



Dacorum Borough Council

Final Internal Audit Report

Community Contracts

January 2018

This report has been prepared on the basis of the limitations set out on page 8.

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Key Dates:

Date of fieldwork: Sept/Oct 2017
Date of draft report: Nov/Dec 2017
Receipt of responses: January 2018
Date of final report: January 2018

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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2017/18, we completed a risk based audit of the processes in place for Community Contracts.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Community Contracts, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Service and Performance Expectations, Contractor’s Performance Management, and Payments.

Summary Assessment

Our audit of the Council’s internal controls operating over Community Contracts found there is a sound system of internal control designed to achieve the system objectives. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Community Contracts is shown in Section 3.

1.3. Key Findings

We have raised one priority 2 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Contractors Performance Management – Meeting Records (Priority 2)

Whilst it is positive that only one Priority 2 recommendation has been raised, there were some areas where further work is required to ensure robust contract management, particularly in respect of performance monitoring framework to monitor whether the desired outcomes have been achieved as a result of the services provided by the contractors. However, we have taken into consideration steps already being taken by the Council and also its plan to further develop

the performance framework. We have therefore not raised specific recommendations regarding the following areas:

- As agreed in advance by all parties, no Key Performance Indicator (KPI) targets have yet been finalised, as the contractors are to use first-year performance to establish baseline data. Performance data has been provided by contractors during the first year and the data will be compiled once the contract reaches its first year anniversary and a year-end report is produced to help set and agree targets with the contractors.
- The contractors provide quarterly monitoring reports. Performance information is not yet to be used as a KPI, however it will be used for performance measurement. The Council has created a new staff post, a role which includes data collection and analysis, and is at present in the process of producing spreadsheets for the contractors to populate each quarter with their performance information. This will then be imported to the Council's Rocket system to assess performance against each KPI.
- Of five quarterly invoices sampled, two had been paid later than specified by the contractor. We were informed that this was due to purchase orders being raised for the annual value of the contract, then being closed when set against the first quarterly invoice. Quarterly purchase orders are now being raised to prevent this issue from recurring.
- For the Reducing Social Isolation contract, spreadsheets are provided showing each service offering's usage and demographic statistics. An "Impact assessment evidence" field includes spaces for feedback from questionnaires, surveys, and reports, however none of these contain entries. The performance requirements of the contract specify that a six-monthly satisfaction survey should be produced. We were informed that the Council had agreed with the contractor that the satisfaction survey could be postponed during the first-year of the contract, as with the overall decision to introduce more rigorous contract monitoring in the contracts' second years, as the priority was to manage other elements of data collection. A satisfaction survey to gauge service user feedback is intended to constitute part of the finalised KPI framework.

Following the conclusion of the first year of the contracts, Internal Audit will follow up the above areas to confirm that they have been addressed.

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.4. **Management Response**

We received the management response in a timely manner, and this has been included in the main body of the report.

1.5. **Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Community Contracts, with regards to the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

Service and Performance Expectation

Required level of service standards (such as Service Level Agreement, Key Performance Indicators or any other performance measures) have been defined and agreed to by the Council and contractors to ensure that the expectations of both parties are fully understood and met.

Contractor's Performance Management

Performance of the contractors is monitored regularly with prompt interventions where required to ensure that the contractor fully deliver the required services to a satisfactory standard and the required service outcomes are achieved. A mechanism is in place (or a planned) to assess end user's satisfaction of the services received and outcome achieved as a result of the services received.

Payments

Payments to contractors are made in a complete, accurate and timely manner.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Service and Performance Expectation			
Contractor's Performance Management			Recommendation 1
Payments			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Contractors Performance Management – Meeting Records (Priority 2)

<p>Recommendation</p> <p>Before a meeting, an agenda should be circulated where possible to ensure that participants are able to contribute fully.</p> <p>Meeting minutes should be recorded in sufficient detail to identify:</p> <ul style="list-style-type: none"> • The names and job roles of all attendees; • The nature of discussion points; • Any actions agreed; • Deadlines and criteria for these actions; and • The person(s) responsible for implementing any such actions. <p>Agreed deliverables should be listed in an action log as part of meeting records, and this should be monitored to record progress or implementation.</p>
<p>Observation</p> <p>Monitoring meetings should take place in order to identify areas of concern and opportunities and manage performance against objectives.</p> <p>For all five Community Contracts, quarterly monitoring meetings are held in order to discuss contractor performance. These are informed by contractor performance reports as well as any other matters attendees wish to address.</p> <p>Meeting records were requested for each of the five Community Contracts, comprising seventeen meetings in total. Of these:</p> <ul style="list-style-type: none"> • In two cases, there was no record of an agenda being circulated in advance. In one instance this was for a mobilisation meeting and we were informed that no agenda was required; • None of the fifteen minutes found listed the persons who attended the meeting; and • For all of the fifteen available minutes, there was no summary action plan recorded. Actions were discussed, and are recorded briefly, however these do not for all cases clearly set out requirements, deadlines, or responsible person(s). <p>Where the discussions that take place during monitoring meetings are not detailed clearly, with summaries of discussion, agreed actions, and responsibilities recorded, there is a risk that agreed actions may not be implemented, or recurring issues may not be identified and addressed promptly.</p>
<p>Responsibility</p> <p>Community Partnerships Team Leader</p>
<p>Management response / deadline</p> <p>We welcome the recognition that the Community Partnerships Team is employing a sound system in the way these community contracts are being managed. The first year of contract management has been used to establish and cement new working relationships as we have moved from a grant giving process to a contractual relationship, as well as using the data collected to help create robust and evidence based performance targets for year 2 of the contract. The performance management approach in year 1 (including meetings) has been very successful and it has provided beneficial for both parties with actions been taken to ensure the contracts are working as expected. The recommendation of the agenda and meeting note template is accepted (and has been implemented) as this should only add to the usefulness of the meetings going forward.</p>

Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B - Staff Interviewed

The following personnel were consulted:

- Alex Care – Community Partnerships Team Leader
- Jackie Doyle - Accountant

We would like to thank the staff involved for their co-operation during the audit.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

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