



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 15 FEBRUARY 2012
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of the meeting held on 21 September 2011 (previously circulated).

3. **Items of Urgent Business authorised by the Chairman**

4. **Declarations of Interest**

5. **Audit Committee Terms of Reference – Composition of the Committee** (Pages 1 - 3)

Report of Head of Governance

6. **Annual Audit Letter 2010/11** (Pages 4 - 10)

Report of KPMG

(All Councillors have been invited to attend for this item.)

7. **Local Government Ombudsman**

The Local Government Ombudsman, Mrs. Seex, will make a presentation to Members on how complaints are investigated and discuss complaint handling in general.

8. **Internal Audit Monitoring** (Pages 11 - 15)

Report of Internal Audit Manager

9. **Results of Internal Audit Work** (Pages 16 - 20)

Report of Internal Audit Manager

10. **Anti-Fraud, Bribery & Corruption Policy** (Pages 21 - 33)

Report of Internal Audit Manager

11. **Exempt Items**

The following report is public, but Appendices B, C and D are exempt under the Local Government Act 1972, as they contain information relating to the financial or business affairs of a particular person (including the authority holding that information).

The Committee is recommended to pass the following recommendation in relation to consideration of Appendices B, C and D:

“That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for consideration of Appendices B, C and D, on the ground that it could involve the possible disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of that Act.”

Members are reminded that, whilst Appendices B, C and D have been marked as exempt, it is for the Committee itself to decide whether or not to consider them in private or in public. In making the decision, Members should consider the relevant paragraph of Schedule 12A of the Local Government Act 1972, and should balance the interests of individuals, or the Committee itself, in having access to information. In considering their discretion, Members should also be mindful of the advice of Council Officers.

12. **RMS Planned Maintenance - Hala Flats Rendering Project (Pages 34 - 58)**

Report of Internal Audit Manager and Head of Environmental Services

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Malcolm Thomas (Chairman), Jon Barry, Geoff Knight, Richard Newman-Thompson, Ian Pattison, Vikki Price and Peter Williamson

(ii) Substitute Membership

Councillors Roger Dennison, Tim Hamilton-Cox, Geoff Marsland, Sylvia Rogerson, Susan Sykes and David Whitaker

(iii) Queries regarding this Agenda

Please contact Jane Glenton, Democratic Services - telephone (01524) 582068, or email jglenton@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary, telephone (01524) 582170, or email memberservices@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on Tuesday, 7 February 2012.

AUDIT COMMITTEE**Audit Committee Terms of Reference –
Composition of the Committee****15 February 2012****Report of Head of Governance****PURPOSE OF REPORT**

To remind Members of the composition requirements of the Committee with regard to chairing and to ask the Committee to appoint a vice-chairman who is not a Member of the Cabinet or Overview and Scrutiny.

This report is public**RECOMMENDATIONS OF THE HEAD OF GOVERNANCE**

- (1) That the Committee notes the requirement in its terms of reference which states that the Committee must not be chaired by a Member of Overview and Scrutiny.
- (2) That the Committee appoint a vice-chairman who is not a Member of Overview and Scrutiny or Cabinet, in line with the requirements in the Constitution.

1.0 Introduction

- 1.1 The Terms of Reference for this Committee are set out in Part 3, Section 8 of the Council's Constitution and include the composition, as follows:-

7 Members of the Council on a PR basis, Chairman and Members of the Committee appointed by Council annually. The Chairman must not be a member of Cabinet or Overview and Scrutiny. Changes can be made by Council during the course of the year.

- 1.2 At the first meeting of the Committee this municipal year, Councillor Ian Pattison was elected Vice-Chairman. At the time, it was not noted that Councillor Pattison was also a Member of the Overview and Scrutiny Committee and therefore ineligible to chair meetings of the Audit Committee.

2.0 Additional Background Information

- 2.1 It might be useful to explain the background to the requirement which limits the appointment of the Audit Committee Chairman/Vice Chairman to non-executive, non-scrutiny Members only. The stipulation was added to the Constitution by Council in April 2007 on the recommendation of this Committee, in line with CIPFA guidance that the Chairman of a local

authority's Audit Committee should, expressly, not be a Member of the Executive or Scrutiny.

3.0 Proposal Details

3.1 That the Committee elect a new vice-chairman who is not a Member of the Cabinet or Overview and Scrutiny to ensure that the Committee is always chaired in line with the Constitutional requirements.

3.2 The current Membership of the Committee therefore precludes Councillors Barry, Newman-Thompson and Ian Pattison from appointment as Members of Cabinet, Budget and Performance Panel and the Overview and Scrutiny Committee, respectively.

4.0 Details of Consultation

4.1 No consultation has taken place.

5.0 Options and Options Analysis (including risk assessment)

	Option 1: To elect a new vice-chairman who is not a Member of Cabinet or Scrutiny.	Option 2: Not to elect a new vice-chairman.
Advantages	In line with the Council's Constitution and CIPFA guidance.	Removes the need to nominate and vote at the meeting.
Disadvantages	None identified.	Contrary to the Council's Constitution and CIPFA guidance.
Risks	None identified.	Should the vice-chair take the chair for any reason, the Committee would be constituted incorrectly.

5.1 Option 1 is the officer preferred option.

5.2 Members are advised that, whilst it is within the Committee's remit to recommend to Council that this requirement be removed from the terms of reference of the Audit Committee, this would be contrary to CIPFA guidance and may leave the Committee open to challenge regarding its independence.

6.0 Conclusion

6.1 The Committee is asked to make the necessary change of appointment to vice-chair to satisfy the Constitutional requirements.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) None.</p>
<p>LEGAL IMPLICATIONS The Council must exercise all its powers and duties in accordance with the law and the Council's Constitution. The current vice-chairman is precluded from chairing Audit Committee meetings by virtue of his membership of the Overview and Scrutiny Committee.</p>

FINANCIAL IMPLICATIONS

There are no financial implications as a result of this report.

OTHER RESOURCE IMPLICATIONS

Human Resources:

None.

Information Services:

None.

Property:

None.

Open Spaces:

None.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Agenda and minutes of the Audit Committee
24 January 2007.

Agenda and minutes of Council 18 April
2007.

Contact Officer: Debbie Chambers

Telephone: 01524 582057

E-mail: dchambers@lancaster.gov.uk

Ref:



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Annual Audit Letter 2010/11

Lancaster City Council

26 October 2011

The contacts at KPMG
in connection with this
report are:

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Page

Report sections

- Headlines

2

Appendices

1. Summary of reports issued

4

2. Audit fees

5

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Stephen Clark, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, telephone (minicom) 020 7630 0421.

This report summarises the key findings from our 2010/11 audit of Lancaster City Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2010/11 financial statements and the 2010/11 VFM conclusion.

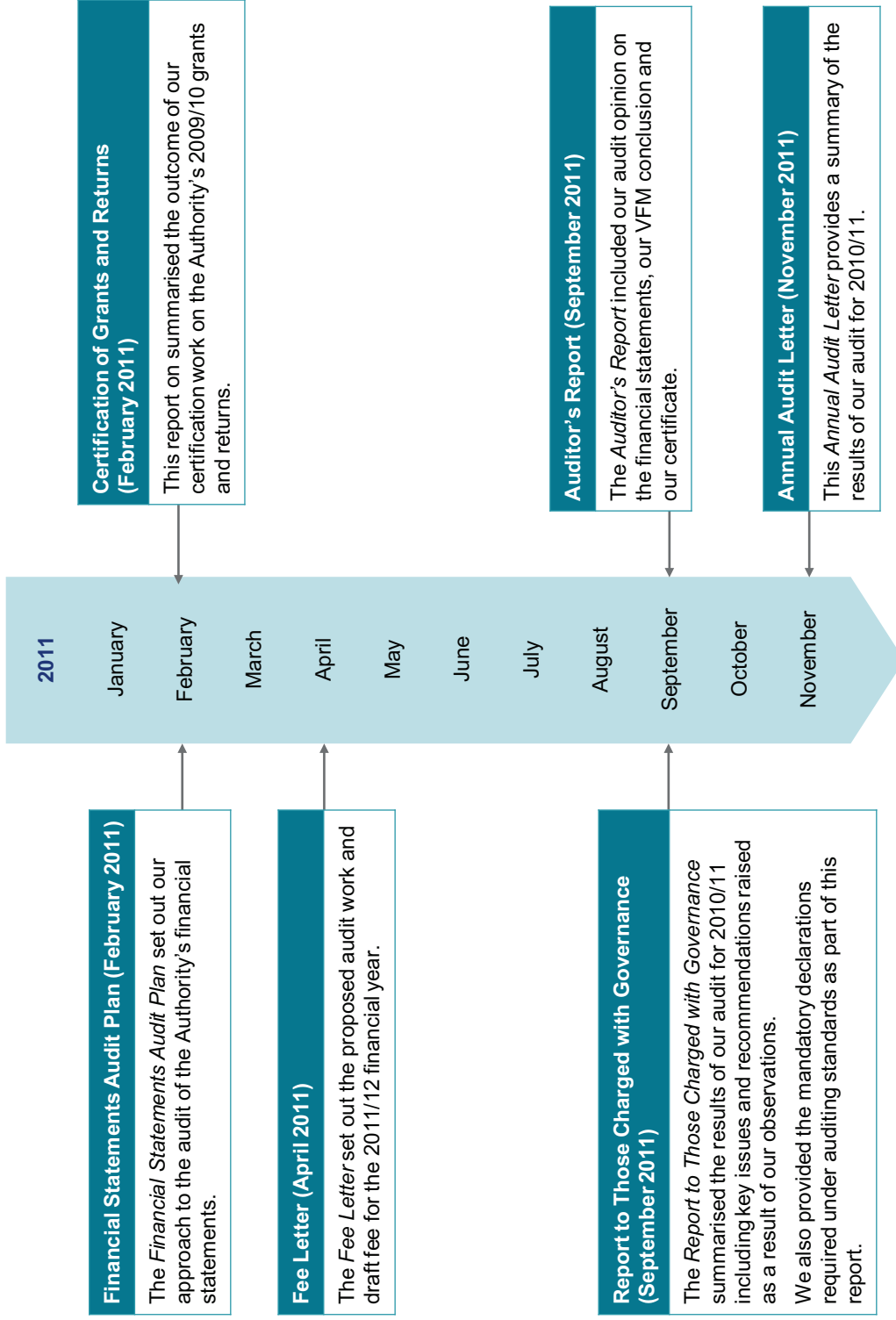
<p>VFM conclusion</p>	<p>We issued an unqualified value for money ("VFM") conclusion for 2010/11 on 30 September 2011. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<p>VFM risk areas</p>	<p>We identified one significant risk to our VFM conclusion in relation to the financial pressures faced by the Authority following the Comprehensive Spending Review (CSR). This was detailed in our Audit Plan for 2010/11. Our work considered the arrangements you have put in place to mitigate the identified risk.</p> <p>Our work identified that the Authority had undertaken planning ahead of the outcomes of the CSR, which meant that many of the savings options had been identified for 2011/12.</p> <p>The Authority had a change in political leadership following the May elections. It will be critical for the new leadership to determine what its priorities are for the 2012/13 financial year. This will give clarity to the decision making process (for example, regarding the redirection of resources) so that the Authority can set a balanced budget. The budget savings requirement for 2012/13 was originally expected to be around £1 million.</p>
<p>Audit opinion</p>	<p>We issued an unqualified opinion on your financial statements on 30 September 2011. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
<p>Financial statements audit</p>	<p>Our audit identified one material audit adjustment to correct a duplicated entry. The adjustment was presentational in nature and was in relation to the Collection Fund. The impact of the adjustment has increased the income and expenditure within the Collection Fund by £1.8 million, with no impact on the Fund's net balance. There was no impact on the general fund or net assets.</p> <p>We also requested a number of presentational changes to the notes to the financial statements.</p>
<p>Annual Governance Statement</p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

High priority recommendations	We raised a number of control recommendations during the course of our audit. Implementation of these will strengthen the Authority's control environment. None of the recommendations raised were deemed to be critical (high priority) to the operation of the Authority. We will follow up on the Authority's progress in implementing our recommendations as part of the 2011/12 audit.
Certificate	We issued our certificate on 30 September 2011, alongside the audit opinion and VFM conclusion. The certificate confirms that we have concluded the audit for 2010/11 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2010/11 was £139,288, excluding VAT. This was higher than our original plan, as we were required to undertake work in response to queries raised by electors within the area. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2010/11.

