

<u>MEETING</u> AUDIT COMMITTEE
<u>DATE AND TIME</u> TUESDAY 19TH APRIL, 2016 AT 7.00 PM
<u>VENUE</u> HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BQ

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
1.	PUBLIC QUESTION AND COMMENTS (IF ANY)	1 - 18

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**AUDIT COMMITTEE
TUESDAY, 19 APRIL 2016**

ITEM 5 – PUBLIC QUESTIONS AND COMMENTS

Note

At the meeting, a time period of up to 30 minutes, is available for public questions and comments in total. If they wish the questioner at the meeting may ask one supplementary question to the original question, which will be answered without discussion. The supplementary question must be relevant to the original question put to the Chairman.

Qn No	Item No	Raised By	Question Raised	Answer
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1.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	<p>In table 1 item 4 it says that the CSG invoicing and monitoring audit was satisfactory. Please can you tell me how many invoices were inspected, which gainshare arrangements were reviewed, to what extent the negotiated savings were investigated and validated, what contractual documentation was provided to support the savings claims and will you provide a copy of the report?</p>	<p>The review examined the controls in place around the three types of CSG invoices: (1) Management Fee, (2) Special Project Initiation Requests (SPIRs) and (3) Gain Share.</p> <p>In respect of this question, we have assumed ‘negotiated savings’ is the same as gain share savings. The overall savings agreed by Cabinet at the sign off of the business case were outside the scope of the audit. This audit gives assurance over the following risk areas: Contract Governance, Contract Monitoring and Invoicing & Supplier Payment.</p> <p>We can provide a full copy of the report and have published it here: http://barnet.moderngov.co.uk/documents/s31591/CSG%20Invoicing.pdf</p> <p>(1) Management Fee We obtained and reviewed the financial model, agreeing the detail back to the detail of the contract.</p> <p>The testing period was 01/04/2015 - 31/08/2015. There was one quarterly Management Fee invoice raised in this period.</p> <p>Evidence of the budget holder’s approval of the invoice was reviewed. The invoiced amount (£6,612,754) agreed to the financial model.</p>
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				<p><u>Service credits</u></p> <p>The quarterly report listing the service credits which were awarded in Q1 was obtained. There were five underperforming KPIs recorded in the Q1 performance report. We agreed the KPIs to the service credit listing. The agreement of the service credits was approved at the September SPB meeting. The minutes of the meeting on 17/09/2015 were obtained and reviewed to confirm this.</p> <p>The agreement of the service credits was approved at the September Strategic Partnership Board meeting. The minutes of the meeting on 17/09/2015 were obtained and reviewed to confirm this.</p>
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				<p>(2) SPIRs projects</p> <p>The SPIRS are invoiced on a monthly basis. Between 1 April 2015 and 31 August 2015 there were five invoices raised. We selected a sample of two months.</p> <p>The SPIRS schedules were obtained for May and June from the Head of Finance. The following amounts were recorded:</p> <p>May - £655,536 June - £985,939</p> <p>The invoices were obtained and agreed to the SPIRs schedules for the respective month. We also confirmed that the payment had been approved in the projects team meetings. The minutes of the meetings for 27/05/2015 and 29/06/2015 were obtained and reviewed to confirm this. The papers were reviewed and we confirmed that the milestone reports had been submitted for each meeting. The values on the reports were confirmed to the invoices.</p>
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				<p>(3) Gain Share</p> <p>The projects which entitle CSG to a gainshare are agreed at the Procurement Board and subsequently tracked.</p> <p>There was one invoice raised in the period between 01/04/2015 and 31/08/2015. The invoice was raised on 09/06/2015 for £111,568 exc. VAT.</p> <p>The £111,568 invoice amount was in line with the agreed gainshare percentages as per the contract.</p> <p>The gain share proposal was reviewed by the Procurement Board at the May 2015 meeting. The invoice was reported to the Procurement Board at the July 2015 meeting. We confirmed the Council's Head of Finance attended both meetings.</p>
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2.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	The ITDR report states “The Council’s ITDR recovery requirements are described in the contract with Capita. It was noted that the requirements detailed in the contract are not those that are being delivered by the ITDR project”. Why was this deficiency not flagged up as part on the standard contract monitoring procedure rather than through an audit inspection?	<p>Concerns about the delay to providing ITDR and the scope of ITDR provision had been raised, both through contract management routes and through the Business Continuity function.</p> <p>Internal Audit is a valid, and valuable, part of assessing the contract and management meet with Internal Audit as part of the audit planning process, to discuss audits/risks that may be relevant for the year ahead. ITDR had proactively been raised as a concern by management through this process.</p>
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3.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	Why is there no comment in this report on the contract monitoring procedures that allowed these shortcoming to go unnoticed for so long?	<p>The scope of the IT Disaster Recovery audit covered the following risk areas and all findings in these areas have been included within the report:</p> <ul style="list-style-type: none"> • Business Requirements • Contract Specification for DRP • Governance • Proposed DR Solution <p>Concerns about the delay to providing ITDR and the scope of ITDR provision had been raised, both through contract management routes and through the Business Continuity function. The contract is based on delivery of outputs and outcomes and these are monitored. ITDR had therefore proactively been raised as a concern by management.</p>
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4.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	On the interim ITDR capability, the report states “we confirmed that an Interim ITDR capability was in place”. Who is “we”, and what evidence was provided to support that statement?	<p>‘We’ is Internal Audit.</p> <p>This particular review was undertaken by PwC on behalf of the Head of Internal Audit. The sentence “we confirmed that an Interim ITDR capability was in place” relates to a previous point in time; the following sentences in the report refer to there having been “a ship to site “data-centre” that contained infrastructure for the Council’s legacy systems. These services were procured from an external supplier by Capita but the contract for these services lapsed in early 2015 and was not renewed”. The audit finding as stated at the end of the paragraph was that at the time of the audit ‘there is currently no alternative interim capability’ – hence the priority 1 finding and recommendation.</p>
5.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	On the interim ITDR capability, the report states “These services were procured from an external supplier by Capita but the contract for these services lapsed in early 2015 and was not renewed.” Who was responsible for renewing the contract, Barnet Council or Capita, why was the failure to renew not picked up as part of the contract monitoring procedure and was there a specific instruction not to renew or was it simply overlooked?	The Interim ITDR was procured by Capita on behalf of the council. Capita have confirmed that the interim ITDR contract had actually been renewed for a further 12 months from the start of 2015. This was to coincide with SAN to SAN replication that began at this time and which was fully operational in January 2016.

