

Internal Audit Report



Internal Audit Report
Corporate & Democratic Services; Housing & Environment
Management of Contracts
18-12
October 2018

Final Report (Report No.18/360)

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
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Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2018/19, which was presented to the Audit Committee on 27th June 2018.

Procurement work can positively support the achievement of objectives set out in the Community and Corporate plans for Perth and Kinross. Effective contract and supplier management plays a key part in this, assisting in ensuring that the Council achieves best value and minimises risk.

Council spend with third parties during 2017/18 was £255m, this includes expenditure on goods, services and works and those that are placed with arm’s length organisations such as Tayside Contracts. The figure also includes monies allocated to support capital investment decisions taken by the Council. Contracts are formed and managed either by collaborative partnerships; Scottish Procurement; Scotland Excel; Tayside Procurement Consortium; or locally by Council Services and Officers. The latter represents the largest portion both in terms of contracts held and expenditure. In 2017/18 the largest proportional spend was attributed to the Environment Service (34%), followed closely by Housing and Community Safety (32%).

An Internal Audit was carried out in 2017 ([report 17/311](#) refers) to assess contract management across a number of areas of the council and to support the Corporate Procurement Manager with ongoing transformation and improvement activity. The 2017/18 Procurement Annual report ([report 18/198](#) refers) recognises that this work is continuing, with further focus on contract management systems and reporting in 2018/19.

Audit testing was carried out in July and August 2018.

Scope and Limitations

Due to the factors mentioned above, a risk based approach was taken that this audit would focus on how contracts are being managed within the newly formed Housing and Environment Service only at this time. Particular consideration was given to contracts entered into within the previous 12 months.

In order to arrive at an opinion on the achievement of the control objective a sample of 5 contracts (ranging from circa £25,000 to £3 million) was selected. The audit included interviews with officers, and a review of systems and documents in use.

This audit did not review contract management arrangements for contracts arranged and administered by commissioned services or the Tayside Procurement Consortium, as these may be subject to separate review.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure the adequacy of arrangements in respect of contract management.

As referred to within the background information, it is recognised that Corporate Procurement are continuing to develop contract management standardisation and reporting processes across the Council. This audit has been carried out to support this work. Summaries of each contract sampled have been discussed with individual contract managers and Corporate Procurement, including suggested learning points for future awards. Internal Audit's opinion as to the overview of arrangements is detailed below.

Each of the contracts reviewed had a designated Contract Manager. In all cases this person had been involved in either building the contract specifications or had received a handover from the person who did. There may have been merit in some of the auditees working more closely with Corporate Procurement at the contract outset, however, as some issues were observed regarding contract set-up arrangements and publication of awards in line with statutory requirements.

Training sessions are run throughout the year by Corporate Procurement and 4 out of the 5 contract managers had attended one or more sessions. In the case of the exception, training was not explicitly offered to the Officer due to the lower contract value (under £50,000), and this may be an area for Corporate Procurement to review.

All of the contracts had been authorised by an Officer with the appropriate financial spend limit. Corporate Procurement has confirmed that work is ongoing to formally record contract authority as a separate field within the authorised signatory database for further clarity also.

Each contract had been set up to operate to either the standard Council Supplier and Services or National Works contract terms and conditions, ensuring appropriate protection for the Council. In some of the contracts, however, further development of the tender brief document may have been beneficial in providing clarity of requirements and performance reporting expectations.

Contract managers were able to express what the contract was in place to do and how this was being achieved. Evidence was provided of communications showing that contracts are being monitored to ensure that key objectives are being met. Additionally, evidence was observed showing responsiveness to issues and required actions. In some instances, however, process and documentation could have been enhanced to demonstrate the achievement of best value through appropriate consultation and consideration of risk; specifically in regards to change management.

In the main, exit arrangements had been considered, and contract performance

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could be tracked. There was evidence of financial reporting, and in some instances, performance reporting, such as projects managed through the Capital Programme. Standardised tracking and reporting is an area being developed through the Corporate Procurement Improvement Plan.

Internal Audit has provided information to Corporate Procurement regarding areas where further clarifications to contract rules and guidance may be beneficial.

Strength of Internal Controls:

Moderate

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of all service contacts and the Corporate Procurement Team during this audit.

Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive

B Renton, Executive Director (Housing & Environment)

K McNamara, Depute Director (Housing & Environment)

C Mailer, Head of Housing

W Young, Head of Environmental & Consumer Services

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S Crawford, Head of Property Services

D Littlejohn, Head of Planning & Development

M Mitchell, Corporate Procurement Manager

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

G Taylor, Head of Democratic Services

External Audit

Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: October 2018

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Contract & Publication Arrangements	High
2	Training	Medium
3	Authorised Signatory Database Update	Low
4	Tender Brief Specification	Medium
5	Change Control	Medium
6	Corporate Procurement Log	Medium

Appendix 2: Action Plan

Action Point 1 - Contract & Publication Arrangements

Audit testing revealed areas where closer consultation with Corporate Procurement at the contract outset may have been beneficial to ensure that the contract set up arrangements were fully considered and disclosed.