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2010/11 planned external audit fee.

External audit

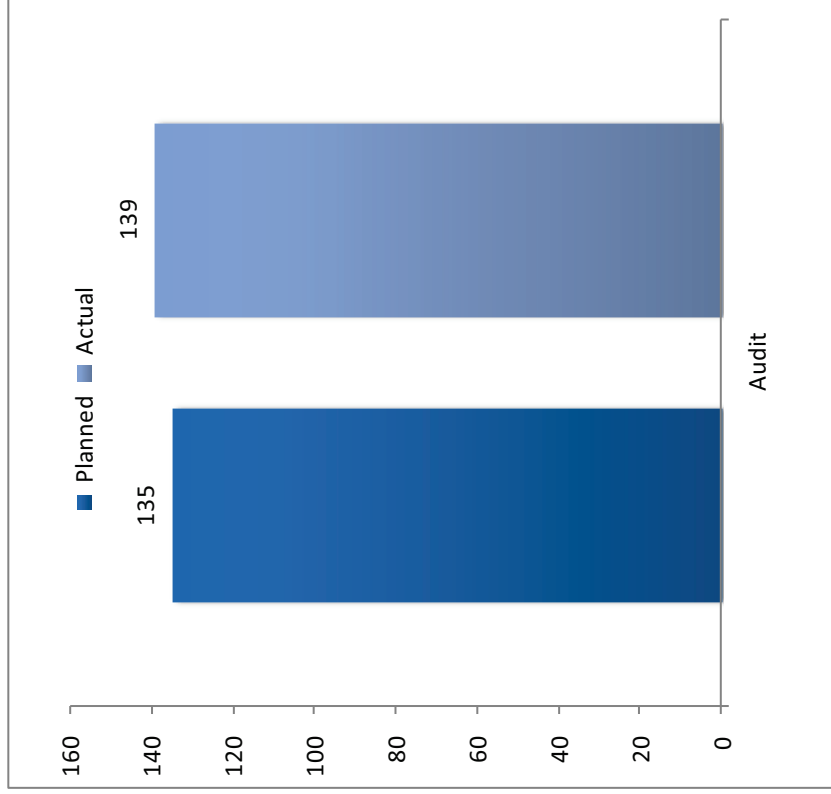
Our final fee for the 2010/11 audit of Lancaster City Council was £139,288. This compares to a planned fee of £135,000.

During the course of the audit queries were raised by electors within the Lancaster area. As part of our responsibilities as auditors of the Authority we were required to consider the matters raised and provide responses to the electors. The time spent on these queries is outside of the normal audit fee and is charged to the Authority based on the Audit Commission's scale rates.

Certification of grants an returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2010/11* which we are due to issue in February 2012.

External audit fees 2010/11 (£'000)





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AUDIT COMMITTEE**Internal Audit Monitoring****15th February 2012****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2011/12 Internal Audit Plan and to seek Members' approval for proposed adjustments to the plan.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That the proposed adjustments to the 2011/12 internal audit plan set out in paragraphs 2.1 to 2.8 are approved.

1.0 Introduction

- 1.1 The 2011/12 Internal Audit Plan was approved by the Audit Committee at its meeting on 29th June 2011 and some minor adjustments were approved by the Committee on 21st September 2011. This report is based on the monitoring position up to 18th January 2012.

2.0 Report**Monitoring Position as at 18th January 2012**

- 2.1 A detailed monitoring report as at 18th January 2012 is attached as Appendix A. In summary, the position as that date was as shown in the following table.

Area of work	Resources (audit days)					
	Actuals to 18/01/12	Remaining	Committed	Approved Plan	Variance	Proposed Plan
Assurance Work						
Core Financial Systems	81	27	108	82	-26	108
Revenues & Benefits Shared Services	79	28	107	92	-15	107
Core Management Arrangements	28	2	30	81	51	30
Risk Based Assurance Audits	175	17	192	105	-87	192
Follow-Up Reviews	47	13	60	70	10	60
Sub-Total, Assurance	410	87	497	430	-67	497
Consultancy Work						
Support Work	31	9	40	30	-10	40
Efficiency & VfM	0	0	0	30	30	0
Ad-Hoc Advice	41	14	55	65	10	55
Sub-Total, Consultancy	72	23	95	125	30	95
Other Work						
Other Duties (Non-Audit)	12	3	15	15	0	15
Audit Management	50	11	61	55	-6	61
Sub-Total, Other Work	62	14	76	70	-6	76
Contingencies						
Investigations	9	0	9	30	21	9
General Contingency	0	0	0	40	40	18
Sub-Total, Contingencies	9	0	9	70	61	27
Total	553	124	677	695	18	695

- 2.2 The monitoring position takes account of ongoing and planned work commitments. The summary shows that overall, current commitments total 677 days compared with the approved plan of 695 days, giving an un-committed balance of 18 days. Pending allocation, these 18 days will remain within the “general contingency”.
- 2.3 Within the main programme of assurance work, the audits of core financial systems and the Revenues and Benefits Shared Service have exceeded the approved plan by a total of 41 days. This reflects additional work required in developing and refining a new approach to these audits, covering all significant systems in this year and in establishing arrangements with Preston City Council to enable audit work to proceed.
- 2.4 There is also a significant overspend of resources (87 days) on the Risk Based Assurance audit section of the plan, this arising mainly from the audits of the RMS Partnering Contact and the specific piece of work concerning the Hala Flats Pebbledashing job and also from the audit into Consultancy Commissioning and Procurement. This is partially offset by an “underspend” of 51 days in the “Core Management Arrangements” section of the plan and 10 days in conducting follow-up reviews.
- 2.5 Other areas of the plan showing a minor overspend are “Support Work” (10 days and “Audit Management” (6 days).

- 2.6 It is proposed to meet these shortfalls (83 days total) by applying 22 days from the the General Contingency and through savings identified elsewhere in the plan, under the following:
- Efficiency & VfM 30 days
 - Ad-hoc Advice 10 days
 - Reduction in the investigations contingency 21 days
- 2.7 Clearly, at this point in the year, with resources for the final quarter of the year almost fully committed to the work programme set out in Appendix A, completion of the plan is at risk should any additional responsive work (investigations, etc) be required.
- 2.8 These adjustments are reflected under the “Proposed Plan” column of the table and the Committee is asked to approve the changes.
- 3.0 Details of Consultation**
- 3.1 Management Team has been consulted in developing the plan.
- 4.0 Options and Options Analysis (including risk assessment)**
- 4.1 The options available to the Committee are either to endorse the proposed changes to the plan and the schedule of future audits, or to propose an alternative course of action.
- 5.0 Conclusion**
- 5.1 Internal Audit resources for the final quarter of 2011/12 are now almost fully committed to the current work programme. Some realignment of the approved plan allocations is required to address additional time spent on assurance audit work during the middle of the year.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p> <p>Internal Audit Plan 2011/12</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/120215IAMon</p>

Internal Audit Annual Plan 2011/12 - Update at 18 January 2012

Work Allocations		Actuals to 18/01/12	Remaining	Committed	Approved Plan (21/09/11)	Variance	Status at 18/01/12
Job No	Title						
1. ASSURANCE WORK							
LCC Core Financial Systems							
10/0806	Treasury Management	8	0	8			✓
10/0809	Officer Expenses	2	0	2			✓
10/0810	Payroll	13	0	13			✓
10/0812	Car Parking	6	0	6			✓
10/0813	Sundry Debtors	1	0	1			✓
10/0814	Value Added Tax	1	0	1			✓
10/0815	Income Tax and National Insurance	6	0	6			✓
10/0816	Income Management	12	0	12			✓
10/0817	Main Accounting	6	0	6			✓
10/0819	Purchasing Cards	11	0	11			✓
11/0829	Housing Rents	9	10	19			⚠
11/0833	Asset Management	6	7	13			⚠
11/0842	Creditors	0	10	10			⚠
Sub-total - Core Financial Systems		81	27	108	82	-26	
Revenues Shared Service - Financial Systems							
11/0822	NNDR (LCC)	20	0	20			✓
11/0823	Council Tax (LCC)	12	0	12			✓
11/0824	Housing Benefit and Council Tax Benefit (LCC)	24	0	24			✓
11/0834	NNDR (Preston CC)	18	2	20			⚠
11/0835	Council Tax (Preston CC)	1	10	11			⚠
11/0839	Housing Benefit and Council Tax Benefit (Preston CC)	4	16	20			⚠
Sub-total - Revenues Shared Services		79	28	107	92	-15	
Core Management Arrangements							
10/0787	National Fraud Initiative 2010/11	10	0	10			∞
11/0827	National Fraud Initiative 2011/12	8	0	8			∞
11/0828	Business Continuity	9	0	9			✓
11/0797	Budgetary Control	1	2	3			⚠
Sub-total - Core Management Arrangements		28	2	30	81	51	
Risk Based Assurance Work Programme							
11/0821	RMS Partnering Contract	57	0	57			✓
11/0826	Consultancy Commissioning and Procurement	74	2	76			⚠
11/0831	Williamson Park Financial Systems	17	0	17			⚠
11/0837	Complaints Policy & Procedures	10	12	22			⚠
11/0841	RMS Planned Mtce - Hala Flats Rendering Project	17	3	20			⚠
Sub-total - Risk Based Assurance Work		175	17	192	105	-87	
Follow-Up Reviews		47	13	60	70	10	∞
SUB-TOTAL - ASSURANCE WORK		410	87	497	430	-67	

Internal Audit Annual Plan 2011/12 - Update at 18 January 2012

Work Allocations		Actuals to 18/01/12	Remaining	Committed	Approved Plan (21/09/11)	Variance	Status at 18/01/12
Job No	Title						
2. CONSULTANCY WORK							
Support Work (projects and other)							
10/0793	Counter Crime Policy & Strategy	12	2	14			
10/0509	RIPA Monitoring and Central Register	7	1	8			
10/0803	Annual Governance Review & Statement 2010/11	4	0	4			
11/0820	Review of Financial Regulations & CPRs	5	2	7			
10/0807	Information Management Group	1	1	2			
11/0838	HR & Payroll System Replacement	2	3	5			
Sub-total - Support Work		31	9	40	30	-10	
Efficiency & VfM							
	Mobile Phones, etc	0	0	0			
Sub-total - Efficiency & VfM		0	0	0	30	30	
Ad-Hoc Advice		41	14	55	65	10	
SUB-TOTAL - CONSULTANCY WORK		72	23	95	125	30	
3. OTHER							
11/0392	Deputy s151 Officer Duties	12	3	15			
SUB-TOTAL - OTHER		12	3	15	15	0	
4. AUDIT MANAGEMENT							
11/0172	Committee Work	16	3	19			
11/0189	Audit Planning & Monitoring	34	8	42			
SUB-TOTAL - AUDIT MANAGEMENT		50	11	61	55	-6	
5. CONTINGENCIES							
Investigations		9	0	9	30	21	
General Contingency		0	0	0	40	40	
SUB-TOTAL - CONTINGENCIES		9	0	9	70	61	
TOTALS		553	124	677	695	18	

Key: Completed In Progress Not Yet Started Continuous or Multi-Year Activity
 Carried Forward to 2012/13 Plan Abandoned

AUDIT COMMITTEE

Results of Internal Audit Work
15th February 2012
Report of Internal Audit Manager

PURPOSE OF REPORT

To inform the Committee of the results of Internal Audit work for the period.

