



INTERNAL AUDIT REPORT



Environmental Services Contract Review Embedded Assurance (1) – Initiation Stage

Issue Date:	20 th August 2015	Issued to:	Simon Riley - Head of Finance and Commercial Services (S151 Officer)
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Environmental Services Contract Review (1)

EXECUTIVE SUMMARY

1. INTRODUCTION & OVERALL OPINION

The Council currently has an outsourced integrated Environmental Services contract which provides services for waste and recycling, street cleansing and grounds maintenance. This contract was due to expire on 31st March 2016 but, in 2014, approval was given by the Executive to extend the contract for up to seven years. In light of budget pressures and the expected loss of recycling credit income, this was intended to provide an opportunity to review the Council’s long term approach and the potential for procurement of a new Environmental Services contract, with an option to exercise a break clause in the extended contract with effect from 31st March 2017.

As such, a project has been initiated to co-ordinate the work required for this review, in accordance with challenging timescales. The project aims to identify savings which can assist in offsetting the anticipated rise in costs relating to the contract and commission a redesigned service, either with the existing provider or with a new provider, via a robust procurement programme and a review of the service requirements.

Embedded assurance involves Internal Audit providing an independent view on project activities and their compliance with the Council’s project methodology and best practice; the key difference compared to standard audit assignments is that this assurance is provided throughout the project life-cycle. This is the first embedded assurance report on the Council’s Environmental Services Contract review and provides assurance over the project management arrangements in place for the initial stages of the project.

At this stage in the project lifecycle, based on the evidence provided, it is the Auditor’s opinion that **Substantial Assurance** can be given that the project is being delivered with sufficient consideration of key project management requirements. The Council is making use of specialist, technical skills and expertise to ensure decision making is suitably informed and governance arrangements are in place to demonstrate an appropriate level of scrutiny and review. Both internal and external communications are co-ordinated to ensure effective consultation on the future of this key contract. Risks faced by the project have been identified and recorded but some audit recommendations have been made to further improve the project’s risk and issue management arrangements. Detailed findings in relation to each assurance area are provided in Section 2 of this report.

Internal Audit Assurance Opinion	Direction of Travel			
Substantial Assurance	N/A			
Assurance Area	Assurance Opinion	Recommendations		
		H	M	L
Governance & Decision Making	Substantial Assurance	0	0	1
Benefits Realisation	Sufficient Assurance	0	0	0
Project Resources	Substantial Assurance	0	0	0
Risk & Issue Management	Sufficient Assurance	0	2	0
Procurement	Substantial Assurance	0	0	0
Time Management	Substantial Assurance	0	0	0
Cost Management	Substantial Assurance	0	0	0
Quality Management	Sufficient Assurance	0	0	0
Communication	Substantial Assurance	0	0	0
Total Number of Recommendations		0	2	1



The audit was carried out in accordance with the agreed Audit Planning Record (APR), which outlined the scope, terms and limitations to the audit.

2. SUMMARY OF FINDINGS

Governance & Decision Making:

Approval to proceed with the project was given through the review of a detailed business case by the Council's Corporate Management Team in May 2015. The business case clearly sets out the scope and the reasons for the project, the intended benefits and objectives, interfaces with other projects, estimated costs and resource requirements and the timescales involved. The details within the business case should be revisited and reviewed throughout the project.

Governance arrangements and reporting lines for the project were subsequently agreed and documented within the Project Initiation Document (PID). The governance arrangements include a member Project Board which has been involved in options appraisals and the ongoing review of progress made by the Project Board. An additional level of review is also planned in the form of gateway reviews by the Shadow Portfolio holder for Environmental Services.

The key officers involved in the project have been identified within the PID. It is highlighted, however, that the project documentation would benefit from clarity of the specific responsibilities of each member of the Project Board to ensure accountability and clarification of the key tasks to be undertaken by each individual throughout the future stages of the project. **Recommendation 3** addresses this finding.

Throughout the project to date, where the Project Sponsor has required delegated decision making powers to progress key stages and decisions this has been formally requested and documented in papers for meetings of the Executive. Reporting mechanisms are also operating in accordance with the PID including monthly highlight reports to the Programme Board. These highlight reports contain details of actions completed in the last month and those to be delivered in the next month and a RAG (Red, Amber, Green) rating for the project.

