



Internal Audit Report
All three Services and Health & Social Care Partnership
20-04 Contracting
(incorporating 19-06 Contracting)
November 2021

Final Report

Legal & Governance Services
Corporate & Democratic Services
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19-06 & 20-04 Contracting

Contents by Section

[1. Introduction](#)

[2. Audit Background Information](#)

[3. Scope and Limitations](#)

[4. Assessment of the Control Environment](#)

[5. Summary of Findings](#)

[6. Conclusions](#)

[7. Acknowledgements](#)

[8. Action Implementation and Follow Up](#)

[9. Management Action Plan](#)

[10. Authorisation](#)

[11. Distribution](#)

[12. Assessment Definitions](#)

1. Introduction

- 1.1 An audit of Contracting was undertaken as part of the Internal Audit Plan for 2019/20, which was approved by the Audit Committee on 26 June 2019. It was not completed and reported as officers were engaging in critical tasks as a result of the initial response to the COVID-19 pandemic.
- 1.2 An additional audit of Contracting was undertaken as part of the Internal Audit Plan for 2020/21, which was approved by the Audit Committee on 16 September 2020.
- 1.3 This report covers the audit work for both years.
- 1.4 The indicative scope for the audit in 2019/20 was to review contracting activity within Services, including awarding and management of contracts. The 2020/21 audit focused primarily on the management of contracts.
- 1.5 The audits are linked to the following [2019/20 Strategic Risk](#):

CORP-011 - External contract and commissioning and contract management arrangements fail to deliver best value resulting in increased costs and/or reduced service provision

- 1.6 The [Internal Audit Strategy & Plan 2020/21, para. 4.1 on 'Planned Audit Activity'](#) noted

'that the Corporate and Service risk registers are under review in order to ensure that they fully reflect the changing climate as a result of the COVID-19 pandemic. However, Internal Audit has identified key themes arising from its review of the current Corporate and Service risk registers, performance and activities...[one of] The themes identified for 2020/21 [was]:

Review contracting activity within Services, including activity in response to the COVID-19 pandemic.'

2. Audit Background Information

- 2.1 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.
- 2.2 Council spend with third parties during 2018/19 and 2019/20 was £240m¹ and £248m² respectively. This includes expenditure on goods, services and works and that placed with arm's length organisations such as Tayside Contracts. The

¹ Procurement Annual Report 2018/19, page 2, report 19/173 App 1 to the Strategic Policy and Resources Committee on 12 June 2019

² Procurement Annual Report 2019/20, page 3, report 20/231 App 1 to the Strategic Policy and Resources Committee in 25 November 2020

figures also include 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; or locally by Council Services and officers. The latter represents the largest portion both in terms of contracts held and expenditure.

3. Scope and Limitations

- 3.1 In order to arrive at an opinion on the achievement of the control objective a sample of contracts managed locally was selected. The audit included interviews with officers, and a review of systems and documents in use.
- 3.2 This audit review of contract management arrangements for contracts arranged and administered by collaborative partnerships and commissioned services was limited to those carried out by Perth & Kinross Council (PKC) officers for the running of the contracts within PKC.

4. Assessment of the Control Environment

- 4.1 The table below details the control objectives agreed for audit testing. The number of improvement actions per each rating (as detailed in section 12 below) is detailed, along with Internal Audit's assessment of the adequacy and effectiveness of the controls in place. Further details, including any improvement actions, are set out in the Management Action Plan.

No.	Control Objective	Action Rating					Control Objective Assessment
		5	4	3	2	1	
1	To ensure the adequacy of arrangements to award contracts.			2			Reasonable
2	To ensure the adequacy of arrangements to manage contracts.			4			Reasonable

- 4.2 The auditor has assessed that reasonable assurance can be placed on controls overall in relation to awarding and managing contracts from the audit. Meaning:

There is a generally sound system of governance, risk management and control in place.

