



devon **audit** partnership

Internal Audit Report - Final

Devon and Somerset
Superfast Broadband
Programme

Place

Devon County Council

September 2015

OFFICIAL



Auditing for achievement

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

1 Introduction

Central Government are investing up to £1 billion in improving broadband and mobile infrastructure. This is being delivered through a national programme (Broadband Delivery UK (BDUK)) which is a part of the Department for Culture, Media and Sport.

The main objective of this programme is to promote economic growth and residential benefit through access to faster broadband throughout the UK, including rural and remote localities.

There are a number of targets which this programme has been set to meet and these include;

- To provide superfast broadband coverage to 90% of the UK by 2016
- To provide basic broadband (2Mbps) for all by 2016
- To provide superfast broadband to 95% of the UK by 2017
- To explore options to get near universal superfast broadband coverage across the UK by 2018
- Create 22 'Super Connected Cities' across the UK by 2015
- Improve mobile coverage in remote areas by 2016

To enable this, Central Government have given local authorities the responsibility for managing the roll out of this initiative within their respective local area(s).

Due to this initiative, a collaboration agreement for the delivery of the local broadband plan in Devon and Somerset was formed and called Connecting Devon and Somerset. It includes the following authorities:

- Bath and North East Somerset Council
- Devon County Council
- North Somerset Council
- Plymouth City Council
- Somerset County Council
- Torbay Council

There is a dedicated project team which has been set up to manage the project, and this includes officers working for Devon and Somerset County Councils.

In addition there is a dedicated programme board who oversee the project and they meet on a bi monthly basis.

The programme has been managed over three phases with Phase 1 and Phase 2 already under way.

- Phase 1 aims to provide superfast broadband to 90% of premises in the UK
- Phase 2 will seek to further extend coverage to 95% of the UK
- Phase 3 will test options to rollout superfast broadband beyond 95%.

The partnership entered into a contract with BT for the delivery of Phase 1 of the programme, and this was procured under a national framework commissioned by BDUK. This contract is managed by Somerset County Council on behalf of the

programme.

Under phase 2 of the programme, the Partnership decided to launch two tenders, one under the national framework agreement (BT) and one under an open procurement process which will focus on works required for Exmoor and Dartmoor National park areas. At the time of this audit, the Project had signed a contract with 'Airband' to provide 'wireless' coverage within Exmoor and Dartmoor but BT were unsuccessful in their bid for Phase 2 works.

2 Audit Opinion

High Standard. The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

3 Executive Summary

We found in this audit review that there is a reasonable governance structure in place to manage the Broadband project. This would include the following;

- The use of the formal Partnership agreement which includes all of the partners within the project. The content of the Partnership agreement has previously been subject to Internal Audit review from the South West Audit Partnership (SWAP) who provided a 'Comprehensive' assurance rating on the agreement with no significant issues identified.
- Use of a risk register to help them to manage key risks throughout the life of the project.
- Use of a Project Methodology and guidance notes provided by BDUK.
- Regular sample check of completed milestones (completed works) with the help of an appointed consultant, and a thorough examination and challenge of BT expenditure against each of the quarterly claims. The latter is performed by a Finance Officer at Somerset County Council.
- Procedures to monitor BT's performance, mainly through established Key Performance Indicators stipulated within the contract, and also monitoring of 'take up' figures.
- An embedded Change Procedure in place to mitigate the risk of any unauthorised deviations to the roll out programme.

At the time this audit was undertaken, as part of Phase 2, the Project had just appointed Airband to complete Dartmoor and Exmoor coverage. This contract will run for 12 months, and will use wireless technology to deliver the desired coverage in these areas.

At present, the main part of Phase 2 of the Broadband programme is likely to be

delayed; An offer from BT was rejected by the Project Board on the grounds that it did not offer value for money and did not meet the time scales required for completing the works. The project team could not provide Internal Audit with definitive timescales for the next tendering phase, however we understand that they are currently planning the next phases including what it will look like; the size; review of those areas not currently receiving required broadband speeds ('white areas') and non-commercial areas; secure funding and consideration of technologies.

