

# Internal Audit Report – Review of Arch Arrangements (October 2017)

## Schedule of Recommendations

### Section 1: Consultants and Contractors

	Recommendation	Priority
1	<p><b>Review of current consultants / contractors for value for money</b></p> <p>the use of all consultants / contractors currently used by Arch should be reviewed to ensure that each arrangement is delivering value for money for the Arch group. A clear set of criteria should be developed to undertake this review and assess value for money and outcome based performance of each consultant / contractor. Where it is judged that an arrangement is not assured to provide value for money, steps should be taken to terminate the contract and if necessary retender in accordance with the recommendations set out below.</p>	1 (High)
2	<p><b>Develop a Register of Consultants and Contractors with supporting documentation:</b></p> <p>A register of all consultants engaged by the Arch group should be maintained, detailing the terms of the engagement, length of appointment, agreed fees and any other information relevant to monitoring the ongoing work of the consultant and managing their work output / outcomes. This should be supported by a repository of all supporting documentation such as the agreed contract, timesheets and invoices.</p>	1 (High)
3	<p><b>Written agreements with Consultants / Contractors</b></p> <p>There should be a clear understanding of the duties and outcomes required to be delivered by each consultant / contractor, documented in a clear written agreement signed by both the consultant / contractor and by Arch. A consultant should not commence work until the agreement is signed by both themselves and Arch, so there is no doubt as to the terms of the engagement , results expected and how performance will be monitored / managed.</p>	1 (High)
4	<p><b>Performance / Contract Management of Consultants / Contractors:</b></p> <p>Wherever possible the agreement with a consultant / contractor should be outcome based. It should set out clearly how performance will be managed and the specific success measures which will be used to evaluate performance. In turn, performance should be regularly monitored and if there are any concerns, early remedial action taken and documented.</p>	1 (High)

5	<p><b>Specifying detail on invoices:</b></p> <p>All consultants and contractors should be advised (as part of the written agreement) as to the level of detail and supporting documentation required to be included on their invoices. Invoices should include enough information to support the monitoring / management of performance and for Arch to check that the services in respect of which payment is claimed have in fact been delivered and to expected standards of quality / quantity.</p>	1 (High)
6	<p><b>Contradictions between Financial Regulations and the Memorandum of Delegated Authority:</b></p> <p>contradictions between Financial Regulation 3.3, 3.4 and the Memorandum of Delegated Authority (regarding authorisation / approval limits) should be resolved. It is recommended that authorisation limits reflect the materiality of the contract values being awarded and that there is an appropriate segregation of duties in the approval process, particularly for higher value payments.</p>	1 (High)
7	<p><b>Awareness raising on the Financial Regulations and Memorandum of Delegated Authority with Arch staff:</b></p> <p>All staff should be made aware of the prevailing authorisation limits attaching to each post within the Arch establishment, and the duties required of them under these important governance procedures.</p>	2 (Medium)
8	<p><b>Competitive process for appointment of consultants / contractors:</b></p> <p>there should be a fair, transparent and competitive process employed to advertise consulting / contracting opportunities (in accordance with authorisation limits set out in the Financial Regulations / Memorandum of Delegated Authority and any prevailing law). Clearly defined evaluation criteria (to judge the quality of bids on a fair and consistent basis) should be prepared in advance and published as part of the consulting / contracting opportunity, and rigorously applied in the selection process. Supporting records to demonstrate this should always be retained.</p>	1 (High)
9	<p><b>Benefits / remuneration package extended to consultants / contractors:</b></p> <p>when determining the schedule of fees paid to consultants / contractors, the emphasis should always be on achieving optimum value for money for the Arch group of companies. If there is a proposal to remunerate a consultant by way of benefits other than a straightforward fee for services delivered, there should be a clearly established hierarchy of authorisation so that a suitably senior and independent officer within the Group reviews the proposal from a value for money perspective before any additional benefits are agreed.</p>	1 (High)
10	<p><b>Frameworks and call off contracts:</b></p> <p>independent specialist procurement advice should be sought on the establishment of such arrangements for consultants and</p>	2 (Medium)

	contractors.	
11	<b>Use of [specific contractor] by Northumberland County Council:</b> the use of a waiver to appoint this firm to undertake work on behalf of the Council should be reviewed. This review should also evaluate the implications of current spend levels (£182k) against the initial expected expenditure levels with this firm (£150k).	1 (High)
12	<b>Inventory of Equipment provided to Consultants / Contractors</b> Should any equipment be provided to consultants / contractors, this should be recorded in an inventory and steps taken to recover the equipment in a good condition at the end of the contract.	2 (Medium)
13	<b>HMRC Rules for benefits awarded to a contractor:</b> Advice should be sought on any tax implications of the package of benefits extended by Arch to a specific contractor,	2 (Medium)