- 4.3 A summary of the key findings and actions are provided in section 5, please note however, the following areas of good practice which have been highlighted during the audit.
- 4.4 Arrangements for granting authority and delegation to enter into a contract are in place:
- Authority to enter into a contract is detailed in the Council's *Scheme of Administration and Contract Rules*;
 - *Financial Regulations* state that 'In placing orders for supplies, services and works, Executive Directors will comply with the delegation and

tendering procedures set out in the Council's Scheme of Administration and Contract Rules.'

- The Authorised Signatories Database in Integra has a check box to authorise a person to be able to enter into a contract. This went live from December 2019.

4.5 The Executive Director of ECS has approved a *Scheme of Delegation - List of Authorised Signatories*. The authorisation is of a post not an individual.

5. Summary of Findings

5.1 Below is a summary of key findings and actions, which are reflected in the Management Action Plan, detailed in section 9.

5.2 The Council's *Scheme of Administration* states:

'15.7 The Chief Executive, any Executive Director or the Chief Operating Officer are authorised to enter into contracts on behalf of the Council in accordance with the Council's Contract Rules and Contract & Procurement Guidance.'

5.3 As stated at paragraph 4.5 above, the Executive Director of ECS has approved a *Scheme of Delegation - List of Authorised Signatories*. The authorisation is of a post not an individual. The document was amended on 15/11/20 to reflect the reduction of Heads of Service from three to two and consequent changes to the Heads of Service titles. There is a link to the document in the ECS area of ERIC.

5.4 There are no similar current Schemes of Delegation in place from the Executive Director (Communities), the Chief Operating Officer nor the HSCP's Chief Officer/Director. These Schemes would provide evidence that these officers have appointed Authorised Officers for the contracts who would be responsible for the procurement process and for ensuring the contracts are carried out in accordance with the Service's/HSCP's requirements.

Action Points 1a, 1b, 1c and 1d

5.5 The Council's *Contract Rules* states:

'3.1.1 [Executive] Directors must appoint an Authorised Officer who will be responsible for the procurement process and for ensuring the contract is carried out in accordance with the Service's requirements.'

5.6 Although the Authorised Signatories Database in Integra has a check box to authorise a person to be able to enter into a contract, live from December 2019, as at the date of audit and reporting, only the Chief Operating Officer, Education & Children's Services' officer and the Senior Services Manager in Communities have been entered as authorised.

Action Points 2a, 2b & 2c

5.7 For five out of the seven contracts tested for the 2020/21 audit, the letter of award was sent in the name of a Head of Service, which Internal Audit considers to be a reasonable level of officer seniority to enter into a contract on

a day-to-day basis. For the other two contracts, the letter was sent in the name of an officer below Head of Service, albeit one who has knowledge of the supply area. Whilst historically and/or by habit and repute delegation of the Chief Executive, an Executive Director or the Chief Operating Officer's authority to enter into a contract may have been given to Heads of Service, possibly verbally, Internal Audit is of the opinion that delegation should be formalised in writing to evidence governance and as an audit trail.

5.8 The Council's *Contract Rules* state:

'4.3 Responsibilities of Authorised Officers

4.3.1 The Authorised Officer is responsible for all contracts they have tendered, let and managed on behalf of the Council and must comply with the following duties:...

4.3.5 Post-Award (Contract Management Phase)

(a) To put in place arrangements for efficient contract and supplier management including the identification of a Contract Manager and management of benefits and performance, for the entire duration of the contract;...'

5.9 For the contracts tested for the 2019/20 audit, there is no evidence that the Authorised Officer - taken to be the officer who awarded the contract, the officer who signed the award letter - formally identified a Contract Manager in line with the Council's *Contract Rules*.

5.10 Since then, the *Contract Strategy* document, which should be prepared for contracts with a value of £50,000 or above, has been updated to include a box for the identification of a Contract Manager. The Contract Strategy is approved by the Head of Service, who would be considered of sufficient seniority to be an Authorised Officer.