The detailed findings and recommendations regarding these issues and less important matters are described in the Appendices. Recommendations have been categorised to aid prioritisation. Definitions of the priority categories and the assurance opinion ratings are also given in the Appendices to this report.

4 Assurance Opinion on Specific Sections

The following table summarises our assurance opinions on each of the areas covered during the audit. These combine to provide the overall assurance opinion at Section 2. Definitions of the assurance opinion ratings can be found in the Appendices.

Areas Covered		Level of Assurance
1	Insufficient Governance arrangements are in place to manage the project leading to financial and reputational loss.	High Standard
2	Risks to the project/programme have not been identified.	High Standard
3	There are insufficient contractual arrangements in place with the main programme provider (BT)	High Standard

The findings and any recommendations in relation to each of these areas are discussed in the "Detailed Audit Observations appendix".

5 Issues for the Annual Governance Statement

The evidence obtained in internal audit reviews can identify issues in respect of risk management, systems and controls that may be relevant to the Annual Governance Statement.

Based on the evidence we have found in this audit there are no issues arising from the risk management, systems and controls examined that would warrant inclusion in the Annual Governance Statement.

6 Scope and Objectives

The objective of this audit is to provide assurance that the Devon & Somerset Superfast Broadband programme is being effectively managed and delivered.

The Audit scope will include review of;

- Governance and reporting arrangements.
- Project board & team structures, including roles and responsibilities.
- The risk management strategy and risk management processes.
- Contract management & monitoring arrangements.
- The Communications Strategy.

7 Inherent Limitations

The opinions and recommendations contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

8 Acknowledgements

We would like to express our thanks and appreciation to all those who provided support and assistance during the course of this audit.

Robert Hutchins
Head of Partnership

Detailed Audit Observations

1. Area Covered: Insufficient Governance arrangements are in place to manage the project leading to financial and reputational loss.	Level of Assurance
<p>Opinion Statement:</p> <p>The Partnership agreement was reviewed by the South West Audit Partnership (SWAP) in 2012 (Somerset County Council's Internal Audit team). The purpose of this audit was to verify that key governance controls for the Broadband project were in place and were operating effectively. The Final Audit report provided a 'Comprehensive assurance' in the areas included for review and found Internal Controls were in place and were operating effectively.</p> <p>This report did provide one recommendation concerning 'Declarations of interest'. The Auditor recommended that a clause setting out the arrangements for making Declarations of Interest be included in the Partners Collaborative Agreement. The Programme Manager initially agreed to that these arrangements need to be made. However, we did not find any evidence in this audit review that any action has been taken to address this concern. The Project should further consider whether they need to add a process into their working practices to cover declaration of interest for officers and members.</p> <p>We are able to confirm that the project has an up to date structure in place to manage the programme. A staff structure was devised at the start of the project and includes a mix of Devon County and Somerset County Council officers. In discussions with a number of Project officers, it was evident that there has been a low turnover of staff working on this project, which has helped to reduce any likelihood of delay and possible disruption to the project.</p> <p>There is also a mixed representation at board level, including the Chair. A Terms of Reference (TOR) is included within the formal partnership agreement. Formal roles and responsibilities were also documented within the Partnership agreement.</p> <p>There are reasonable reporting arrangements in place to manage the project. This includes scheduled reporting to the Project Board. The Project team has also recently provided Devon Place Scrutiny with an update on the project in March 2015. The Project team hold regular weekly meetings with BT to assist in the day to day running of the project.</p> <p>There has been some public criticism of the project, mainly regarding the lack of available information on future deployment of broadband services within some local areas. Due to the sensitivity of the contract, and the logistical challenges involved in deploying new broadband services, the CDS programme does not provide specific times/dates in which works are due to be carried out in any given area. However, updates are provided on the projects website, to give an indication where areas are 'live', 'coming soon' and ones</p>	<p>High Standard</p>

which are considered to be 'out of the programme'.

The Project team currently use the project methodology provided by BDUK to help manage Phase 1 of the programme. This methodology is based on Prince 2 principles, and has regular check points and milestones embedded within its design. The Project team have access to a cloud based national computer system called 'Huddle' which provides support and guidance notes to help the project in managing key stages of the programme.