This report is public

RECOMMENDATIONS

- (1) That the report is noted.
- (2) That, regarding audit ref 10/0738 – Information Management and Security, the Internal Audit Manager continues to track and report on progress to the committee.
- (3) That, regarding audit ref 10/0795 – Capital Contract Management, Internal Audit should carry out a further follow-up review in 6 months time and report on progress to the committee.
- (4) That, regarding audits ref 07/0708 - Income Management (Housing Rents Direct Debit Payments), and 07/0709 – Payroll, the Internal Audit Manager continues to track and report on progress to the committee.

Introduction

- 1.1 Part of the Audit Committee's terms of reference is:

"To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified." (Constitution part 3, section 7 & 10)

2.0 Results of Internal Audit Work to 18th January 2012

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 21st September 2011. Summary reports are issued to Members for consideration and are also posted on the Council's Intranet.
- 2.2 If there are any specific questions about a report, or more detailed information is required, it would be helpful if Members could contact the Internal Audit Manager on telephone number 582028 or email dwhiteway@lancaster.gov.uk prior to the meeting.
- 2.3 At the request of Members, a report covering issues relating to the audit of the RMS Partnering Contract with Herbert T Forrest, and specifically the Hala Flats Rendering project, is included elsewhere on the agenda.

2.4 The list below gives the assurance opinion issued for areas audited since the last meeting.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
11/0810	Payroll	07/09/11	Substantial	✓
11/0822	NNDR	15/09/11	Substantial	✓
11/0826	Consultancy Commissioning & Procurement	20/09/11	Substantial	✓
11/0821	RMS Partnering Contract (Forrest)	27/10/11	Substantial	✓
11/0828	Business Continuity	28/11/11	Substantial	✓
11/0824	Housing & Council Tax Benefits	02/12/11	Maximum	✓✓
Follow up Reviews				
10/0817	Main Accounting	27/09/11	Substantial	✓
09/0755	Contaminated Land	01/11/11	Substantial	✓
10/0816	Income Management	02/11/11	Maximum	✓✓
10/0738	Information Management & Security	09/11/11	Limited	⚠
10/0812	Car Parking	16/11/11	Maximum	✓✓
10/0795	Capital Contract Management	23/12/11	Limited	⚠

3.0 Matters Arising from Audit Reviews

3.1 Members' attention is drawn to the audits where a "substantial" level of assurance has not been achieved, as follows:

3.2 10/0738 – Information Management and Security Follow-Up Review (Limited)

The audit concluded that, whilst many of the actions from the original review were in the process of being addressed, it had to be recognised that establishing and maintaining an effective information management regime presented an ongoing and developing challenge.

Organisational changes since the audit, alongside developments in information technology and security standards, mean that the programme will not be finite and will need ongoing management and review. The Council's Information Management Group is to take the lead in providing this role.

To promote a prioritized approach to the planned developments, outstanding actions had been organised into the following four categories:

- longer term actions;
- shorter term actions covering policy development, education and promotion;
- actions to be considered as part of a shared service arrangement; and
- physical access controls and overall building security arrangements.

The headline messages resulting from the follow-up review were:

- A new Senior Information Risk Owner and Chair of the Information Management Group has been appointed following the retirement of the Corporate Director (Finance and Performance) who previously carried out this role.
- The authority is now fully compliant with the Code of Connection.
- A three year project to produce a comprehensive corporate information asset register is underway.
- Work is ongoing to review all information management and security policies, procedures and protocols ensuring that they are comprehensive, consistent and linked where appropriate.
- Once all documents relating to information management and security have been reviewed and agreed they will be actively promoted and training appropriate to the employee's role will be provided.
- A number of outstanding actions are to be considered as part of the proposed shared service arrangement with One Connect.
- Physical access controls and overall building security arrangements are to be considered as part of a report to Cabinet on the use of council buildings.

Given the current state of play and the "Limited" assurance opinion, it is proposed that Internal Audit will continue to monitor progress and report to future Audit Committee meetings.

3.3 10/0795 – Capital Contract Management (Limited)

The audit concluded that, whilst much positive action had been taken and good progress made with implementing the agreed action plan, there were a number of issues outstanding which are to be addressed through training associated with the rollout of revised Contract Procedure Rules.

In September 2011 the Procurement Manager provided training for managers responsible for dealing with contracts to reinforce key aspects of contract management. A contract checklist has also recently been developed to assist contract managers with ensuring compliance with Contract Procedure Rules in relation to pre, current and post contract requirements.

The level of audit assurance provided at present remains at "Limited" as it has not been possible to test the effectiveness of training to date. The adoption of new procedures and further related training should result in a raised level of assurance and it is suggested that Internal Audit carry out a further review in six months time to establish whether this has been achieved.

The headline messages resulting from the follow-up review were:

- Arrangements are in place for contract managers to inform the Procurement Section of any new contracts and a record of these is maintained.
- The Procurement Officer has provided training for contract managers to reiterate, and reinforce, the importance of each aspect of contract management.
- A checklist has been developed as an aid for contract managers to ensure that a signed contract is in place and lodged with Legal Services, appropriate checks are made, and key documents obtained, at each stage of contract management.
- Contract Procedure Rules are currently being reviewed to ensure they are up to date and accessible. Once approved, training will be developed and delivered as appropriate.

4.0 Update on Previous Assurance Opinions

4.1 Appendix A provides the updated position and recommendations for further action for all previously reported audits where the level of assurance has not yet reached “substantial”.





5.0 Details of Consultation

5.1 Not applicable

6.0 Options and Options Analysis (including risk assessment)

6.1 Not applicable

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>None identified</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report.</p>	
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p> <p>Internal Audit Files</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/audcomm/120215/ROI/AW</p>

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
07/0708 - Income Management (Housing Rents Direct Debit Payments)	 Limited 30/04/08	 Limited	<p>At its meeting on 30 June 2010, the committee resolved: <i>“That the Audit Committee request Internal Audit to track progress with systems implementations relating to the ‘Income Management (Housing Rents Direct Debit Payment)’ audit and that this be reported to the next meeting of the committee.</i></p> <p>At the last update, a decision had been taken to move to a software release (no 48) enabling implementation of the direct debits module to be operational in time for the 2012/13 financial year. This is still the plan and the supplier has been engaged to provide the necessary consultancy work for the implementation. A verbal update on progress will be given at the meeting.</p>	10	<p>It is anticipated that current arrangements will enable a successful resolution of the issues identified in the audit.</p> <p>Recommendation: that the Internal Audit Manager continues to track and report on progress to the committee.</p>
07/0709 - Payroll	 Limited 04/12/08	 Limited	<p>At its meeting on 30 June 2010, the committee resolved: <i>“That the Audit Committee request Internal Audit to track progress with the Payroll/HR system project and that this be reported to a future meeting of the committee.”</i></p> <p>Options for procuring a Payroll/HR solution through the strategic partnership being implemented by Lancashire County Council have not been fruitful. Tenders have been invited for the provision of a replacement Payroll/HR system and officers are currently evaluating those tenders received for the provision of a replacement payroll and HR system. A verbal update on progress will be given at the meeting.</p>	6	<p>Internal Audit is involved in the project and in the evaluation of the tendered solutions. The current view is that all potential solutions have the functionality to address the control weaknesses inherent in the current system.</p> <p>Recommendation: that the Internal Audit Manager continues to track and report on progress to the committee.</p>

AUDIT COMMITTEE**Anti-Fraud, Bribery & Corruption Policy****15th February 2012****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of developments affecting the Council's position regarding the threat of fraud and corruption and to seek Members' approval for a revised Anti-Fraud, Bribery and Corruption policy.

This report is public

RECOMMENDATIONS

- (1) **That the draft Anti-Fraud, Bribery and Corruption Policy attached as Appendix A is approved**
- (2) **That the action plan attached as Appendix B is endorsed.**

1.0 Introduction

1.1 The Council's current Anti-Fraud & Corruption Policy and the associated Strategy were approved in 2002. A review is necessary to bring the policy up to date, relevant to the Council's current position and officer/elected Members' needs and reflective of a number of legislative changes.

2.0 Report**Legislative Considerations****2.1 Bribery Act 2010**

2.2 The Bribery Act came into force on 1st July 2011 and introduced four key offences which might have an impact on the activities of the Council:

- Bribery of another person (section 1);
- Accepting a bribe (section 2);
- Bribing a foreign official (section 6); and
- Failing to prevent bribery (section 7)

2.3 The offences carry criminal penalties for individuals and organisations. For individuals, a maximum prison sentence of ten years and/or an unlimited fine can be imposed; for organisations, an unlimited fine can be imposed.

- 2.4 Whilst the legislation does place additional responsibilities on organisations and raised expectations regarding arrangements to counter the threat of bribery, the Secretary of State for Justice, in his foreword to Guidance to organisations, states that “... *combating the risks of bribery is largely about common sense, not burdensome procedures*” and recommends a core principle of proportionality in responding to the legislation.
- 2.5 Given the above, unlike some councils, a separate anti-bribery policy is not being proposed. Rather, bribery is given a raised profile within an overall Anti-Fraud, Bribery and Corruption Policy. It is recognised that awareness and understanding of the legislation needs to be raised within the Council and this is being addressed in developing action plans, proportionate to identified risks, to implement the policy.

Proposed Anti-Fraud, Bribery & Corruption Policy

- 2.6 In reviewing the existing policy and strategy, a key objective has been to make the new policy as clear and concise as possible in order to ensure it is accessible and not overwhelming to readers.
- 2.7 Accordingly, in place of the previous policy and strategy documents, it is proposed to introduce the draft Anti-Fraud, Bribery and Corruption Policy which is attached as Appendix A.
- 2.8 This contains the following key elements:
- 1 Definitions
 - 2 Scope of the Policy
 - 3 Commitment and Strategy
 - 4 Expectations, Responsibilities and Culture
 - 5 Deterrence and Prevention
 - 6 Raising Concerns
 - 7 Investigations
 - 8 Sanctions, Redress and Recovery
- 2.9 Clearly it is vital that, to deliver the high-level objectives and statements set out in the policy, there is a comprehensive range of suitably detailed procedures, guidance and training is maintained. In line with the strategic objectives and responsibilities set out in sections 3 and 4 of the policy, the process will be supported by an annually updated action plan, a copy of the current plan being attached at Appendix B. Overall responsibility for maintaining and delivering these plans rests with the Head of Financial Services as Section 151 Officer, with the support of the Internal Audit Manager, Monitoring Officer and Service Heads.
- 2.10 The action plan sets out a range of measures assessed as being priorities for the forthcoming period. Given the importance attached to legislative change and particularly the Bribery Act, a number of actions are included which focus on raising levels of awareness amongst both employees and elected members.
- 2.11 The draft policy sets out the Audit Committee’s responsibilities as:
- approving the Anti-Fraud and Corruption Policy.
 - monitoring the effectiveness of the Council’s strategy and operational arrangements (in relation to combating fraud and corruption)
- For the latter responsibility, the Audit Committee will expect to receive and place reliance on reports from the Internal Audit Manager.

3.0 Details of Consultation

3.1 Management Team has been consulted in developing the draft policy.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available to the Committee are:

- a) approve the draft policy as presented;
- b) approve the draft policy with suggested changes/additions; or
- c) recommend a different approach and the submission of further draft documents.

4.2 Given the age of the current policy and legislative changes impacting the Council, “no change” is not put forward as an option.

4.3 Experience suggests that, whilst high level policies are important in setting the Council’s position in such matters, the greatest practical benefits come from a range of guidance, training and awareness-raising material. Options a) or b) are therefore preferred, involving the introduction of a single, concise policy statement with a range of associated documents and activities to support development and the implementation of strategic objectives.

