit on outside bodies
10. Suffers significant damage to its reputation due to failure of an CFSP

## Areas Identified as Well-managed from Scoping Meetings

The Council already has a protocol for elected members sitting on outside bodies, which will be taken into account during this review.

| Review Completed By: | Ivan Butler | Date: | May 2014 |
|---|---|---|---|

# Appendix 5 – Suggested risk-based approach to CFSPs

| CFSP type | Set up arrangements | Approval arrangements | Monitoring arrangements |
|---|---|---|---|
| Funding level >£50,000 | Full business case, full legal agreement, service level agreement and review of financial soundness of the CFSP | DCC Cabinet | • Annually – 'Annual governance statement' style report (standard format stipulated by DCC to include equalities; sustainability; HR practices; data protection and handling; FOI principles; standards and behaviour; and arrangements for engaging citizens and service users).<br><br>• Quarterly – financial and operational performance report to include how agreed aims and objectives being met, how standards and targets set by DCC being met<br><br>(Reports to be collated and summary report provided to DCC's Corporate Governance Committee) |
| Funding level £10,001-£50,000 | Medium business case, legal terms and conditions, and service level agreement | Corporate Executive Team | • Quarterly – financial and operational performance report to include how agreed aims and objectives being met, how standards and targets set by DCC being met<br><br>(Reports to be collated and summary report provided to DCC's Corporate Governance Committee) |
| Funding level £1,001-£10,000 | Mini-business case, legal terms and conditions and service level agreement | Head of Service | • Quarterly – financial and operational performance report to include how agreed aims and objectives being met, how standards and targets set by DCC being met<br><br>(Reports to be collated and summary report provided to DCC's Corporate Governance Committee) |
| Externally monitored CFSPs | As stipulated by regulatory body or main funding body | As stipulated by regulatory body or main funding body | Collation of external regulator reports and annual summary report to DCC's Corporate Governance Committee |

## Appendix 6 – Assessing options and developing a business case

There should be a robust options appraisal before entering into funding arrangements so that DCC:

- is clear on the aims and objectives of the service being provided;
- knows the market and identifies all service delivery options;
- involve stakeholders (service users and community); and
- is clear about risks – long and short-term.

It is imperative that officers and elected members are objective and impartial when assessing options and that the process is overseen by elected members if there is a major service shift.

| Checklist for reviewing options appraisals and business cases |
| --- |
| • Was the assessment independent, objective and competent? |
| • Have any financial/technical estimates been verified? |
| • Have any forecasts of future performance been verified as realistic? |
| • Is there evidence of all other affected parties and contributors being appropriately consulted? |
| • Has all available information been pooled? |
| • What is the nature of DCC's financial contribution? |
| • What is the limit of DCC's contribution? |
| • What mechanism will trigger payments/receipts? |
| • Will there be an assessment/valuation at each payment stage? |
| • Will there be an assessment of the management/control regime? |
| • Are there any special arrangements for start-up funding? |
| • What are the arrangements for assets/liabilities i.e. ownership, destination? |
| • What is DCC's exit strategy? |
| • Will there be any recurring liabilities? |
| • What accounts will be kept? - frequency, type |
| • What audit access to information/personnel has been agreed? |

| Examples of governance & operational issues to consider in options appraisal | |
|---|---|
| **Legal & governance** | **Business & operational** |
| <ul><li>Is there a clear statutory basis for undertaking the activity?</li><li>How will governance work – including the means of DCC control and representation?</li><li>How will the CFSP ALEO be accountable to the community and the service user?</li><li>How will DCC demonstrate that the CFSP offers best value for money and assure that it accounts for all public money provided to the CFSP?</li><li>What are the implications of EU and other procurement law, e.g. on the award of the contract or service delivery agreement?</li><li>How will obligations including equal opportunities, sustainable development, data protection and freedom of information be observed?</li><li>How will the delivery method be reviewed, and what is the basis for withholding funds or terminating the arrangement?</li><li>How will DCC employees and assets be treated, including transfer arrangements and pensions?</li><li>What are the statutory financial reporting and auditing requirements?</li></ul> | <ul><li>Does the activity fit in with DCC's corporate priorities?</li><li>What are the service implications, e.g. quality, access, marketability, pricing?</li><li>How will services users be involved and customer satisfaction measured?</li><li>What are the financial implications, e.g. taxation, treatment of profits, ability to attract investment and residual liabilities for DCC?</li><li>What is the payback time, allowing for initial set-up costs?</li><li>Are there benefits in sharing services with other councils or partners?</li><li>What will be the impact on demand, including DCC's ability to subsidise any increase?</li><li>How will flexibility or changes to delivery be allowed for?</li><li>What are the operational risks, including future changes in legislation or the marketplace?</li><li>What management information will be shared by the CFSP to demonstrate financial control and value for money?</li></ul> |

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## Appendix 7 – Suggested content of a comprehensive legal agreement

A formal agreement should be entered into with each CFSP where there is deemed to be a substantial funding relationship. In drafting this document, consideration must be given to various aspects of the arrangement to ensure that all relevant areas are covered.

| Key areas to be included in a formal legal agreement |
| --- |
| **Expectation of the use of funding** |
| • General statement of aims and goals of the CFSP<br>• Annual plans of the CFSP<br>• Targets, including timescales to be achieved by the CFSP<br>• Any specific conditions and/or reporting requirements of the CFSP |
| **DCC representation of elected members and officers** |
| • Level of representation from DCC i.e. elected members and/or officers<br>• Name, designation/status within the CFSP |
| **Financial regime** |
| • Extent of DCC's financial commitment<br>• Nature of financial relationship, e.g. loan, grant, shareholding<br>• Criteria for making and receiving payments<br>• Details of any transfer of assets and destination of such assets<br>• Accounting and reporting procedures to be adopted<br>• DCC policies to be adhered to by the CFSP, e.g. procurement policy<br>• DCC's exit strategy<br>• Formal risk assessment requirements<br>• DCC's criteria and arrangements for terminating the funding agreement with the CFSP<br>• Procedures to be put in place to alert DCC should any problem arise between formal monitoring stages |
| **Accounting, reporting and audit requirements** |
| • Minimum standard of management arrangements and accounts required by DCC<br>• Responsibility and accountability of the 'management committee' of the CFSP<br>• Access to records and accounts of the CFSP by DCC representatives<br>• Access to records and accounts of the CFSP by DCC's internal and external auditors<br>• Arrangements for accessing the CFSP's external auditor |

| Financial and performance monitoring requirements |
|---|
| • Proposed methods of measurement for inclusion in the relevant service level agreement |
| • Frequency and content of monitoring reports to DCC from the CFSP |
| • Reporting of achievement of targets by the CFSP |
| • Details of the annual budget and comparison with actual spend |
| • Methodology of the reporting of future plans of the CFSP |
| • Notification to DCC of criteria that may trigger a review of the arrangements with the CFSP |
| • Details of the reporting requirements for DCC committees |
| **Expectation in terms of employment and other practices** |
| • Policy regarding equal opportunities |
| • Recruitment and selection policies and procedures |
| • Policies regarding conditions of employment |
| **Other practices** |
| • Any other relevant information, e.g. insurance arrangements |
| **Complaints** |
| • Procedures for DCC to obtain information in respect of complaints made to the CFSP |

# Appendix 8 – Toolkit for improving governance of CFSPs

| How well does DCC ensure that effective governance and accountability is maintained when it delivers services through CFSPs? | | | |
|---|---|---|---|
| | **Best Practice** | **Better Practice** | **Advanced Practice** |
| How clear is DCC about its reasons for delivering services through CFSPs? | The decision to set up or engage with CFSPs is within DCC's powers, follows an appraisal of options for service delivery and is linked to its corporate priorities.<br><br>DCC establishes from the start clear limits to its involvement, a timetable for achieving objectives and the circumstances in which the agreement will be terminated. | An overall statement of purpose is expressed in key documents.<br><br>A regular review is carried out to ensure that the services provided by the CFSP remain aligned with DCC current priorities.<br><br>DCC identifies specific circumstances that will trigger a review of its involvement, e.g. changes in key personnel in the CFSP. | Where services are delivered through CFSPs, DCC has a well-developed and soundly based strategy for the delivery of services in this manner that is clearly linked to DCC's wider strategic objectives and priorities. |
| How well does DCC understand the financial commitment and risk to which it is exposed through CFSPs? | DCC defines the nature of the financial relationship, its commitment to the CFSP (shareholding, grant, loan, guarantee, etc.) and contributions are not open-ended in duration or amount.<br><br>There is a written agreement about the transfer of public assets that safeguards their title and use.<br><br>Minimum accounting and auditing arrangements are stated in the agreement. | Before entering into an agreement with CFSP, DCC assesses risks and documents the results.<br><br>Service level agreements or equivalent are in place to specify the financial arrangement.<br><br>A corporate register of all financial commitments to CFSPs allows DCC to assess its overall commitment to its CFSPs. | Risk assessment extends beyond financial risks to other areas, e.g. reputational risk.<br><br>DCC identifies specific governance, finance and performance indicators that give early warning of potential problems and acts when required.<br><br>Contingency plans are in place to ensure that service delivery is maintained if the agreement ends. |
| How effective are DCC's arrangements for monitoring the financial and service performance of CFSPs, maintaining accountability and for ensuring audit access? | DCC stipulates how and at what intervals it intends to monitor financial and service performance.<br><br>DCC has identified members of staff who will monitor CFSPs' performance.<br><br>DCC ensures that its external auditors have right of access to key records of the CFSP and to any explanations they consider necessary from representatives of the CFSP.<br><br>There are no significant performance or financial concerns about the CFSP that are not being actively managed. | Targets and methods of measurement are agreed and documented at the start.<br><br>Monitoring reports provide timely and good-quality information about CFSPs' performance in delivering services and impact.<br><br>DCC scrutinises monitoring reports and follows up where performance does not meet agreed standards.<br><br>DCC officers responsible for monitoring the CFSP are clear about their role and are supported in it. Those involved in monitoring financial performance are suitably qualified.<br><br>Access rights for internal and external audit are covered in the agreement. | Monitoring extends beyond financial and service performance to employment practices, equality requirements, purchasing policies and sustainability.<br><br>DCC receives and scrutinises forward plans, takes a risk-based approach to monitoring and targets resources accordingly.<br><br>Where there is more than one public organisation involved in the CFSP, DCC ensures that liaison and monitoring of the CFSP is coordinated.<br><br>The reasons for providing services through an CFSP and the impact are clear in reports to stakeholders, including the public. |

| How well does DCC ensure that effective governance and accountability is maintained when it delivers services through CFSPs? | | | |
|---|---|---|---|
| | **Best Practice** | **Better Practice** | **Advanced Practice** |
| Where elected members or senior officers are appointed to the board or equivalent of CFSPs, how clear are they about their role? | DCC has considered the question of representation, is clear about why it wants representation and is transparent in its decision about which elected members or senior officers will be involved and why.<br><br>DCC has a clear policy for any payments to board members.<br><br>Elected members and senior officers are properly advised of their responsibilities to DCC and the CFSP, including questions of declaration of interests. They exhibit this understanding through their behaviour and performance. | Training and support is provided to DCC representatives so they are clear about their responsibilities to DCC and the CFSP.<br><br>DCC has a register of interests that records potential conflicts of interest that may arise from elected member or senior officer involvement in the CFSP.<br><br>Elected members and senior officers are effective in performing their role as board members. | DCC safeguards itself from risks incurred by elected members/senior officers in their dealings with the CFSP, e.g. liability insurance.<br><br>Specialist training is provided to elected members/senior officers, e.g. on company or trust law. Training continues over the period of the elected member/senior officer involvement and impact of training is measured.<br><br>DCC reviews representation in CFSPs, makes changes in light of experience and considers rotating representation. |

| | |
|---|---|
| **Report To:** | **Corporate Governance Committee** |
| **Date of Meeting:** | **3 September 2014** |
| **Lead Member / Officer:** | **Julian Thompson-Hill, Leader Member for Finance & Assets** |
| **Report Author:** | **Ivan Butler, Head of Internal Audit** |
| **Title:** | **Strategic Human Resources Audit - Update** |

## 1.      What is the report about?

This report provides the Committee with details of Internal Audit's latest work in Strategic HR, following its initial report in August 2012 and previous follow up reports.

## 2.      What is the reason for making this report?

Corporate Governance Committee requested that we carry out a further review of Strategic HR to assess progress with improvements within the service.

## 3.      What are the Recommendations?

Committee considers and comments on the Internal Audit report.

## 4.      Report details.

We carried out a review of Strategic HR, issuing a report in August 2012 with a 'low' assurance rating and raising several issues where improvements were required.

Additionally, during 2012, we facilitated several process reviews of the functions that Strategic HR was delivering, culminating in them developing an improvement plan for 2013/14 to bring together all the actions from both pieces of work.

The Council's Corporate Governance Committee asked that we revisit the service to give assurance that the Internal Audit action plan has been fully implemented and the service's improvement plan achieved.

Appendix 1 provides details our latest report, which shows that significant progress has been made, resulting in a new 'Medium' assurance rating. The report also comments on the commitment of the Strategic HR staff to make the project a success and our confidence in the service making further progress.

**How does the decision contribute to the Corporate Priorities?**

There is no decision required for this report.

**5. What will it cost and how will it affect other services?**

There are no costs attached to this report.

**6. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision? The completed EqIA template should be attached as an appendix to the report.**

This report does not require a decision or proposal for change, so there is no impact on people who share protected characteristics.

**7. What consultations have been carried out with Scrutiny and others?**

Not applicable – information report only

**8. Chief Finance Officer Statement**

Not applicable – information report only

**9. What risks are there and is there anything we can do to reduce them?**

Not applicable – information report only

**10. Power to make the Decision**

Not applicable – information report only

**Denbighshire Internal Audit Services**
*Caledfryn, Smithfield Road, Denbigh LL16 3RJ*

# Strategic HR

## August 2014



**Brenda M Steed CMIIA, MInstLM**      **01824 706753**
brenda.steed@denbighshire.gov.uk

**Irene Griffiths**      **01824 706874**
irene.griffiths@denbighshire.gov.uk

**Ivan Butler CMIIA, MBA, Head of Internal Audit Services**

## Background & Context

In April 2011, the Council adopted a new HR model as recommended by the external consultant Orion. We carried out an audit review of the new service delivery model, issuing a report in August 2012 with a low assurance rating and raising several issues where improvements were required.

Additionally, during 2012, we facilitated several process reviews of the functions that HR has to deliver through its core activity. This culminated in HR developing an improvement plan for 2013/14 to bring together all the actions from both pieces of work.

The Council's Corporate Governance Committee asked that we revisit the service to give assurance that the Internal Audit action plan has been fully implemented and the improvement plan achieved. Its request informed the scope of our review.

Please note that the Occupational Health service was not included in our review due to a restructure that is currently underway.

## Audit Opinion

Since our last review, the HR Service has completed a significant amount of work to address the issues we raised previously and to achieve the majority of actions detailed in its ambitious improvement plan.

The Council adopted the new HR model three years ago and, with hindsight, it is our opinion that its expectations at the initial stage were set too high. The IT support systems were not in place to facilitate the core functions that HR needed to provide, and management tools, e.g. up to date policies, guidance and standard operating procedures, were not available to assist managers in understanding and adapting to a completely new HR concept.

Throughout our review, the commitment of HR staff to make the project a success was apparent and we believe the service is now at a key stage of progression and ready to move the organisation on to another level through further development and continuous improvement.

We are confident that the new model will become better embedded across the Council and, by building and maintaining better relationships between HR and the services it supports, the anticipated benefits should finally be achieved.