5.11 For all seven contracts chosen for testing for 2020/21, the contact value is over £50k. For one of the seven contracts, no contract strategy was prepared.

5.12 For each of the six Contract Strategies, the Contract Manager is identified and it has been approved by the Head of Service. The Head of Service, who is of sufficient seniority to be an Authorised Officer, although not formally designated as such for the contract by the Executive Director, Chief Operating Officer, Chief Executive or HSCP Chief Officer/Director, has identified the Contract Manager for the contract in the Contract Strategy approved by themselves.

Action Point 3

5.13 Controls over the management of contracts are not set at the Corporate or Service level, they are designed at the individual contract level.

Action Point 4

5.14 The Corporate Procurement team considers its role to be consultative, with the awarding service having the responsibility for a contract, both for awarding and management.

- 5.15 Procurement training offered by the Corporate Procurement team does not cover the management of contracts in depth. Currently, Services do not provide training. There is a risk that officers who do not have experience of contract management may not be provided with sufficient training to undertake this role effectively.

Action Point 5

- 5.16 Whilst Contract Managers for the contracts selected for testing had not attended training recently, Internal Audit were informed by them that they were experienced contract managers. This assurance was accepted.

- 5.17 For six out of the seven contracts tested for the 2020/21 audit, whilst it is clear at a high level what service delivery is required for each of the contracts, key performance indicators, and/or acceptable performance levels, have not been agreed between the Service and the service supplier, or if they have been, documented. Without the ongoing measurement of KPIs it is difficult to demonstrate objectively that a supplier is delivering, or not, which may have implications for any potential legal recourse for non-performance.

Action Point 6

6. Conclusion

- 6.1 The Internal Audit review is able to place reasonable assurance on the overall control environment for awarding of contracts. The agreed actions, once implemented, should enable Internal Audit to place substantial assurance on these.
- 6.2 Because there are no standard Corporate or Service controls or procedures over the management of contracts, procedures and controls are designed at the individual contract level, Internal Audit is not able to extrapolate findings from the testing of a sample of projects over all contracts or comment on the overall control environment for the management of contracts. Internal audit can only comment on the control environment for the management of the contracts tested.
- 6.3 The Internal Audit review is able to place reasonable assurance on the control environment for the contracts tested.
- 6.4 A report, or other feedback, has been prepared for each contract tested. Each will be submitted to the relevant head of service, with a Management Action Plan. The agreed actions, once implemented, should enable Internal Audit to place substantial assurance on the control environment for each of the contracts tested.

7. Acknowledgements

Internal Audit would like to thank all officers who were involved in this audit across all three Services and the Health & Social Care Partnership.

8. Action Implementation and Follow up

- 8.1 Responsibility for the maintenance of adequate and effective controls rests with management. Where the audit has identified areas for management action, these are identified in the Management Action Plan. Where a decision is taken by management not to act in response to finding from this review, it is the responsibility of management to assess and accept the risk arising from non-implementation.
- 8.2 Achievement of the agreed actions is monitored through Internal Audit's 'follow up' arrangements.