6.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	<p>Why were the delays in receiving relevant information and being able to speak to the appropriate staff within CSG IT not flagged up as part of the contract monitoring system or drawn to the attention of the audit committee sooner and is this something which should be strengthened in the contract management procedures?</p>	<p>The quarterly Internal Audit progress report to the Audit Committee includes a 'Work in Progress' section. This has informed the Audit Committee as to progress on this audit. In the 2015/16 plan the original audit title was 'Business Continuity Strategy' and the audit was planned for Q1. During the scoping of the audit, it was agreed to split the audit into two – so that the Business Continuity Strategy was covered as planned in Q1 by the in-house audit team (receiving Satisfactory Assurance) but the Disaster Recovery aspect, which was deemed to be an IT Specialist audit, was scheduled for Q2.</p> <p>The Q2 report, presented in November 2015, stated this audit was at the Planning stage. At the November Audit Committee meeting, the Head of Internal Audit stated that audits involving IT had suffered some delays - mainly due to difficulties with engagement on the audits due to the high turnover of IT Directors within CSG.</p> <p>The Q3 report, presented in January 2016, stated that the Disaster Recovery audit was at the End of Fieldwork stage.</p>
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7.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	Audit say “It was noted that the requirements detailed in the contract are not those that are being delivered by the ITDR project”. Capita say “The current ITDR solution in operation is correct but the capacity document is incorrect”. Who should I believe?	The audit was undertaken at a point in time and the audit findings refer to the evidence provided to audit during the fieldwork. Any statements made by Capita within their management response to the audit recommendations will be verified by audit during the follow-up audit visit, scheduled to take place during Q1 of 2016/17. The findings of this follow-up will be reported to the July Audit Committee in the Q1 Internal Audit progress report.
8.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	Capita say “The Council and Capita will also engage to assess the appropriateness of the banding of each of the systems and applications in the method statement”. Surely this was documented in the original method statement in which case why is this a subject for discussion or is this going to be treated as a variation to contract?	The banding of systems will be adhered to; however, some systems referred to in these bandings have been decommissioned / replaced since the start of the contract and others are managed by third parties. The bandings therefore need to be revisited to ensure that they are accurate.