## Section 2: Employees

	Recommendation	Priority
14	<p><b>Recruitment processes:</b> There should be a clear, fair and transparent recruitment process for every post within the Arch group of companies. This should include as a minimum:</p> <ul style="list-style-type: none"> <li>• An authorisation process to recruit, referencing all vacancies back to the agreed organisational structure</li> <li>• The advertisement of all vacancies with a clear role definition and person specification</li> <li>• A competitive appointment process, with pre determined interview questions and scoring models</li> <li>• Suitable pre-employment checks before the offer of employment (such as checking of qualifications, employment references, and entitlement to work in the UK).</li> </ul> <p>There should also be an effective authorisation process to ensure appropriate senior approval to recruit, with a rationale for the recruitment.</p>	1 (High)
15	<p><b>Governance Processes for Pay and Reward</b> All payroll payments should be authorised by an appropriate budget holder, with pre-approved levels at which authorisation would be restricted to Directors, or for the Chief Executive and their direct reports, the Board.</p>	1 (High)
16	<p><b>Salary Scales</b> It is recommended that a clear salary scale is established and that initial appointment of staff, and any subsequent pay awards, are in accordance with such an agreed scale in future.</p>	1 (High)

	Recommendation	Priority
17	<p><b>Employment benefits / emoluments</b></p> <p>The package of benefits afforded to employees should be reviewed and assessed for value for money. It is questionable whether some benefits (eg subsidised Christmas parties for staff and driving lessons / driving tests) are appropriate for a company wholly owned by a local authority.</p>	1 (High)
18	<p><b>Provision of cars and car ‘lump sums’ to employees</b></p> <ul style="list-style-type: none"> <li>• The authorisation / agreement for £5k car allowances paid to new starters should be reviewed to assess value for money. It should also be established whether the decision to pay such allowances was intra vires and properly authorised.</li> <li>• If a vehicle is provided to an employee, there should be a signed agreement between the employee and Arch setting out terms and conditions for the use of the vehicle, and each party’s responsibilities, held on the employee personal file.</li> </ul>	1 (High)
19	<p><b>HMRC implications of vehicle use</b></p> <p>Guidance should be sought from HMRC on any tax implications of the provision / use of company vehicles to employees.</p>	2 (Medium)
20	<p><b>Procedures to vary employees’ pay</b></p> <p>There should be a very clear, published procedure to explain how and when variations to an employee’s pay will be considered, and the organisational hierarchy and limits for approving such changes. In particular:</p> <ul style="list-style-type: none"> <li>• The role of the Remuneration Committee should be reviewed and clearly codified if such a committee continues to exist.</li> <li>• There should be an effective separation of duties (at least two senior independent persons, and for senior posts, an appropriate board) involved in checking and agreeing decisions to vary pay.</li> <li>• There should be guidance on the value / % increases which would normally be applied, and ‘flags’ set within the company’s systems if changes to pay which exceed these limits are requested.</li> </ul>	1 (High)
21	<p><b>Remuneration package to [employee]</b></p> <p>It should be checked and confirmed:</p> <ul style="list-style-type: none"> <li>• whether relocation expenses of £3k were in fact paid to [employee] in 2015. If so, it should be confirmed that [employee] did actually move house / relocate in order to take up his role at Arch. If not, it should be established whether this relocation allowance can be recovered.</li> <li>• Whether Arch has overpaid pension contributions for this individual (until 2016, this employee took the equivalent of a 6% pension contribution as additional salary, as he was not a member of the pension scheme; after joining the pension scheme, it appears he may still have received the additional salary as well as Arch paying pension contributions at the</li> </ul>	2 (Medium)

	new rate of 8%)	
22	<p><b>Former Chief Executive – Potential Overpayment</b></p> <p>Consideration should be given to the recovery of:</p> <ul style="list-style-type: none"> <li>• 2.5 days of annual leave which it appears may have been overpaid when this employee left the Authority.</li> <li>• Mobile phone charges of £128 incurred outside the EU when this employee was on ‘gardening leave’ before leaving the Authority.</li> <li>• Any equipment with which the employee left Arch.</li> </ul>	2 (Medium)
23	<p><b>Inventory of Equipment Issued to Staff</b></p> <p>An inventory of equipment (eg laptops, mobile phones etc) should be maintained for all Arch staff.</p>	2 (Medium)
24	<p><b>P11D Return</b></p> <p>Advice should be taken regarding completion of the P11D return to HMRC, to ensure the correct taxation treatment of company vehicles used by employees.</p>	1 (High)