5.0 Conclusion

5.1 A revision and re-launch of the Council’s policy towards fraud, bribery and corruption is very timely. A revised Anti-Fraud, Bribery and Corruption Policy is proposed, with associated action plans to implement strategic objectives and raise awareness and standards throughout the Council.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/120215FraudPolicy</p>



LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Anti-Fraud, Bribery and Corruption Policy

Initial Draft

Version 0.07
2nd February 2012

Version Control

Document Title: **Anti-Fraud, Bribery and Corruption Policy**

Document Ref: **Audit\Jobs\Audits\100793 – Counter Crime**

Version: **0.06**

Date: **02 February 2012**

Status: **Draft**

Author: **Amanda Robinson, Principal Auditor and
Derek Whiteway, Internal Audit Manager**

Document History

Version	Reference / Date	Comments
0.01	07/09/10	
0.02	12/04/11	Updated to reflect guidance from the Ministry of Justice on the Bribery Act 2010
0.03	26/08/11	Expanded to combine key elements of Strategy and provide pointers to other significant documents
0.04	17/11/11	Updated to take account of MO comments
0.05	20/12/11	Re-draft to combine Policy and Strategy documents
0.06	23/01/12	Re-draft of Definitions Section
0.07	01/02/12	Revision of definitions and commitment following consultation with Management Team

LANCASTER CITY COUNCIL

ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY – DRAFT

1 Definitions

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines **Fraud** as the

“intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain.”

The Fraud Act 2006 further defines fraud in three classes:

- False representation
- Failure to disclose information where there is a legal duty to do so
- Abuse of position

1.2 The Theft Act 1968 defines **Theft** as

“a person shall be guilty of theft if he dishonestly appropriates property belonging to another with the intention of permanently depriving the other of it”

1.3 CIPFA defines **Corruption** as the

“offering, giving, soliciting or acceptance of an inducement or reward which may improperly influence the action of any person.”

1.4 CIPFA defines **Bribery** as

“an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.”

1.5 This policy covers all the above and the Council acknowledges and will be vigilant to the fact that that, within these definitions, fraud, theft, bribery and corruption can take many diverse forms.

1.6 This policy is concerned with:

- Acts committed against the Council by individuals or organisations¹;
- Acts committed by the Council’s employees, elected Members or contractors in the course of their duties (guidance on issues arising from the private and personal activities of employees which may impinge on the performance of their duties or risk bringing discredit to the Council is contained in section 3 of the Employees Code of Conduct).

¹ Due to their special nature and regulatory framework, the Council has separate, specific policies and procedures relating to Council Tax and Housing Benefits fraud

2 Scope of the Policy

- 2.1 This Policy applies to all employees, contractors and elected Members of the Council and places expectations on the Council’s partners and all individuals and organisations providing services for the Council.
- 2.2 This Policy sits alongside and is supported by the following Council documents:
- Fraud Response Plan (currently being re-drafted)
 - Whistle-Blowing Policy
 - Anti-Money Laundering Policy
 - Benefits Anti-Fraud Policy
 - Benefits Sanctions Policy
 - Code of Corporate Governance
 - Employees and Members Codes of Conduct.

3 Commitment and Strategy

- 3.1 Lancaster City Council is committed to delivering high quality, value for money services in a fair, open, honest and accountable manner. The Council is determined to protect itself and the public from all forms of fraud, theft, corruption and bribery, including any irregularity and the improper use or misappropriation of the Council’s property or resources both from within and outside the Council.
- 3.2 In support of this commitment, the Council’s strategy is to rigorously maintain and develop anti-fraud and corruption arrangements with the following objectives:

Strategic Objectives

Strategic Objective	Key Characteristics
Developing a strong anti-fraud and corruption culture	<ul style="list-style-type: none"> • A strong ethical framework – clear rules and procedures • Effective leadership • Maintaining public confidence in the Council. • A sound system of internal control
Deterring and Preventing Fraud and Corruption	<ul style="list-style-type: none"> • Continuous improvement of arrangements to combat fraud and corruption • Monitoring of potential exposure to fraud and corruption and acting accordingly • Ensuring the integrity of staff appointed. • Consultants, contractors and suppliers acting with integrity. • Ensuring adequate anti-fraud and corruption arrangements within partnerships. • Effective arrangements to vet insurance claims submitted to the council

Strategic Objective	Key Characteristics
Raising Awareness	<ul style="list-style-type: none"> • Ensuring elected Members and officers understand the rules, regulations, policies, strategies and expectations placed upon them. • Elected Members and employees understand the risks and recognise their ability to protect the organisation against fraud and corruption
Maintaining effective reporting arrangements and preventing further loss	<ul style="list-style-type: none"> • Ensuring that all genuine suspicions/concerns are raised. • Maintaining effective reporting arrangements. • Informing external parties where appropriate. • Minimising losses once a report has been received.
Facilitating effective investigations and recovery and seeking suitable sanctions and redress	<ul style="list-style-type: none"> • Carrying out timely, lawful and effective investigations and minimising impact • Seeking appropriate sanctions and redress to deal robustly with the perpetrators of fraud and corruption. • Maximising the recovery of losses. • Learning from experience.

3.3 Implementation of the strategy is promoted and supported by an annually updated Action Plan.

3.4 Development of this strategy will be proportional to the risks facing the Council and will be informed by an objective and regularly reviewed assessment of those risks.

4 Expectations, Responsibilities and Culture

4.1 The public is entitled to expect Local Government employees and Members to conduct themselves to the highest standards and with the utmost integrity. The Council is determined to adopt a culture and tone around the seven principles of public life²: (a) selflessness; (b) integrity; (c) objectivity; (d) accountability; (e) openness; (f) honesty; and (g) leadership. The Council will convey this commitment through its Code of Corporate Governance.

4.2 The way in which the Council is organised and has defined responsibilities in relation to this policy is set out in the following table:

Organisation and Responsibilities

Groups / Individuals	Key Roles and Responsibilities
Standards Committee	<ul style="list-style-type: none"> • setting and monitoring the standards of conduct for elected Members.
Audit Committee	<ul style="list-style-type: none"> • approving the Anti-Fraud and Corruption Policy. • monitoring the effectiveness of the Council's strategy and operational arrangements.

² The Committee on Standards in Public Life (Nolan Committee)

Groups / Individuals	Key Roles and Responsibilities
Chief Executive	<ul style="list-style-type: none"> • overall responsibility for the Council's operational procedures • leading by example through sound ethical behaviour and the promotion of the Council's anti-fraud and corruption arrangements.
Section 151 Officer (Head of Financial Services)	<ul style="list-style-type: none"> • overall responsibility for the Anti-Fraud and Corruption Policy, associated strategy and supporting procedures. • developing and maintaining policies to combat fraud, corruption and other forms of financial crime. • reviewing the Council's exposure to risk and updating corporate anti-fraud and corruption strategy and action plans accordingly. • ensuring that effective investigation procedures are in place.
Monitoring Officer (Head of Governance)	<ul style="list-style-type: none"> • ensuring that all the Authority's decisions are within the law and statutory codes of practice. • ensuring any actual or potential breaches or acts of maladministration are appropriately reported.
Service Heads	<ul style="list-style-type: none"> • reviewing their Service's exposure to risk and updating local action plans accordingly. • leading by example in their service areas through sound ethical behaviour and by promoting the Council's anti-fraud and corruption arrangements.
Internal Audit Manager	<ul style="list-style-type: none"> • reviewing the effectiveness of the Council's anti-fraud and corruption arrangements and reporting to the Section 151 Officer, Management Team and the Audit Committee. • maintaining a corporate overview of the Council's exposure to risk and advising management accordingly. • overseeing the operation of the Anti-Fraud and Corruption Policy and related investigations. • reporting on any corrective measures required which have been identified through internal audit work and investigations.
Managers	<ul style="list-style-type: none"> • responding quickly and positively to concerns or allegations. • reporting to the Internal Audit Manager immediately any suspected financial impropriety, including fraud or theft and taking all necessary steps to prevent further loss. • establishing and maintaining systems of internal control which effectively manage the risk of fraud or other malpractice. • responding positively to the results of any reviews of their internal control framework by incorporating changes to address any weaknesses found. • communicating to the Council's partners, contractors and suppliers the expectation that they will act with high

Groups / Individuals	Key Roles and Responsibilities
	standards of integrity and ethics.
All employees and elected Members	<ul style="list-style-type: none"> • managing the risk of fraud. • demonstrating a clear opposition to fraud and corruption through the adoption of procedures and practices which are beyond reproach and by reporting any suspicions. • adhering to legal requirements, the Council's codes, rules and regulations and relevant professional codes of conduct.
Partners, Contractors and Suppliers	<ul style="list-style-type: none"> • the Council expects its partners, contractors and suppliers to act with high standards of integrity and ethics.

5 Deterrence and Prevention

- 5.1 The Council is committed to continually improving its anti-fraud and corruption arrangements. It will work closely with the police and other external agencies to strengthen and continuously improve its arrangements to combat fraud and corruption and, subject to legal constraints, will share information to support any related national or local initiatives.
- 5.2 The Council will monitor its potential exposure to the risk of fraud and corruption and the adequacy of its policies, systems and procedures to mitigate them. It will ensure there are effective arrangements to identify new and emerging risks and update its policies, systems and procedures accordingly.
- 5.3 The Council is committed to maintaining a strong ethical framework through clear rules, procedures and policies and clear lines of accountability. It will seek to maintain a sound system of internal control which is reviewed regularly by Internal Audit and the Council's external auditors and through the production of an Annual Governance Statement in accordance with the Accounts and Audit (England) Regulations 2011.
- 5.4 The Council is committed to learning from self assessment and independent reviews and will respond positively to recommendations made, by updating its internal control framework.
- 5.5 The Council will take appropriate and proportional action against those engaging in fraudulent or corrupt practices and will always consider referral to the Police. Any internal action against employees will be in accordance with the Council's Disciplinary Policy and Procedures; Members may be reported to the Standards Committee in accordance with the Constitution; contracts with third parties may be revoked per the formal contract; and the Council may withdraw from partnering arrangements per the partnership agreement.
- 5.6 The Council recognises that training and guidance is vital in maintaining the effectiveness of its anti-fraud and corruption arrangements and is committed to ensuring that Members and employees receive guidance, training and support

appropriate to their role and areas of responsibility so as to ensure that risks are effectively managed.

- 5.7 The Council is committed to ensuring the integrity of the people it employs through the maintenance of robust recruitment and selection procedures and pre-appointment screening.
- 5.8 The Council will conduct its procurement practices in a fair and transparent manner and will undertake due diligence in evaluating prospective contractors, and suppliers. Contracts will seek to ensure third parties act with integrity and will set out the sanctions, including the termination of any relationship, in the event of the contractor or supplier adopting practices which are inconsistent with this Policy or the Council's Code of Corporate Governance.
- 5.9 The Council is committed to effective partnerships which deliver shared objectives. It will ensure that prospective partnering arrangements are supported by sound business cases and robust risk assessments. Due diligence will be exercised in carrying out proper checks on potential partners and arrangements will be approved through robust decision-making processes. Partnering agreements will seek to ensure that partners act with integrity and in accordance with corporate ethical standards as set out in the Code of Corporate Governance. Through partnering agreements the Council will secure its right to monitor the performance of its partners and agreements will set out the sanctions, including the Council's right to withdraw from the partnership, in the event of deficiencies.
- 5.10 The Council will, where appropriate, publicise the outcome of investigations and any subsequent prosecutions to make people aware of the possible consequences of engaging in fraud or corrupt practices.