9.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	How many system users are there at present and is the contract specification for 2500 users adequate?	The ITDR solution has been appropriately sized to the number of users with devices that Capita currently deliver IT services for.
10.	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	Given there are no documented ITDR plans; there have been no tests of the new capability; and there is no recovery infrastructure in place or on contract to affect a successful recovery, does this represent a breach of contract?	The delays to ITDR had been flagged as a concern both pre and post audit and have resulted in contractual discussions which are ongoing.
11	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	What was the cause of the “significant delay” in the ITDR project and who is to blame for the delay?	<p>A large ‘physical to virtual’ transformation in preparation for the Barnet data centre move had to be completed in advance of the ITDR project commencing.</p> <p>This was mainly due to the complexity of the Barnet IT environment, the lack of application documentation and inter-dependencies between applications which were unknown at that time.</p>

12	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Mr John Dix	<p>Given that the draft report was issued on 2nd February, management responses were received on 29th February and the Library IT system failed on 3rd March, does the Chairman think that audit should update their report in light of the Library IT failure and in particular the lack of working data backup systems?</p>	<p>No. Audits reports are reported on completion.</p> <p>The library system is not hosted in the data centre and so does not have (and would never have) the ITDR set up referenced in this audit applied to it.</p> <p>The ITDR arrangement put in place for the newly restored libraries system is unique to that of the remaining IT estate and delivered through a cloud hosted service. This is primarily due to the library management system residing on a public network to remain compliant with various security accreditations. The ITDR audit took place towards the end of 2015 and so does not apply to the ITDR resilience that has been put in place for the library system.</p> <p>On 3 March the library management system crashed and corrupted resulting in a catastrophic failure of the system for the library service and residents. The failure has resulted in integrity issues for the database (in terms of the potential of inaccurate stock and transaction data due to the recovery being from an earlier version of the database) but has not involved the loss of personal data. Contractual discussions are ongoing regarding the failure, and a report on this, along with assurance activities taking place on the rest of the IT estate, will be presented to Performance and Contract Management Committee on 31 May. This incident, and resulting contractual discussions, are also being fed into the year 3 review of the CSG contract.</p>
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13	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Ms Theresa Musgrove	In reference to Item 7 and the ITDR report: bearing in mind that within days of this damning report the Library IT system crashed, and has caused a catastrophic loss of personal data and data relating to stock, will the Audit Committee investigate the circumstances and implications of the failure, by commissioning another report specifically focused on the management of the Library IT system?	No. See above answer to question 12.
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14	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Ms Theresa Musgrove	<p>Same reference: it seems incredible that such a damning report has taken so long to produce, and at this advanced stage of the contract. How can residents and taxpayers place any trust in the ability of either the Internal Audit Team, or the Audit Committee to undertake the role of scrutiny in regard to the Capita contracts, and provide value for money investment of resources by the authority on our behalf?</p>	<p>It is the role of the Performance and Monitoring Committee (PCM) to monitor and scrutinise performance and contract management issues. It is not the role of the Audit Committee.