### Section 3: Property Portfolio

	Recommendation	Priority
25	<p><b>Matters referred to Northumbria Police</b></p> <p>The matters set out in the report relating to the purchase of the Property X, and Property Y, have correctly been referred to Northumbria Police. Police advice should be followed as their investigation into potential criminality proceeds.</p>	1 (High)
26	<p><b>Existence and management of Executive Homes portfolio by [contractor]</b></p> <p>As part of the Arch strategic review, a decision should be taken on the future direction of all aspects of the company’s operations, their profitability / viability and whether these continue to fit with the strategic direction of the Arch entity. This should include a review of the future direction of the Executive Homes portfolio.</p> <p>If the portfolio is retained, a review should be undertaken of the management arrangements undertaken by [contractor] and whether external management arrangements offer sufficient control and represent optimum value for money, or whether this portfolio would be better managed in a different way. This review should include examination of the fee structure with [contractor] and its transparency, and the diligence with which this firm has forecast rental yields and vetted prospective</p>	1 (High)

	tenants.	
27	<p><b>Executive Homes – Initial Business Case, Governance and Affordability Procedures</b></p> <p>A review should be undertaken on the clarity and adequacy of all aspects of the Executive Homes portfolio governance, including the procedures for establishing a business case for purchase, authorisation procedures, and authorisation limits for purchases . This should address whether these procedures are transparent, appropriate and bear a sufficient separation of duties and the opportunity for challenge of decisions by a senior officer / Board as required.</p> <p>This review should include a review of actual rental yields achieved and a comparison with those originally forecast, to assess the accuracy and confidence in the valuation figures originally provided by [contractor].</p>	1 (High)
28	<p><b>Monitoring of Purchase and Rental ‘end to end’ processes (all property streams)</b></p> <p>Arch should establish much more effective processes to record in one place the initial purchase price for every property and to monitor all rental income and disposal details of all property.</p>	1 (High)
29	<p><b>Errors in Property Completion Statements (Legal Advisor 1)</b></p> <p>An improved system for calculating conveyancing fees and comparing these to those charged by the conveyancing solicitor should be introduced, to ensure a level of internal checking and challenge on fees levied by such professional firms.</p> <p>Given the significant errors in billing identified within Legal Advisor 1’s bills, resulting in a £42k refund owing to Arch following the internal audit, consideration should be given to a referral of this matter to the Solicitors Regulation Authority.</p>	1 (High)
30	<p><b>Errors in Land Registration Details</b></p> <p>The error in the transfer of land registration details (from Persimmon to Arch in respect of Property Y) are of concern. A review should be undertaken of all land registry details for all Arch properties to ensure that all properties which Arch has purchased are correctly titled as such within Land Registry records.</p>	1 (High)
31	<p><b>Empire Court, Whitley Bay</b></p> <p>The issues around the decision making processes for executive developments of this type are covered in recommendation X above.</p> <p>Professional advice should be sought on whether the treatment of Stamp Duty Land Tax has been correct on this specific development.</p>	2 (Medium)

	Recommendation	Priority
32	<p><b>'Rent Free' Properties (Housing and Commercial)</b> Those properties identified as being tenanted but in which a rent is not currently being levied should be reviewed and reported to an appropriate Arch board.</p>	1 (High)

## Section 4: Hospitality and Gifts

	Recommendation	Priority
33	<p><b>Arch hosted / sponsored events and provision of hospitality: Developing a Clear Strategy</b> There should be a clear strategy developed to govern why and when Arch will host or sponsor events / hospitality. This strategy should require demonstration of a clear business case for such events, a clear articulation of the outcomes to be realised, a budget agreed through an appropriate governance process, and there should be an evaluation of the success of each event reported to the Board and used to inform whether similar events are hosted in future.</p>	1 (High)
34	<p><b>Decision making on provision of sponsorship / hosting</b> In the current economic climate within all public services, it is recommended that Arch (as a wholly owned local government company) revisits whether it is appropriate to host events such as a contractor Christmas party (cost £3k), leaving events for staff (£1k) etc and related costs eg taxis.</p>	1 (High)
35	<p><b>Credit cards</b> Supporting documentation should be held for all purchases made via this method in order that the nature of purchases can be reviewed if required.</p>	1 (High)
36	<p><b>Gifts and Hospitality Offered to / Received by Arch staff members and Board members</b> Procedures to outline the circumstances in which gifts and hospitality may be accepted by Arch staff and Board members should be significantly strengthened. In particular:</p> <ul style="list-style-type: none"> <li>• The Policy should be reviewed to make clear that other than items / hospitality of a token value established by a de minimis level, hospitality can only be accepted where this directly benefits the Arch group of companies and where this is agreed in advance by a more senior staff member or the Board as appropriate. Gifts should not be accepted where this benefits the recipient personally but may be accepted on behalf of the company and put to use in the company.</li> <li>• The registers for recording of gifts and hospitality should be improved. Instead of a blank book, a template should be prepared to ensure that all required information is captured.</li> </ul>	1 (High)