Based on the areas reviewed we provide the following assurance rating:

| | | |
|---|---|---|
| | High Assurance | Risks and controls well managed |
| ► | Medium Assurance | Risks identified but are containable at service level |
| | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| | No Assurance | Significant risks identified that require member / officer case conference |

# Action Plan

**Audit Review of:**      Strategic HR

**Date:**      August 2014

**Action Plan Owner:**      Head of Legal & Democratic Services

| Corporate Risk/Issue Severity Key | |
|---|---|
| | **Critical** – Significant CET and Cabinet intervention |
| | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | Our sample testing of new starters confirms some inconsistencies within the HR process where control checks may not be done, e.g. to verify that qualifications match the job advert, or documents may not be held on the employee file as evidence.<br><br>Following the implementation of EDRMS (electronic document record management system), it may be an appropriate time to review the overall process and develop a definitive list for all HR employees of essential checks and key documents that should be held on an employee's file. Quality assurance (QA) checks would be a useful management tool to confirm consistency of the process across the team.<br><br>In addition, whereas some aspects of employing relief / casual staff may vary from a permanent appointment, there could be some value from aligning the overall process, where appropriate, to help ensure parity across all appointments. | Develop a definitive list of control checks which the HR Assistants (HRAs) are required to undertake. This will include permanent/temporary and relief staff.<br><br>Develop a "standard employee file" that will specify exactly which documents need to be placed on EDRMS.<br><br>Develop a QA process to check consistency. | Recruitment Specialist<br><br><br><br><br><br>Recruitment Specialist<br><br><br><br><br><br>Recruitment Specialist | March 2015<br><br><br><br><br><br>March 2015<br><br><br><br><br><br>March 2015 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 2. | The current survey process for customer feedback may not be fully effective in providing information that is both useful and of value in helping to shape the service in the future.<br><br>Areas for considering improvement include the following:<br><br>• The current e-mail option may be ineffective in encouraging feedback, as returns are few in number.<br><br>• It may be beneficial to explore alternative options for seeking feedback.<br><br>• There is a need to follow up with customers who are dissatisfied, to identify any repeat areas of concern that need addressing.<br><br>• Challenge whether the best time to request feedback is always at the end of a task, e.g. in the event of a restructure, feedback may be of more value at an interim stage.<br><br>Linked to the above, the HR service is currently unable to monitor against its Customer Standards. This prompts the question of whether the Standards are appropriate or whether there is a risk that they serve little value in their current format and need revision. | Review the current feedback mechanism with a view to increasing the number of returns. Also, look at developing robust reports that show the % returns against the total number of returns possible.<br><br>Develop QA checks to ensure that feedback forms are being circulated where appropriate.<br><br>Undertake ad hoc follow up calls for an agreed % of cases. | HR Services Manager/Management Information Assistant<br><br><br>HR Services Manager/HR & OD Manager<br><br><br>HR Services Manager/HR & OD Manager | December 2014<br><br><br><br>December 2014<br><br><br><br>December 2014 |
| 3. | Retention periods have not been agreed for HR documents held on EDRMS, e.g., how long they need to be kept after an employee leaves, to ensure compliance with the requirements of the Data Protection Act and ensure efficient use of IT storage. | Agree retention period with the EDRMS/Data Protection team | Management Information Officer | September 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 4. | A critical success factor of the new HR model included a review of the accommodation layout to bring together all previous directorate HR personnel into one unit. Although recommendations were made and have been discussed, to date they have not materialised.

Indications are that the current arrangements are ineffective, as HRAs are isolated from the rest of the team and the service remains somewhat disjointed through its cellular offices.

There is limited scope for learning and development from peers and more effort has to be made to share knowledge and remove inconsistencies, which means that the service is not operating as efficiently as possible.

Additionally, the current office layouts conflict with the corporate Modernisation Programme i.e. every officer still has his or her own desk. | Submit report to Modernisation Board


Plan of the room to be drawn up for HR


If appropriate, arrangements to made for HR relocate to new office



If not appropriate, review of County Hall offices to identify a suitable space for HR and report to Modernisation Board | Asset Manager, Finance & Assets


Asset Manager, Finance & Assets


HR Services Manager/HR & Organisational Development Manager


Asset Manager, Finance & Assets / HR & Organisational Development Manager | July  2014 (completed)


September 2014



December 2014 (provisional date)



(to be agreed) |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 5. | We found that HR Direct does not log all calls that it receives on the CRM (Call Records Management) system. Whereas there are benefits to this, i.e. where a query is classed as a 'quick win' that is immediately resolvable, it does not provide a complete record of enquiries and audit trail for follow up calls, should they arise. In addition, it does not account for HR resources being deployed in responding to a high number of queries.

Additionally, if explored, there may be other ways of responding to high volume enquiries to reduce the demand on HR Direct. | Review of the types of calls logged on to CRM with a view to logging all calls that come into the HRA Team. The review needs to take into account the benefit of having all calls logged in one area against the time and effort it takes to do it.

The outcome of the review will be to have a definite list of the types of calls that need to be logged and may be a phased approach around building up to all calls being logged on CRM. | HR Services Manager/Management Information Officer | December 2014 |
| 6. | When a new policy is implemented or an existing policy revised, it is essential that this be brought to the attention of those who need to know. Currently, HR does not have a protocol to support this activity that considers criteria, such as whether it is a key policy, to what extent all members of staff need to know about it and the best time and way to launch it. | Develop a protocol for the launch of policies and procedures within the Council. This should define the minimum expected when launching a new or revised policy/procedure, but also various options depending on the subject area. | To be confirmed | December 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 7. | The HR Direct Intranet page has been developed at a rapid pace to the extent that so much information is available that it could be confusing to the reader.<br><br>Suggested improvements are as follows:<br><br>• Review the structure of the pages to ensure that documents and information are available in the most logical place.<br><br>• Better links between a range of documents to ensure that all are available through one search without having to explore other fields – an example of this is interlinking the Guidance for Line Managers and the Manager checklists.<br><br>• Document titles are not always obvious to the reader, i.e. in plain English, and may cause frustration when searching for documents, ultimately leading to increased contact with HR Direct to seek out an answer.<br><br>It may be an opportune time to review the functionality of the page in an effort to introduce automated monitoring, e.g. mandatory reading for managers, and promoting self-help tasks. | Review of the HR Document Store with a view to streamlining the page and improving accessibility of documents.<br><br>Develop an action plan from the review for improvements that are required.<br><br>Implement actions during last quarter of 2014/15 | HR Services Manager/Management Information Assistant<br><br>HR Services Manager/Management Information Assistant<br><br>HR Services Manager/Management Information Assistant | October 2014<br><br>December 2014<br><br>March 2015 |

# Outcomes of our review and the risks arising

### Internal Audit Action Plan (initial report dated August 2012)

| | |
|---|---|
| **Opinion** | **From the 11 issues raised in our previous action plan (with 45 agreed actions to address these), the majority of actions are now completed and, where this is not the case, work is in progress and continuing. We suggest that HR revisits the recruitment process following the introduction of EDRMS, as some changes may be required and an evaluation of the customer feedback process may lead to alternative ways of gathering information that will provide value in shaping the HR service in the future.** |

We previously raised an issue in respect of the accuracy of data held on the HR Trent system. A key development has begun by way of integrating the Payroll and HR system data, which has superseded this issue. A project is underway with a target date for completion of December 2014, to move towards one shared data repository between both services, which will eliminate the risk of data errors and reduce the need for duplicate data entry, resulting in processes that are more efficient.

System developments, such as CRM, have brought added automated controls to some of the fundamental HR processes, and the introduction of EDRMS to the service has changed the whole concept of holding and accessing employee information, i.e. this can now be achieved from any location via the Council's IT network.

In conjunction with this review, we carried out an audit of Cessation of Employment and, although overpayments to leavers via Payroll still occur, they have reduced significantly in number. HR has introduced a 'zero tolerance' approach whereby, if errors are caused by some action within the service, they are investigated to help eliminate the risk of recurrence. We also suggested some changes to documents used in the leavers' process to assist managers in this task. Our work in this area highlighted that schools caused the most common errors or delays and we are dealing with this issue separately.

A new Recruitment Policy has been introduced and, based on feedback provided to HR, has been well received by managers. However, our sample testing of new starters identified that there are still some inconsistencies within the process followed by HR in respect of checks and documents held on file. It may be an appropriate time to revisit the process to reaffirm the essential checks for consistency and reconsider the key documents that need to be retained on the EDRMS system. Some consideration of the process followed for relief staff would also be beneficial to ensure that, where appropriate, it is as robust as the process for permanent appointments. (See Risk / Issue 1)

There is an added control where HR issues monthly safeguarding reports to heads of service to identify any gaps in reference or DBS (Disclosure and Barring) checks. Through their regular meetings, the HR Business Partners

also discuss any failings in this area and undertake proactive work where necessary.

The service has done a lot of work to improve the customer experience and all HR employees have a role to promote this through their area of work, as they are all 'customer' facing, albeit internally. It is our opinion that this could be taken to the next stage by considering the value of feedback that the service receives through its returned survey forms (which are few in number) and considering whether there are other options available that will prove more beneficial in shaping the service in the future. (See Risk / Issue 2)

Alongside this, although the service has established customer standards, they are currently unable to measure against these for effectiveness using the data available. It may be an option to consider the value of the standards and how the service can measure them in the future. Both of the above will help HR to embed a more customer-focused approach throughout all tiers of its work.

## HR Improvement Plan

| | |
|---|---|
| **Opinion** | **HR developed an ambitious improvement plan for completion during 2013/14 to take into account all of the changes emerging from the process reviews. It has achieved most of this work but, in recognition of the need for continuous improvement, HR is developing a Phase 2 Plan in a similar way that it will manage via the Corporate Project Management System (Verto). We have raised issues where we feel that HR can enhance its processes even further.** |

Governance areas have improved, and communication with senior management of the Council via the Corporate Executive Team and Senior Leadership Team is being maintained. HR makes regular presentations to these teams to allow them to input to strategic decisions affecting both the service and Council in the future. The HR Business Partners have a pivotal role to play through their work in building and maintaining good working relationships with service and team managers.

The EDRMS system has changed the way that the HR service operates. All job descriptions, employee records and supporting documents are held electronically and are easily accessible. Through discussions held during our review, HR employees are enthused by the way that the service has been modernised through EDRMS and are now reaping the benefits of a lot of hard work to get to this stage. Retention periods for documents and records held on the system have yet to be considered and agreed. (See Risk / Issue 3)

In line with the Council's modernisation agenda, HR adopts flexible working practices where appropriate, with relevant equipment provided to facilitate this; however, accommodation remains a problem for the service. The initial business case for the new HR model recommended that the office location be moved or adapted to create an open plan arrangement where all HR employees would feel inclusive and could function more cohesively as a team. Despite being under scrutiny over the last three years, this weakness has not been addressed to date. The 'team' continues to operate in a somewhat disjointed environment, i.e. cellular offices, where there is limited scope for learning and development from peers. Additionally, more effort has to be made to share knowledge and remove inconsistencies, which means that the service is not operating as efficiently as possible. (See Risk / Issue 4)

System improvements have been made regularly and will continue as part of the Phase 2 plan. Introduction of the CRM system has enabled the HR Direct function to progress through guidance and advice that the HRAs provide. Key dates for several processes over and above the more regular tasks, e.g. disciplinary cases, are all logged on the system to enable monitoring and to help ensure that there is no slippage in meeting statutory deadlines. Recently, HR has been able to generate telephony data to monitor the volume of enquiries being processed via CRM, which helps to identify customer demand.

However, through discussion, we found that HR Direct does not log all calls that it receives on the CRM system. Whereas we can see the benefit of this,

i.e. where a query is immediately resolved, not logging calls does not provide a complete record of enquiries and audit trail for follow up calls and does not account for HR resources being deployed in responding to a high number of queries. Additionally, there may be other ways of responding to high volume enquiries to reduce the demand on HR Direct. (See Risk Issue 5)

In terms of the work to review and reformat policies as part of the Improvement Plan, with hindsight, the target was found to be unrealistic, i.e. based on the extensive number of policies available and the time required for other aspects of the process, such as consultation and approval. Despite this, 11 key policies were reviewed over the last 12 months and are now shown on the Intranet in a common format that is far more user friendly. The HR Manager has developed a planned timetable to continue work on a similar number of policies this year.

Linked to the above, it would be beneficial to develop a protocol so there is a consistent approach to launching new or revised policies and to raising awareness of the members of staff who need to know about them. (See Risk / Issue 6)

The HR Direct page on the Intranet has been extensively developed to promote self-guidance for managers and services through the range of information available. It has reached a point now where the structure, location and access to information would benefit from a review. Tasks, such as using plain English for naming documents, creating interlinks between common areas, e.g. Guidance for Line Managers and Manager Checklists and locating documents in the most logical place would assist end users and is likely to encourage more self-help activity. (See Risk / Issue 7)

Multiple process changes were captured as part of the Improvement Plan and the majority of these have been implemented. Sample testing of the redeployment process produced positive results in terms of documents held and opportunities being offered to redeployees to eliminate the risk of redundancy wherever possible, and for the Council to be better placed in the event of challenge.

## Business Partners' Role

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|---|---|
| **Opinion** | **The Business Partners have a pivotal role to play in developing and maintaining relationships between the HR core functions and service areas. The four Business Partners adopt a flexible approach and tailor their work to meet the need of the services they support.** |

As part of our review, we met with the HR Business Partners and discussed their role, as our previous review focused primarily on the transactional functions of HR.

We found that their role is critical in the new HR model as they provide the face of HR to the business, acting as a focal point for delivery of the whole HR service. The role is founded on a strong understanding of the Council's priorities, with the aim of providing value-added activities. The HR Organisational and Development Manager is working closely with the Business Partners to shape their service delivery through measuring where service demands lie and tailoring their work patterns to meet this demand. In the current climate, the demand is constantly changing and it is essential that this work takes place.

Through our discussions, all Business Partners demonstrate that they are flexible in terms of meeting the needs of the services they support. They have regular meetings with heads of service and team managers, the format of which they agree with managers in advance. Standard employee relations matters are discussed with others, factored in as and when required, e.g. where a potential restructure is being planned. They provide a support role and point of contact within HR to help ensure the success of the task in hand.

Since a decision was taken approximately 12 months ago, the Business Partners have been realigned with the services they now support. This has enabled them to develop knowledge and expertise of the environment in which the services function. Although the HR Specialists are not aligned in the same way with services, there is a strong working relationship between both roles and, to an extent, casework is allocated in services where their strengths naturally lie.

## Training & Support through the Change Process

| Opinion | There has been a clear focus on keeping HR employees informed and trained, particularly throughout the changes and system developments over the last 12 months. The introduction of a comprehensive Change Management Guidance document is an example of offering information to services for the challenges they are facing now and in the future, and other management tools are being developed. |
| --- | --- |

Linked to all the new and revised processes, there is clearly a need for all members of staff within HR and other services to be informed of the changes, particularly where a change in responsibility has resulted. During our review, we considered how well the change had been managed in respect of this.

A range of process chains has been developed within the CRM system to help enforce a consistent approach when the HRAs are dealing with enquiries and processing transactions. A pilot scheme is currently being implemented to introduce and test the use of scripts for the HRAs when using the CRM system. We reviewed the scripts and found some varying standards, so advised on getting a balance right to ensure that the information being provided is both useful and easy to understand, leading to a more efficient service.

Regular training sessions for HRAs and other members of staff have been taking place since July 2013 and are continuing. The focus of training can vary from an everyday task to changes in legislation, with presentations made by other services as required. The introduction of a competency framework will also assist HR employees to develop via a professional route (as it is based on the Chartered Institute of Personnel & Development framework). Power Hour sessions continue to be made available to other services and, in line with the revised Attendance Management Policy, these are currently running.

Several Manager Checklists have been devised to act as a prompt as and when either regular or infrequent tasks are needed. In addition, a comprehensive Change Management Guidance document is available. This captures a range of change situations, with guidance offered for each situation. All of the Business Partners have received training on its content to be able to support services as they face more changes and challenges in the future.

Roles and responsibilities of managers and HR alike are documented in the Standard Operating Procedures to help ensure clarity as to who is required to undertake a task or function under normal circumstances. Other management tools are being introduced to reduce the demand on managers' time to carry out regular tasks. A recent addition here is the automatic calculator for annual leave, which is available on the Intranet.