9. Management Action Plan

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
1a	5.4	There is no scheme of delegation from the Executive Director (Communities) to anyone to enter into a contract on their behalf.	3 - Medium	<p>Audit action: The Executive Director of Communities should make arrangements to prepare a Scheme of Delegation to officers that they are authorise to enter contracts on the Executive Director's behalf.</p> <p>Agreed evidence: Written Scheme of Delegation authorised by the Executive Director, or a written statement from the Executive Director that they do not want to delegate authority to enter into a contract on their behalf.</p>	F Crofts, Head of Business & Resources (Communities)	March 2022
1b	5.4	There is no scheme of delegation from the Chief Operating Officer to anyone to enter into a contract on their behalf.	3 - Medium	<p>Audit action: The Chief Operating Officer should make arrangements to prepare a Scheme of Delegation to officers that they authorise to enter contracts on their behalf.</p>	S Mackenzie, Head of Finance (CDS)	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
				Agreed evidence: Written Scheme of Delegation authorised by the Chief Operating Officer, or a written statement from the Chief Operating Officer that they do not want to delegate authority to enter into a contract on their behalf.		
1c	5.4	There is no scheme of delegation from the Chief Executive to anyone to enter into a contract on their behalf.	3 -Medium	Audit action: The Chief Executive should make arrangements to prepare a Scheme of Delegation to any officers should they wish to authorise anybody to enter contracts on their behalf. Agreed evidence: Written Scheme of Delegation authorised by the Chief Executive, or a written statement from the Chief Executive that they do not want to delegate authority to enter into a contract on their behalf.	S Mackenzie, Head of Finance (CDS)	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
1d	5.4	There is no Scheme of Delegation or other written evidence that the Chief Executive, the Chief Operating Officer or any Executive Director has delegated authority to any Perth & Kinross Health and Social Care Partnership officer to enter into a contract on behalf of PKC.	3 - Medium	<p>Audit action: The HSCP's Chief Officer/Director should make arrangements to prepare a Scheme of Delegation to any officers should they wish to authorise anybody to enter contracts on their behalf</p> <p>Agreed evidence: Written Scheme of Delegation authorised by the HSCP's Chief Officer/Director, or a written statement from the HSCP's Chief Officer/Director that they do not want to delegate authority to enter into a contract on their behalf.</p>	G Paterson, Chief Officer/Director, HSCP	March 2022
2a	5.6	The Chief Operating Officer is the only Corporate & Democratic Services officer recorded as authorised to enter into a contract/SLA on the Authorised Signatories Database.	3 - Medium	<p>Audit action: The Chief Operating Officer should make arrangements to update the Authorised Signatories Database with officers that they authorise to enter contracts on their behalf.</p> <p>Agreed evidence: Updated Authorised Signatories Database.</p>	S Mackenzie, Head of Finance (CDS)	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
2b	5.6	No Communities officer is recorded as authorised to enter into a contract/SLA in the Authorised Signatories Database (ASD).	3 - Medium	Audit action: The Executive Director, Communities should make arrangements to update the ASD for themselves and officers that they authorise to enter contracts on their behalf. Agreed evidence: Updated Authorised Signatories Database.	B Renton, Executive Director, Communities	March 2022
2c	5.6	No HSCP officer is recorded as authorised to enter into a contract/SLA on behalf of PKC in the Authorised Signatories Database (ASD).		Audit action: The HSCP Chief Officer/Director should make arrangements to update the ASD for themselves and officers that they authorise to enter contracts on their behalf. Agreed evidence: Updated Authorised Signatories Database.	G Paterson, Chief Officer/Director, HSCP	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
3	5.9 to 5.12	<p>For the contracts tested for the 2019/20 audit, there is no evidence that the Authorised Officer - taken to be the officer who awarded the contract, the officer who signed the award letter - formally identified a Contract Manager.</p> <p>Since then, the <i>Contract Strategy</i> document, which should be prepared for contracts with a value of £50,000 or above, has been updated to include a box for the identification of a Contract Manager. The Contract Strategy is approved by the Head of Service.</p>	3 - Medium	<p>Audit action: The Corporate Procurement team should agree with Services what the process(es) should be for an Authorised Officer for a contract to formally identify a Contract Manager for the contract, to comply with the <i>Contract Rules</i>.</p> <p>Processes should be agreed for all contract values, not just for those of £50k or over.</p> <p>These processes should also cover when a Contract Manager changes over the lifetime of the project.</p> <p>Agreed evidence: Written procedures or process map(s) detailing the processes for an Authorised Officer to formally identify a Contract Manager.</p>	S Mackenzie, Head of Finance	March 2022