6 Raising Concerns

- 6.1 The Council's reporting arrangements seek to ensure that the interests of the public and the Council are protected against any form of malpractice that can reduce public confidence in the Council and its services, including acts committed outside of official duties but which may impact upon the Council's trust in the individual concerned.
- 6.2 Members and employees are expected to always be aware of, and vigilant to, the possibility of fraud, corruption, theft, and irregularity or the improper use or misappropriation of the Authority's property or resources. Members and employees are encouraged to report genuine concerns immediately.
- 6.3 The Council positively encourages external organisations and members of the public to raise any concerns they may have.
- 6.4 The Council is committed to taking seriously all concerns which are genuinely raised. It will, where appropriate, take action against those who raise unfounded malicious allegations. In the case of employees this may involve taking disciplinary action against the officer raising the concern.
- 6.5 The Council is committed to maintaining confidential reporting arrangements and anyone with genuine concerns should report them in accordance with guidance available through the following links:

Concerns from members of the public regarding:

- [Benefit Fraud](#)
- [other concerns from external bodies or members of the public](#)

Concerns from Members and employees regarding:

- [possible fraud, corruption or malpractice](#)
- [money laundering](#)

7 Investigations

- 7.1 The Council is committed to carrying out proper, prompt and formal investigations into all reports of suspected fraud, corruption, theft, irregularity or the improper use or misappropriation of the Council's property or resources to minimise and prevent further losses.

8 Sanctions, Redress and Recovery

- 8.1 The Council is committed to dealing robustly and appropriately with the perpetrators of fraud and corruption. This may include criminal and/or civil proceedings as well as taking action under the Council's Disciplinary Policy and Procedure or through the Standards Committee.
- 8.2 The Council will work with other organisations as necessary to take all reasonable measures to recover any losses arising from fraudulent activity.

Anti-Fraud, Bribery & Corruption Policy**Action Plan 2011/12**

Action for 2011/12	Responsibility and timescale
1. The Council's Code of Corporate Governance will be reviewed and publicised through a re-launch of the Council's counter crime policies.	Internal Audit Manager. 31/03/12
2. The Constitution, including the Code of Conduct for Employees, will be reviewed in light of the Bribery Act 2010.	Internal Audit Manager. 31/03/12
3. The Whistle-blowing Policy will be reviewed in light of the Bribery Act 2010.	Internal Audit Manager. 31/03/12
4. Regarding the Bribery Act, a risk assessment will be undertaken, based on the 6 principles of proportionality, top-level commitment, risk assessment, due diligence, communications and training, and monitoring and review.	Internal Audit Manager & Head of Governance 31/03/12
5. A range of communications channels to disseminate information covering all aspects of corporate anti-fraud and corruption will be developed and implemented, including: <ul style="list-style-type: none"> ○ Use of the intranet, ELSIE ○ Briefings on specific issues ○ Alerts on specific risks and fraudulent practices ○ Targeted training sessions for employees and elected Members 	Internal Audit Manager 31/03/12
6. Elected Members, Management Team and senior managers to be briefed on their roles in setting the culture, raising awareness, increasing understanding and leading by example through the roll out of the Anti-Fraud, Bribery and Corruption Policy.	Internal Audit Manager. 31/03/12
7. Internal Audit will review the Anti-Fraud, Bribery & Corruption Policy annually in consultation with Management Team.	Internal Audit Manager.
8. A register to be introduced to record acts of soliciting or attempted bribery and the actions taken.	Head of Governance. 31/03/12

Audit Committee**Council Housing Capital Programme – Hala Flats
Pebbledashing Project****15th February 2012****Report of Internal Audit Manager and Head of
Environmental Services****PURPOSE OF REPORT**

Following a request by Cabinet, to provide the Committee a detailed report into the conduct of the Hala Flats Pebbledashing contract with particular reference to the costs of the work and the value or money obtained.

This report is public. Appendices B, C and D are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.

RECOMMENDATIONS

(1) That the Committee considers:

- a) the extent to which this report provides the Committee with sufficient assurance regarding the RMS partnering contract and the conduct/outcome of the Hala Flats Pebbledashing project; and**
- b) whether the Committee wishes to recommend any further action or analysis to Cabinet.**

1.0 Introduction

- 1.1 In July 2007, Cabinet gave their approval for Council Housing Services to develop a three to five year partnership with an external partner for the delivery of the Council Housing Capital Programme (the work to be split between the council's in-house Repairs and Maintenance Service and the external partner). Following a competitive tendering exercise, Herbert T Forrest (HTF) was appointed as the council's partner to deliver the Council Housing 5 year Capital Programme, commencing on 1st April 2010.
- 1.2 The Head of Environmental Services requested that Internal Audit undertake a review of the partnering contract in order to provide him with assurance and confidence in the ongoing management of the contract.
- 1.3 The audit review was carried out and in October 2011 the Internal Audit Report was produced, resulting in an opinion rating of "substantial". A copy of the report and action plan is attached for information at Appendix A. Reference to the report is also included in the "Results of Internal Audit Work" report elsewhere on this agenda.
- 1.4 In the meantime, at the request of a member of Cabinet, HoES presented a report to Cabinet on 6th December 2011, which provided information on the Planned Maintenance Partnering arrangement. At this meeting Cabinet resolved to request that Audit Committee look more closely at the Hala project with a view to providing assurance that costs are appropriate and represent good value for money.
- 1.5 The Planned Maintenance partnering contract and more specifically the Hala flats rendering project have been the subject of a number of articles and letters published

in the local press. At its meeting on 29th November 2011, the Budget and Performance Panel (BPP) was requested by one of its members to include the Planned Maintenance of Council Housing on its work programme. The BPP resolved that a decision to include the matter on the Panel's work programme should be deferred until after the issue had been considered by Audit Committee and that the member in question should refer his questions to the Internal Audit Manager.

- 1.6 This report has been prepared with a view to addressing questions raised by Cabinet, and Budget and Performance Members, along with points raised by other Councillors following the issuing of the internal audit report.
- 1.7 Under each of the following sections, the main text is the Internal Audit Manager's report; additional comments by the Head of Environmental Services are appended in a greyed box.

1.8 Head of Environmental Services' Comments:

- 1.9 Immediately prior to my actually taking responsibility for RMS concerns were raised with regard to the operation of the Forrest partnership.
- 1.10 In conjunction with the Head of Health and Housing (who was responsible for RMS at the time) we brought these concerns to the attention of the Internal Audit Manager (IAM) and requested an assurance audit be undertaken on the operation of the Forrest partnership.
- 1.11 The Forrest partnership is just one part of the Council's RMS operation. Some planned maintenance is delivered through other partnerships. Some planned maintenance is delivered by an in-house team. The majority of the responsive repairs operation is delivered in-house.
- 1.12 At the point of transfer of the service area there was a consensus that it was a service in need of review. Since May 2011 I have set to work on that. As is to be expected there is still much work to be done but progress is being made.
- 1.13 Internal Audit's work on the Forrest partnership was commissioned because it provided an independent assessment of the strengths and weaknesses of the arrangement. It has given the Council the clear sense of direction necessary for that element of the service.
- 1.14 The internal audit report which is attached at Appendix A provided assurance as to the partnership arrangement. This further report has been prepared to provide answers to additional questions raised by Members since the internal audit report was published. Essentially these questions boil down to:-
 - a) what is the best way of delivering planned maintenance; and
 - b) how do we know we are getting value for money?
- 1.15 The intention of this report is to provide the evidence to respond to the questions that have been asked and provide assurance that arrangements are being managed appropriately

2.0 The Partnering Contract

- 2.1 The council selected the PPC2000 (partnering project contract) for the partnership as this form of contract was already in use by RMS for other programmes (Rota Painting and Gas Servicing).
- 2.2 Questions have been raised by a Member of B&PP regarding:
 - whether this is the most appropriate form of contract to use, and more specifically whether a 'simpler framework contract' would be more appropriate for the type of work covered.

- whether HTF are being paid for pre-construction work.
 - the integration of client and contractor roles.
 - whether there is scope to terminate the arrangement
- 2.3 The PPC2000 contract is designed to be able to cope with complex project based and multi-party arrangements by bringing client, constructor, consultants and specialists under a single contract. Nevertheless, this does not make the format unsuited to a more simple client and constructor relationship. Internal Audit have not found any evidence to suggest that the PPC2000 contract is inappropriate for the partnership arrangement with HTF.
- 2.4 The PPC2000 in itself provides a framework for the partnership and is suitable for this purpose. The alternatives to this arrangement would be the previous, more traditional individual job tendering or establishing a range of framework contracts. A framework contract would be needed for each element of the capital programme, e.g. rendering, external refurbishments, kitchen and bathroom replacements, etc, each contract requiring individual management. In this regard, key advantages of the partnering contract is that work in tendering individual jobs is reduced and that there is a single relationship to manage, with one “partner” organisation.
- 2.5 HTF have not been required to carry out, and have not been paid for, any pre-construction work.
- 2.6 As stated in the Internal Audit report, one of the main advantages of this type of arrangement is that it is based on a non-adversarial approach to problem solving as issues should be addressed at an earlier stage. It is essential therefore that strong working relationships are developed with the partner. A key feature claimed of the PPC 2000 contract relates to the integration of all members of the partnership with a view to encouraging a team based approach to the project. This is perhaps most significant where the contract is being used for complex projects involving a wide variety of partners, including client, constructor, sub-contractors and specialists. Given the context of the RMS contract, which is essentially a client and constructor relationship, it is unrealistic to expect there to be high levels of mixing or sharing of roles. Nevertheless, the conclusions drawn from the Audit review suggest that officers have worked hard to develop and maintain good working relationships with HTF with each team member having clearly defined roles and responsibilities. Discussions held with members of the RMS team during the course of the audit, and more recently, indicate that following some initial concerns, trust is now building between the Council and Herbert T Forrest. In Internal Audit’s view, appropriate attention is being given to managing the partnership and no evidence has been found to suggest anything extraordinary about the development of, or the current state of the relationship.

2.7 Under the terms of the contract (section 26), the agreement may be terminated by the client (i.e. the Council) under the following circumstances:

- Bankruptcy or insolvency of a partner;
- Unremedied constructor breach, being:
 - Ceasing or suspending all or a significant part of the implementation of the project or does not fulfil its responsibilities under the Partnering Contract in accordance with the partnering timetable or project timetable.
 - Failure to comply with a client instruction issued under the terms of the contract.
 - Breach of sub-contracting /assignment clauses
 - Non-compliance with national statutory and other legally binding requirements

2.8 These are clearly extreme circumstances and Internal Audit has found no evidence of any of the above applying. Section 27 of the PPC2000 contract sets out the arrangements for problem solving and dispute avoidance or resolution, which builds on the establishment of a clear hierarchy of responsibilities and relationships between partners. This arrangement is clearly understood and established and has been followed in appropriate circumstances.

2.9 The Council's Procurement Manager has made the following comments with regard to the contract.

"The form of contract applied to the Council Housing Capital Programme contract is PPC2000. This contract was adopted as it has been used widely within the public sector for similar projects. Within the contract there are specific termination clauses. These include for both client and contractor organisations and the termination of an individual from within the partnering Team. However the contract is explicit that within the Roles and Responsibilities 1.3:

'The Partnering Team members shall work together and individually in the spirit of trust, fairness and mutual cooperation for the benefit of the project, ...'"

Should the contract not be administered under such terms the contract sets out a hierarchy of problem resolution which would need to be followed before any formal legal proceedings could take place. Formal legal proceedings are only initiated in exceptional circumstances and there would need to be indisputable evidence to substantiate such action and be proportionate to the actions taken."

2.10 Head of Environmental Services' Comments:

2.11 Prior to entering into the partnering arrangement with Forrest the Council had already had experience of operating successful partnering arrangements for the delivery of painting and gas servicing. The partnership with Forrest covers a greater range of works but the principles that underpin the operation of successful partnerships were already understood.

2.12 The partnership with Forrest is underpinned by a standard form of contract PPC2000. The guiding principle of this is that the Council and Forrest will work together and individually in the spirit of trust, fairness and mutual cooperation for the benefit of the project.

2.13 Working in this way represents a significant shift from the previous way of operating in a traditional client / contractor tender per job basis. Most significant is the requirement for a change of mindset and working methods from all involved to ensure that the maximum benefits are derived from the partnership.