## Business Planning & Performance

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|---|---|
| **Opinion** | **The Service Business Plan is more robust for 2014/15 and captures a new outcome to reflect the demand on the service in its support role for the rest of the Council during challenging times ahead. Improvement actions are in place and being monitored in the usual way.** |

We provide assurance here on the advice offered by the Corporate Improvement Officer who supports Strategic HR. She confirmed that the Service Business Plan for 2014 -15 is far more robust than the previous year, with an outcome added to reflect the demand on the HR Service to support the rest of the Council in dealing with all the challenges it faces. Some improvement actions require changes in respect of the recent retirement of the Head of Strategic HR and others are yet to be allocated to an owner. Delivery of the actions to achieve the outcomes is being monitored through the normal performance monitoring process and reported quarterly.

Several of the challenges raised through the lines of enquiry for the Service Challenge (January 2014) were either captured within the HR Improvement Plan Phase 1 or have been carried forward to Phase 2, so are being dealt with appropriately.

## Report Recipients

- Head of Legal & Democratic Services
- HR Services Manager
- HR & Organisational Development Manager
- Chief Executive
- Corporate Director – Economic & Community Ambition
- Head of Finance & Assets
- Scrutiny Coordinator

- Chair – Performance Scrutiny Committee
- Performance Scrutiny Member
- Lead Member – Business Improvement & Modernisation
- Lead Member – Finance & Assets
- Corporate Governance Committee

## Key Dates

| | |
|---|---|
| Review commenced | May 2014 |
| Review completed | July 2014 |
| Reported to Corporate Governance Committee | 3 September 2014 |
| Proposed date for 1st follow up review | January 2015 |

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| Report To: | Corporate Governance Committee |
| --- | --- |
| Date of Meeting: | 3 September 2014 |
| Lead Member / Officer: | Julian Thompson-Hill, Leader Member for Finance & Assets |
| Report Author: | Ivan Butler, Head of Internal Audit |
| Title: | Internal Audit Progress Report |

## 1. What is the report about?

This report updates the Committee on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

## 2. What is the reason for making this report?

To bring the Committee up to date regarding:

- delivery of our Assurance Plan for 2014/15 (Appendix 1)

- recent Internal Audit reports issued (Appendix 2)

- management's response to issues we have raised (Appendix 3)

- Internal Audit's performance (Appendix 4)

## 3. What are the Recommendations?

- Committee considers and comments on Internal Audit's progress and performance to date in 2014/15

- Committee considers and comments on recent Internal Audit reports issued and follow ups carried out

## 4. Report details

*Delivery of the Internal Audit Assurance Plan 2014/15*

4.1 Appendix 1 provides a breakdown of our work during 2014/15, compared to the Internal Audit Assurance Plan. It includes assurance scores and number of issues raised for the completed reviews, definitions used to form our audit assurance and the ratings used to assess the risk-levels for issues raised.

4.2 Progress to date is very good and the Plan is on target for completion by 31 March 2015.

### *Summary of Recent Internal Audit Reports*

4.3.  Our reports use colours for assurance ratings as follows:

| Green | High Assurance | Risks and controls well managed |
|---|---|---|
| Yellow | Medium Assurance | Risks identified but are containable at service level |
| Amber | Low Assurance | Risks identified that require meeting with Director/Lead Member |
| Red | No Assurance | Significant risks identified that require member / officer case conference |

4.4.  Appendix 2 provides a summary of the final Internal Audit reports issued since my report in March 2014. Executive summary reports and action plans are also included for further information.

### *Management's response to issues raised by Internal Audit*

4.5.  Most of our Internal Audit reports identify risks and control weaknesses. We rate these as critical, major or moderate risk. Management agrees actions to address the risks, including responsibilities and timescales.

4.6  We report all instances where management fails to respond to our follow up work or where they exceed the agreed implementation date by more than three months. This Committee decides whether it needs to take further action, e.g. by calling the relevant people to its next meeting or asking for a written report to explain lack of progress.

4.7  Appendix 3 shows the follow up reviews completed during 2014/15 to date. Two follow up reports are included as separate agenda items at the Committee's request, so are not included in Appendix 3.

### *Internal Audit Performance*

4.8  Internal Audit measures its performance in two key areas:

- *Provision of 'Statutory Assurance'* - These projects ensure that the Council delivers its statutory obligations so that the Head of Internal Audit can provide an opinion on governance, risk management and internal control in the Internal Audit Annual Report.

- *'Customer Standards'* - A range of indicators to ensure that we deliver a good service to our customers.

4.9  Appendix 4 shows our performance to date for 2014/15. We are on target to deliver 100% of 'Statutory Assurance' projects by 31 March 2015.

4.10  We are on target to achieve 100% on all 'Customer Standards' with two exceptions:

- For one project, we failed to issue a project scoping document in advance of commencing the project.

- For one project, we issued a draft report after 17 days rather than the agreed 10 days.

**5. How does the decision contribute to the Corporate Priorities?**

The Internal Audit Service provides assurance and advice to all levels of management and elected members on the quality of operations within the Council. Its work focuses on governance, risk management, performance, efficiency and operational and financial control, all of which are essential to the achievement of corporate priorities. It also carries out projects to ensure that the Council is on target to deliver its corporate priorities and specific projects to improve service efficiency and modernisation.

**6. What will it cost and how will it affect other services?**

There are no specific cost or service implications arising from this report.

**7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision? The completed EqIA template should be attached as an appendix to the report.**

This report does not require a decision or proposal for change, so there is no impact on people who share protected characteristics.

**8. What consultations have been carried out with Scrutiny and others?**

This is a progress report and does not require any consultations.

**9. Chief Finance Officer Statement**

There is no financial impact; therefore a statement is not required.

**10. What risks are there and is there anything we can do to reduce them?**

This is a progress report that shows good progress towards the end of the financial year, therefore there are no risks at this stage.

**11. Power to make the Decision**

There is no decision required for this report but there is a requirement under the local Government (Wales) Measure 2011 for the 'audit committee' to oversee the Council's internal audit arrangements.

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**Internal Audit Work 2014/15 – progress as at 03/08/14**

| Internal Audit Assurance Plan | Planned Days | Days to Date | Current Status | Audit Assurance | No. of Critical Issues | No. of Major Issues | No. of Moderate Issues | Comments |
|---|---|---|---|---|---|---|---|---|
| **Statutory Assurance** | | | | | | | | |
| Ruthin-based Financial Services - Activedata testing | 13 | 12 | Complete | **Medium** | **0** | **0** | **0** | |
| Ruthin-based Financial Services | 41 | 0 | Not yet due | | | | | Planned for Jan 2015 |
| Rhyl-based Financial Services | 49 | 5 | In progress | | | | | |
| WG education grant certification | 10 | 0 | None requested | | | | | |
| WG 6th Form Funding | 40 | 2 | Preparation | | | | | |
| Partnerships & collaboration | 25 | 0 | Not yet due | | | | | |
| Project management | 30 | 1 | Preparation | | | | | |
| Procurement | 30 | 0 | Not yet due | | | | | Planned for Dec 2014 |
| Review of Strategic HR | 30 | 29 | Complete | **Medium** | **0** | **1** | **6** | |
| Corporate Governance Framework Assurance | 31 | 5 | In progress | | | | | |
| Equalities | 15 | 0 | Not yet due | | | | | |
| Information governance | 5 | 1 | Preparation | | | | | |
| High corporate risk assurance | 8 | 0 | Not yet due | | | | | Planned for Jan 2015 |
| Sickness absence management | 25 | 0 | Not yet due | | | | | Planned for Oct 2014 |
| Income Controls | 20 | 19 | Draft report | | | | | |
| Third Party Service Provision | 20 | 16 | Complete | **n/a** | **n/a** | **n/a** | **n/a** | Information transferred to Phase 2 review of 'arms-length organisations' |
| Corporate Safeguarding | 20 | 0 | Not yet due | | | | | Planned for Nov 2014 |
| Cefndy Healthcare | 10 | 0 | Not yet due | | | | | Planned for Sep 2014 |
| Cashiers service | 15 | 0 | Not yet due | | | | | Planned for Jan 2015 |

| Internal Audit Assurance Plan | Planned Days | Days to Date | Current Status | Audit Assurance | No. of Critical Issues | No. of Major Issues | No. of Moderate Issues | Comments |
|---|---|---|---|---|---|---|---|---|
| Education - Financial Management | 20 | 2 | Preparation | | | | | Planned for Sep 14 |
| Education - Governance | 10 | 0 | Not yet due | | | | | Planned for Mar 15 |
| Education - Physical Security and Health & Safety | 10 | 4 | In progress | | | | | |
| Education – Procurement | 20 | 0 | Not yet due | | | | | Planned for Dec 14 |
| Education - School Fund Management | 10 | 0 | Not yet due | | | | | Planned for Oct 14 |
| Major flood risk | 5 | 0 | Not yet due | | | | | Planned for Jan 2015 |
| Major projects-highways | 12 | 0 | Preparation | | | | | Planned for Sep 14 |
| Legal services | 25 | 25 | Draft report | | | | | |
| Coroners Service | 15 | 15 | Complete | High | 0 | 0 | 2 | |
| Development Control | 15 | 0 | Not yet due | | | | | Planned for Oct 2014 |
| IT Assurance work | 30 | 0 | Preparation | | | | | |
| Internal Audit project follow ups | 40 | 25 | In progress | | | | | Contingency for all follow up work |
| Special investigations & fraud prevention | 75 | 34 | In progress | | | | | Contingency for all investigation work |
| **Sub-totals** | **724** | **194** | **% Internal Audit Assurance Plan** | | Estimated: 41% | | Actual to date: 34% | |
| **Performance** | 32 planned projects - 8 completed to draft report stage = 25% | | | | | | | |
| **Corporate Priorities Assurance** | | | | | | | | |
| Education-review of GwE | 15 | 3 | In progress | | | | | |
| Street Cleansing | 20 | 1 | Preparation | | | | | |
| Affordable Housing | 10 | 2 | Preparation | | | | | |
| Strategic regeneration | 10 | 0 | Not started | | | | | Project Planned for Sep 2014 |
| Taxi & Operator licensing | 20 | 18 | Draft report | | | | | |

| Internal Audit Assurance Plan | Planned Days | Days to Date | Current Status | Audit Assurance | No. of Critical Issues | No. of Major Issues | No. of Moderate Issues | Comments |
|---|---|---|---|---|---|---|---|---|
| Housing Improvement & Area Renewals | 15 | 0 | Not yet due | | | | | Planned for Feb 2015 |
| Disabled Facilities Grants | 10 | 9 | Complete | **n/a** | **n/a** | **n/a** | **n/a** | Process review of service |
| **Sub-totals** | **100** | **33** | **% Internal Audit Assurance Plan** | | Estimated: 6% | | Actual to date: 6% | |
| **Brought Forward Projects** | | | | | | | | |
| Management of human resources - Agency / relief staff | | 5 | Complete | | | | | Information fed into other HR projects |
| Financial Assurance 2013/14 - Ruthin-based services | | 1 | Complete | **Medium** | **0** | **0** | **9** | |
| WG 6th Form Funding – Denbigh High School | | 1 | Complete | **Medium** | **0** | **0** | **5** | |
| Corporate Plan - Complaints & Corporate Standards | | 4 | Complete | **Medium** | **0** | **0** | **7** | |
| Project Management – Overview 2013/14 | | 1 | Complete | **Medium** | **0** | **0** | **7** | |
| Partnerships & Collaboration - North Wales Commissioning Hub | | 2 | Complete | **Medium** | **0** | **0** | **5** | |
| Cessation of employment | 30 | 28 | Complete | **Medium** | **0** | **0** | **1** | |
| Constitutional Arrangements - S151 Officer Role | | 1 | Complete | **High** | **0** | **0** | **0** | |
| Education - Governance | | 5 | Complete | | | | | No formal report issued – informal action plan for continued project in 2014/15 |
| Equalities | | 0 | Complete | | | | | Staff survey and informal report to Corporate Equalities Group |
| Contingency for projects brought forward from 2013/14 | 20 | 0 | | | | | | |
| **Sub-totals** | **50** | **48** | **% Internal Audit Assurance Plan** | | Estimated: 3% | | Actual to date: 8% | |

| Internal Audit Assurance Plan | Planned Days | Days to Date | Current Status | Audit Assurance | No. of Critical Issues | No. of Major Issues | No. of Moderate Issues | Comments |
|---|---|---|---|---|---|---|---|---|
| **Recommended High Risk Assurance** | | | | | | | | |
| Health & Safety arrangements in housing services | 10 | 0 | Not yet due | | | | | Project to be completed only if time at end of year |
| Review of regional partnership on education data management | 10 | 0 | Not yet due | | | | | Project to be completed only if time at end of year |
| **Sub-totals** | **20** | **0** | **% Internal Audit Assurance Plan** | | Estimated: 1% | | Actual to date: 0% | |
| **External Contract Work** | | | | | | | | |
| Natural Resources Wales | 120 | 67 | In progress | | | | | |
| North Wales Police | 200 | 57 | In progress | | | | | |
| School Fund Audits | 15 | 5 | In progress | | | | | |
| **Sub-totals** | **335** | **129** | **% Internal Audit Assurance Plan** | | Estimated: 19% | | Actual to date: 23% | |
| **Corporate Support** | | | | | | | | |
| Consultancy & corporate Work | 100 | 20 | | | | | | |
| **Sub-totals** | **100** | **20** | **% Internal Audit Assurance Plan** | | Estimated: 5% | | Actual to date: 3% | |
| **IA Support** | | | | | | | | |
| Horizon scanning | 30 | 10 | | | | | | |
| Management & administration | 290 | 106 | | | | | | |
| Training & development | 125 | 31 | | | | | | |
| **Sub-totals** | **445** | **147** | **% Internal Audit Assurance Plan** | | Estimated: 25% | | Actual to date: 26% | |
| **Grand Totals** | **1774** | **571** | | | | | | |

**Appendix 2 - Recent Internal Audit Reports**

| Audit Report | Audit Opinion | Issues Raised | | | Comments |
|---|---|---|---|---|---|
| | | Critical Risk (Red) | Major Risk (Amber) | Moderate Risk (Yellow) | |
| Financial Services Assurance Testing 2013-14 | Medium | 0 | 0 | 0 | |
| Strategic HR | Medium | 0 | 1 | 6 | Included as separate agenda item |
| Coroner Service | High | 0 | 0 | 2 | |
| National Fraud Initiative 2012-13 | n/a | 0 | 0 | 0 | Information report – no formal opinion issued |
| Financial Services 2013/14 | Medium | 0 | 0 | 9 | |
| Denbigh High School | Medium | 0 | 0 | 5 | |
| Customer Services – Complaints and Standards | Medium | 0 | 0 | 7 | |
| Project Management – Overview Report 2013/14 | Medium | 0 | 0 | 7 | |
| Project Evaluation – Three County Procurement | n/a | 0 | 0 | 0 | Stage review only. Work continuing into 2014/15 |
| North Wales Commissioning Hub | Medium | 0 | 0 | 5 | |
| Cessation of Employment | Medium | 0 | 0 | 1 | |
| Constitutional Arrangements - S151 Officer Role | High | 0 | 0 | 0 | |

## Denbighshire Internal Audit Services
### Caledfryn, Smithfield Road, Denbigh LL16 3RJ

**Report to:** Head of Finance & Assets

**Report by:** Samantha Davies, Trainee Auditor

Lisa Lovegrove, Senior Auditor

**Date:** 3 June 2014

**Subject:** Financial Services Assurance Testing 2013–14

### Background Information:

This review provides additional assurance to cover Payroll and Creditor payments for the period 1 April 2013 – 31 March 2014 and supports our previous audit review of Financial Systems (report dated May 2014).

For this review, we used data interrogation software, Active Data for Excel, to assist our testing. We included additional testing of duplicate invoice payments to review the effectiveness of the data interrogation software used by the Payments Team. Appendix 1 summarises our test results and detailed results are available on request if required.