As noted in the previous report on Contract Management ([report 17/311](#) refers), contract awards exceeding the value of £50,000 must be published within set timescales in line with statutory requirements. Whilst Corporate Procurement has confirmed controls are in place to highlight outstanding contract award notice publications to Services, 2 of the contracts reviewed were not notified to Public Contracts Scotland within the appropriate time limit.

Furthermore issues were noted with regards to incorrect contract award values being notified to Corporate Procurement, which were subsequently published on the contract register; the potential for further consideration of how works and services were procured; and clarity regarding documents forming the contract award.

Suggested Management Action Plan

Liaise with the Corporate Procurement Manager to enable an appropriate communication regarding contract set up arrangements and statutory obligations. This will be published to the Housing and Environment ERIC pages/distributed via Heads Of Service.

Risk/Importance:	High
Responsible Officer:	Fraser Crofts, Finance & Resources Manager
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Copy of Communication Issued

Auditor's Comments

Satisfactory

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Action Point 2 - Training

Corporate Procurement hold various training and learning lunch sessions throughout the year. Furthermore, Internal Audit has been advised that named Officers involved with contracts above the value of £50,000 are specifically offered procurement and contract management training.

Currently, however, there is no commensurate control in place to ensure that training is offered to Officers procuring and managing contracts under the value of £50,000.

Corporate Procurement may wish to review this arrangement to enhance controls and understanding for any Officer tasked with building and managing a contract.

Suggested Management Action Plan

Invitation of training will be extended to all Officers named as Contract Managers, irrespective of contract value.

Risk/Importance:	Medium
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Corporate & Democratic Service
Date for Completion (Month / Year):	October 2018
Required Evidence of Completion:	Updated procedure document

Auditor's Comments

Satisfactory

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Action Point 3 - Authorised Signatory Database Update

Authority for entering into the contract was based upon an Officers revenue and capital spending limits.

It is recognised, however, that further work is required to capture information and formally record contract authority as a separate field within the authorised signatory database.

Suggested Management Action Plan

a) The Corporate Procurement Manager will provide the Financial Systems Team with the information to be captured within the contract authority field.

b) The Financial Systems Team is currently reviewing all fields and information captured within the authorised signatory database. Further to this, action will be taken to capture all appropriate information from Services.

Risk/Importance:	Low
Responsible Officer:	a) M Mitchell, Corporate Procurement Manager b) L Law, Financial Systems Team Leader
Lead Service:	Corporate & Democratic Service
Date for Completion (Month / Year):	a) October 2018 b) December 2018
Required Evidence of Completion:	a) Updated narrative expressing information requiring to be captured b) Example forms showing information capture

Auditor's Comments

Satisfactory

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Action Point 4 - Tender Brief Specification

In 3 of the 5 contracts reviewed, further development of the tender brief specification document at the outset may have been beneficial in providing clarity of the Service's requirements and performance reporting expectations.

These include ensuring the tender brief specification outlines key performance measures, anticipated monitoring frequency, specific roles and responsibilities and links with the contract strategy.

Suggested Management Action Plan

As part of the communication referred to within action 1, reference will be made to the importance of tender specification document.

Risk/Importance:	Medium
Responsible Officer:	Fraser Crofts, Finance & Resources Manager
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Copy of Communication Issued

Auditor's Comments

Satisfactory

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Action Point 5 - Change Control

During the audit evidence was provided of appropriate communications with suppliers to achieve contract objectives; and of responsiveness to issues and required actions

However, Internal Audit testing revealed that, in 2 of the contracts, a more formalised change recording system would have been beneficial. This would assist in evidencing appropriate consultation, consideration of best value and risk prior to changes being made, and would provide greater assurance in the event of staff absence.

Suggested Management Action Plan

As part of the communication referred to within action 1, reference will be made to the importance of appropriate change control processes.

Risk/Importance:	Medium
Responsible Officer:	Fraser Crofts, Finance & Resources Manager
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Copy of Communication Issued

Auditor's Comments

Satisfactory

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Action Point 6 - Corporate Procurement Log

During the course of the audit, areas were identified where clarifications to the Council Contract Rules and Corporate Procurement processes may be useful. A log detailing these has been provided to Corporate Procurement for consideration. This includes:

- incorporating further information within the contract rules around expectations of the authority/approval process for quick quotes and mini competition awards from frameworks;
- a review of contract award letter templates to ensure these specify who the contract manager is; and
- the development of the Procurement ERIC pages with regards to contract management.

Suggested Management Action Plan

The log will be reviewed and any actions taken as necessary.

Risk/Importance:	Medium
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Corporate & Democratic Service
Date for Completion (Month / Year):	December 2018
Required Evidence of Completion:	Confirmation of review, action and sample evidence

Auditor's Comments

Satisfactory