2.14 Essentially therefore the entry into the partnership with Forrest represented significant change for all involved. Managing change requires a lot more than giving people a new form of contract to work to.

- 2.15 The fact is that PPC2000 is a suitable form of contract for this partnership
- 2.16 Whether successful outcomes are delivered depends more on the skills, abilities and competencies of the people who are involved in delivering the partnership and also on the way that the change to a different way of working is managed. I shall develop this important point in subsequent comments.

3.0 Pricing and Payment Mechanisms

- 3.1 Members have raised questions regarding the pricing mechanism for the partnership. Clause 13.2 of the PPC2000 contract deals with shared savings, added value and pain/gain incentives. The clause states *“The Partnering Team members shall implement any shared savings, shared added value and pain/gain incentives described in the Project Partnering Agreement and otherwise recommended by the Core Group and approved by the Client.”*
- 3.2 The Project Partnering Agreement on setting up the partnership specified a shared savings basis that *“Any annual savings on the guaranteed maximum sums submitted by Herbert T Forrest shall be shared equally between Lancaster City Council and Herbert T Forrest.”* This arrangement involves the Council agreeing with the partner a maximum price for the work prior to the commencement of each project. Subject to this maximum price, payment is based on actual costs incurred by HTF plus an agreed overhead and profit element. Any savings which arise from innovation or agreement to a change in specification after the maximum price has been agreed are shared equally between the parties. Should the cost of the works exceed the agreed maximum price (+/- any agreed variations) the partner (HTF) stands the loss.
- 3.3 The original bid made by HTF to enter into the partnering contract with the council referred to open book accounting and Cost Value Reconciliation sheets (CVR). CVRs detail both estimated and actual costs for each project, plus the agreed overhead (7.5%) and profit (5%) element. Therefore, RMS considered that payment would be made on a ‘cost plus’ basis (actual costs plus overhead and profit).
- 3.4 The Caton External Refurbishment project was entered into on this basis. During the Caton contract it became apparent that CVRs weren’t being received, so they were requested. The Quantity Surveyor for HTF then queried why they were being requested, as her understanding was that the agreed maximum price would be paid, subject to any variations. In the meantime CVRs were being received for the Newton re-rendering contract.
- 3.5 To clarify matters, a meeting was held with HTF to discuss payment arrangements and agree a way forward. Arrangements have been reviewed and revised over the last few months and are now agreed and in place. This process, involving the Core Group has been in accordance with the standard terms of the PPC2000 contract as mentioned in §3.1 and does not constitute a variation to or departure from the contract. The revised arrangements were agreed by the Repair and Maintenance Manager as an operational issue and endorsed by the HoES.
- 3.6 Payment arrangements are as follows:
- an Agreed Maximum Price for each job is developed which is made up of agreed rates, and a timescale for the job.
 - valuations will be received on a periodic basis and will be based on these agreed rates.
 - payments will be made according to these rates and will be supported by invoices etc, as necessary.
- 3.7 Arrangements remain on an open book basis and RMS are still to be provided with a CVR.

- 3.8 If HTF cost the agreed maximum price incorrectly and/or a project is delayed due to adverse weather or non-performance of the supply chain, any additional cost is borne by HTF and not passed to the Council.
- 3.9 If any savings on the agreed price are generated through innovation or agreement to a change in specification after the maximum price has been agreed the savings will be shared on an equal basis. Other savings are passed entirely to the Council.
- 3.10 An analysis of payment arrangements for jobs completed to date is attached at Appendix B. This demonstrates how any savings/underspends are analysed and shared. In each case the final cost has come in below the Agreed Maximum Price.
- 3.11 In Cabinet's request to Audit Committee to consider the Hala project in more depth, a suggestion was made that audit might need the advice of an independent expert to look at the pricing of the project.
- 3.12 Whilst I accept that Internal Audit does not possess the professional skills to ascertain the validity of contract measurements and pricing, we have not encountered any evidence to suggest that there are any difficulties or shortcomings as regards the Hala re-rendering project. We have seen sufficient evidence to conclude that the RMS officers' management of these projects demonstrate appropriate levels of diligence and professionalism to protect the Council's interests and secure value for money.
- 3.13 Notwithstanding these conclusions, Audit Committee may, in considering the overall report and level of assurance gained, wish to consider whether to recommend any further independent review of the project pricing.

3.14 Head of Environmental Services' Comments:

- 3.15 The detail of the payment mechanism is something that can be properly agreed on a project by project basis at an operational level.
- 3.16 The first major project undertaken was the one at Caton. This yielded an overall saving of £4900 which was properly split as agreed between the Council and Forrest.
- 3.17 The next project was the one undertaken on Newton where it became apparent that clarification of payment arrangements was required.
- 3.18 As provided for in the terms of the partnership key staff met and agreed the terms of the payment arrangements which were then applied.
- 3.19 Dependent on the type of work being undertaken it may well be appropriate to apply differing payment agreements.
- 3.20 It will always be appropriate to ensure all involved in the delivery of a defined project clarify and understand the payment agreement.
- 3.21 Prior to the delivery of the project Council officers scrutinise and challenge estimated costs. During the course of the project Council officers scrutinise and challenge costs incurred to date. At the end of the project Council officers scrutinise and challenge actual costs.
- 3.22 All of this goes towards ensuring that the Council's interests are protected and value for money is provided.

4.0 Hala Flats Pebbledashing Project and Leaseholder charges

- 4.1 The scope of the project was for re-rendering, dry dashing and re-pointing 60 properties, plus outbuildings, on the Hala Estate. The work included the hacking off of existing render and removal away from the site; the site being made up of 5 blocks. Concrete repairs were also carried out where necessary.
- 4.2 As part of Council Housing's consultation exercise, letters were sent to leaseholders in March 2011, advising them that the work was planned and of the total estimated cost for the project (£250,000).

- 4.3 Letters were sent to each leaseholder on 1st August 2011 advising them of the “guaranteed maximum sum” for the project (£341,819) and indicating the level of recharge that this would equate to for their property.
- 4.4 Work was completed on site in January 2012, and letters have now been sent to the relevant leaseholders setting out the actual amount they will be charged for the pebble dashing work. The costs will be included in annual leaseholder statements to be issued in June 2012. Leaseholders are given a short time period to check the statements and are then issued with an invoice. Leaseholders can pay the invoice over 12 months, or can make an arrangement to pay over a longer period if the charge is considered significant.
- 4.5 In the event of an unresolved dispute, leaseholders are entitled to make use of the council’s complaints procedure, and in extreme cases referral to an independent valuation tribunal may be appropriate.
- 4.6 The finally revised and agreed maximum price for the work was £325,338, this having been reduced from the original tender sum of £442,939. The revisions to the original sum, and the reasons for them, are shown in the timeline at Appendix C.
- 4.7 In order to accurately recharge leaseholders, costs have been broken down per block. The figures used in calculating both the estimated costs as notified to leaseholders in August 2011 and the final charge, are set out in Appendix D. Costs included in the final recharge comprise:
- Scope of the works (rendering/dashing costs)
 - Scaffolding
 - BT charges (removal and reconnection of cables)
- 4.8 The cost per block is then divided by the number of units within that block, the resulting final recharges per property ranging from £3,020 to £3,836. These calculations are based on a provisional final cost for the project of £302,000. The final account is yet to be agreed but any variation from this figure will not have any impact on leaseholder costs.
- 4.9 The reduction in leaseholder recharges is accounted for by:
- The final recharge not including the preliminary costs. Preliminary costs were included in the calculations used when notifying leaseholders in August 2011 but have been excluded in accordance with previously established practices; and
 - Further cost reductions to the works achieved after August 2011.
- 4.10 With a view to providing a comparison, Members have requested information regarding costs per property for work carried out on the Kingsway Estate as part of the 2009/10 programme of works. This work was carried out by VMC Developments Ltd.
- 4.11 The specification for the rendering on both contracts was the same apart from the thickness of the render (15mm for Kingsway and 16mm on Hala). This has minimal impact on the price.
- 4.12 Three Kingsway leaseholders were charged £3,030 each (not including preliminary costs) in relation to the rendering element of the work carried out.
- 4.13 Although a similar number of properties were involved in the Kingsway contract (64), the scope of the works was wider and comprised a full external refurbishment which included replacing windows, doors, fascias and gutters, in addition to rendering. The properties on the Hala Estate are also larger; some of them being three storeys with high gable ends and a larger surface area to cover. This needs to be taken into account in drawing comparisons between the two contracts.

- 4.14 It should be noted that, if the final cost of the works is below the agreed maximum price, leaseholders generally benefit from the reduction. This of course depends on the reason for the reduction. If, for example, the price is reduced due to work being completed in less time than the agreed contract period and a saving is made on preliminary costs, this would not be passed to leaseholders if their recharge does not include preliminary costs.
- 4.15 As suggested above, practice to date has been to exclude preliminary costs when calculating recharges to leaseholders, although this has not been set out as a formally established policy. These circumstances have highlighted the need for the treatment of preliminary costs to be reviewed and a clear policy established for the future. Options are currently being reviewed by the Repairs and Maintenance Manager.
- 4.16 In conclusion, the inclusion of preliminary costs in the initial indicative costs notified to leaseholders in August 2011 may be regarded as the main factor in raising concern regarding the level of recharge. Once excluded, in accordance with precedence, and taken alongside further cost reductions, the charges to leaseholders are clearly more in line with those made on the Kingsway contract.

4.17 Head of Environmental Services' Comments:

The Project

- 4.18 The timeline set out in Appendix C highlights the key stages in commissioning the Hala works.
- 4.19 The flexibilities provided by the partnering arrangement meant that there was scope to work with our partner to amend the specification and reduce the delivery period thus reducing the overall cost of the works.
- 4.20 The fact that an initial tender sum of £443K was submitted does not imply that either the Council would have paid that amount or that Forrest had somehow inflated their price.
- 4.21 The evidence in Appendix C shows clearly how that original tender price was arrived at and what steps Council officers and Forrest took to deliver a suitable product for considerably less money.
- 4.22 All the component costs of the Hala project were provided by Forrest in fine detail. Council Officers scrutinised these costs. Direct costs compare favourably with market rates and those of our in-house planned maintenance team. Costs for management, supervision, transport etc compare favourably with in-house costs. Comparing the costs of this project with others does not provide like for like comparisons because Hala flats are not comparable with semi detached houses. However, the report highlights that the costs are broadly comparable.

Leaseholders

- 4.23 Leaseholders enter in a legal agreement and should be well aware of the liabilities that accompany that.
- 4.24 Prior to embarking on work the Council and Forrest undertook a comprehensive consultation exercise with all leaseholders at which point we also let them know what the maximum amount they would have to pay would be. At that stage no formal complaints were made to the Council and no leaseholder made direct contact with me to discuss further. One leaseholder made contact with the Repairs and Maintenance Manager who offered to meet with the leaseholder to explain further details but this offer was not taken up. Concerns were also raised by the same leaseholder via Elected Members. I responded to the leaseholder and offered a meeting, which could also involve ward councillors. This offer was not taken up.

- 4.25 In this case leaseholders benefitted in that their final bill was less than had been expected at the consultation stage. The final bill was further reduced in that the portion of preliminary costs of the works was not passed onto leaseholders. This was done on the basis of precedence.
- 4.26 When I wrote to all eleven leaseholders informing them of the actual amount they would be charged I offered to meet with them and provide further detail on how the costs were made up. One leaseholder rang up to express satisfaction with the job and told me they were fed up of stories in the local newspaper and that leaseholders know what they are entering into when they sign the lease. One leaseholder rang up to request a further breakdown of cost and to complain about how it had been apportioned and then added a complaint about the standard of work at his property. This complaint is being dealt with. One leaseholder rang Council Housing who then asked me to send a more detailed breakdown, which I did. Therefore, I have had direct contact with one satisfied leaseholder and one dissatisfied leaseholder. I have had indirect contact with another leaseholder and no contact at all from the other eight leaseholders.
- 4.27 There is an argument though that in line with common practice (in as an example private flats) leaseholders should be expected to pay an apportionment of all the costs incurred in delivering the project, including prelims. The policy is currently being reviewed in consideration of this.