### Audit Opinion:

The overall controls in place for payroll and creditors are working well, which reaffirms the results of the review we carried out in January 2014 (report dated May 2014). Our review confirms that payments and treatment of VAT invoices are correct and the controls in place to prevent duplicate payments are effective.

There were two occasions where the Payment Team received late notification of employees leaving the Council's employment. We will feed this information into our current review of "Cessation of Employment".

Testing of employees in receipt of high overtime payments confirmed that the majority of the employees were still claiming overtime over their contracted hours, despite our advice to their managers following our review in January 2014. We will once again remind managers that overtime is a short-term solution to address temporary fluctuations in work demands and should not be used as a long-term solution, for health, safety and welfare reasons.

Based on the areas reviewed we give the following assurance: -

| | | |
|---|---|---|
| 🟩 | High Assurance | Risks and controls well managed |
| ► 🟨 | Medium Assurance | Risks identified but are containable at service level |
| 🟧 | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| 🟥 | No Assurance | Significant risks identified that require member / officer case conference |

**Denbighshire Internal Audit Services**
*Caledfryn, Smithfield Road, Denbigh LL16 3RJ*

# Coroner Service

## July 2014

**Lisa Lovegrove BA(Hons) CMIIA CISA**          01824 706974
lisa.lovegrove@denbighshire.gov.uk

**Christine McMellon MAAT**          01824 706772
christine.mcmellon@denbighshire.gov.uk

**Ivan Butler CMIIA, MBA, Head of Internal Audit Services**

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## Purpose & Scope of Review

The purpose of this review is to give assurance for the Internal Audit Annual Report and Governance Framework that robust arrangements are in place for the new Coroner Service that our Council leads on.

The scope of the review includes:

- service standards

- financial arrangements

- partnership arrangements

- compliance with legislation

- service continuity

## Assurance Rating
### (Based on areas reviewed)

| | | |
|---|---|---|
| ▶ | High Assurance | Risks and controls well managed |
| | Medium Assurance | Risks identified but are containable at service level |
| | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| | No Assurance | Significant risks identified that require member / officer case conference |

## Audit Opinion

The Coroner Service has excellent arrangements in place to ensure that it delivers a high level of service in accordance with relevant legislation. It comprises sound financial arrangements and good service continuity provisions.

Consistent compliments and praise from the recently bereaved prove testament to the consideration that the Coroner Service applies during investigations and inquest hearings. This includes offering to hold inquests at various Council locations throughout the four counties to suit the needs of family members, with the added benefit of reducing costs from not hiring court venues.

We raise two moderate risk issues where existing controls need tightening. These relate to paying invoices in line with the corporate system and formalising relationships with the organisations that the Coroner has regular dealings with.

Based on the scope of our review, we give high assurance for the governance, risk management and control framework in place.

# Action Plan

**Audit Review of:**    **Coroners Service**

**Date:**    **July 2014**

**Action Plan Owner:**    **Head of Legal & Democratic Services**

| Corporate Risk/Issue Severity Key | |
|---|---|
| 🟥 | **Critical** – Significant CET and Cabinet intervention |
| 🟧 | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| 🟨 | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | Costs, fees and charges are paid using a manual payment requisition process; however, to prevent duplication of input and inefficiencies, these should only be used for ad-hoc payments to infrequently used suppliers. Invoice payments should be processed using the corporate system i.e. Proactis. | Proactis is now being used to make payments to BCUHB (Betsi Cadwaladr University Health Board) in relation to use of mortuaries.<br><br>Discuss and explore other options available within Proactis that may be appropriate for other services used. | Coroner's PA, Admin. Assistant and Member Support & Development Manager<br><br>Coroner's PA, Admin. Assistant and Member Support & Development Manager and member of Proactis Team | Immediate<br><br>January 2015 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 2. | Service level agreements (or similar) have yet to be set up between the Coroner Service and the organisations it regularly deals with. This is to secure the provision of the best possible response to investigations. Partners include:<br><br>- Conwy CBC, Wrexham CBC and Flintshire CC;<br>- Betsi Cadwaladr NHS Trust;<br>- North Wales Police. | An SLA will be drafted and agreed by the four local authorities within the Coroner Area.<br><br>An SLA was drafted in 2012 by BCUHB in relation to the services provided to the Coroner.  Following a meeting between the Coroner and Member Support & Development Manager, amendments were made to the draft SLA and it was returned to BCUHB. No updated draft has been received to date.<br><br>Mortuary Fees are due to be reviewed in November and this matter will form part of the SLA.<br><br>Discussions are due to take place with North Wales Police in respect of  an SLA, which will relate to Coroner's Officers and Police staff (securing the services of funeral directors) | Coroner/Member Support & Development Manager<br><br>Coroner/ Member Support & Development Manager<br><br><br><br><br>Coroner | September 2014<br><br>November 2014<br><br><br><br><br>September 2014 |

## Denbighshire Internal Audit Services
### Caledfryn, Smithfield Road, Denbigh LL16 3RJ

**Report to:** Corporate Governance Committee
c.c. Senior Leadership Team and officers involved in the NFI exercise

**Report By:** Lisa Hodson, Senior Auditor

**Date:** July 2014

**Subject:** National Fraud Initiative (NFI) 2012–13

### Introduction:

The purpose of this report is to inform elected members and senior management of the progress made with the NFI exercise of 2012/13.

### Background Information:

The NFI is a data-matching exercise that is carried out every two years and helps to detect fraud and error. Participants submit their data securely to the Audit Commission who input it into their central database to be matched against the data of other local authorities and central government departments. This includes data for payroll, housing benefit, creditors, insurance and transport passes. The Audit Commission provides reports containing matches that specifically relate to the Council to investigate.

Internal Audit's role is to act as Key Contact for the NFI exercise. This involves planning, distributing matches to departments for investigation, and monitoring progress with the exercise. Departments have been analysing the matches since February 2013, and any matches that are of high priority that have not yet been investigated will be transferred to the 2014/15 NFI exercise. Analysis of these matches and any new reports will begin in January 2015.

### Results:

We have summarised the progress with the 2012/13 NFI exercise below, but detailed results are provided in Appendix 1.

- Six housing benefit frauds and eleven errors totalling £74,661 are in the process of being recovered. Errors occurred due to the customer not informing us of a change of circumstance or through administrative errors. We will review this area in more detail during our financial assurance audit of Rhyl-based systems in August 2014.

- Progress with investigating Blue Badge matches has been poor, but the department is now taking action to rectify this.

- The creditor payments team has existing controls to detect fraud and errors within the system, i.e. Fiscal Technologies Duplicate Payment Finder. Therefore, we sample checked NFI matches and confirmed that these controls are working effectively.

- There were six errors relating to VAT totalling £1,512. Five of these errors occurred in the processing of energy invoices, where either VAT was not accounted for, or there had been an input error. A risk/issue in relation to VAT checks was raised recently in our financial review of Ruthin-based systems.

- All 2,813 NFI referrals for Concessionary Travel Passes were investigated, but this has resulted in the identification of 2,782 errors. This appears to be due to the Council not being notified where the customer is deceased so its systems can be updated. From July 2014, the department will be notified of deaths through the national 'Tell us once' campaign.

## Conclusions:

The NFI exercise has highlighted where some departments have not taken sufficient action in investigating matches, which may result in frauds going undetected and errors being missed. For the forthcoming 2014/15 NFI exercise, we will report to the relevant head of service where progress with reviewing matches is slow.

While there is a considerable resource required for investigating the matches, six fraudulent activities within Housing Benefits have been identified, and where errors are identified, controls are being put in place to prevent them happening again.

Council Tax data that has been matched to information contained on the Electoral Register is currently being investigated to identify individuals claiming Single Person Discount (SPD) when they are not the sole occupant, or where there is an occupant who is approaching 18 years of age that would make the SPD invalid.

# Financial Services 2013/14

**May 2014**

**Lisa Hodson CMIIA PG (Dip)**        01824 706855
lisa.hodson@denbighshire.gov.uk

**Nanette Williams BA (Hons)**        01824 706973
nanette.williams@denbighshire.gov.uk

**Samantha Davies**        01824 706982
samantha.davies@denbighshire.gov.uk

**Ivan Butler CMIIA, MBA, Head of Internal Audit Services**

## Purpose & Scope of Review

We undertook this review during February 2014 to give financial and corporate governance assurance on the following functions:

- Payroll
- Purchasing and creditor payments
- Purchasing cards
- Budgetary control
- Treasury management
- Bank reconciliation

## Assurance Rating
### (Based on areas reviewed)

| | | |
|---|---|---|
| 🟩 | High Assurance | Risks and controls well managed |
| ▶ 🟨 | Medium Assurance | Risks identified but are containable at service level |
| 🟧 | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| 🟥 | No Assurance | Significant risks identified that require member / officer case conference |

## Audit Opinion

Our review of financial systems has highlighted that it is well managed, but there are some areas where controls put in place to address issues raised in previous audit reports have not been embedded, so we have repeated them in this report's Action Plan.

The Payments Section's service delivery for both payroll and creditor payments continues to be of a high standard; however, some of the areas where further improvement is needed are outside of the control of the Payments Section, as follows:

- While there has been some improvement, overpayments to previous employees continue to be a problem. We will review this as part of our planned Cessation of Employment audit to identify where the problem occurs in the leavers' process.

- Similarly, during the same audit we will also look at the removal of system access for security purposes, as system administrators are not always alerted to staffing changes.

- There is insufficient monitoring of the hours worked by employees to ensure that the Council complies with the Working Time Regulations.

The 'Centralisation of Invoices' project is progressing well, and a project team is in place to assist with the implementation of a new payroll solution but this will benefit from being treated as a corporate project to allow for adequate monitoring and to prevent any unnecessary delays in implementation.

The Insurance & Risk Manager continues to administer the purchasing card process effectively, but some finance officers need to be more vigilant in carrying out sufficient checks to ensure that payments are legitimate and reasonable.

With increasing budgetary pressures and challenges facing the Council, there are effective arrangements and processes in place to identify where significant savings can be made within the Council, which are well communicated to senior managers and elected members.

Both the treasury management and bank reconciliation processes continue to be well managed.

# Action Plan

**Audit Review of:**     Financial Services 2013/14

**Date:**     May 2014

**Action Plan Owner:**     Head of Finance & Assets

| Corporate Risk/Issue Severity Key | |
|---|---|
| <span style="color:red">■</span> | **Critical** – Significant CET and Cabinet intervention |
| <span style="color:orange">■</span> | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| <span style="color:yellow">■</span> | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | The implementation of the new payroll solution and the submission and payment of overtime and travel claims are not being treated as a corporate project. By not adopting a structured methodology that clearly defines roles and responsibilities and enables corporate oversight and review, there is a risk that both projects will fail to realise their perceived benefits or be significantly delayed in implementation. | This is a corporate project and is now recorded as such on Verto. The basic outline of the project has been input, but is being updated in more detail as the project develops – e.g. the development of the risk register and detailed technical appraisals, etc.  Regular project team meetings are taking place and actions are developing. The Payroll/HR integration project should be completed by the end of the year.<br><br>The travel input (via Proactis) has been developed as a concept. A presentation will be given to SLT in June. The project is being input into the Verto system. | Chief Accountant | December 2014 |
| 2. | There is a documented procedural manual for the Payroll team but this needs updating to assist with business continuity and succession planning arrangements. This would ensure that employees are clear of their responsibilities and adopt a consistent approach to any significant changes in the process. | We will update the payroll procedural manual to reflect our current processes. | Payments Manager | January 2015 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 3. | **Responsibility of HR** As the hours worked by employees, particularly those of casual/relief staff, are not always monitored, there is a risk that Working Time Regulations are not being complied with. | Payroll can produce a report upon request that will show all employees with contractual hours over 38 per week (over a number of posts). The report can also identify employees from the above list with relief contracts and provide a total of relief pay. The two datasets can then be combined and together will provide an indication as to whether Working Time Regulations are being complied with, which can be followed-up if necessary.<br><br>HR will monitor these reports every quarter to ensure that the Council complies with Working Time Regulations. | Payments Manager<br><br><br><br><br><br><br><br>HR Services Manager | Report will be ready by the end of May 2014. The first report will cover Quarter 1 2014/15 in July.<br><br><br><br><br><br>October 2014 |
| 4. | Proactis system administrators have a high level of access for viewing and amending the system but there is little monitoring of their work. A lack of system control increases the risk of inaccurate data and unauthorised transactions that could lead to budget over-spends, fines incurred for non-compliance with legislation or regulations and an increased risk of fraud and misappropriation. | By definition, system administrators must have access at a high level across the system. There are occasional instances where payments and orders that have been raised and authorised in service departments have to be authorised within the Systems Team. A report can be set up to allow the Chief Accountant to review such instances on a periodic basis. There are also legitimate orders and payments raised within the Systems Team (with proper controls around ensuring segregation of duty); however, as an additional control, a report can be created for the Chief Accountant to review that shows all orders raised and payments approved within the Systems Team. | Chief Accountant (to run and review reports on a quarterly basis). | June 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 5. | Services are mostly unaware of correct purchasing procedures and are processing duplicate invoices and an excessive amount of standalone invoices i.e. where an official order has not been raised at the time of purchase. This affects budget monitoring, checking accuracy of goods and services received, and authorisation of commitments. If not addressed, this could cause significant delays when invoice processing is carried out centrally.

The Chief Accountant, as part of his review of Financial Regulations, should ensure that these are well publicised (e.g. intranet, awareness sessions). | These are basic controls that services should be aware of. The Central Invoice Registration (CIR) project will enforce use of orders for most payments, although there will be agreed exceptions.

The procedures will be publicised as part of the communications strategy (first staff mail shot went out on 15th April) and will be reflected in the revised Financial Regulations. | Chief Accountant | CIR project mail shots will be issued between April-June 2014.

Draft revised Financial Regulations will be issued for consultation by the end of July 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 6. | Insufficient checks are carried out on the VAT registration numbers of suppliers to ensure that they are legitimate and that the correct VAT rate has been claimed for purchases made. | We have been running some VAT exception reports using the AP Forensics software but these are not useful because they produce pages and pages of basic checks without actually revealing any errors. Our VAT specialist has advised the following monthly checks would be a better use of time as these are the checks that HMRC will expect to see:<br><br>**1. VAT Checks**<br>**a. Creditors Invoices**<br>We have a process for checking a sample of invoices on a monthly basis to ensure that we are claiming VAT based on valid VAT invoices. This process has not been implemented for a little while but it will be re-instated now.<br>**b. Debtors Invoices**<br>We intend to check a sample of debtors invoices where no VAT has been charged to ensure that this is correct.<br>**c. Invoices raised after the 60 day limit**<br>We receive a monthly list of invoices that have been raised late (after the 60 day limit). We need to follow up cases like this with the services that are raising invoices late.<br><br>**2. VAT Training**<br>The central registration of invoices will help with VAT checks, as there will be greater control centrally and we intend to arrange some VAT training for the Creditors team. They are best placed to check the VAT registration number of suppliers.  The VAT training will also help the Creditors team to apply the correct VAT indicators once all invoices are processed centrally. | Technical Accountant | Revised procedures now in place. Further training will be arranged specifically for Creditors Team to coincide with the implementation of the Central Invoice Registration project. Training will be completed by the end of September 2014. |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 7. | Insufficient guidance is available to employees on what alternative payment methods can be used within the Council (i.e. other than BACs or purchasing cards) and the circumstances under which they could be used.<br><br>By not being proactive in raising awareness of what is permitted, there is a risk that payment methods are not approved, leading to unauthorised transactions, particularly if there is a lack of corporate oversight and review. | There are no alternatives to BACS or credit card. The Council has established accounts to allow the use of online auction sites in specific circumstances. Initial research suggests there is little demand for such facilities (e.g. the disposal of surplus technology and furniture is covered by corporate arrangements). However, a review is being completed to ascertain whether there is a need to develop such facilities, taking account of the likely cost, risks and benefits of doing so. The policy around the use of such facilities will be included in the revised Financial Regulations. | Chief Accountant and Business & Risk Manager | July 2014 |
| 8. | Not all finance officers are carrying out checks of purchasing card payments, and there is inconsistency to the extent of these checks. This could lead to error, poor value for money, financial loss and/or fraud going undetected. | Instructions have been issued to all finance officers reminding them of the need to complete the checks as required. Spot checks will be carried out throughout the year to ensure that checks and reconciliations are being completed consistently. | Chief Accountant and Finance & Assurance Managers | New procedures and instructions were issued in April 2014. Spot checks will being in July 2014. |
| 9. | The review of documented budgetary control procedures is not yet complete. The development of procedures for both finance officers and new budget holders should help to reduce the risk of disruption to service delivery, particularly if key officers were unexpectedly absent for a prolonged period. | Elements have been completed and will be fully completed by the end of October 2014. | Chief Accountant and Finance & Assurance Managers | October 2014 |

# Denbigh High School

## May 2014

**Christine McMellon MAAT**    01824 706772
christine.mcmellon@denbighshire.gov.uk

**Irene Griffiths**            01824 706974
irene.griffiths@denbighshire.gov.uk

**Ivan Butler CMIIA, MBA, Head of Internal Audit Services**

## Purpose & Scope of Review

We carried out a review of Denbigh High School in January 2014 as part of the Welsh Government's assurance requirement for secondary schools. Our review focused on the following areas:

- Governance
- Financial planning and budget monitoring
- Purchasing and payment processes
- Income collection & security (including lettings)
- School Fund management
- Health and safety and security
- External contractors/visitors
- ICT and information security

## Assurance Rating
### (Based on areas reviewed)

| | | |
|---|---|---|
| <span style="color:green">■</span> | High Assurance | Risks and controls well managed |
| ► | Medium Assurance | Risks identified but are containable at service level |
| <span style="color:orange">■</span> | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| <span style="color:red">■</span> | No Assurance | Significant risks identified that require member / officer case conference |

## Audit Opinion

Overall, the School has good governance arrangements in place; however there are a few areas that do not comply with the Government of Maintained Schools (Wales) Regulations 2005. The School and the Customers & Education Support service are currently addressing these.