We were able to get evidence to support that the Project's Finance team only provide payment to BT on completed milestones (works) and there is a thorough examination and challenge of the quarterly claims from BT to verify the individual elements and help calculate payment due to the contractor.

Overall we found there is a reasonable 'Change procedure' which forms part of framework contract with BT. This has been put in place to ensure that any significant changes to the roll out programme are only carried out once agreement has been reached between the two parties. All major changes to the roll out programme have been recorded in a 'Change' log which is maintained by the Project team.

The Project has developed a Communications Strategy to help manage communications with key stakeholders at each stage of the project. At the time the audit was undertaken, the Project were in the process of appointing two additional new posts which in part, have been appointed to help improve the project's communications. There are currently various communication tools which the project use to highlight the progress and the benefits of the project and these include development of a devoted website, the use of various social media tools and a programme called 'Up to Speed' which is being run on behalf of the project by Peninsula Enterprise and Cosmic (Social Enterprise groups) and is designed to improve the ICT skills and knowledge of businesses and communications. The reputational risk is ongoing and will require constant monitoring and mitigation.

No.	Observation and implications
	No observations and recommendations recorded.

2. Area Covered: Risks to the project/programme have not been identified.	Level of Assurance
<p>Opinion Statement: Under the Framework agreement, the Programme Director has been given the responsibility for managing and communicating major programme risks.</p> <p>Since the projects implementation, the Project has maintained a Risk Log for each phase of the project and this is presented to the board within each board meeting.</p> <p>We have reviewed the risk management processes adopted by the Project team, and consider the tools used for capturing and recording risks meet best practice. This includes use of a risk matrix grid; assessment of likelihood and impact of each identified risk, and also through the use of a risk register, capturing details of the risk, risk owner, and control measures. It was also evident in review that 'Risk Management' implications are also considered on key decisions to the project.</p> <p>We have reviewed the risk register and consider that generally appropriate risks have been identified, evaluated and managed, although some risks are ongoing.</p> <p>We understand that under the current contract with BT, there is a 'Right to Audit' requirement built into the contract. Since the start of the project, two visits have been undertaken to one of BT's offices to review BT financial processes and procedures. In addition there have also been recent visits to the Airband office to undergo a similar financial review.</p> <p>In addition to this there are also a number of other parties who have so far provided assurance to the Project team at various stages within phase 1 of the programme. This includes the use of a consultant to monitor a sample of completed works within each quarter; the Finance Officer who undertakes checks of BT expenditure prior to paying the contractor each quarter; and BDUK's own 'project assurance system' which ensures projects with Government funding meet the desired criteria.</p>	<p>High Standard</p>
<p>No observations and recommendations recorded.</p>	

3. Area Covered: There are insufficient contractual arrangements in place with the main programme provider (BT)	Level of Assurance
<p>Opinion Statement:</p> <p>There is a formal contract in place with BT. The contract was drafted by BDUK under the national framework agreement, and we understand that there have been no changes to the contract since its implementation.</p> <p>Due to the size of the contract, we reviewed extracts from the contract which we felt were relevant to this audit. These included; Change procedures, right to audit requirements, exit clauses, take-up clauses, and key performance indicators. All were found to be appropriate.</p> <p>There is regular dialogue with BT including weekly meetings to discuss day-to-day running of the project. Phase 1 of the programme is set out in 12 stages using BT's Speed and Coverage format. Under the current contract there is a formal Change Management procedure to ensure that any changes to the programme require agreement between the two parties before a change can be implemented.</p> <p>As part of the payments process, the Project employs a consultant to check a 10% sample of completed works. This is above the minimum level of checking as recommended by BDUK. This sample is largely based on high risk solutions, and new areas which were not checked in previous quarters.</p> <p>BT also provides a Projected Financial Model which sets out forecasted expenditure; what the milestones are (measured in terms of completed houses) and what payments are due for each quarter. This enables the Finance team to monitor payments to BT against the forecast and allows them to monitor completed works/milestones for each quarter, and to identify any potential slippages.</p>	<p>High Standard</p>
<p>No observations and recommendations recorded.</p>	

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.