Based upon the evidence provided, **Substantial Assurance** is provided over the project's current Governance and Decision Making arrangements.

Benefits Realisation

The deliverables and intended outcomes of the project are clearly set out in the project's business case and Project Initiation Document - the key ultimate outcomes being an 'Environmental Services Contract delivering cost savings from April 2017 onwards' and 'maintaining a high level of customer satisfaction'.

At the time of reporting, an estimate of the value of savings which need to be delivered by the project has not been stated within these documents to enable measurement against the intended benefit. It is acknowledged, however, that the financial modelling undertaken as part of the project is intended to quantify the required savings and, as such, could not be confidently stated at the project's outset.



As the project progresses, Internal Audit will continue to review the plans in place for reviewing and measuring the realisation of the project's benefits and critical success factors.

Based upon the evidence provided, **Sufficient Assurance** is provided over the project's current Benefits Realisation arrangements.

Project Resources

A Project Manager has been appointed and is provided under a contract with consultancy firm, Amec Foster Wheeler. The Project Manager has experience in managing and providing technical support for projects of this nature and is a full member of the Chartered Institute of Waste Management and qualified in project management.

The internal resource requirements for the project were estimated within the approved PID and include senior officers with skills and expertise in key areas such as legal, communications and finance. Lead officers for these key areas are present on the Project Board. In addition, specialist support is being provided by technical advisers from Amec Foster Wheeler and external legal advice is commissioned from Freeths.

A budget allocation has been included within the 2015/16 revenue budget to support the delivery of major projects such as this and is sufficient to cover the estimated resource requirements at this time.

Based upon the evidence provided, at the time of reporting, **Substantial Assurance** is provided over the Project Resources.

Risk and Issue Management

A Risk Log has been developed for the project, in accordance with the Council's risk management and assessment methodology, with the exception of the reporting of residual risk scores which have not been included. The risks within the Log were identified during a Risk Workshop facilitated by the consultants. All identified risks have been scored in accordance with the risk matrix and each has an allocated action and owner(s).

Given the nature of some of the risks, such as changes in legislation, the decision has been made to tolerate the risk rather than to take action to treat this. However, where a decision has been made to treat the risk, specific actions should be stated with timescales for completion. On audit review of the risks, some of the actions detailed on the Risk Log would benefit from more detailed action plans – for example, the identified action to address the risk of 'adverse impact on wider social issues' is currently stated as 'stakeholder engagement'. In order to provide assurance that this risk is suitably managed, specific actions and timescales for these should be listed and subject to ongoing monitoring and review. **Recommendation 1** addresses this finding.

There is currently no Issues Log in place for the project. It is noted that key issues arising during the project are being recorded within the minutes of the Project Board meetings. It is advisable, however, to maintain a centralised log of such issues and provide each with a reference number, categorisation and an audit trail to demonstrate efficient and effective resolution. **Recommendation 2** addresses this finding.



Based upon the evidence provided, **Sufficient Assurance** is provided over the project's Risk and Issue Management.

Procurement

The Council has invested in specialist technical and commercial skills in the form of consultancy support from Amec Foster Wheeler to underpin a robust, informed procurement strategy and negotiation. The initial stages of the project have involved a range of analysis and modelling by the technical advisers and project team including analysis of options available with indicative costs and a review of procurement options. The options are based upon the consultants' wider experience of such contracts and assumptions incorporated are specified within the reports.

Discussions have been held with the current contractors in relation to potential changes to the Service Contract and savings which could be delivered to inform decision making on options for future provision. The options analysis and modelling delivered by the technical advisers provide the Council with a basis upon which to assess the proposals and estimated savings provided by the existing contractor and will inform decision making on the procurement strategy to be adopted. At the outset of the project, the consultants were commissioned to deliver an independent value for money assessment of the existing contract. Again, this can be used to inform decision making in relation to the preferred procurement and contract management options available for future delivery.