Since our last review of this School, a new Finance Manager has been appointed and the School is managing its budget more effectively. A Recovery Plan was originally put in place, as the School was projecting a significant budget deficit but it is now projecting a surplus for the next two financial years. A deficit is then forecast for 2016/17 but the School is already taking action to address this. There are good procedures in place to ensure business and financial management continuity in the Financial Manager's absence.

Some improvements are needed to the School's purchasing arrangements. A significant number of invoices were not paid within 30 days, exposing the Council to late payment charges from suppliers. A large number of invoices are also being raised without a purchase order, which increases the risk of unauthorised purchases and makes monitoring of the budget more difficult.

The successful introduction of the Parent Pay system has led to a reduction in cash and cheques held on site. Other income collected is managed well, with independent checks and regular banking.

We identified some weaknesses within the administration of the School Fund, including certificates not being submitted to us for checking. Improvements in this area will minimise the risk of unauthorised transactions.

Good security controls are in place for visitors and the School operates its own CCTV system; however, there is a lack of training on the system and data retention requirements that could put the School at risk of breaching the Data Protection Act. A lack of building security, with some external doors being left open all day, poses a safety risk to the pupils and members staff.

ICT controls are good, with regular password changes and back up procedures in place. Overall the School has improved since our last review, with the results of our latest review being mainly positive, with only a few issues that the School needs to address.

# Action Plan

**Audit Review of:** Denbigh High School

**Date:** May 2014

**Action Plan Owner:** Mr Simeon Molloy – Head Teacher

| Corporate Risk/Issue Severity Key | |
|---|---|
| | **Critical** – Significant CET and Cabinet intervention |
| | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | The School is processing too many stand-alone invoices, which increases the risk of unauthorised purchases and makes budget monitoring more difficult | We have put annual purchase order commitments for suppliers, such as Canda Copying, examination boards, Waster Collection etc. so that Invoices we receive will "chip away" at the order and will not be processed as stand-alone. | Proactis Admin Officer Business Manager Finance Manager | April 2014 |
| 2. | The School has processed several invoices that have not been paid within 30 days, exposing the Council to potential claims for interest charges under the Late Payments Act. | The New Central Invoice Registration (CIR) process that will be introduced by Council soon will ensure that all invoices will be paid promptly. The School will action any exceptions/queries that the Creditors team refer to it within 48 hours, unless received in the Easter/Christmas/Summer holidays. | Proactis Admin Officer Business Manager Finance Manager | CIR due to be implemented in the summer 2014. |
| 3. | The administration of the School Fund needs to be improved so that:<br>• Internal Audit promptly receives School Fund certificates each year;<br>• the Governing Body appoints an Auditor who is independent of the School and the Governing Body; and<br>• income transferred to the delegated budget is easily identifiable. | A new auditor has been found and is ready to audit the account – we are just awaiting approval from the Finance Committee.<br><br>A separate sheet is to be set-up evidencing funds transferred from the School Fund into the delegated budget. | Business Manager | Summer 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 4. | The safety of pupils and employees could be compromised, as there are several external doors to the School building left open during the day. | All external doors to have maglocks checked and repaired where necessary. Timers to be checked. | Business Manager Caretaker Building Services | All doors now locked apart from Science Exit Door which is faulty. Temporary repair due May half-term and new door scheduled to be fitted during the summer. |
| 5. | The ICT technician has not received any training on the operation of the CCTV system and is unaware of implications regarding the retention of data on the system. | Request made with ADT to train the ICT Technician on the operation of the CCTV system. Assistant Head Teacher in charge of data to explain procedure with regard to retention of data. | ICT Technician Business Manager Assistant Head Teacher | By 30 June 2014 |

![Cyngor sir ddinbych denbighshire County Council]

## *Denbighshire Internal Audit Services*
### *Caledfryn, Smithfield Road, Denbigh LL16 3RJ*

# Customer Services – Complaints and Standards

## May 2014

Lisa Lovegrove   CMIIA CISA                    01824 706974
lisa.lovegrove@denbighshire.gov.uk

Nanette Williams BA (Hons)                    01824 706973
nanette.williams@denbighshire.gov.uk

Irene Griffiths
irene.griffiths@denbighshire.gov.uk

**Ivan Butler CMIIA, MBA, Head of Internal Audit Services**

## Purpose & Scope of Review

We undertook a review of the Council's Corporate Complaints Process during February/March 2014 to give assurance on the following areas:

- Governance arrangements
- Policies and procedures
- Monitoring and reporting

In addition, we reviewed progress against key objectives within the Council's Modernisation priority in relation to Customer Service Standards being implemented across all services.

## Assurance Rating
## (Based on areas reviewed)

| | | |
|---|---|---|
| High Assurance | Risks and controls well managed | |
| ► Medium Assurance | Risks identified but are containable at service level | |
| Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member | |
| No Assurance | Significant risks identified that require member / officer case conference | |

## Audit Opinion

Overall, the Council manages complaints effectively and its complaints policy and supplementary guidance complies in the main with the model set by the Public Services Ombudsman for Wales (PSOW). We identified some issues relating to staff training and awareness of complaints handling, which could compromise success and improvement in this area, but acknowledge that the Council is taking steps to address this by piloting a Customer Service qualification with some Streetscene (comprising of Public Realm and Highways) staff (working in partnership and delivered by Coleg Cambria).

The Council's governance arrangements around complaints management support the corporate priority of modernisation and improving services for our customers. Performance information demonstrates that the Council deals with the majority of its complaints within set timescales; however, in order to comply with PSOW guidance and be more effective in its oversight role, we consider that the Corporate Governance Committee should agree to receive periodic briefings of service improvements arising from responses to complaints.

There are some functionality issues with the Council's Customer Relationship Management (CRM) system that are causing inefficiencies in complaints monitoring and leading to inaccurate performance reporting. In addition, current use of the system does not support a proactive use of complaints data in learning lessons, to encourage service improvement and prevent repeat complaints.

The Council's website contains up to date information on how a customer can make a complaint but the process could be made simpler. Further, to ensure that residents without computer access have up to date complaints information, leaflets available in public spaces need to be made available and updated to reflect recent policy changes.

There is much work underway to foster a customer-focused approach across the Council through the implementation of Customer Service Standards and other initiatives. While there is evidence of good practice in certain service areas, further work is required to fully embed Customer Service Standards in the day-to-day culture of all Council services. We consider lessons learned from complaints will enhance this process; however, as detailed above, current practices make this difficult.

As a result of our review, we are able to provide a medium assurance rating of this area.

# Action Plan

**Audit Review of:**     Customer Services – Complaints and Standards

**Date:**     May 2014

**Action Plan Owner:**     Head of Customers and Education Support

| Corporate Risk/Issue Severity Key | |
|---|---|
| | **Critical** – Significant CET and Cabinet intervention |
| | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | The terms of reference of the Council's Corporate Governance Committee state that it should review corporate complaints data reports twice a year; however, in practice they are only reviewed annually.<br><br>We consider this to be the responsibility of Democratic Services to address for the Corporate Governance Committee's Forward Work Plan. | The Corporate Customer Complaints Officer e-mailed the Chair of the Corporate Governance Committee on 24 March 2014, quoting the terms of reference for the Committee and asking when the next complaints report will be required.<br><br>The Chair is to meet with the Head of Legal & Democratic Services and Head of Internal Audit to develop a new forward work plan for the Corporate Governance Committee. | Chair of Corporate Governance Committee / Head of Legal & Democratic Services / Head of Internal Audit | 31 July 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 2. | Current reporting arrangements to members on complaints data does not comply with the Public Services Ombudsman for Wales' model policy, which states that the Board/Cabinet should *"receive reports on the number and type of complaints received, their outcomes and any remedial action taken as a consequence".* Presently reports to Performance Scrutiny Committee contain only statistical information on numbers of complaints handled and timescales for dealing with them.<br><br>We consider it may be more appropriate for the Corporate Governance Committee to receive more detailed information in this area. | This forms part of the Service Challenge and is included in the Lead Member Framework used to challenge Heads of Service. General themes are raised at Performance Scrutiny Committee but specific complaints are not discussed, as this is a public forum. This was agreed by elected members.<br><br>The Head of Internal Audit has subsequently discussed this issue with the Chair of Corporate Governance Committee and Head of Legal & Democratic Services. The new forward work plan for Corporate Governance Committee will include a report that shows service improvements arising from customer feedback. Performance Scrutiny will receive a statistical report that shows service performance in dealing with complaints. This will form part of the forward work plan discussions in Issue 1 above and will be presented to the chairs & Vice-chairs Group for discussion. | Chair of Corporate Governance Committee / Head of Legal & Democratic Services / Head of Internal Audit | 31 July 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 3. | Improvements to staff training and awareness of complaints handling is required, as detailed later in our report, but summarised below: | The Customer Service Strategy outlines how information will be available for members of staff and customers via the internet. | Head of Customers & Education Support | SLT – April 2014 MMC & Cabinet – May 2014 Published - June 2014 |
| | • Staff guidance on 'Your Voice' is not easy to find on the Council's intranet. | This is already available on the Council's intranet: <br>• on the homepage under popular documents, <br>• under the document list on the Customers & Education Support service page, and <br>• found using the 'search documents' function, using 'Your Voice', 'complaints' 'compliments' and 'comments' as keywords. However, the ranking is determined by the intranet search facility and it is not currently as robust as it should/could be, so the Intranet Officer will contact Source, who are the system providers of the intranet, to find out whether the 'Your Voice - Complaints Policy' can be moved up the ranking so that the search box becomes more efficient | Campaign/Accounts Management Officer | June 2014 |
| | • Employees without computer access are not always aware of the customer complaints policy. <br>• There are inconsistencies in employees understanding of what is a complaint and a request for service. <br>• There is a lack of staff awareness of the Council's revised complaints process. | This is included in the Customer Service qualification we are currently piloting with Streetscene staff, and is included in the Induction & Refresher training template recently circulated. All service complaint officers were involved in the consultation process for the new revised process and are fully aware of the contents and are the point of contact for members of staff within their service. | Customer Service Business Partner | Closure report submitted to SLT - June 2014 |
| | • The guidance template for the newly implemented service specific induction training does not include details of the service complaints representative. | The guidance template has been updated and, in March 2014, the revised version was circulated to the organisation. | Customer Service Business Partner | Completed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 4. | The method by which residents can log a complaint via the Council's website may be confusing, as there are several options available depending on the nature of the complaint and the service it affects. | On forward work programme for Webteam to review content to make more user-friendly. | Corporate Complaints Officer/Web Manager | 30 June 2014 |
| 5. | The 'Your Voice' information leaflets currently available in public areas are out of date and do not reflect crucial changes to the complaints handling process. Further, some public areas do not have this information available as their leaflet stock has run out. | Design brief in progress. Awaiting approval by Destination, Marketing and Communication Lead Officer before sending out to tender. Once created and printed they will be made available at all the main public access points. | Corporate Complaints Officer | 31 October  2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 6. | Functionality issues with the CRM system are preventing proper administration and monitoring of complaints and lead to misleading performance reports on the number of complaints handled. These include: | We agree. Currently developing a Business Case for a new CRM/Customer Portal | Head of Customers & Education Support | 31 October 2014 |
| | • complaints statistics reports have to be manually compiled, as the CRM system does not have the facility to extract this information automatically; | As above | | |
| | • the audit trail of a complaint from the initial point of contact to its final conclusion cannot be held on CRM and relies on the Complaints Officers knowledge to trace any Ombudsman's decision and resultant time and trouble payments made; and | All information relating to customer complaints is saved onto a shared drive, using a defined filing structure, owned and only accessible to Customer Services staff. Should any information be required during any absences incurred by the Corporate Complaints Officer, planned or unplanned, peers / colleagues will be able to find and provide the relevant information. | Corporate Complaints Officer | Completed |
| | | EDRMS is being rolled out in Customer Services in June at which time all complaint documentation will be transferred to the system and accessed by authorised personnel only. | Corporate Complaints Officer | September 2014 |
| | • the system does not bring complaint details from Stage 1 through to the Stage 2, but records them; therefore if a complaint progresses to Stage 2, it is recorded twice, resulting in overinflated complaints totals. | Manual intervention will remove the double counting element of the totals reported. | Corporate Complaints Officer | Completed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 7. | Current arrangements to promote lessons learned and service improvement to prevent repeat complaints need to be improved. While there is a facility on the CRM system to record this information, it is rarely used and, when it is, the information is often not sufficient to help learn lessons. | This currently forms part of the Service Challenge and Lead Member Framework where services are challenged on the analysis of their complaints, compliments and feedback and using this information to redesign to improve services.<br><br>The Corporate Complaint Officer is currently setting up a pilot involving workshops for service complaint officers. The agenda will include a discussion around analysing feedback submitted by customers using Your Voice; identifying actions, capturing lessons learned and implementing service improvements as a result. The workshop will be a directional session to enable services to undertake this independently and as a 'business as usual' process in future.<br><br>A complaint analysis report will be submitted to Performance Scrutiny Committee in November 2014.<br><br>An Ombudsman report is produced annually and was last circulated to Senior Leadership Team for lessons learned in Autumn 2013 | Corporate Complaints Officer<br><br>Head of Customers & Education Support | 31 August 2014<br><br>30 November 2014 |

## Denbighshire Internal Audit Services
### Caledfryn, Smithfield Road, Denbigh LL16 3RJ

**Report By:**  Lisa Lovegrove, Senior Auditor

**Date:**  26 June 2014

**Subject:**  Project Management Overview

### Introduction:

This report gives an overview of the results from our recent review of three sample projects. This is to give evidence for the Council's governance arrangements for 2013/14.

We selected the sample projects as they were forecasting a cost increase and delay to completion and/or they were categorised as "at risk" in the Corporate Project Management Register. The projects chosen were:

- Rhyl Foryd Harbour Bridge;

- West Rhyl Housing Improvement; and

- Ysgol Twm o'r Nant.

Our reviews covered identified weaknesses, governance arrangements, risk management and the overall management of the projects.

### Audit Opinion:

Overall, the Council's project management arrangements have much improved over recent years, consisting of better governance and oversight, internal controls and risk management.

