

## APPENDIX 3: Executive Summaries of Audits Finalised Since Last Update To AARC (January 2024)

### Utilities Management 23/24

Overall conclusion on the system of internal control being maintained	R
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RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Governance	R	1	2
B: Operational Processes	R	0	2
C: Financial Management	R	0	7
		1	11

Opinion: Red	
Total: 12	Priority 1 = 1 Priority 2 = 11
Current Status:	
Implemented	3
Due not yet actioned	0
Partially complete	0
Not yet Due	9

The management of utilities within the Council is currently decentralised, with individual service areas handling meter readings, payments, and contract management independently. There is currently no overarching role or approach to align and coordinate utilities management activity, which has led to inconsistent practices and operational gaps, as identified in this audit.

Management acknowledges the need for a unified corporate approach and, having requested the inclusion of this audit in this year's annual internal audit plan in order to obtain assurance around the arrangements currently in place, are already working to improve this area. To date this has involved the collation of a master list of buildings, accounts, and billing details, which, although still a work in progress, has allowed Property Services to identify and improve several contract arrangements in place, as well as provide a starting point for future management of utilities within the Council.

#### **Governance**

As highlighted above, the assignment and understanding of roles and responsibilities in regard to utilities management were found to be unclear, with service areas managing their buildings independently. There is no oversight to cover areas such as the competitiveness of contracts, alignment with climate action priorities, and potential cost savings through coordinated efforts.

While the Council utilises a public procurement organisation (Crown Commercial Services) for entering into utility contracts, there was found to be limited awareness and understanding by officers as to how the agreement works. Renewals and tariff changes were found to have occurred in some instances without operational staff involvement, leading to increased or unexpected costs.

There is currently no guidance or procedures in place for staff involved in utility processes, covering key aspects such as roles and responsibilities, meter reading submissions, invoice verification, and management of income like Feed-In Tariff payments. It was also reported high staff turnover and the separation from Oxfordshire County Council has led to a loss of knowledge, with officers taking on responsibilities from former staff without formal handovers or guidance.

### **Operational Processes**

The audit reviewed contract arrangements for ten different buildings (accounting for five cost centres) across the Council's services. Although different types of meters are legally required based on usage, the audit found a variety of contract types (fixed, standard variable, flexible) and varying charges and tariffs to be in use. As such, daily standing charges and consumption differed (for example, for the sample reviewed, standing charges ranged between £0.24 and £1.05 per day). Due to unclear responsibility for entering into contracts, it is uncertain whether these tariffs provide value for money or align with the Council's climate action priorities. Some invoices reviewed also suggested potential cost savings by switching tariffs.

Inconsistent practices were observed regarding meter readings for the ten sampled buildings, particularly for those with standard meters. Despite the requirement for regular meter readings to ensure accurate charges, review of invoices found a mix of ad-hoc customer readings, supplier readings, and estimated readings for utility supplies, with only one meter out of the 11 standard meters sampled having submitted regular monthly readings. Notable consequences of this inconsistent approach include a building's water supply being invoiced based on estimated usage since March 2022, another building's gas supply being invoiced on estimates from April to October 2023 (resulting in a large number of credit notes and re-issued invoices when a reading was later submitted), and one water supply being invoiced based on estimated readings since August 2021. As well as potential inaccurate charges, the lack of consistent meter readings could also have implications for budget monitoring and forecasting.

The Council has Half Hourly Meters for certain buildings, as legally required for large electricity users with peak loads exceeding 100kW. These meters require Data Collector (DC), Data Aggregator (DA), and Meter Operator (MOP) services for the handling and submission of data, for which the Council currently uses default services from the electricity provider, paying separately for each building. These default tariffs are generally more expensive than procuring a single contract to cover all sites.

Certain smaller buildings are able to utilise Non-Half Hourly meters (depending on usage), which also eliminate the need for manual readings. However, the additional costs incurred by these were sometimes found to be greater the energy consumption charges for the building.

### **Financial Management**

During audit testing it was observed that credits held on utility accounts are not used for payment or withdrawn to the Council. Instead, they remain on individual accounts and are carried forward each billing cycle. The highest current credit value identified among the

sampled invoices was £7,250, with other account values noted at £3,313 and £1,271. There is therefore potentially money held within the Council's utility accounts, that could be used for payment or withdrawn.

Review of utility payments made in 2023/24 for the sampled cost centres and buildings also identified various mis-coding issues, potentially affecting budgeting and forecasting. Examples noted include five electricity invoices, totalling £4,113 (25% of the building's electricity budget), being coded to the wrong cost centre, and multiple invoices being coded to the wrong general ledger account. These errors, were not detected during coding or authorisation of the invoices, instead being highlighted for the first time during the audit.

Errors in coding VAT were also noted, although these particular errors are within HMRC tolerances and won't materially affect the monthly VAT return, discussions with Finance confirmed additional checks for utility invoices will be implemented for future VAT returns to ensure accurate coding. A separate report identified £4,072 in payments for 2023/24 for which a VAT code had not been assigned, raising queries around the completeness of records and inconsistencies in coding practices.