</p> <p>The annual Internal Audit Plan is created through discussion with all of the Council’s delivery units and Commissioning Directors and is a risk-based plan approved by the Audit Committee. Internal Audit’s role is not to scrutinise the Capita contracts, it is to provide independent assurance to senior management, the Audit Committee, members and residents over all of the Council’s services, whoever they are delivered by. They focus the available audit resource on the highest risk areas as per professional auditor judgement. This is based on analysis of the inherent risk rating (a combination of impact and likelihood of an event occurring) for each ‘auditable unit’ area within the Council and a judgement based on our knowledge of the controls in operation in that unit, and consideration of other sources of Assurance over that unit. This is not an exact science. As Internal Auditors they are bound by the codes of respective professional institutes to remain impartial, independent and fair.</p> <p>All audit reports include an Appendix detailing the Statement of Responsibility including:</p>
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				<p><i>□ The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.</i></p>
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15	7 – Internal Audit Exception Recommendations Report and Progress Report up to 31 March 2016	Ms Theresa Musgrove	Same reference: regarding the failure of the library IT system, please explain where the upfront capital payment of £16 million to Capita for IT was spent, and why none of it was used to ensure an adequate system of monitoring the Library system?	<p>As per the published contract, capital payment was spent on the areas identified below. The library system was not included as it was not identified in the output specification as requiring upfront investment. However a project was initiated by the Library service (which is ongoing) to review the robustness of libraries IT.</p> <table border="1" data-bbox="1406 443 2024 1390"> <thead> <tr> <th data-bbox="1406 443 2024 496">Capital Contribution table Schedule 4</th> </tr> </thead> <tbody> <tr><td data-bbox="1406 496 2024 539">Citrix Refresh</td></tr> <tr><td data-bbox="1406 539 2024 582">Community Cloud</td></tr> <tr><td data-bbox="1406 582 2024 625">Corp Prog SIP</td></tr> <tr><td data-bbox="1406 625 2024 668">CRM SIP</td></tr> <tr><td data-bbox="1406 668 2024 711">CSO Web Services Delivered</td></tr> <tr><td data-bbox="1406 711 2024 754">Data Centre Migration complete</td></tr> <tr><td data-bbox="1406 754 2024 798">Data Centre Services</td></tr> <tr><td data-bbox="1406 798 2024 841">ES SIP</td></tr> <tr><td data-bbox="1406 841 2024 884">Finance New Services SIP</td></tr> <tr><td data-bbox="1406 884 2024 927">HR - systems SIP</td></tr> <tr><td data-bbox="1406 927 2024 970">HR Contact centre SIP</td></tr> <tr><td data-bbox="1406 970 2024 1013">HR systems imp (SHaW)</td></tr> <tr><td data-bbox="1406 1013 2024 1056">Infrastructure Support and Maintenance</td></tr> <tr><td data-bbox="1406 1056 2024 1099">Insight Implementation</td></tr> <tr><td data-bbox="1406 1099 2024 1142">Pensions - configuration complete</td></tr> <tr><td data-bbox="1406 1142 2024 1185">Procurement SIP</td></tr> <tr><td data-bbox="1406 1185 2024 1228">Programme SIP</td></tr> <tr><td data-bbox="1406 1228 2024 1272">R&B New Services SIP</td></tr> <tr><td data-bbox="1406 1272 2024 1315">SCO Contact Centre</td></tr> <tr><td data-bbox="1406 1315 2024 1358">SCO New Services SIP</td></tr> <tr><td data-bbox="1406 1358 2024 1401">Transition Complete</td></tr> </tbody> </table>	Capital Contribution table Schedule 4	Citrix Refresh	Community Cloud	Corp Prog SIP	CRM SIP	CSO Web Services Delivered	Data Centre Migration complete	Data Centre Services	ES SIP	Finance New Services SIP	HR - systems SIP	HR Contact centre SIP	HR systems imp (SHaW)	Infrastructure Support and Maintenance	Insight Implementation	Pensions - configuration complete	Procurement SIP	Programme SIP	R&B New Services SIP	SCO Contact Centre	SCO New Services SIP	Transition Complete
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