Examples of the key developments that have contributed to this are:

- establishing a Corporate Programme Office to manage the large capital projects and business transformation programmes that will deliver the Council's objectives. It also offers support and guidance to project managers within various Council services;

- formation of a Stage Review Group consisting of key service representatives to assess business cases for robustness before they are sent to the Strategic Investment Group for approval;

- implementing a project management application "Verto" to enable all services to input project details, simplify reporting requirements and facilitate corporate oversight of progress; and

- training all relevant staff in the PRINCE2 project management methodology, including a qualification at either foundation or practitioner level. This globally recognised qualification is the industry standard for project management and provides a benchmark of capability.

It is clear that the Council application of the project management methodology is progressing in the right direction; however, our review of a sample of projects that were on-going showed that some aspects have yet to properly embed. We have combined the issues that we found that have a corporate element in an action plan for the Corporate Programme Office to consider what actions will further promote an effective framework for managing projects and reduce the risks that are often associated with them, such as unnecessary overspends and delays.

Based on the areas reviewed, we give the following assurance rating:

| | | |
|---|---|---|
| | High Assurance | Risks and controls well managed |
| ► | Medium Assurance | Risks identified but are containable at service level |
| | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| | No Assurance | Significant risks identified that require member / officer case conference |

# Action Plan

**Audit Review of:**    Project Management Overview

**Date:**    June 2014

**Action Plan Owner:**    Corporate Programme Office Manager

| Corporate Risk/Issue Severity Key | |
|---|---|
| 🟥 | **Critical** – Significant CET and Cabinet intervention |
| 🟧 | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| 🟨 | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | Despite the medium to large size of the Ysgol Twm o'r Nant project, a project board has not been established. Where programme boards decide to do away with this requirement, we would expect the board to agree how key decisions, monitoring and oversight will take place along with setting project tolerances from the project's outset.<br><br>There is little corporate guidance for programme board members to explain the different requirements for project board composition to correspond with the various project sizes and complexities. | Prepare and communicate guidance for programme boards to include clarification on their role in the absence of project boards. Given the nature of the Schools / Education Programme Board, it would be cumbersome to expect each project to have individual boards with the same stakeholders on each board.<br><br>Steering groups are in place at local level; however, key decisions are made at programme board level. | Corporate Programme Office Manager / Head of Customers & Education Support | 31 August 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 2. | There was a lack of systematic review and challenge at the start of the Rhyl Foryd Harbour Bridge project to ensure that it remained realistic, viable and affordable.<br><br>The Council lacked the necessary skills and experience to effectively challenge a project of this nature, size and complexity. Arrangements should be available to ensure that, where appropriate, independent specialist advice is available. | Additional controls have already been introduced for challenging business cases i.e. Stage Review Group. This project would not have progressed in the same way in current control climate.<br><br>The Corporate Programme Office (CPO) is refining the Stage Review Group process to establish an escalation process, should the Group feel that it is unable to scrutinise a particular element of the proposal, which may include seeking independent specialist advice.<br><br>The CPO is considering the benefit of applying the principles of the 5 case business model, which the Welsh Government applies to some of their funding streams. | Stage Review Group | 30 September 2014 |
| 3. | Suitable resource i.e. the right people with the right experience is needed to be able to challenge the contractor to manage costs to ensure that what is delivered meets the required benefits and outcomes. **(Rhyl Foryd Harbour Bridge project)** | Project sponsors and the Stage Review Group to assess the scope of the project and the demand that this places on resources to ensure that staffing arrangements are sufficient in terms of experience and knowledge and capacity. | SLT and CPO (Stage Review Group) | Commenced, and on-going |
| 4. | The need for contingency funding was identified early for this project on the recommendation of the Head of Finance & Assets. However, a clear mechanism is needed to ensure that sufficient contingency is made available where projects are of a complex nature, particularly where there is a significant risk that unforeseen circumstances or known risks could materialise and escalate costs. **(Rhyl Foryd Harbour Bridge project)** | Stage Review Group and Strategic Investment Group (SIG) to review project costs and contingencies for reasonableness. | Corporate Programme Office & Strategic Investment Group | Commenced, expect it to embed by December 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 5. | The project as it stands is not financially viable and will continue to financially impact the Council unless potential income sources are secured. The handover from the Project Manager to the eventual service manager will need to apply good change management. **(Rhyl Foryd Harbour Bridge project)** | See Risk 1 with regards to stronger challenge and assessment of initial business case by the Stage Review Group, which includes ensuring that there is sufficient evidence of the long-term financial viability of projects. | Corporate Programme Office Manager | December 2014 |
| 6. | Weak contract arrangements was a feature of all three projects reviewed:<br><br>**Rhyl Foryd Harbour Bridge**: Weak contract arrangements and management of contractor relationships and performance has contributed to project costs escalating over budget and reducing the specification and quality of the final product. There is also a risk of dispute from other contractors over the way the Council has awarded the construction and maintenance contract.<br><br>**Ysgol Twm o'r Nant**: The Council does not have a formal signed contract with the contractor, Wynne Construction Ltd. This contravenes the Council's Contract Procedure Rules. Without formally setting the Council's terms and conditions, the Council could face further delays and financial repercussions if any disputes arise (such as Legal costs).<br><br>**West Rhyl Housing Improvement**: The Council does not yet have a formal signed contract for the Green Space work, despite awarding the tender in November 2013. This contravenes the Council's Contract Procedure Rules. The Council's terms and conditions were set out within the initial tender documents that the contractor has agreed to; however, the Council could be at risk of delays and financial repercussions if any disputes arise. | Project board or project sponsors to be reminded to call on procurement and legal advice to gain assurance where necessary.<br><br>Legal Services is notified of upcoming projects and procurements using various methods to ensure that it is aware of what is happening. Once notified, the Deputy Monitoring Officer allocates complex contractual arrangements to capable, experienced solicitors; however, they are awaiting appointment of a contract solicitor to provide additional capacity (Legal Services have been unsuccessful at filling the post over the past 12 months). In the meantime, agency employees are assisting with this work.<br><br>The new e-procurement system that will be rolled out shortly includes tasks assigned to Legal Services for:<br><br>a) drawing up the contracts with the successful bidder(s);<br>b) issuing the contracts to the successful bidder(s); and<br>c) arranging to have the contracts signed/sealed upon their return.<br><br>The process for construction -related | Corporate Programme Office Manager<br><br>Deputy Monitoring Officer<br><br><br><br><br><br><br>Acting Strategic Procurement Manager | 31 August 2014<br><br><br><br>In place. Vacancy advert for Contract Solicitor May 2014.<br><br><br><br><br><br>September 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| | | procurement may differ, with Quantity Surveyors assuming the role of Legal for drawing up and issuing contracts. A workshop will be held to formulate the process to ensure that Legal input is obtained where necessary, and to monitor that contracts are sent out and signed copies returned. | | |
| 7. | All three projects reviewed were not formally capturing lessons learned while the project was progressing:<br><br>**West Rhyl Housing Improvement**: Lessons learned have only been informally captured to date. If this information is not captured and communicated effectively to other project managers across the Council, there is a risk that the same errors or pitfalls may be repeated unnecessarily.<br><br>**Ysgol Twm o'r Nant**: Lessons learned are shared informally in Modernising Education but they are not formally captured to facilitate the project closedown nor communicated to help other projects within other services to reduce common pitfalls and errors:<br><br>• There is little prompt for lessons to be logged following identification of an issue.<br><br>• Project Managers in different services are not made aware of lessons from similar projects.<br><br>• Capturing lessons learned is left until the end of the project i.e. the project closedown stage.<br><br>**Rhyl Foryd Harbour Bridge**: Lessons learned have only been informally captured to date, and there is a risk that other projects will suffer the same or similar issues if this information is not captured and communicated effectively to other project managers across the Council. | This issue appears systemic across the portfolio. Proposals to improve this are:<br><br>• pursue Project Closure reports more rigorously, which includes lessons learned; and<br><br>• provide guidance, training and support in undertaking post-implementation reviews on projects to enable easier capture of lessons for reporting and future use. | Corporate Programme Office Manager | July to December 2014 |

# Denbighshire Internal Audit Services
## Caledfryn, Smithfield Road, Denbigh, LL16 3RJ

**Report By:**   Lisa Lovegrove, Senior Auditor

**Date:**         8 April 2014

**Subject:**      Project Evaluation – Three County Procurement

## Introduction:

We carried out an evaluation of the Strategic Outline Case (SOC) and Outline Business Case (OBC) for the Three County Procurement Project to assess its effectiveness and feasibility for delivering value for money against the Regional Collaboration Fund bid. The Full Business Case (FBC) does not form part of the scope for this review as it is currently being developed.

This summary report provides the results of our review of the contents of the SOC and OBC against the Green Book guidance "Public Sector Business Cases Five Case Model" (2013). Where insufficient information was available in these documents, or following our request, we have recommended future actions to address this. These should be factored into the Full Business Case and monitored by the Project Board and Project Team.

## Conclusion:

Based on our review of the two business cases (SOC and OBC) and other supporting evidence provided during our review, we are able to provide assurance that the necessary project management arrangements are in place to progress this project.

The SOC has been prepared to a good standard and in accordance with the Five Case Business Model. The OBC expands on the SOC, providing some additional information and evaluation; however, some sections did not provide the expected level of information for this level of business case i.e. elements of the Economic Case and Management Case were weak. We understand that time pressures linked to the grant funding has been the main cause for this, and the Project Team expects a more thorough evaluation will be included within the FBC. Therefore, until the FBC is completed (anticipated for April 2014), we are unable to determine whether the project is financially viable.

**Recommended future actions:**

➢ The Investment Options contained within the Strategic Case of the SOC and OBC need further development to make them 'SMART' i.e. specific, measurable, achievable, relevant and time-bound. Also, reference to a communication strategy should be presented within the Strategic Case as well as a statement concerning security and confidentiality.

➢ The Economic Case needs strengthening to evidence an economic appraisal for each short-listed option i.e. cost benefit analysis. Justification for the preferred option should also be elaborated upon to properly demonstrate how the proposed project will provide value for money.

➢ The Commercial Case should contain a change management plan, especially as change is recognised as a potential constraint and a significant risk to the project. In addition, although no large procurement activity is anticipated for this project, a procurement strategy should be outlined to cover existing and potential future procurement activity. For example, Bangor University tendering to deliver the FBC.

➢ The Financial Case should include capital/revenue requirements for all three years of the project to justify the grant funding and enable each Council to review their budgets if there is a perceived funding shortfall. Note, the SOC and OBC only covers Year 1. In the interim, an outline profile of anticipated spend has recently been developed for Year 2 (separate document entitled 'Schedule 1') until the FBC provides more accurate figures for Years 2 and 3.

➢ In the absence of a project plan within the SBC and OBC that details expected implementation activity and timescales, we expect that this will be available in the FBC. While waiting for the completion of the FBC, we are aware that the 'Schedule 1' document has recently set outline target dates for the project's second year.

➢ The Management Case includes a framework for benefits realisation; however, the OBC should include a benefits realisation plan/register for existing known benefits. Therefore, we would expect to see greater coverage of anticipated benefits within the FBC.

➢ The Management Case of the OBC should contain a change management strategy, framework and plan; however, this information is absent. Section 6.5 of the OBC should be updated to demonstrate that the project has robust arrangements in place for change management.

➢ The Management Case presents an outline of how risks are managed and mitigated; however, the risk scoring matrix shown is different to what has been used for the risk register. These should be consistent to prevent any confusion.

➢ The project's risk register highlights a few risks that could affect the future of the project. In light of this, the Contingency Plan should be elaborated on to cover the various scenarios that could affect the project's future delivery. For example, if one Council pulled out, or if grant funding is further reduced or pulled completely.

*Denbighshire Internal Audit Services*
*Caledfryn, Smithfield Road, Denbigh, LL16 3RJ*

# North Wales Commissioning Hub

April 2014

Brenda M Steed CMIIA, MInstLM          01824 706753
Brenda.steed@denbighshire.gov.uk

**Ivan Butler CMIIA, MBA, Head of Internal Audit Services**

## Purpose & Scope of Review

We undertook a review of the North Wales Commissioning Hub to seek assurance on the partnership arrangements for input to the Council's Annual Governance Statement.

The scope of our review was based on a generic programme of work for partnerships designed for use with other internal audit services in north and mid-Wales.

## Assurance Rating
(Based on areas reviewed)

| | | |
|---|---|---|
| 🟩 | High Assurance | Risks and controls well managed |
| ▶ (🟨) | Medium Assurance | Risks identified but are containable at service level |
| 🟧 | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| 🟥 | No Assurance | Significant risks identified that require member / officer case conference |

## Audit Opinion

The North Wales Commissioning Hub (NWCH) has been well structured and managed since its inception, through its project proposal, outline business case to the full business case, as approved by the Management Board. Each document was comprehensive in content and is subsequently reflected in the robust Partnership Agreement that all partners have signed.

The outline business case included several options for developing the Hub after consultation with stakeholders and partners. An option appraisal and evaluation led to the Hub being established in its current format. Some potential weaknesses identified during our review and linked to the Partnership Arrangement can be easily addressed through a supplementary memorandum of understanding or similar document.

Governance arrangements are effective and the Management Board scrutinises the Hub closely, fulfilling its Terms of Reference. Further improvements are being instigated by the introduction of the Hub Operational Group to ensure that both strategic and operational matters are dealt with by an appropriate body. A decision-making protocol will further enhance the transparency of any significant decisions made.

Risk management is clearly in place but adopting a formal methodology will help to ensure consistency in approach.

Developing a communication plan will inform all partners and stakeholders as to what they can expect to receive from the Hub, how often and by which method.

The Hub's Annual report provides positive feedback that operations during its first year have achieved the initial expected outcomes. Continued improvements are being made through several operational procedures and development of the Quality Monitoring Framework for contract monitoring. The local commissioning teams (outside of the Hub) will also benefit from having access to the results of this process via the system used to record the contract data and intelligence. Members of the Hub Team are conscientious in bringing new initiatives into its day-to-day activities but the capacity of the Team hinders the pace of progress in new areas.

We have raised five issues, which can be addressed at an operational level but will further enhance the robustness of the framework that the Hub currently operates under.

