



Internal Audit Report
All Services
Management of Contracts
Assignment 17-05
August 2017

Final Report

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

Internal Audit Report

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 2017/18, which was presented to the Audit Committee on 18th April 2017. Audit testing was carried out in June and July 2017.

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.

Each year the Council spends around £200 million with third party suppliers, including commissioned services, and the procurement of goods and services. Contracts are formed and managed either by collaborative partnerships; such as 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.

There is a detailed Procurement Strategy and improvement action plan being progressed in tandem with a Corporate Transformation project. The scope of this includes; achieving further savings from procurement activities through closer management of suppliers, developing professional procurement skills for staff, improving monitoring and reporting systems, and managing demand through re-specifying products and services. This includes phased implementation of an electronic contract management tool provided by the Scottish Government.

Scope and Limitations

The audit focused on assessing how contracts are being managed within Services. The outcomes from this review will inform and support the Corporate Procurement Manager and Services with ongoing procurement reform activity and best practice.

In order to arrive at an opinion on the achievement of the control objective a sample of 8 contracts across the Council was selected. The audit included interviews with relevant Officers, alongside a review of systems and documents provided as evidence of contract management.

This audit did not review contract management arrangements for contracts arranged and administered by collaborative partnerships, commissioned services and service level agreements. These areas have been, or will be, examined elsewhere by Internal Audit.

Internal Audit Report

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.

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|--|----------|
| Control Objective: To ensure there is adequate and effective management of contracts within Services | |
| Audit Comments: <p>The majority of contracts reviewed demonstrated appropriate contract management practices. A summary of the management of each contract sampled has been discussed with each Service contact and the Corporate Procurement Manager; this includes suggested learning points.</p> <p>All but 1 of the contracts under review identified a single person as having contract management responsibility. In the case of the exception, advice was given regarding clarification of roles.</p> <p>All of the auditees had access to a form of contract, which set out sufficient information to facilitate good contract management practices, although inconsistencies were observed in relation to contract authorisation and publication processes.</p> <p>Overall, those managing the contracts understood the outcomes they wanted to achieve through their contract, and what monitoring they felt was required. Evidence was provided of implementation meetings and regular contact with suppliers concerning operational matters. It was noted on some contracts, however, that supplier review meetings and performance information provided were not in line with contract expectations, and that general contract administration could be improved.</p> <p>Although there is evidence of financial information being reported to Senior Managers, there was less information being provided regarding contract performance; and few of the contracts reviewed had a mechanism, such as a performance dashboard, in place to track the performance of the contract throughout its life cycle.</p> <p>Whilst covered as part of broader training provided by Procurement, there is scope to provide targeted contract management training to all officers with relevant responsibilities. Such training would provide clarity on improvement areas identified within the audit.</p> | |
| Strength of Internal Controls: | Moderate |

Management Action and Follow-Up

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

Internal Audit Report

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:

B Malone, Chief Executive

J Valentine, Depute Chief Executive

J Fyffe, Senior Depute Chief Executive

S Devlin, Executive Director (Education & Children's Services)

B Renton, Director (Environment)

L Cameron, Interim Director (Housing and Community Safety)

L Simpson, Head of Legal & Governance Services

S MacKenzie, Head of Finance

G Taylor, Head of Democratic Services

A Taylor, Head of Corporate IT and Revenues

K McNamara, Head of Community Planning, Strategic Commissioning and Organisational Development

K Donaldson, Corporate Human Resources Manager

M Mitchell, Corporate Procurement Manager

External Audit

Internal Audit Report

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: 23 August 2017

Internal Audit Report

Appendix 1: Summary of Action Points

| No. | Action Point | Risk/Importance |
|-----|---|-----------------|
| 1 | Authority to Enter Into Contracts | Medium |
| 2 | Contract Publication Requirements | High |
| 3 | Contract Management Training | Medium |

Appendix 2: Action Plan

Action Point 1 - Authority to Enter Into Contracts

Limitations for financial authority are defined within Service-specific authorised signatory lists and schemes of delegated authority. Audit testing revealed that 3 of the contract award letters were signed by officers who do not have the appropriate financial authority to do so.

The Financial Systems team are currently compiling a database which will replace authorised signatory lists. Due to enhancements, this will provide further clarity as to who has authorisation to enter into contracts. However, officers should still be aware of their financial authorisation limits, and comply with these.

Suggested Management Action Plan

The Chief Accountant will raise the issues highlighted regarding the levels of authority to enter into contracts with Financial Controllers in order to reiterate the importance of operating within agreed authority limits. The Financial Controllers will agree a procedure for ensuring that these limits are not breached in this manner.

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|-------------------------------------|---|
| Importance: | Medium |
| Responsible Officer: | S Walker, Chief Accountant |
| Lead Service: | All |
| Date for Completion (Month / Year): | September 2017 |
| Required Evidence of Completion: | Minutes from the Financial Controllers meeting demonstrating implementation of agreed actions arising |

Auditor's Comments

Satisfactory

Internal Audit Report

Action Point 2 - Contract Publication Requirements

To ensure compliance with statutory requirements defined within Procurement legislation, contract awards exceeding the value of £50,000 must be published within set timescales. In addition, all contracts must appear as an entry within the Councils contract register. Corporate Procurement has advised that they systematically provide Services with information where contract award notices have not been published, and engage with Services to resolve any issues.

Audit testing revealed that 2 of the contracts were not notified to Public Contracts Scotland within the appropriate time limit.

One further contract, which was awarded in March 2017, remains unpublished and therefore does not appear on either Public Contracts Scotland or the Councils contract register.

Management Action Plan

1. The Corporate Procurement Manager will work with the Service to publish the outstanding contract award notice.
2. The Corporate Procurement Manager will work with Senior Management Team to ensure appropriate controls are in place for each Service to publish notices within the required 30 days.

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|-------------------------------------|---|
| Importance: | High |
| Responsible Officer: | M Mitchell, Corporate Procurement Manager |
| Lead Service: | Corporate & Democratic Services |
| Date for Completion (Month / Year): | 1. September 2017 2. October 2017 |
| Required Evidence of Completion: | 1. Extract from contract register 2. System generated report produced on first Monday of the month |

Auditor's Comments

Satisfactory

Action Point 3 - Contract Management Training

Contract Management is covered as part of broader training, provided by Procurement, prior to access being granted to the Public Contracts Scotland system. However, not all contract managers are required to undertake this training as they do not need access to this system. As a result, whilst the majority of auditees advised that they had been supported by Procurement, only a small number indicated that they had received specific contract management training.

Contract managers are identified when contract strategies are developed. There is scope to ensure that these officers have received, or are provided with targeted contract management training as required.

Whilst the Corporate Procurement team are rolling out an electronic contract management system to Services, which will provide performance dashboard reporting, this will take a number of years to be fully embedded. As a number of the contracts did not have a performance tracker in place with minimal provision of information to managers on contract and supplier performance, there is scope to ensure that the targeted training includes consideration of these matters.

Management Action Plan

1. Targeted contract management training will be developed from existing training and will include sections on performance tracking and reporting.
2. Contract strategy information will be used to identify contract managers and targeted training offered as appropriate

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| Importance: | Medium |
| Responsible Officer: | M Mitchell, Corporate Procurement Manager |
| Lead Service: | Corporate & Democratic Services |
| Date for Completion (Month / Year): | December 2017 |
| Required Evidence of Completion: | <ol style="list-style-type: none"> 1. Targeted training material 2. Process for identifying and providing training |

Auditor's Comments

Satisfactory