

REPORT TO: Audit and Governance Committee

MEETING DATE: 14 March 2017

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – PPP Contract Monitoring

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on PPP Contract Monitoring.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

- 3.1 A review of PPP Contract Monitoring was undertaken as part of the audit plan for 2016/17.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for the monitoring of the PPP Contract were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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EAST LoTHIAN COUNCIL – INTERNAL AUDIT PPP CONTRACT MONITORING

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the monitoring of the PPP contract was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- A detailed Project Agreement is in place between the Council and Innovate East Lothian Limited in respect of the PPP contract.
- All Unitary Charge payments made by the Council are properly authorised and submitted by the due date.

1.3 Areas with Scope for Improvement

- The arrangements in place for applying deductions for performance failures by the Contractor require review – in a number of cases examined, the deductions had not been applied in accordance with the Project Agreement. *Risk – failure to recover all amounts due to the Council.*
- There was a lack of adequate checking procedures in place to ensure that the benchmarking exercise for cleaning was carried out in accordance with the Project Agreement. *Risk – errors may occur and remain undetected.*
- The monitoring arrangements in place for minor works require review – in some instances the spreadsheet used to monitor minor works had not been updated and no documentation had been provided by the Contractor to support the costs charged to the Council. *Risk – errors and irregularities may occur and remain undetected.*
- There had been a failure to ensure that the utilities reconciliation was accurate and complete – a number of errors and inconsistencies were noted in the utilities reconciliation prepared by the Contractor for financial year 2015/16. *Risk – errors and irregularities may occur and remain undetected.*
- The arrangements in place for the monitoring of income collected by the Contractor on behalf of the Council were considered inadequate – income due to the Council for the use of PPP project facilities had not been received since April 2016. In addition a number of errors were found in the figures submitted by the Contractor for financial year 2015/16. *Risk – loss of income to the Council.*

1.4 Summary

Our review has highlighted a lack of adequate checking and monitoring arrangements in place for the PPP contract. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

March 2017

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.3	<p>Management should ensure that the spreadsheet used for monitoring minor works is fully completed and is updated with details of the recharge requests sent to Business Finance.</p> <p>Management should ensure that the Contractor provides appropriate documentation to support the costs charged to the Council for minor works.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.2.4	Management should review the benchmarking exercise for cleaning undertaken by the Contractor to ensure it was carried out in accordance with the Project Agreement.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed – to be reviewed in conjunction with the current benchmarking exercise.		July 2017
3.2.5	Management should ensure that the PPP Project Officer is given access to the Great Plains general ledger system to enable appropriate checks to be carried out.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		May 2017
3.3.1	Consideration should be given to ensuring that any changes to the Project Agreement are formally agreed by both parties.	Medium	Depute Chief Executive – Resources & People Services	Agreed		April 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Appropriate checks should be carried out to ensure that the insurance rebates due to the Council are correctly calculated – evidence of the checks should be retained on file.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		July 2017
3.4.1	Management should ensure that all utilities documentation currently held by the Council's Energy Officer is retained in a shared area with access given to all relevant staff responsible for administering the PPP contract.	Low	Energy Officer	Agreed		April 2017
3.4.3	<p>Appropriate checking procedures should be put in place to ensure that the utilities reconciliation prepared by the Contractor is accurate and complete – where errors are identified the Contractor should be informed and appropriate adjustments carried out.</p> <p>Management should review the current approach adopted for the inclusion of additional equipment in the utilities reconciliation.</p> <p>Management should ensure that sub-meter readings provided by the contractor are validated.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management	<p>Agreed – current roles to be reviewed and responsibilities identified.</p> <p>Agreed</p> <p>Agreed – random sample to be considered at year end.</p>		<p>June 2017</p> <p>December 2017</p> <p>March 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.4	Management should review the appropriateness of the current approach adopted by the Contractor in excluding all Climate Change Levy from the utilities reconciliation.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed – to be discussed with the contractor.		June 2017
3.4.6	Management should ensure that for utilities consumed by Third Parties a monthly charge is calculated and paid to the Council in accordance with the Project Agreement.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed – discussions will be held with the contractor.		April 2017
3.5.2	<p>Appropriate checking procedures should be put in place to ensure that information held on the payment mechanism deduction spreadsheet is accurate and complete.</p> <p>Management should ensure that where errors are identified on the payment mechanism spreadsheet appropriate adjustments are carried out.</p> <p>All deductions applied should be properly indexed in line with the Project Agreement.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.4	Management should be provided with a report detailing performance failures for which a deduction has not been applied.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed		May 2017
3.6.1	On a regular basis, the Contractor should provide the Council with detailed information in respect of all income received from the use of PPP project facilities.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.6.2	Management should ensure that the list of user groups (Authority, Community or Third Party) are reviewed annually and updated.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.6.3	Management should ensure that the agreed income in respect of Community use of PPP project facilities is reconciled to amounts received on the Contractor's credit notes.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.6.4	Management should ensure that all income due from the Community use of PPP project facilities is properly deducted as part of the Contractor's monthly Unitary Charge invoice.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.5	<p>Management should ensure that the Third Party Income Notice provided by the Contractor is supported by adequate documentation to enable appropriate checks to be carried out.</p> <p>Management should ensure that the Third Party Income Notice is accurate and complete – evidence of the checks should be retained on file.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		May 2017

Grading of Recommendations

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

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.