# Action Plan

**Audit Review of:**  **North Wales Commissioning Hub**

**Date:**  **April 2014**

**Action Plan Owner:**  **Head of Adult & Business Services**

| Corporate Risk/Issue Severity Key | |
|---|---|
| <span style="background-color:red">   </span> | **Critical** – Significant CET and Cabinet intervention |
| <span style="background-color:orange">   </span> | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| <span style="background-color:yellow">   </span> | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | There are some gaps in the Partnership Agreement and, although they may be deemed to be more operational as opposed to legal requirements, it would be beneficial to consider each area and the best way to capture it, e.g. in a memorandum of understanding between partners, as implied within the 'Management Case' section of the Full Business Case.<br><br>The two areas are as follows:<br>• Approval of changes to the agreement<br>• Conflict of interest (Board members and partners)<br><br>(See report for further detail) | Declarations of conflict of interest will be sought and recorded at each meeting of the Management Board<br><br>The Management board will agree changes to the scope of NWCH and decisions clearly documented in the decision log (see below) | NWCH Chair<br><br><br>NWCH Chair & NWCH Manager | April 2014<br><br><br>As required |
| 2. | The Partnership Agreement makes reference to the equality impact assessment and states that the Management Board will review this annually to ensure that it complies with the Equality Act 2010, but the Hub Manager confirmed that this has not been done to date. | The equality impact assessment will be reviewed by the Hub Operational Group (HOG) and presented to the Management Board for approval. This will be recorded in the decision log.<br><br>*The view of the Management Board is that, in future, agreements should only be required if there have been changes to the work of NWCH/Partnership agreement* | HOG / Management Board | June 2014 |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 3. | Although meeting minutes capture Board decisions, the level of detail is brief and they may not demonstrate that specific factors such as risk management, equality impact assessment, diversity and safeguarding are being considered (although this may happen informally).<br><br>A decision-making protocol may be a useful approach to provide greater transparency within the process.<br><br>Additionally, target dates for completing proposed actions are not currently shown in the minutes to help ensure that they are not overlooked at subsequent meetings. | A decision log will be used to record decisions and action notes made at each Board meeting and will clearly document identified risks. In turn, identified risks will be captured in the risk log<br><br>Action note format will be revised to include timescales | NWCH Manager<br><br><br><br><br><br>NWCH Manager | June 2014<br><br><br><br><br><br>April 2014 |
| 4. | The Hub does not have a communication plan to confirm the methods being used, how this will take place within the partnership and how it will take place with stakeholders, together with the frequency of communications.<br><br>The Management Board does not have a forward work programme so that its members are fully aware of what they can expect to receive at each meeting. | A communication plan will be developed<br><br><br>A forward work programme will be developed with / for the Management Board (as distinct from the NWCH work programme) | NWCH Manager with HOG<br><br>Management Board | June 2014<br><br><br><br>April 2014 |
| 5. | The Hub Manager confirmed that the methodology used to manage risks has remained unchanged since the Full Business case was drawn up. Although this may be acceptable, there is nothing documented to state how risk management is to be approached or the formal method to be adopted, e.g. that of the host authority, to ensure that risks are assessed and consistently scored, mitigating actions are monitored with future actions proposed, and the methodology is approved by the Board. | Current methodology will continue to be used but any changes to the risk matrix will be documented in the action notes and decision log of the Management Board | Management Board | April 2014 |

**Denbighshire Internal Audit Services**
*Caledfryn, Smithfield Road, Denbigh LL16 3RJ*

**Report to:** See recipient list below

**Report By:** Nanette Williams, Auditor

**Date:** 14 July 2014

**Subject:** Cessation of Employment – Overpayments to School Leavers

### Introduction:

We undertook an audit of Cessation of Employment during May and June 2014. The purpose of our review was to ascertain how well the Council manages its leavers' process for elected members and employees, including those who are made redundant, redeployed, are retiring, as well as those taking career breaks.

In addition, we sought to explore the reasons behind continuing overpayments made as a result of late notification of leavers, which has been a recurring issue in our annual Payroll audits. Late notification of changes that affect payroll, predominantly for leavers causes unnecessary and avoidable financial costs to the Council through overpayments, as well the recovery costs incurred through pursuing the debt.

We traced key dates for a sample of leavers who were overpaid to ascertain where the hold-up occurred, as well as discussing the process with line managers to determine possible reasons for any delays. The purpose of this report is to communicate the results of our sample testing in relation to schools specifically and includes an action plan to address the issue raised.

### Conclusion:

Our sample testing of overpayments indicates that the problem of late notification of leavers resulting in the overpayments lies predominantly with schools and in particular primary schools. A breakdown of our results is as follows:

- Between April 2013 and March 2014, approximately **£34,000** was paid to employees in error (including leavers and some current members of staff).

- Within this total, there were **32** overpayments made to former members of staff as a result of late notification of leavers. Of these, **69%** (22) related to employees leaving schools.

- Of the 22 overpayments **68%** (15) related to primary schools & **32%** (7) to secondary schools.

- On further examination into the specific source of the delays (e.g. HR, Payroll or the source department), we found that, in the majority of cases, the overpayment was the result of the school failing to notify HR promptly before the employee left. This indicates that, in the majority of cases, the overpayment was preventable.

- There may be a training issue with some schools, particularly primary schools in relation to the leaver process. Further, we acknowledge that, owing to resources within the smaller schools, and teaching commitments of some Head teachers, time to process leavers can be restricted.

Our review also identified some issues with the layout of the leavers' form that line managers must complete, which may have caused some confusion as to when to send the completed form to HR, and therefore may have perpetuated the issue. In addition, there were eight instances within our sample where HR further contributed to an overpayment by failing to instruct payroll quickly after receiving notification of the leaver, albeit late by the school/department. We will report these issues as part of our Strategic HR audit, which is currently underway.

While the issue of overpayments to leavers due to delays in notifying payroll has existed for several years, it is important that the Council takes action to address it. However, we consider that this can be done at service level and therefore can provide a medium assurance rating of this area. It is our opinion that the Customers and Education Support Service is best placed to action changes to rectify this problem.

## Assurance Rating
### (Based on areas reviewed)

|  | High Assurance | Risks and controls well managed |
|---|---|---|
| ▶ | Medium Assurance | Risks identified but are containable at service level |
|  | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
|  | No Assurance | Significant risks identified that require member / officer case conference |

# Action Plan

**Audit Review of:** Overpayments to School Leavers

**Date:** July 2014

**Action Plan Owner:** Head of Customers & Education Support

| | Corporate Risk/Issue Severity Key |
|---|---|
| 🟥 | **Critical** – Significant CET and Cabinet intervention |
| 🟧 | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| 🟨 | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Action | Who | When |
|---|---|---|---|---|
| 1. | Late notification of changes affecting payroll is still causing unnecessary and avoidable financial costs to the Council from overpayments to leavers. Our review shows that, during April 2013-Mar 2014, approximately £34,000 was paid to members of staff in error, with 31% originating from schools, predominantly primary schools failing to notify HR promptly when an employee leaves. While this represents an improvement from the total noted during our 2012/13 payroll review, it still highlights that several of these overpayments could have been avoided. | The School Funding Manager to write to schools reminding them of the correct process once he has been provided with the new leavers form by HR. Payroll was contacted but was not supportive of the possibility of charging schools for late notifications, as they felt that on many occasions it would be difficult to agree who was at fault, if schools claimed they have forwarded information to HR on time. | School Funding Manager | September 2014 |

## Denbighshire Internal Audit Services
### Caledfryn, Smithfield Road, Denbigh LL16 3RJ

**Report to:**   Head of Finance & Assets

**Cc to:**   Chief Executive, Corporate Governance Committee

**Report By:**   Nanette Williams, Auditor

**Date:**   1st April 2014

**Subject:**   Role of the Section 151 Officer

### Introduction

This review seeks to provide assurance for the Council's Corporate Governance Framework and self-assessment on whether the Council's Section 151 Officer role complies with the CIPFA's Statement on the role of the chief financial officer (CFO) in public service organisations.

As the organisation's most senior position charged with leading and directing financial strategy and operations, the CFO is responsible for ensuring that their organisation controls and manages money well and that strategic planning and decision making is supported by sound analysis. In the public service context, the CFO must also meet the demands of openness and accountability in decision making, balance competition for limited resources across a range of objectives, deliver value for money and safeguard taxpayer's money. Delivering these requires a range of personal qualities, as well as support from both the finance function and the organisation as a whole. It is these expectations, combined with the personal qualities and leadership skills needed for them to be met, that have shaped the CIPFA Statement.

The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. For each principle the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. It also sets out the core responsibilities of the CFO role, as well as the leadership skills and technical expertise required of the individual officer.

**Audit Opinion**

We have based our opinion on discussions with the Head of Finance and Assets (Section 151 Officer), current governance arrangements within the Council and a review of key documentation. The table below sets out the 5 principles of the CIPFA Statement, as well as the 15 key elements underpinning these.

In the main, we are satisfied that the Council's current arrangements around the role of the Section 151 Officer comply with the requirements of the CIPFA Statement. Therefore, we award a high assurance rating.

| The CFO in a public service organisation: | | |
|---|---|---|
| **Principle 1** | | |
| **…is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.** | | |
| | **Compliant (Y/N or Partly)** | **Comment** |
| Key member of the Leadership Team | Yes | |
| Developing and implementing organisational strategy | Yes | |
| Helping resource and deliver organisational objectives | Yes | |
| Delivering the organisation's strategic objectives sustainability and in the public interest | Yes | |
| **Principle 2** | | |
| **…must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy.** | | |
| | **Compliant (Y/N or Partly)** | **Comment** |
| Responsibility for financial strategy | Yes | ***Note***: Our review of the Head of Finance and Assets' job description showed that while it covers all of the key responsibilities of a CFO identified in the CIPFA Statement, it does not include up to date information regarding service structure and coverage. |
| Influencing decision-making | Yes | |
| Providing appropriate financial information for decision-makers | Yes | |
| **Principle 3** | | |
| …**must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively** | | |
| | **Compliant (Y/N or Partly)** | **Comment** |
| Promotion and delivery of good financial management | Yes | ***Note***: recent Internal Audit reviews of key financial systems have not identified any significant risks or weaknesses in internal control. |

| | | |
|---|---|---|
| Ensuring value for money | Partly | Recent Internal and External Audit reviews of Construction Procurement have identified weaknesses in the current procurement arrangements. As a result, the Council is unable to demonstrate that it is achieving value for money in this area. However, we acknowledge that work to address the issues raised is currently underway. |
| Safeguarding public money | Yes | |
| Assurance and scrutiny | Yes | |
| **To deliver these responsibilities the CFO must:** | | |

| Principle 4 | | |
|---|---|---|
| **…lead and direct a finance function that is resourced to be fit for purpose** | | |
| | **Compliant (Y/N or Partly)** | **Comment** |
| Meeting the finance needs of the business | Yes | ***Note:*** while the Finance and Assets Service has developed Customer Standards, they are largely focused on external customers of the Council Tax and Housing Benefit service, rather than internal customers of the Finance service. <br><br> Nor has there been a review of the services provided by the Finance service from a customer focus perspective. <br><br> The Head of Finance and Assets advised us that he is considering doing some work in this area; however, based on feedback received from other Heads of Service, he is confident that there are no significant issues arising. |
| Appropriately developed finance skills within the organisation | Yes | |

| Principle 5 | | |
|---|---|---|
| **…be professionally qualified and suitably experienced** | | |
| | **Compliant (Y/N or Partly)** | **Comment** |
| Demonstrating professional and interpersonal skills | Yes | |
| Applying business and professional experience | Yes | |

## Assurance Rating

Based on the areas reviewed

| | | |
|---|---|---|
| ▶ | High Assurance | Risks and controls well managed |
| | Medium Assurance | Risks identified but are containable at service level |
| | Low Assurance | Risks identified that require meeting with Corporate Director/Lead Member |
| | No Assurance | Significant risks identified that require member / officer case conference |

**Appendix 3 - Internal Audit Follow up Reviews**

| Audit Report | Outcome of Follow Up |
|---|---|
| Public Conveniences | • 5 of 7 actions due for completion addressed<br>• 2nd follow up in progress – awaiting response from service |
| ICT Operations Management | • 10 actions due for completion addressed<br>• Remaining 5 actions in progress and due for next follow up in September 2014 |
| Welfare Advice | • 3 actions due for completion addressed<br>• Remaining 7 actions in progress and due for next follow up in September 2014 |
| Council Housing Responsive & Void Repairs | • All actions due for completion addressed or form part of the longer-term Excellent Housing project |
| Countryside Services | • 4 actions due for completion addressed<br>• Remaining 3 actions in progress and due for next follow up in December 2014 |
| North Wales Commissioning Hub | • 2 actions due for completion addressed<br>• Remaining 6 actions due for follow up in January 2015. 4 are in progress and 2 not yet commenced. |
| St. Brigid's School, Denbigh | • All 48 actions have now been addressed |
| Fire Risk Assessments | • All 16 actions have now been addressed |
| Corporate Health & Safety | • All 7 actions have now been addressed |
| Residential care & extra care housing | • All 13 actions have now been addressed |
| Deputy for Finance (Court of Protection) | • All 8 actions have now been addressed |
| West Rhyl Housing Improvement | • All actions due for completion addressed or form part of the longer-term Excellent Housing project |