	<ul style="list-style-type: none"> <li>Reminders should be issued to all staff and Board Members (at least annually) reminding them of the requirements of the gifts and hospitality policy and requiring a nil response if a positive declaration has not been made during the year.</li> </ul>	
37	<p><b>Potential Elected Member Code of Conduct Issues (Localism Act)</b></p> <p>Very few declarations of acceptance of gifts / hospitality were viewed for some Board members who are elected members, at either Arch or NCC. Guidance should be sought from the Monitoring Officer as to whether there are any Localism Act implications arising from an apparent failure to declare.</p>	1 (High)

## Section 5: Award of Major Contracts

	Recommendation	Priority
38	<p><b>Declaration of Interests</b></p> <p>It is apparent that some interests which would have been expected to be formally declared have not. This lacks transparency and also means that ways of managing the risk of bias or favouritism (such as making sure those who have an interest are excluded from decision making) cannot be put in place.</p> <p>Staff should be reminded of the duty to declare any interests.</p>	1 (High)
39	<p><b>Award of Major Contracts</b></p> <p>Much more robust arrangements need to be put in place to provide assurance that major contracts are tendered for in accordance with the Company's Financial Regulations and Memorandum of Delegated Authority.</p> <p>In addition to planning upcoming procurements and ensuring that appropriate advance approvals are obtained, there should also be regular interrogation of spend data to ensure that values of spend are not exceeding the levels originally forecast. If they are, this should be reported to the Board in order that the spend and procurement arrangements for such contracts can be reviewed.</p>	1 (High)



## Section 6: Ashington Community Football Club (ACFC)

	Recommendation	Priority
40	<p><b>Relationship between Arch and ACFC</b> The relationship between the Arch group of companies and ACFC is unclear. This relationship should be reviewed by the Board in order that there is clarity on this and the Arch objectives which any relationship with this entity is designed to deliver.</p>	1 (High)
41	<p><b>Sundry Payments made by Arch on behalf of ACFC</b> It is unclear why Arch has made a number of payments (including utility bills, alarm repairs, and payments to Heineken) on Arch's behalf. This should be reviewed and arrangements put in place for ACFC to manage its own payments without involvement of Arch.</p>	1 (High)
42	<p><b>Salary Payments made by Arch on behalf of ACFC</b> Arch pay for two ACFC employees through the Arch payroll, total costs approx £70k pa, for which no recharge has been made to Arch.  This should be reviewed as soon as possible with a view to ceasing the arrangement, and recovering any ACFC salary moneys already paid.</p>	1 (High)
43	<p><b>Additional Debt owing to Arch from ACFC</b> ACFC has accrued debts of £16.5k to Arch, for payments made by Arch on their behalf as described above. A plan to recover this debt is in place and this should be managed to ensure the debt is repaid to Arch.</p>	1 (High)

	Recommendation	Priority
44	<p><b>Governance / Approval for Financial Support to ACFC</b></p> <p>It is unclear how or who agreed to provide an unusual package of financial support to ACFC, as described above. Should any such support be proposed in future, this should be subject to a detailed proposal which clearly outlines the benefit to be gained to Arch, and be checked / approved by the Finance Director before being presented tot</p>	

## General Comments

	Recommendation	Priority
(a)	<p><b>Strategic Review</b></p> <p>Internal Audit's review has examined five specific areas set out in the Terms of Reference established for this audit, described below. It is recommended that the outcomes from Internal Audit's work are considered as one strand in the Arch Strategic Review.</p> <p>It is recommended that the profitability and performance of each aspect of Arch's work is also assessed, and the accuracy of growth / income forecasts and delivery of corporate objectives is evaluated. This will help to determine which activities are delivering well, and should be continued; and which aspects of the group's operations are not adding value and should cease.</p>	1 (High)
(b)	<p><b>State Aid</b></p> <p>State Aid is a complex legal matter and did not form part of the Terms of Reference for this work. This matter should however be kept under review as decisions are taken regarding the group of companies, and appropriate legal advice sought as required.</p>	2 (Medium)