In accordance with good practice in local government procurement, potential for joint working with other authorities has been explored as part of the project and whilst a decision to pursue single procurement has been made, communication and engagement with other councils is ongoing.

The external, specialist support from Freeths and Amec Foster Wheeler is in place to support the development of the procurement and contract documentation in readiness for later stages of the project. If a procurement exercise is initiated in the next stage of the project, this will involve a resource intensive OJEU competitive dialogue exercise and support for this is incorporated within the consultancy contracts to ensure that appropriate procurement and legal advice will be available throughout.

Internal Audit has reviewed available evidence relating to the procurement of services from Amec Foster Wheeler (consultancy support and project management) and Freeths and has been provided with evidence of framework agreements which have been 'called off', as appropriate, for both providers. Line management arrangements for the project manager are in place and the contracts with Amec Foster Wheeler specify the required deliverables, the timescales for completion of milestones and terms and conditions for payment.

Based upon the evidence provided and the specialist, technical support in place, **Substantial Assurance** is provided over the project's arrangements for **Procurement**.

Time Management

From the outset of this project, it has been emphasised that the timescales for delivery are challenging and there is little room for slippage due to the enforced deadlines in the existing contractual break clause and the time required to undertake a procurement exercise to enable continuous service delivery on 1st April 2017.



During the project to date, Internal Audit has been provided with evidence that the importance of time management has been embedded within the project management arrangements and milestones have been set in accordance with these strict deadlines. A project plan, including milestone dates, is in place and subject to regular review and update. Key decisions are timetabled in accordance with the milestones and communication with internal and external parties has been co-ordinated to allow information received to inform subsequent decision making.

Based upon the evidence provided, **Substantial Assurance** is provided over the project's **Time Management**.

Cost Management

A budget has been set for the project management costs and this was included within the approved business case. The responsibility for the project's financial management and delivery against this budget is with the Project Sponsor. This responsibility is not formally documented (see Recommendation 3) but assurance is placed on the knowledge that this officer is also the Council's Head of Finance and Commercial Services and s151 Officer. The expenditure against budget has not been included in the Project Highlight Reports but it is acknowledged that these reports are produced by the consultant Project Manager and assurance is placed on the Project Sponsor's role in monitoring this budget.

Based upon the evidence provided, **Substantial Assurance** is provided over the project's **Cost Management**.

Quality Management

In order to ensure that the service delivery achieved from the resulting contract is of an appropriate quality and represents value for money, suitable quality management mechanisms should be in place. The current contract for the Environmental Services contract includes some references to quality control and relevant British Standards.

The technical documentation plan includes the development of a payment mechanism, a performance framework and evaluation mechanism. At the time of reporting, these documents could not be provided to Internal Audit but it is understood that these are due to be delivered by the consultants by the end of August 2015. Internal Audit will review these documents once available to seek assurance over the quality assurance mechanisms in place.

Based upon the evidence provided, **Sufficient Assurance** is provided over the project's **Quality Management**.

Communications

It is anticipated that the need to achieve savings will require reduced service levels in some, or all, service aspects and it is key that the ultimate solution implemented is both publically and politically acceptable and deliverable. Therefore, the project needs to involve a comprehensive engagement programme around any changes and all such communications must be suitably planned, co-ordinated and managed.

A communications lead has been appointed and is present on the Project Board. In July 2015, a revised Communications Plan was produced and presented to the Project Board for discussion. A number of valid points have been raised on areas for further clarification and development of the plan. This should remain an evolving



document and must be subject to regular review. The Communications Plan and delivery against this will continue to be reviewed by Internal Audit throughout the project.

A public consultation has been co-ordinated during July and August 2015 and response rates were high compared with other local government consultations, thereby demonstrating an effective and engaging consultation process. Time has been allotted within the project planning for analysing responses received to ensure that the outcomes are suitably valued and inform subsequent decision making. A paper on the outcomes of the consultation has been prepared for the member Project Board and outcomes should inform decisions made in relation to service needs, priorities, performance of the existing contract and assumptions within the options appraisal relating to estimated take up of different service options, such as charging for green waste.