5.0 Training

- 5.1 Managers have taken the view that the principles in managing a PPC2000 contract are the same as those applied to JCT contracts, with which officers were already very familiar. The Service has also been operating two other PPC2000 partnering contracts for rota painting and gas servicing, although it is true to say that the delivery of works under these is more straightforward and repetitive.
- 5.2 Given this background, and whilst recognising that there would be a learning curve for Contract Managers in moving to a partnership arrangement, it was not felt necessary to address this with formal training in the terms and conditions of this type of contract. The view taken was that officers would benefit more from on the job training, coaching and support as necessary.
- 5.3 The audit review identified an initial lack of confidence within the team, rather than a lack of training, as officers were not fully familiar with the aims and objectives of the partnership, or any specific terms and conditions of the contract. This has improved as officers have become more familiar and confident with the arrangements and it has been agreed that Planned Maintenance Officers will continue to receive support in the form of coaching and/or mentoring to ensure they remain fully aware of their role and responsibilities, and are competent at working within the framework of a project partnering contract.
- 5.4 Officers perform a range of tasks including the preparation of plans, specifications, Health and Safety plans and contract documentation. Various technical skills are required and officers need to be knowledgeable in relation to site waste management, methods of safe working and Building Regulations. Knowledge and understanding of standard forms of contract and contractual procedures is essential. This includes the evaluation and processing of tender submissions for acceptance and agreeing valuations for payment. Officers are also required to be organised, maintain regular contact with the contractors in order to monitor progress and workmanship, and monitor the costs of works.

- 5.5 Whilst it is acknowledged that for more complex contracts the council may need to employ external consultants, such as Quantity Surveyors, management feel confident that the technical officers at RMS have the necessary experience, skills and qualifications to manage the routine planned maintenance programmes such as kitchen/bathroom refurbishments, window and door replacements, re-rendering etc. Findings of the audit review support this view.
- 5.6 Actions agreed following the review include:
- To ensure effective compliance with the terms and conditions of the contract with Herbert T Forrest, staff responsible for managing individual contracts within the partnership will be fully briefed in their application.
 - Guidance and/or support will be provided for Planned Maintenance Officers to ensure that they remain fully equipped with the knowledge, skills and confidence required for them to effectively fulfil their role.
 - A thorough review of competencies will be carried out in order to establish training needs within the team and how they can most effectively be addressed.
- 5.7 A workshop session has also been arranged for LCC and HTF staff (at HTF's expense) on working within a PPC 2000 contract. This is to take place in February 2012 and will consist of a mixture of presentations, discussions and group working.

5.8 Head of Environmental Services' Comments:

- 5.9 The Officers employed by the Council to deliver the planned maintenance works are professional, suitably qualified and competent. Within the team there is a range of specific skills and abilities to be able to adequately cope with the range of building services that the Council provides to its housing stock.
- 5.10 The skills that these Officers have are augmented through ongoing corporate and personal development in a wide range of subject areas.
- 5.11 The decision to introduce partnering arrangements for the delivery of the planned maintenance programme represented a significant change for the Council and the staff involved.
- 5.12 The successful implementation of change depends upon many factors. It has always been clear to me that more work needed to be done in terms of managing this change. The internal audit report and its action plan identified that to be the case. This includes ensuring that all relevant staff understand and appreciate how the partnering arrangement with Forrest works and are thus in a position to maximise the advantages of such an arrangement.
- 5.13 Since assuming responsibility for the RMS service in May 2011 I have been reviewing the operation of the service. As part of the review I have clearly identified that there is a need for better communication at all levels as well as there being a need to ensure that all staff have clear responsibilities and accountabilities. To help with this, restructuring is taking place at a managerial / line management level.
- 5.14 Once this has been completed work will take place to further improve the way the RMS service is delivered.
- 5.15 The aim is to completely modernise the service and have in place a clear and agreed strategy for delivering the different elements of the service that RMS provide.
- 5.16 This strategy needs to be in place by the end of the 2012/13 financial year.

6.0 Quality of work

- 6.1 The Contract Manager has reported some issues with the quality of the rendering on the Hala project, for example where sub-contractors have not removed pipes etc. The view is that these issues are essentially cosmetic in nature and that the rendering/pebbledashing is fit for purpose in protecting the building.

- 6.2 These issues have arisen due to the size of the areas being pebbledashed, particularly the large gable ends, it being preferable to apply dashing in one go to avoid patchiness. The contractor was verbally informed of these issues on site at every site visit, this being documented in site meeting minutes.
- 6.3 A Contract Manager was on site on average three days per week during the contract period. One of the duties, allied to site meetings was to walk the site with a representative from HTF to identify and address any issues. The contractor was formally informed of issues through the production of snagging sheets and various emails.
- 6.4 At the time of writing, the Contract Manager was withholding approx £18,000 from HTF's final request for payment until all snagging work is complete and some re-measure issues have been resolved. At this point a final inspection will be made.
- 6.5 It is our conclusion that appropriate arrangements are in place to monitor the quality of work and liaise with the constructor to identify and remedy any defects.

6.6 Head of Environmental Services' Comments:

- 6.7 The issues raised are being dealt with in an appropriate way.

7.0 Preliminary costs

- 7.1 Questions have been raised regarding preliminary costs and labour rates charged by HTF; whether they are considered reasonable by RMS, and whether they were established as part of the tendering exercise.
- 7.2 The Repairs and Maintenance Manager has explained that during the tender process tenderers were not asked to provide this information as contractors are not always consistent in what they consider to be preliminary costs. For example, HTF include scaffolding costs in their preliminary costs, whilst other contractors do not. Therefore, costs are not always comparable.
- 7.3 When evaluating tenders to enter into the five year partnering agreement, the competitiveness of the overhead and profit percentages of each tender was considered during the evaluation and selection process.
- 7.4 With regard to whether preliminary costs are reasonable, HTF do provide a detailed breakdown of all their preliminary costs, which is reviewed and can be challenged by the Contract Managers at RMS as necessary.
- 7.5 As delivery of the repairs programme is split between the in-house RMS workforce and HTF, contract managers are able to effectively compare details of costs provided by both contractors and, as stated above, if deemed necessary can challenge these costs.
- 7.6 Given the nature of these costs and the absence of readily available comparative data, it is difficult for Internal Audit to form a conclusion on the reasonableness of and value derived from preliminary costs. Internal Audit can however, provide assurance that Contract Managers are actively reviewing, and have challenged HTF over, the level of preliminary costs included on individual projects.

7.7 Head of Environmental Services' Comments:

- 7.8 Council Officers scrutinise all the costs and challenge them if appropriate.
- 7.9 The arrangements the Council have for delivering planned maintenance has an inbuilt comparison in that half the planned maintenance programme is delivered in-house and half by Forrest.

8.0 Benefits of the Partnership

- 8.1 As concluded in the original audit report, it is Internal Audit's view that arrangements are in place to ensure that work is completed on time, within agreed budgets and to the required standard.
- 8.2 The capital programme is delivered on time with very little slippage of costs at year end, and tenant satisfaction is high.
- 8.3 The initial internal audit report indicated that some of the potential opportunities and benefits put forward for the partnership had not yet been realised, for example the sharing of good practice, development of innovation and savings/efficiencies from not having to separately tender each project.
- 8.4 Following the Personnel Committee's approval in October 2011 for a revised line management structure for the Repairs and Maintenance function, a second stage is underway to review working practices which will aim to ensure that future arrangements are as efficient and effective as possible and also enable the Council to take advantage of opportunities offered by the partnership. This is scheduled for implementation by June 2012.

8.5 Head of Environmental Services' Comments:

- 8.6 The report highlights benefits achieved already.
- 8.7 There are many more benefits that can be realised. As an example we are currently working on a scheme with Forrest that will provide a number of apprenticeships within this District.
- 8.8 In order to realise the benefits it is essential that Officers can focus positively on the development of the partnership.
- 8.9 As has been stated in previous comments to realise this needs time and effort. Currently much time and effort is being devoted to responding to dealing with misinformation and subjective views on the operation of the partnership.
- 8.10 There is already much evidence that demonstrates that the partnership has a sound base on which we can build and ensure the intended consequences continue to be delivered during the remaining life of the agreement.

9.0 Options and Options Analysis (including risk assessment)

- 9.1 There is essentially one option available to Audit Committee, as follows:
To consider the extent to which this report provides the Committee with sufficient assurance regarding the RMS partnering contract and the conduct/outcome of the Hala Flats Pebbledashing project and whether the Committee wishes to recommend any further action or analysis to Cabinet.

**CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

None identified

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no comments to add.

LEGAL IMPLICATIONS

None directly arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Contract documents (exempt from publication)

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11/0821 - Repairs and Maintenance Section - Partnership with Herbert T Forrest**Assignment Details:****Report Date:** 27 October 2011**Lead Auditor:** Lorraine Jeffreys - Senior Auditor**Supervisor:** Derek Whiteway - Internal Audit Manager**Scope, Objectives & Approach:**

The audit will aim to provide managers with assurance and confidence in arrangements for the ongoing management of the contract by reviewing the following:

- financial and operational performance on the contract;
- the robustness and effectiveness of contract management arrangements within RMS;
- the effectiveness of the partnering contract as a means of delivery.

In considering these, the audit will seek to provide assurance that:

- the form of contract employed is appropriate and effective;
- both parties are fulfilling expectations as partners under the terms of the contract;
- proper arrangements and appropriate levels of capacity have been put in place to manage the contract, responsibilities within RMS being clearly defined and proper procedures, in line with the contract, being followed;
- reporting arrangements are clear and adhered to;
- works awarded are supported by a sound business case;
- the contract is being proactively managed by RMS, performance and quality management arrangements are robust and records show best value is being achieved;
- risks are being managed effectively;
- prices are agreed and sums paid in accordance with the contract and relevant business case; and
- annual savings are correctly calculated and shared.

Assurance Opinion:**Level of Assurance Provided:**  **Substantial**

The partnership has now been in place for 18 months of its five year programme. Following the clarification of a number of points regarding its operation, and a review of the RMS staffing structure, the service is in a sound position to develop and increase the benefits from the partnership. Good arrangements are in place to ensure that work carried out under the partnership agreement is completed on time, within budget and to a high standard. Working relationships between the parties have progressed positively, resulting in Planned Maintenance Officers being better positioned to develop efficiency and effectiveness in operating the partnership framework. Building on the revised line management structure, plans to review working practices throughout RMS should further strengthen current arrangements

Headline Messages:

- Good arrangements are in place for monitoring progress and spend on individual contracts.
- Contracts have been completed within agreed timescales, to a high standard.
- Customer feedback indicates a high level of satisfaction amongst tenants with the work carried out.

11/0821 - Repairs and Maintenance Section - Partnership with Herbert T Forrest

- Payment arrangements have been formalised.
- A revised line management structure is due to be implemented which will clarify roles, responsibilities and lines of accountability.
- Planned Maintenance Officers will continue to receive guidance in the form of support through coaching and/or mentoring.
- Working practices are to reviewed with a view to making sure that arrangements are as efficient and effective as possible, taking advantage of opportunities offered through the partnership to make savings and/or efficiencies.
- A structured approach is to be taken to ensure effective communication and information sharing.
- A review of competencies is to be carried out to establish any training needs within the team, and any skills/knowledge gaps will be addressd.
- Arrangements are to be put in place to ensure that the Core Group of the partnership meet at least bi-annually

Internal Audit Commentary:

In July 2007, Cabinet gave their approval for Council Housing Services to develop a three to five year partnership with an external partner for the delivery of the Council Housing Capital Programme (the work to be split between the council's in-house Repairs and Maintenance Service and the external partner). Following a competitive tendering exercise, Herbert T Forrest were appointed as the council's partner to deliver the Council Housing 5 year Capital Programme. The partnership commenced on 1st April 2010.

