

Argyll and Bute Council
Internal Audit Report
June 2018
FINAL

ICT Service Level
Agreements

Audit Opinion: ***Substantial***

	High	Medium	Low
Number of Findings	0	1	1

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1. Executive Summary

Introduction

1. As part of the 2017/18 internal audit plan, approved by the Audit & Scrutiny Committee in March 2017, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to ICT Service Level Agreements (SLAs).
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. In late 2016 Grant Thornton, on behalf of Internal Audit, undertook an IT needs assessment to inform future IT audit plans. The information obtained during this exercise was documented and risk assessed to identify areas of concern to the Council. One of the risk areas identified was SLAs.
5. SLAs provide clarity about what is required of a contractor and is a legally enforceable part of a contract. Therefore, at the outset of the operational period of a contract, the responsible manager needs to ensure that robust processes are in place for the management, monitoring and evaluation of performance with corrective action taken as necessary.
6. The Council's procurement team informally define a contract as being a legally enforceable agreement between the commissioner and the other party where the other party agrees to provide services in return for payment. They define an SLA as an element within a contract that defines the performance standards the provider is obliged to meet. Whilst procurement have a central register of the Council's external contracts, which includes those with embedded SLAs, there is no central register of SLAs which are not embedded in contracts.
7. The Council's Information and Communications Technology (ICT) service have SLAs in place for services provided to external bodies, for example for ICT support services provided to LiveArgyll. ICT do not have SLAs in place for the internal service provided to Council departments, instead these are allocated an ICT client liaison officer (CLO) who performs the client management role for that department. Governance is provided through the ICT Steering Board which reports to the Strategic Management Team (SMT).

Scope

8. The scope of the audit was to ensure appropriate procedures are in place to manage SLAs effectively with contractor performance monitored and evaluated regularly. This was done through the sampling of the following SLAs:

- Oracle – support provided by PDG for financial management and payables
- CareFirst – support provided by OLM for social work
- ResourceLink - support provided by NGAHR for human resources and payroll
- CIVICA – support provided by CIVICA for document management
- Live Argyll – support provided by the Council for all ICT infrastructure.

9. It also considered whether there may be benefit in a more centralised approach to the management of SLAs as outlined in the terms of reference agreed with the Head of Customer and Support Services on 15 May 2018.

Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion are provided in Appendix 2 to this report.
11. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Key Findings

12. We have highlighted one medium priority recommendation and one low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- A retrospective contract variation should be requested from OLM in relation to the CareFirst application.
 - Consideration should be given to the potential benefits of centralising the administration of SLAs including the creation of a centralised SLA database.
13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	There is adequate guidance and training provided to staff to support the negotiation and creation of SLAs.	High	There is a comprehensive Procurement Manual which provides guidance on key areas and CLOs have completed relevant LEON training.
2	SLAs are in place that document	Substantial	SLAs were provided for all service

	appropriate and measurable performance elements.		providers that documented appropriate measures for monitoring of performance.
3	Services provided under SLAs are appropriately monitored to ensure quality of service, that payments are only made for delivered services, and appropriate action is taken when services are not delivered as agreed.	Reasonable	SLAs and/or formal contract variations are in place for all but one system that was reviewed. Performance monitoring is in place which is proportionate to the level of risk associated with the contracts. Payments made were consistent with SLAs, contract variations and quotes.
4	The Council has adequate procedures in place to provide corporate visibility of all contracts (including SLAs) in place at any point in time and also forward plans for review or renewal.	Substantial	Services provided to the Council are subject to long-term contracts and are currently operating within contract variations renewed every two to three years. SLAs are embedded within each contract. There is no central management of SLAs in place.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There is adequate guidance and training provided to staff to support the negotiation and creation of SLAs

16. The Procurement Manual, available to all staff on the HUB, provides appropriate guidance and complements and expands on instructions provided in the Council's Constitution. It is comprehensive and provides guidance on initial planning stage through advertising or renewal, contract and supplier management, performance review and exit strategy.
17. CLOs have completed mandatory procurement training modules on the Council's online learning environment "LEON". There is a trained and dedicated procurement team with whom the CLOs work closely when contracts and their variations are due for renewal.

SLAs are in place that document appropriate and measurable performance elements

18. There were SLAs in place for all five ICT related contracts reviewed. They were comprehensive, providing descriptions of the services to be provided, hours of availability, response target times, responsibilities of both parties to the SLA, exclusions to service provision (e.g. bank holidays) and escalation process.
19. Copies of the current SLA or contract variation were provided for four of the five systems reviewed. There is currently no formal contract variation in place to support the services provided by OLM in relation to the CareFirst application. Current payments to OLM are based on the offer and acceptance of a quote for support service, however no formal evidence of this quote could be provided by Social Work. ICT should be engaged in this process and a retrospective formal contract variation should be requested from OLM to ensure the existing

service provision is consistent with the original contract and that future payments are consistent with the costs agreed in the contract variation.