4	5.13	Controls over the management of contracts are not set at the corporate or service level, they are designed at the individual contract level.	3 - Medium	<p>Audit action: Consideration should be given to setting controls at a corporate level. Following this, Services can consider their implementation within their Service.</p> <p>Agreed evidence: Written procedures or process map(s) detailing corporate-wide and/or each Service-wide processes and controls for the management of contracts.</p>	S Mackenzie, Head of Finance;	June 2022
5	5.14 & 5.15	<p>The Corporate Procurement team considers its role to be consultative, with the awarding service having the responsibility for a contract, both for awarding and management.</p> <p>Procurement training offered by the Corporate Procurement team does not cover the management of contracts in depth.</p> <p>Currently, services do not provide training.</p>	3 - Medium	<p>Audit action: Comprehensive training on the management of contracts should be designed and provided mandatorily to every Contract Manager at either a corporate or service level.</p> <p>The Procurement team will work with Services to ensure that a record is maintained of who has undertaken the training and when.</p> <p>Agreed evidence: Evidence of planned corporate-wide and/or each Service-wide training on the management of contracts.</p> <p>Evidence of a corporate-wide and/or Service record of who has undertaken the training and when.</p>	S Mackenzie, Head of Finance	June 2022

6	5.17	For six out of the seven contracts tested for the 2020/21 audit, whilst it is clear at a high level what service delivery is required for each of the contracts, key performance indicators (KPIs), and/or acceptable performance levels, have not been agreed, or are not documented, between the Service and the service supplier. Without the ongoing measurement of KPIs it is difficult to demonstrate objectively that a supplier is delivering, or not, which may have implications for any potential legal recourse for non-performance.	3 - Medium	<p>Audit action: The importance of the agreement and documentation of KPIs will be included in updated procurement documentation and future training.</p> <p>Services will be encouraged to monitor KPIs at an appropriate level for each contract awarded.</p> <p>Agreed evidence: Updated documentation and training materials</p>	S Mackenzie, Head of Finance	June 2022
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10. Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was J Clark.

This report is authorised for issue:

11. Distribution

This report has been distributed to:

T Glen, Chief Executive

B Renton, Executive Director, Communities

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

K Donaldson, Chief Operating Officer

J Pepper, Depute Director, Education & Children's' Services

C Mailer, Depute Director, Communities

G Paterson, Chief Officer/Director, Perth & Kinross Health & Social Care Partnership

S Mackenzie, Head of Finance

L Simpson, Head of Legal & Governance

Committee Services

External Audit

12. Assessment Definitions

The following table contains the definitions of the control objective assessment.

Control Objective Assessment	
Level of assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The following table contains the definitions applied by Internal Audit in rating audit findings/actions.

Risk Rating for Individual Findings		
Rating	Rating description	Definition
5	Critical	Significant observations / major concerns which require immediate action. Management will need to add these to the appropriate Service risk register <i>Issue represents a control weakness which could cause, or is causing, severe disruption of the process or severe adverse effect on the ability to achieve process objectives</i>
4	High	Significant observations regarding the absence / failure of key controls requiring urgent action. Management should consider adding these to the appropriate Service / divisional risk register <i>Issue represents a control weakness which could have, or is having, major adverse effect on the ability to achieve process objectives</i>

3	Medium	<p>Observations regarding the effectiveness of key controls requiring reasonably urgent action. Management should consider these when updating any divisional / team risk registers</p> <p><i>Issue represents a control weakness which could have, or is having, significant adverse effect on the ability to achieve process objectives</i></p>
2	Low	<p>Minor observations regarding the adequacy of controls which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of Senior Management</p> <p><i>Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives</i></p>
1	Trivial / Minor	<p>Very minor observations which will be raised during the course of the audit and may not be included within the final report</p> <p><i>Issue represents a very minor control weakness with negligible impact on the ability to achieve process objectives. The issue will be raised during the course of the audit and may not be included within the final report.</i></p>