As part of a management restructure, in May 2011 management of the repairs and maintenance function transferred from Environmental Health and Housing to Environmental Services. Since that time the Head of Environmental Services has undertaken a review of the Repairs and Maintenance Service to ensure that it meets the needs of the council and its stakeholders. Proposals for a revised line management structure have recently been approved by the Members of the Personnel Committee and this is due to be implemented by January 2012. The second stage of the review, which is to involve an overhaul of existing systems and processes, is due to be implemented by June 2012.

Shortly after assuming responsibility for the repairs and maintenance function, the Head of Environmental Services requested that Internal Audit undertake a review in order to provide assurance as to the ongoing management of the partnership in place with Herbert T Forrest. Throughout this report, where reference is made to the "council", this is Lancaster City Council's Repair and Maintenance Section, and the "partner" is Herbert T Forrest.

The council decided to use the PPC2000 (partnering project contract) for the partnership with Herbert T Forrest, this form of contract being currently in use for other projects managed by the Repairs and Maintenance Section (RMS). A key feature of the PPC 2000 includes integrating all members of the partnership under a single partnering contract with a view to encouraging a team based approach to the project, with all members of the partnership being required to fulfil their responsibilities in accordance with the contract. One of the main advantages of this type of arrangement is that it should involve a non-adversarial approach to problem solving as issues should be addressed at an earlier stage. However, the partnering approach requires a commitment to achieving the potential improvements that this approach can offer. Strong working relationships need to be developed with the partner before a project can progress and everyone involved needs to fully understand their responsibilities for the arrangement to be successful.

This form of contract is usually used where there are a number of partners involved in the

11/0821 - Repairs and Maintenance Section - Partnership with Herbert T Forrest

project, including specialists and consultants. In this case there are only two parties involved. This does not mean that the contract is inappropriate or unsuitable, however for it to be effective it is essential that all parties involved fully understand their responsibilities.

Planned Maintenance Officers were not involved in preparatory work relating to the partnership, the majority of this work being carried out by the then Head of Council Housing, the current Repairs and Maintenance Manager, and the previous Senior Maintenance Officer. Prior to commencing new arrangements some managers felt that more guidance would have been helpful regarding the similarities and differences between the new contract, and those used previously, with which officers felt more familiar. This review identified an initial lack of confidence within the team who felt that they were not fully familiar with the aims and objectives of the partnership, or the specific terms and conditions of the contract. This is improving as officers become more familiar and confident with new arrangements, and it has been agreed that Planned Maintenance Officers will continue to receive support in the form of coaching and/or mentoring to ensure they remain fully aware of their role and responsibilities, and are competent at working within the framework of a project partnering contract.

The partnership was entered into on a shared savings basis on the understanding that any savings made against an 'agreed maximum price' for a contract were to be shared equally between the council and the partner. This is clearly stated in the signed contract. This arrangement involves the council agreeing with the partner a maximum sum for the work prior to the commencement of each project; subject to this maximum sum, payment is based on actual costs plus an agreed overhead and profit element. Any savings between the agreed sum and actual costs are shared equally between the parties. Should the cost of the works exceed the agreed maximum price (+/- any agreed variations) the partner stands the loss. However, there has been a misunderstanding between the parties in relation to these arrangements which has only recently come to light. The partner's view was that the council would pay the agreed maximum sum for the work, subject to agreed variations, irrespective of actual costs. In such circumstances the partner would therefore gain any savings, and stand any losses incurred against the agreed maximum sum for the works. In line with the contract this arrangement would be on an 'open book' basis (the commitment of partners in a contractual relationship to share information on income and expenditure). This allows the council to review and challenge costs as necessary, prior to the approval of the agreed maximum price, by requesting evidence from the partner of appropriate market testing. The council may also request evidence to support actual costs submitted as appropriate. It is essential that officers are fully equipped with the skills necessary to effectively perform this function.

An agreement has now been reached between the parties regarding future payment arrangements and approval has been given by the Head of Environmental Services. Payments made in future will be based on an agreed maximum price, subject to any approved variations, on an open book accounting basis. If the Service is to work on this basis, it is essential that a robust mechanism is in place for Planned Maintenance Officers to be able to satisfy themselves that the terms for individual contracts provide value for money, not only in terms of price and quality, but also in relation to the key performance indicators built into the partnering contract. Planned Maintenance Officers must be confident that the partner has performed satisfactory market testing and that any savings are being passed onto the council.

Progress made and costs incurred on individual projects need to be carefully monitored throughout the period of the contract, with variations being controlled. To assist with this the partner is required to provide periodic 'cost value reconciliation' reports, which detail agreed prices, variations, and actual costs incurred. Any queries arising should be dealt with immediately through consultation with the partner as necessary. Valuations submitted by the partner will also need to be reviewed and payment made once the Planned Maintenance Officer is confident that the value of work claimed is accurate.

Management of the partnership itself could be improved to provide assurance that each party is

11/0821 - Repairs and Maintenance Section - Partnership with Herbert T Forrest

fulfilling its expectations under the terms of the contract. The introduction of regular meetings of the partnership's Core Group would help to achieve this. At present this group meets on an ad hoc basis in response to a specific issue or problem which has occurred. However, benefits are to be gained from a regular review of the effectiveness of the arrangement, including an assessment of whether value for money is being achieved, and how to maximise opportunities for sharing good practice and achieving efficiencies through innovation. It has been agreed that arrangements will be put in place to ensure that the Core Group meets at least bi-annually.

Communication with the partner on an operational basis is now considered good following some initial problems at the start of the partnership. However, significant improvements are required in order to achieve more effective communication and information sharing in relation to the in-house team, and a more structured approach is needed to ensure officers feel fully informed and relationships remain strong. More team meetings need to take place offering staff the opportunity to discuss issues arising, address particular concerns they may have, and to share knowledge etc; this is especially important at pre and post contract stages. It has been agreed therefore that a structured approach will be taken in order to ensure effective communication within the in-house team.

Contract ownership is clear with Planned Maintenance Officers feeling that they have the appropriate delegated authority to manage the contracts for which they are responsible. However lines of accountability need to be reinforced, in particular the role and responsibilities of the Senior Maintenance Officer needs to be clarified. Problem solving arrangements need to be communicated to all team members, and those with specific responsibilities per the contract made aware of their role. Implementation of the recently approved line management structure should effectively address these issues. It has also been agreed that a thorough review of competencies will be carried out to establish any training needs within the team, and an action plan will be developed to address any skills/knowledge gaps identified.

Working practices need to be reviewed with a view to taking advantage of the opportunities offered through the partnership to make savings and/or efficiencies. It has already been identified that expected savings in relation to the technical staff input have not been realised. It is intended that the second stage of the Service review, as referred to above, will include a review of current systems and procedures with a view to ensuring that arrangements are as efficient and effective as possible.

Individual Planned Maintenance Officers are responsible for monitoring progress and spend on their own contracts, this being reported to the Senior Maintenance Officer on a monthly basis. Spend is also monitored and reported quarterly by the Repairs and Maintenance Manager as part of corporate capital monitoring arrangements.

Three contracts have so far reached completion during the term of the partnership and all three were completed within agreed timescales. Savings were made against the agreed maximum sums in relation to one of the contracts, the other two going over the agreed maximum price due to agreed additional works carried out.

Testing established that the standard of record keeping was variable with excellent examples being demonstrated for some contract files whilst others were not as comprehensive or complete as they should be. It has been agreed that arrangements will be put in place to ensure consistency in the maintenance of files and record keeping.

Quality and standards are monitored on an ongoing basis during site visits and monthly progress meetings with the partner. Contract files examined also showed evidence of issues highlighted being addressed and improvements made where necessary. Planned Maintenance Officers have concluded that the quality of work provided by the partner is of a high standard, this being supported by the tenant satisfaction survey results for contracts completed during 2010/11 which show a high level of customer satisfaction.

11/0821 - Repairs and Maintenance Section - Partnership with Herbert T Forrest

A set of key performance indicators is in place with performance being measured on an annual basis. Reported performance in relation to 2010/11 indicates a high level of customer satisfaction with the work carried out, with high scores being achieved in relation to environmental, equality, diversity and health and safety issues. In relation to the percentage of directly employed staff working on the partnership living locally, a target of 80% has been set to be achieved by the end of 2011/12.

The bid submitted by the partner includes proposals to bring innovation to the partnership with a view to improving service delivery, achieving efficiencies and reducing costs. To date however the council has not pursued these proposals; this is an aspect of the partnership which has been identified for further consideration.

Managers' Comments:

This audit is integral to the overall review of the Council's repairs and maintenance service that is currently underway. The purpose of the overall review is to ensure that we deliver the service in such a way as to meet both the needs of our users and the Council. Besides providing assurance and confidence in arrangements this audit has clearly identified the areas in which those involved in day to day management of the partnership arrangement should focus their efforts. Managers are committed to ensuring that the actions identified are implemented. I would like to thank all those involved in the audit.

Head of Environmental Services
21/10/11

Report and Action Plan Agreed By: Head of Environmental Services and Repairs and Maintenance Manager

Follow Up Review Due By: 18 April 2012

I would like to thank the members of the Service(s) involved in the audit for their contributions and cooperation in the audit.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: Head of Financial Services
Chief Executive
Deputy Chief Executive
Head of Environmental Services
Head of Health and Housing
Repairs and Maintenance Manager
Members of Audit Committee
Leader of the Council
Cabinet Member with Responsibility for Housing and Health
Cabinet Member with Responsibility for Community Safety and Clean & Green
Audit Manager (External Audit)

Internal Audit - Risk Opinion Summary and Action Plan

Job: 11/0821 - Repairs and Maintenance Section - Partnership with Herbert

ROS/1

Risk Group: Operational

Risk: The Authority may not be achieving value for money from the partnership if effective arrangements are not in place for managing the contract. (R004399)

Current Risk Exposure: Low

Internal Audit Opinion  There is scope to improve management of the risk

Agreed Action	Responsibility	Implementation Target Date	Ref
1. To ensure effective compliance with the terms and conditions of the contract with Herbert T Forrest, staff responsible for managing individual contracts within the partnership will be fully briefed in their application.	Repairs and Maintenance Manager	31/12/2011	016244
2. Guidance and/or support will be provided for Planned Maintenance Officers to ensure that they remain fully equipped with the knowledge, skills and confidence required for them to effectively fulfil their role.	Repairs and Maintenance Managers	Ongoing	016419
3. A structured approach will be taken to ensure good communication with the partner, and effective information sharing with the in-house team.	Repairs and Maintenance Manager	31/12/2011	016252
4. As part of the second stage of the Service review, current working practices will be reviewed with a view to taking advantage of opportunities offered through the partnership to make savings and/or efficiencies.	Repairs and Maintenance Manager	31/03/2012	016256
5. A thorough review of competencies will be carried out in order to establish training needs within the team and how they can most effectively be addressed.	Repairs and Maintenance Manager	Ongoing	016257
6. Arrangements will be put in place to ensure that the partnership's Core Group meets at least bi-annually to review the effectiveness of the arrangement, and explore areas where good practice can be shared and/or efficiencies made through innovation. This review will be appropriately informed by the views, opinions and experiences of contract managers.	Repairs and Maintenance Officer	31/12/2011	016265
7. Robust arrangements will be adopted to ensure that Planned Maintenance Officers are able to satisfy themselves that agreed prices for individual contracts are providing value for money and that savings are to be shared between the council and the partner. Procedures will cover areas including: <ul style="list-style-type: none"> - market testing arrangements - monitoring of progress made and costs incurred on individual projects - variations - consultation and issue resolution - valuations and - payment arrangements 	Repairs and Maintenance Manager	18/10/2011	016270

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