The audit noted unclear responsibilities and inconsistencies in the management of Feed-In Tariff (FIT) Payments, which are payments from energy suppliers for the Council's solar panels. Reported issues include a lack of oversight on FIT meters, tariffs, and payments, with no assurance of value for money, as well as historic problems with a supplier account, including misassignment and payment complications. While meter readings are submitted quarterly, cheques are received on an ad-hoc basis, complicating forecasting, and some locations currently lack FIT meter/payment setups.

During the audit, it was observed that the budget monitoring and forecasting tool used by budget holders to input forecasts and commentary is currently not operational. This has been identified by Finance and raised with the developer for resolution with the final solution due to be implemented shortly. In the interim, budget forecasting has been conducted offline, with Finance Business Partners collaborating with service areas to review and update their forecasts manually.

Among the five cost centres reviewed, it was found only one service increased its electricity and water budgets for the current financial year (2023/24), while the others maintained the same budgets despite general awareness of increasing utility rates and overspends in the previous year. Audit analysis comparing 2022/23 and 2023/24 tariffs showed increases in daily standing charges of up to 97%, and in consumption rates of up to 133%. It was reported that due to pressures not being submitted by services, a corporate inflation contingency was maintained centrally in 2023/24. Budget performance forecasts for those reviewed show a mix of over and underspends, although it is noted some of the underspends are skewed by coding errors or timing issues. While a corporate budget was established as a buffer, it is understood only one service to date has requested funds to meet an identified shortfall.

## IT Governance 23/24

Overall conclusion on the system of internal control being maintained	A
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RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Service Structure	G	0	0
Digital Strategy	A	0	1
Programme and Projects	A	0	2
Performance Management	R	0	1
Risk Management	G	0	1
		0	5

Opinion: Amber	
Total: 5	Priority 1 = 0 Priority 2 = 5
Current Status:	
Implemented	1
Due not yet actioned	1
Partially complete	0
Not yet Due	3

The Digital and Innovation team are responsible for the management and delivery of digital services across the council. The service has a defined management structure, there is a documented and approved digital strategy and formal IT risk management procedures are in place. The two key areas of risk identified relate to programme/projects and performance management where more formalised procedures are required.

### *Service Structure:*

There are clear lines of accountability and responsibility for the Digital and Innovation team. The team is going through a re-structuring exercise and a head of service has recently been appointed. The new structure includes a Cyber Security Lead. There are regular management and team meetings to review service delivery and operations.

### *Digital Strategy:*

There is a documented and approved Digital Futures Strategy for the period 2023 – 2026, which includes a roadmap that sets out the priority IT/digital areas each year. The implementation of the strategy is overseen by a Transformation and Digital Futures Programme Board which meets monthly. An area of risk identified is that the Digital Futures Strategy does not show how it aligns with the council's overall aims and objectives. It is important that this alignment is clear and transparent to ensure the strategy supports the council's business plan.

### *Programmes and Projects:*

There is a digital futures programme that will see the implementation of the Digital Futures Strategy. There are processes in place for managing IT projects but they are not formalised in a set of documented procedures to ensure there is a consistent approach to project delivery. A post implementation review is also not performed at the end of all projects to identify any lessons learned for future projects.

*Performance Management:*

There are no performance indicators for the Digital and Innovation team and hence a risk that the performance of the team is not measurable in terms of achieving strategic and operational targets.

*Risk Management:*

There is a formal approach to risk management and all digital risks are logged on a risk register which is subject to regular review. All risks are scored using an agreed methodology and currently the three highest scoring risks are cyber, key person dependency and portable media devices, in that order. An area for control improvement is to ensure all risks have mitigation actions against them as some were found to be missing or incomplete, which could result in the level of risk exposure not being minimised. The cyber risk is included on the corporate risk register and processes are being agreed across all services to ensure there is effective risk escalation in place.

**Strategic Contract Governance 23/24**

<b>Overall conclusion on the system of internal control being maintained</b>	<b>G</b>
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<b>RISK AREAS</b>	<b>AREA CONCLUSION</b>	<b>No of Priority 1 Management Actions</b>	<b>No of Priority 2 Management Actions</b>
<b>Policies &amp; Procedures</b>	<b>G</b>	0	3
<b>Compliance with Procurement &amp; Contract Guidance</b>	<b>G</b>	0	4
		0	7

Opinion: Green	
Total: 7	Priority 1 = 0 Priority 2 = 7
Current Status:	
Implemented	0
Due not yet actioned	0
Partially complete	0
Not yet Due	7

In March 2023, the Council approved new Contract Procedure Rules, commenced a programme of guidance and support for Council Officers and initiated new contract gateway procedures, leading to the establishment of a new Procurement & Contracts Group responsible for contract procurement governance. The Procurement Strategy was approved in October 2023. The Procurement Team was set up with a remit to contribute to

the development and delivery of the Council's strategic priorities and objectives, to advise the Council on all matters relating to Corporate Procurement and effective contract management, to lead, develop, manage and monitor Council's procurement strategies, systems, policies, processes and procedures in line with best practice and to provide advice on effective contract management.