Action Plan 1

20. The Oracle SLA details the effective date and duration of the SLA and the associated costs. Costs are not stipulated for the ICT support provided by the Council to Live Argyll as these are provided at zero cost. For ResourceLink and CIVICA systems, review dates and current costs are detailed in separate contract variations that are agreed by relevant personnel. As the CareFirst agreement is operating without a formal contract variation we are unable to provide assurance that costs and duration were agreed and documented.
21. Where appropriate, performance standards are documented in each of the SLAs. These confirm that support calls will be answered, prioritised and appropriately resolved in a timely manner.

Services provided via an SLA are appropriately monitored to ensure quality of service, that payments are only made for delivered services, and appropriate action is taken when services are not delivered as agreed

22. The Procurement Manual provides clear guidelines on the setting up of contracts to ensure that performance levels can be monitored. A formal process for performance monitoring of high risk contracts is outlined in the Procurement Manual with a high risk contract defined as “*Where the failure or delivery would affect the strategic outcomes or have a significant effect on the delivery which relates to the risk analysis in the sourcing strategy*”. The ICT systems reviewed are considered medium risk and therefore the performance monitoring applied to them is of a less rigorous nature requiring a minimum of one review meeting per annum to discuss quality, service, delivery and cost. This is considered an acceptable approach as it applies a proportionate risk based approach to contract / SLA management.
23. The table below sets out the current performance monitoring arrangements for each of the five SLAs reviewed and confirms they exceed the minimum requirement as established by the Procurement Manual.

Supplier	System	Performance Monitoring Arrangements
NGHAR	ResourceLink	NGHAR provide access to an extranet site allowing the Council to review the status of logged calls. Outstanding items are discussed at ResourceLink change management meetings and escalated to management where required.
OLM	CareFirst	OLM do not provide performance reports as a matter of course however they are available on request. Quarterly meetings between OLM and the Council have recently commenced allowing outstanding support requests to be discussed. These requests are infrequent.
PDG	Oracle	PDG have monthly review support meetings with the ICT CLO. Performance is reviewed as part of that meeting.
CIVICA	CIVICA	CIVICA have regular account meetings with ICT where performance is discussed.
A&B Council	Live Argyll	There are regular meetings between Live Argyll and the Council’s special projects team at which performance is discussed.

24. Payments made to suppliers are consistent with the terms set out in the SLAs and contract variations and allow for inflationary uplift where relevant. The Council’s procurement system

“PECOS” is used to process most of the payments to the support providers and this ensures appropriate management review and authorisation is in place. Other payments have been processed via the Council’s creditors team with appropriate manual authorisation controls in place.

The Council has adequate procedures in place to provide visibility of all SLAs in place and enable effective management of review and renewal

25. The Live Argyll operating license is for a ten year term, however any proposed material deviations from the services agreed in the SLA will be considered on a case by case basis. The other four SLAs reviewed are subject to long-term contracts with three currently operating within contract variations and one to be put in place. Contract variations are renewed every two to three years with option to extend for a further year where relevant.
26. There is no centralised database of SLAs that the Council has committed to. SLAs embedded in contracts are maintained in a central contract database however there are other SLAs which are not embedded in contracts. Management should consider centralising the administration of SLAs including the creation of a centralised SLA database. This would help ensure a standard approach to performance monitoring, ensure contract renewals are managed effectively and provide greater transparency over committed expenditure which may assist in future budget decisions.

Action Point 2

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	OLM / CareFirst Contract Variation There is no formal contract variation in place with OLM to provide support for the CareFirst system. ICT should be engaged in this process and a retrospective formal contract variation should be obtained to ensure the existing service provision is consistent with the original contract and that future payments are consistent with the costs agreed in the contract variation.	Lack of formal agreement may lead to misunderstandings over terms and conditions, payment amounts and review dates.	A formal contract variation will be obtained from OLM which covers the current contracted period and is consistent with the terms and conditions of the original contract.	ICT Project & Liaison Manager 31 October 2018
Low	2	Centralised Administration of SLAs Management should consider centralising the administration of SLAs including the creation of a centralised SLA database. This would help ensure a standard approach to performance monitoring, ensure contract renewals are managed effectively and provide greater transparency over committed expenditure which may assist in future budget decisions.	The Council may not achieve value for money for services provided through a SLA.	Consideration will be given to the potential benefits of centralising the management of SLAs and a report with a recommendation will be submitted to the Strategic Management Team for their consideration.	Procurement & Commissioning Manager 31 October 2018

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.