

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	NPDO
AUDIT DATE	AUGUST 2014

2014/2015



1. BACKGROUND

A review of Non Profit Distributing Organisation (NPDO) contract monitoring arrangements within Customer Services has been planned as part of the 2014/15 Internal Audit programme.

The Special Projects Team (SPT) is comprised of four staff, Quality Improvement Officer (QIO), Finance Manager, Resource Worker and Administration Assistant. Its general remit is to assist Council services to deliver effective and efficient solutions to large scale, sensitive or intractable service issues. The SPT also has the direct remit for contract management and development of the schools NPDO contract. As part of this work the SPT has concentrated on minimising the cost of the contract to the Council whilst ensuring the required service levels are achieved.

Since 2006 the core business of the SPT has been the management of the schools NPDO contract with the Council's partner, ABC Schools. Between 2006 and 2008 this largely encompassed overseeing the construction and design development of the NPDO schools. Since 2008 the SPT shifted focus from building related issues to those associated with operating the facilities and contractual provisions related to that.

This has included:

- Liaising with the schools and ABC Schools through regular contractual meetings to anticipate and address issues relating to settling in;
- Operating the contractual mechanisms to ensure that ABC Schools' performance levels have been maintained. This has included applying the deduction mechanism where appropriate;
- Managing and reporting on the long term affordability of the project as circumstances have changed (e.g. late handovers, increased NDR and utility costs, etc.);
- Minimising the legal and financial risk to the Council arising from instances of poor performance by the contractor (e.g. Sports centre roof, external works handover, etc.);

- Identifying opportunities for additional efficiencies through operation of contractual mechanisms where appropriate (e.g. Insurance premium sharing, change in law provisions), and;
- Looking at possible refinancing of the project.

2. SCOPE AND OBJECTIVES

The audit scope and objective is to assess if a robust contract monitoring and payment process is in place which;

- Allows performance and availability of asset(s) to be assessed;
- Allows for accurate payments to be made; and
- All records are maintained and referenced and recorded appropriately.

3. RISKS IDENTIFIED

The audit scope for examination of risk is as undernoted:

- Contract compliance checking is inadequate leading to inaccurate payments being made;
- Information is not available or recorded appropriately to allow performance or availability of asset to be assessed;
- Buildings are not fit for purpose impacting on service outcomes, and;
- Council does not maximise opportunities for contract efficiencies.

4. AUDIT OPINION

The level of assurance given for this report is High.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p>
<p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p>
<p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>

5. FINDINGS

A copy of the Special Projects Procedural manual was obtained which detailed all the documentation, meetings and processes carried out by the Special Projects Team. Corresponding documentation detailed in the manual was obtained from the SPT to ensure that processes outlined in the manual were being adhered to and reflected the audit requirements as per the scope and objectives outlined above. The findings are as follows:

- A robust contract monitoring procedure is in place with regular interaction taking place between the Special Projects Team and ABC schools and MITIE PFI (Service Provider).
- Records and supporting schedules were found to be comprehensive and accurate and made full reference back to the appropriate contract performance criteria.
- Detailed financial contract monitoring protocols are in place and it was evidenced that deductions in relation to availability of service and for performance are being actively managed. Correspondence with both ABC schools and MITIE as regards settlement of these claims has been reviewed to ensure that all necessary means have been pursued to ensure that the deductions are agreed by all parties.
- Periodic long term affordability forecasts are prepared in relation to potential future cost pressures such as Non Domestic Rates, utility costs and general Retail Price Index (RPI) as the Council is liable for any variation in these costs.

6. CONCLUSION

This audit has provided a High level of assurance. There was one low recommendation for improvement identified as part of the audit and this is set out in Appendix 1. Appendix 1 sets out the action management have agreed to take as a result of the recommendation, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Customer Services staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1

ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedures and guidelines		High/ Medium or Low		
<p>Communication: Each school has a point of contact person who acts as a liaison between the school and the SPT to ensure that issues raised by the school/team are progressed effectively and efficiently by MITIE. While the head teacher is regularly advised that issues have been resolved, notification to the special contacts persons that issues have been resolved is carried out on an Ad-Hoc basis by the SPT.</p>	<p>Failure to communicate that issues raised are being addressed or have been resolved.</p>	<p>Low</p>	<p>Include the point of contact person at each NPDO school in communication with the Head Teacher in notification to the Head Teacher of issues resolved to reduce the risk that faults are overlooked.</p>	<p>QIO – Special Projects Team 30 September 2014</p>

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