Communication with elected members has been planned and delivered since the elections in May 2015 and the regular meeting of the member Project Board has ensured updates are provided on an ongoing basis. Feedback provided by the member Project Board in relation to the initial proposed options for service delivery has been formally recorded in a technical note and has informed the basis for subsequent stages of the project and the detailed options appraisal analysis.

Based upon the evidence provided, **Substantial Assurance** is provided over the project's **Communications**.

The following Action Plan provides three recommendations to address the findings identified by the audit. If accepted and implemented, these should positively improve the control environment and aid the Council in effectively managing its risks. Internal Audit will continue to engage with the project as it progresses and will issue further reports to provide assurance at key stages.

3. LIMITATIONS TO THE SCOPE OF THE AUDIT

This is an assurance piece of work and an opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Audit Planning Record.

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.

The review by Internal Audit does not include any technical review in relation to the Environmental Services contract or the assumptions and calculations applied within the modelling and options appraisals.

ACTION PLAN

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
1	<p>The project Risk Log contains a number of risks which are to be 'treated' and, as such, action by the Project Board is required to reduce the risk exposure.</p> <p>It was highlighted, however, that some of the actions within the Risk Log lack detail and timescales for completion.</p> <p>There is a risk that suitable action may not be taken and any failure to take action within an appropriate timeframe may not be highlighted.</p>	<p>An action plan should be in place to address each risk (unless a decision is taken to tolerate the risk) and the completion of the actions should be subject to regular monitoring.</p>	<p>Agreed</p> <p>Risk Management and mitigation is a core part of Programme and Project management. All risks are identified an owner and is subject to regular review</p>	Medium	S151 Officer and Project Manager -	Immediate
2	<p>At the time of reporting, there is no log of issues encountered during the project. This should be a stand-alone document which records issues and actions taken (and to be taken) to resolve these. This enables efficient resolution of issues to be managed, monitored and evidenced.</p> <p>Action points are recorded on the Project Board minutes but issues are not consolidated into a centralised record and allocated individual references. There is a risk of unresolved issues being lost between meeting notes.</p>	<p>An Issues Log should be set up for the project and each issue encountered should be given a unique reference. A full audit trail should be provided in relation to the resolution of all issues.</p> <p>An example of an Issues Log template can be provided by Internal Audit.</p>	<p>Agreed</p> <p>The operation of regular fortnightly project meetings meant that issues were addressed through action points and with the project manager ensuring actions were completed</p> <p>A formal issues log will enable greater control and accountability within this project and future projects</p>	Medium	S151 Officer and Project Manager	December 2015



Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
3	<p>The membership of the Project Board is detailed in the Project Initiation Document and includes senior officers in key areas including leads for finance, legal and communications.</p> <p>The current project documentation does not, however, clearly specify the roles and responsibilities of each member of the Project Board. Responsibility should be allocated, for example, for updating the Risk Register and responsibility for monitoring expenditure on the project as well as the more specialist, project-specific tasks.</p> <p>There is a risk that unless these responsibilities are clearly documented there may be a lack of accountability and a risk of failure to allocate key tasks – or indeed, duplication of effort.</p>	<p>The roles and responsibilities of the members of the Project Board should be documented and agreed to ensure that as the project progresses all officers are aware of the tasks allocated to them and are accountable for delivery of these.</p>	<p>Partially Agreed</p> <p>The project has been delivered effectively and efficiently through the project team. Key Roles of Project Sponsor, Project Manager and Senior User were identified</p> <p>Role Definitions and Accountabilities will be more fully documented at start of future projects</p>	Low	S151 Officer	Immediate

GLOSSARY

The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

Level	Design of Control Framework	Compliance with Controls
SUBSTANTIAL	There is a robust framework of controls making it likely that service objectives will be delivered.	Controls are applied continuously and consistently with only infrequent minor lapses.
SUFFICIENT	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
LIMITED	There is a risk that objectives will not be achieved due to the absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls.
NO	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.

Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority	Impact & Timescale
HIGH	Management action is imperative to ensure that the objectives for the area under review are met.
MEDIUM	Management action is required to avoid significant risks to the achievement of objectives.
LOW	Management action will enhance controls or improve operational efficiency.