The audit identified that contract procurement and contract management arrangements are generally working well and noted some improvements to further strengthen governance and controls, in conjunction with the work already in progress.

**Policies & Procedures** – Significant work has been undertaken to develop contract procurement and contract management procedures, in line with the Council's Contract Procedure Rules. Seminars and workshops on the Procurement Strategy (embedding Council's Contract Rules) have been held since June 2023 to communicate to staff existing policies and procedures and how they should be applied in their procurement activities.

The Procurement Team is continuously developing and improving guidance to staff. A Procurement Commercial Playbook has recently been finalised and will be rolled out shortly. Tools and checklists have been designed to provide contract owners with a consistent format for supporting procurement activities. The contract management tools and checklists have also been developed and will be rolled out with the Procurement Commercial Playbook.

The current Procurement Act (on which the Procurement Strategy is based) became law in 2023 (Received Royal Assent, but not in force). The New Procurement Act, which is expected to come into force in October 2024, will introduce a number of changes to public procurement and management of contracts. Preparatory work is being carried out between now and October 2024 in readiness for the introduction of the new Act.

**Compliance with Contract and Procurement Guidance** – All procurement activities above £5K (quotes or tenders) are required to go through the Portal which was launched in 2023. This has improved oversight of the process and makes monitoring of compliance with policies/procedures easier. Based on testing performed on a sample of 3 contracts awarded in 2023-2024, it was found that procedures followed were compliant with Council's Contract Procedure Rules with the exception of one contract where there was a waiver in place. It was not possible to evidence that a Waiver Form had been completed or that it had been recorded on the Waiver register.

Publication of the Council's Contract Register is a statutory requirement. Examination of the Contract Registers published over the year to date showed that they were published regularly.

Contract owners should record details of contracts they have been engaged in on the Internal Departmental Contract Register, which is held on the MS Team's Sharepoint Site. Although contract owners have entered the contract details under their respective tabs, there was a lack of a consistent format for recording contracts. It is noted that the internal and published versions of the contract register are being reviewed and improved. Audit reviewed contract management arrangements at service level for a sample of three contract owners. As the contract management checklist has not yet been implemented with contract owners, officers are not following a consistent format. However, for each of the arrangements reviewed, there were no significant issues identified with the contract management activity in place.

**Follow-up, Contract Management 2022/23** - A separate audit of Contract Management was undertaken during 2022/23, with an overall conclusion of “Amber” and 4 management actions agreed. Implementation of these management actions has been reviewed as part of this audit and it has been noted that 3 have been confirmed as fully implemented and 1 is partially implemented. The outstanding management action is in relation to KPI’s and performance reporting requirements for the Leisure Services contracts. Internal Audit will continue to monitor implementation of this action via the standard Internal Audit follow up process.

**Payroll 23/24**

<b>Overall conclusion on the system of internal control being maintained</b>	<b>G</b>
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Opinion: Green	
Total: 3	Priority 1 = 0 Priority 2 = 3
Current Status:	
Implemented	0
Due not yet actioned	0
Partially complete	0
Not yet Due	3

From June 2023, The Council have had a managed payroll service arrangement with an external service provider. The audit focussed on the operational arrangements in place for the provision of the payroll function. It did not include detailed testing on processing arrangements.

**Key Findings**

There is a clear and comprehensive Service Level Agreement (SLA) in place. This sets out roles and responsibilities of both the service provider and Cherwell District Council covering all expected key aspects of the payroll process. This includes clear timescales for completion of different stages of the payroll process, steps and mechanisms in place for checking input and output and approval processes to enable timely and accurate payments to be made.

Following the introduction of the current arrangements, there have been a couple of issues reported. This includes some overpayments of overtime and mileage claims due to the timing of approvals and an issue with a data upload which resulted in April 2024 increments having to be re-entered. In both cases the service provider and Cherwell District Council have worked together to review and resolve the issues identified. In relation to the overtime / mileage overpayments, there is ongoing work to improve processes going forward.

There were a couple of areas where some follow up is required with the service provider to ensure that service provision remains on track. Although there have been some discussions with the provider since the new arrangements came into effect in June 2023, formal service review meetings have not taken place on a quarterly basis as set out within the SLA. In addition, although service level objectives are set out within the SLA, the

reporting on performance of the contractor against these objectives is limited to a monthly accuracy report.

It is noted that the current permissions for the Payroll Specialist haven't been reviewed following the introduction of the new arrangements to ensure that there is appropriate segregation of duties. Although the payroll process is segregated between HR and payroll in terms of the set-up of new starters and the upload and checking of payroll data, at present it appears that the Payroll Specialist permissions enable access to both parts of the process in relation to the set-up of new members.

**Definition of Internal Audit RAG opinions:**

<b>Grading:</b>	<b>G</b>	<b>A</b>	<b>R</b>
<b>Overall conclusion on</b> the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.