# Action Plan

**Audit Review of:**     Procurement of Construction Services

**Date:**     February 2014

**Action Plan Owner:**     Head of Finance & Assets

| Corporate Risk/Issue Severity Key | |
|---|---|
| <span style="color:red">■</span> | **Critical** – Significant CET and Cabinet intervention |
| <span style="color:orange">■</span> | **Major** – intervention by SLT and/or CET with Cabinet involvement |
| <span style="color:yellow">■</span> | **Moderate** – Containable at service level. Senior management and SLT may need to be kept informed |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 1. | The Council's Procurement Strategy ran until March 2012. Setting the direction for Council procurement is vital to ensure that it is aligned with national, corporate and service requirements. A risk analysis of current spend should be assessed against the Council's requirements to show how procurement can contribute more effectively. | Develop a robust Procurement Strategy that will encompass the requirements in the latest Denbighshire Economic and Community Ambition Strategy, the Welsh Procurement Policy Statement and the Welsh Government's Construction Procurement Strategy.<br><br>Strategic Procurement Manager – January 2014 | **In progress**<br>The revision of the Procurement Strategy is currently in progress with a target to have a draft document completed by 31 March 2014 | Final version will require Council approval |
| 2. | Given the high value of construction-specific procurement across various Council services, not having a construction procurement strategy could lead to the key issues continuing without effective action and the area showing little or no improvement. In addition, the Council could suffer scrutiny if it does not adopt the National Construction Procurement Strategy. | The construction procurement strategy will be incorporated within the corporate procurement strategy. The SPU and Property Services will develop the construction procurement strategy element jointly with input from the other Council services that undertake construction procurement activity. This will need to align with the National Construction Procurement Strategy<br><br>Strategic Procurement Manager & Property Manager– January 2014 | **In progress**<br>This is on-going through the Construction Procurement Working Group. The basic premise has been established comprising<br>• 21st Century Schools Framework for OJEU works<br>• Advertising on Sell 2 Wales for project over £250K and frameworks for work below this threshold | Development of the Frameworks |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 3. | The SPU has previously identified several initiatives to improve construction procurement but little progress has been made, as resources are being pulled in different directions e.g. collaboration.<br><br>Unless a clear procurement plan is developed and prioritised, with sufficient steer from a senior level, initiatives such as introducing an e-sourcing system corporately and category leads, are likely to slip further and result in longer delays. | E-sourcing will be rolled out by March 2014 but it does not include interfaces for third party job costing systems e.g. asset management. A project plan and Verto is being used for this.<br><br>To ensure that this programme is rolled out effectively there is a need to establish a project board with a senior member of staff as chair to ensure the project plans are implemented efficiently.<br><br>Acting Strategic Procurement Manager – March 2014 | **In progress**<br>Delays in the creation of project templates and documentation have caused a slip in the expected roll-out date.  This should now commence during April 2014. Some departments are using the system on small projects with assistance from the SPU. | |
| 4. | Management information and performance measurement of construction-related spend has its limitations. This hinders the Council in identifying opportunities for price savings and cost reduction.<br><br>The introduction of a corporate e-sourcing system over the next two years promises additional tools to help management and provide continuous improvement. | The SPU will develop reports to introduce better management information to services and senior managers. E-sourcing will introduce performance information by way of customer feedback logged against each supplier.<br><br>Performance feedback will be input to the e-sourcing system and will be more transparent. The system can set reminders to prompt customers/clients to input their feedback.<br><br>As part of the 21st Century Schools procurement project, KPIs are being established to promote continuous improvement.<br><br>Acting Senior Procurement Manager – July 2014 | **Not yet due – in progress**<br>This is currently on target.  The introduction of M-Power in Finance will greatly assist this requirement. | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 5. | Awareness of and adherence to CPRs are weak in some services. For example:<br><br>• when requested, Bridges and Structures were unable to produce a signed contract for works valued over £50k<br><br>• aggregate spend on suppliers on the approved lists often exceeds £100k, but little comparison is done to make sure the Council gets value for money<br><br>There is also limited awareness that the SPU could be contacted as a source of knowledge on procurement activity.<br><br>The introduction of the e-sourcing system over the next two years along with associated training is an opportunity to reach out to service representatives and promote compliance. | Revised CPRs have been developed and are currently out for consultation. CPR awareness workshops will be held with various services to promote awareness and understanding of CPRs. Schools and Public Realm are a priority for this training due to recent cases of non-compliance.<br><br>Acting Senior Procurement Manager  - January 2014 | **In progress**<br>All comments have been correlated and issued to the individuals for further review.  The comments are now under review by Legal Services.  Once these have been received Procurement and Legal will meet to identify the issues raised.  The intention is to have a final draft copy available for 31 March 2014. | Final version will require Council approval |
| | | A Construction Procurement Working Group has been convened comprising the main construction procuring services and the SPU. This group will consider and determine what is achievable and drive forward changes in respect of framework agreements and how to deal with reactive small works procurement. This will be tied in with the new framework manager role within Property.<br><br>Acting Strategic Procurement Manager and Property Manager - Informally by August 2013 with more formal arrangements from March 2014. First group meeting held September 2013. | **Complete**<br>The working group has been established and meets monthly. It includes representation from Property, Procurement, Housing and Housing Renewals.<br>An agreed way forward in terms of reactive maintenance and asbestos removal procurement has been agreed and frameworks for these elements are being developed. There are some issues with the procurement of Housing renewals works, which are individually tendered. The procurement of works between £5K-£250K is now being considered. | Framework development on-going.<br>Review of Housing Renewal scheme procurement to determine best way forward. |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| | | HR to be requested to provide a procurement training element into the standard induction training provided to all new starters within Denbighshire.<br><br>Acting Senior Procurement Manager - October 2013 | **Complete**<br>HR has been requested to include a Procurement Awareness session into their induction training. This will be a brief explanation on CPR's and Procurement procedures. | On-going discussions with the HR Trainer to ensure this takes place. |
| 6. | The Council does not maintain a corporate contracts register, which is required for transparency and is an important management tool. Signed contracts are vital documents that should be easily accessible in case the Council needs to resolve disputes with any of its contractors.<br><br>*Note: Services may be spot purchasing goods or services but contracts specific to other departments may offer advantageous pricing if accessible.* | Each service needs to start collating a list of service specific contracts in order to populate a central contract register. This requirement is already set within the revised CPRs for Heads of Service to action. In order to capture this information, the SPU has developed a spread sheet to issue to all 'tier 1' managers to populate with details of their current contracts. The spread sheet will be issued to departments in October 2013.<br><br>Acting Senior Procurement Manager - January 2014 | **In progress**<br>Information has been received from the majority of departments and is currently undergoing review. Completion of the review by 31 March 2014 | Live contracts to be added to the Proactis e-Sourcing system when reviewed. |
| | | Create contract register for Highways & Environment.<br><br>Performance Officer – December 2013 | **No response** | |
| | | E-sourcing will have a separate contract management module and any tenders going through this will automatically be included as and when services begin using it following roll-out.<br><br>Acting Senior Procurement Manager  - July 2014 | **Not yet due – in progress**<br>Currently on target | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 7. | The Council has several different lists used for construction-related works. All have control deficiencies to different extents that could put the Council at risk of health and safety sanction, financial losses and reputation damage. There is an opportunity to combine approved lists, which should reduce errors, improve consistency and remove the duplication of their upkeep to reveal efficiencies. | The revised CPRs (out for consultation at the time of this report) reduce the limit for using approved lists for construction works to £250k (these are for individual items). It also specifies that the 'Head of Procurement' must approve the use of approved lists. Acting Senior Procurement Manager - January 2014 | **Complete** Following the establishment of the Construction Procurement Working Group the use of Approved Lists will be discontinued for the majority of services and replaced by Framework Agreements. This removes the need for the Head of Procurement to approve their use. | |
| | | Highways will review the Highways & Environment approved list to ensure that all suppliers and contractors comply with the Council's criteria for inclusion. In the medium to long term, framework agreements for highways minor works will negate the need for approved lists in this area (See Risk Issue 9). Performance Officer – November 2013 | **No response** | |
| 8. | On occasion, services and schools contract suppliers that are not on an approved list and without first consulting Property Services for advice. A contributing factor may be that they have concerns about the transparency of the costs they are being committed to without their consent or knowledge. Without clear communication channels and more cohesive working relationships, the Council and schools could fail in their obligation to maintain suitable health and safety arrangements, and poorly specified jobs could result in higher costs and | CPRs will be formulated to cover schools using the same format as the revised Council CPRs. This will give the necessary guidelines on acceptable procurement practices, with scope for sanction where there are any breaches. To support this, the SPU, Property and Internal Audit will work together to provide awareness training for schools (Finance Managers) to promote compliance. Acting Strategic Procurement Manager, Education Planning & Resource Manager, Property Manager and Head of Internal Audit – January 2014 | **In progress** The School Cluster Groups will be used to disseminate training once CPR's have been developed. Legal Services and School Improvement are currently working on a version for schools. An initial awareness session with schools Finance and Business Managers has been undertaken. | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| | inferior quality work. | Enhance the Purchasing Systems (Proactis P2P) to create additional workflow approval for construction-related purchase orders i.e. before placing an order with a supplier, a nominated construction lead will have to approve it. A prototype has been tested in Flintshire County Council.  A pilot project using the procurement of furniture will be established in this Council in October 2013. This will then be extended to other commodity areas including construction once the principle has been proved.<br><br>Acting Strategic Procurement Manager to lead, with assistance from Construction Working Group and Senior Management Accountant – April 2014 | **Not yet due – in progress**<br>Further discussion is required with Finance on this in order to create the additional workflow required. | |
| 9. | There is an opportunity for services to collaborate and pool resources to reduce costs on minor works. A framework agreement, if arranged properly, should save time and money in the long term. The challenge is to maintain a transparent and fair process that gives local suppliers (Small Medium Enterprises) an equal opportunity to win the tender. This promotes diversity and competition and ties in with the National and Council's Corporate priority of economic | The SPU will formulate a working group to develop both projects (Highways and Property minor works framework agreements). The building minor works framework agreement will be developed separately to highways but using the same method/approach (see specific action below). The working group will carry out analysis of all construction spend. Based on the analysis, procurement action plans will be developed for the different areas of spend.<br><br>Acting Strategic Procurement Manager & Construction Working Group – September 2013 | **In progress**<br>Working groups for both Highways and Property have now been established. Spend analysis is on-going at this point in time along with identification of areas of spend to establish frameworks.  The intention is to commence work on establishing frameworks for asbestos removal during April 2014 with other areas by July 2014. | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| | regeneration. | Property Services will work with the SPU business partner to develop frameworks for lower value work. Efficiencies should be possible through reducing management costs, but the cost needs to be balanced with quality and legislative compliance.<br><br>Acting Strategic Procurement Manager & Procurement Manager - Proposals will be developed by March 2014 | **In progress**<br>As above | |
| | | The Highways & Environment Service Plan for 2013-14 contains an improvement activity under Outcome 1 for "Developing a minor works framework" (HES101a). Once developed, this can be rolled out to other areas of the service.<br><br>Works Unit Manager / Performance Officer (with assistance from SPU) - Completion date for HES101a is 31 March 2014, but can possibly be brought forward should the need arise | **In progress**<br>This is currently in progress with the intention of having relevant frameworks in place by July 2014 | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
|---|---|---|---|---|
| 10. | Tendering and contract-related templates (e.g. H05s and pre-qualification questionnaires) are inconsistent and direct the selection of suppliers to be based on lowest value instead of best value.<br><br>In line with Welsh Government requirements, services need to standardise PQQs (pre-qualification questionnaires), tender and contract templates to make it easier for suppliers to tender for work. If possible, this should be in coordination with other local authorities to be most effective. | A construction procurement working group will be formed to review all current PQQ and tender documentation (including supplementary terms and conditions) and agree on a common set of construction-related documents. The Strategic Procurement Manager is developing a set of generic templates in line with the values set within the revised CPRs. These will be circulated as part of the CPR awareness training (see action again Risk Issue 8)<br><br>Acting Strategic Procurement Manager – January 2014 | **In progress**<br>This action is on target for completion by end March 2014 | |
| | | In partnership with the SPU business partner, Property Services will review forms/letters etc. used across the Council and develop a standard set of documents. These could be used as a model for use by other local authorities (consensus on the forms has proved difficult in the past).<br><br>Acting Strategic Procurement Manager & Property Manager – January 2014 | **In progress**<br>This is currently in progress and due for completion during April 2014 | |
| | | Standardise the relevant Highways & Environment documents and incorporate them into the service's ISO 9001 document control system.<br><br>Performance Officer – December 2013 | **No response** | |

| Risk/ Issue No. | Risk/Issue | Agreed Action Responsibility & Timescale | Current Status | Further Action Needed |
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| 11. | Many procurement projects fail if they are not properly planned and adequately resourced. Such problems could be minimised if better links were established between procurement and project management. A large, complex procurement exercise should not be able to progress without a sound business case and agreed procurement plan. | The SPU is developing a checklist for procurements valued over £100k and this will shortly be available as a spread sheet. These will be linked to CPRs, the project management system (Verto) and the procurement section of the business case template.<br><br>Acting Strategic Procurement Manager – October 2013 | **In progress**<br>The checklist has been completed and is now under review following comments received during the CPR consultation exercise.  This should be finalised in conjunction with the CPR's | |
| | | New CPRs state that a procurement checklist must be completed for contracts valued over £100k. The SPU must give approval and, if the construction relates to Property, HR or ICT, additional approval is required from each of the affected services. If valued less than £100k, the questionnaire should still be completed; however, the SPU approval is not required (note: approval from HR, ICT and/or Property still applies).<br><br>Acting Strategic Procurement Manager and Corporate Programme Office Manager – October 2013 | **In progress**<br>As above | |

**Appendix 4 - Internal Audit Performance 2014/15**

| *All targets 100%* |
| --- |
| **Review of agreed Statutory Assurance areas in Assurance Plan by 31/03/15** |
| We have completed 25% of the planned projects to at least draft report stage and are on target to achieve 100% by the end of the financial year. |
| **Contact customers at least 2 weeks in advance to arrange a suitable date for our visit** |
| Current performance is 100%. |
| **Send customers the agreed Project Scoping Document before we commence work** |
| Current performance is 91%, as a scoping document was not sent for one project. |
| **Send the customer a draft report within 10 working days of the closing meeting** |
| Current performance is 90%, as one draft report was issued in 17 days. |
| **Send the customer our final audit report within 5 working days of agreeing the draft** |
| Current performance is 100% |

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| **29 Sept 2014** | | **Standing Items** | |
| | | **Reports** | |
| | 1 | Approval of the Statement of Accounts 2013/14 | Head of Finance & Assets, Paul McGrady / Councillor J. Thompson-Hill |
| | 2 | Wales Audit Office Improvement Assessment Letter | Head of Finance & Assets, Paul McGrady / Councillor J. Thompson-Hill |
| | 3 | Governance Improvement Plan | Head of Internal Audit, Ivan Butler |
| | | | |
| **5 Nov 2014** | | **Standing Items** | |
| | 1 | Issues Referred by Scrutiny Committees | Scrutiny Coordinator, Rhian Evans |
| | 2 | Recent External Regulatory Reports Received | Head of Business, Planning and Performance, Alan Smith / Keith Amos |
| | 3 | Internal Audit Progress Report | Head of Internal Audit, Ivan Butler / Cllr Julian Thompson-Hill |
| | 4 | Feedback on Corporate Equality Meeting – verbal report | Councillors Martyn Holland / Hugh Evans |
| | 5 | Forward Work Programme | |
| | | | |
| | | **Reports** | |
| | 6 | Budget Process 2015/16 | Head of Finance & Assets,  Paul McGrady |
| | 7 | Data Protection – Management of Requests | Corporate Information Manager / Craig Berry |
| | 8 | Risk Management Policy | Head of Business, Planning and Performance, Alan Smith / Nicola Kneale |
| | 9 | Internal Audit Report - Welfare Reforms | Head of Internal Audit, Ivan Butler |
| | 10 | Financial Payment to Care Leavers - Update | Head of Internal Audit, Ivan Butler |
| | 11 | Staff Survey Issues | Head of Internal Audit, Ivan Butler |
| | 12 | Fraud & Corruption Policy | Head of Legal and Democratic Services / Gary Williams |
| | 13 | New Model Constitution | Head of Legal and Democratic Services / Gary Williams |
| | 14 | Contract Procedure Rules | Head of Legal and Democratic Services / Gary Williams |

| | 15 | Member Training | Head of Legal and Democratic Services / Gary Williams |
|---|---|---|---|
| | 16 | Annual Review of Operation of Complaints Process | Head of Customers & Education Support / J. Walley |
| | 17 | Reports of Complaints Received | Head of Customers & Education Support / J. Walley |
| | | | |
| **17 Dec 2014** | | **Standing Items** | |
| | 1 | Issues Referred by Scrutiny Committees | Scrutiny Coordinator, Rhian Evans |
| | 2 | Recent External Regulatory Reports Received | Head of Business, Planning and Performance, Alan Smith / Keith Amos |
| | 3 | Feedback on Corporate Equality Meeting – verbal report | Councillors Martyn Holland / Hugh Evans |
| | 4 | Forward Work Programme | |
| | | | |
| | | **Reports** | |
| | 5 | Budget Process 2015/16 | Head of Finance & Assets, Paul McGrady |
| | 6 | Governance Improvement Plan | Head of Internal Audit, Ivan Butler |
| | | | |
| **28 Jan 2015** | | **Standing Items** | |
| | 1 | Issues Referred by Scrutiny Committees | Scrutiny Coordinator, Rhian Evans |
| | 2 | Recent External Regulatory Reports Received | Head of Business, Planning and Performance, Alan Smith / Keith Amos |
| | 3 | Internal Audit Progress Report | Head of Internal Audit Services, Ivan Butler / Cllr Julian Thompson-Hill |
| | 4 | Feedback on Corporate Equality Meeting – verbal report | Councillors Martyn Holland / Hugh Evans |
| | 5 | Forward Work Programme | |
| | | | |
| | | **Reports** | |
| | 6 | Budget Process 2015/16 | Head of Finance & Assets, Paul McGrady |
| | 7 | Treasury Management Strategy Statement and Prudential Indicators 2015/16 | Head of Finance & Assets, Paul McGrady |

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| | 8 | Treasury Management Annual Report 2014/15 | Head of Finance & Assets, Paul McGrady |
| | 9 | Corporate Risk Register Review | Head of Business, Planning and Performance, Alan Smith / Nicola Kneale |
| | | | |
| **25 March 2015** | | **Standing Items** | |
| | 1 | Issues Referred by Scrutiny Committees | Scrutiny Coordinator, Rhian Evans |
| | 2 | Recent External Regulatory Reports Received | Head of Business, Planning and Performance, Alan Smith / Keith Amos |
| | 3 | Feedback on Corporate Equality Meeting – verbal report | Councillors Martyn Holland / Hugh Evans |
| | 4 | Forward Work Programme | |
| | | | |
| | | **Reports** | |
| | 5 | Budget Process 2016/17 | Head of Finance & Assets, Paul McGrady |
| | 6 | Governance Improvement Plan | Head of Internal Audit, Ivan Butler |
| | 7 | Internal Audit Strategy | Head of Internal Audit, Ivan Butler |
| | 8 | Reports of Complaints Received | Head of Customers & Education Support / J. Walley |
| | 9 | Information Management Strategy, Freedom of Information Report | Corporate Information Manager / Craig Berry |
| | | | |
| **20 May 2015** | | **Standing Items** | |
| | 1 | Issues Referred by Scrutiny Committees | Scrutiny Coordinator, Rhian Evans |
| | 2 | Recent External Regulatory Reports Received | Head of Business, Planning and Performance, Alan Smith / Keith Amos |
| | 3 | Internal Audit Progress Report | Head of Internal Audit, Ivan Butler / Cllr Julian Thompson-Hill |
| | 4 | Feedback on Corporate Equality Meeting – verbal report | Councillors Martyn Holland / Hugh Evans |
| | 5 | Forward Work Programme | |
| | | | |
| | | **Reports** | |

| | 6 | Budget Process 2016/17 | Head of Finance & Assets, Paul McGrady |
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NB The exact date of publication of occasional reports by for example Wales Audit Office or Annual Reports by the Ombudsman are not presently known.  They will be assigned a meeting date as soon as practicable.

By virtue of paragraph(s) 14, 15 of Part 4 of Schedule 12A
of the Local Government Act 1972.

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