



Internal Audit Report  
Housing & Community Care  
Management of Contracts Assignment No. 14-11  
January 2015

## Final Report

Chief Executive's Service  
Finance Division  
Perth & Kinross Council  
2 High Street  
Perth PH1 5PH

## Background and Introduction

This audit was carried out as part of the audit plan for 2014/15 which was approved by the Audit Committee on 2 April 2014.

The Council engages through the tendering process with third parties to obtain goods and services which help the Council to secure its strategic objectives. Contracts are subsequently awarded to the successful tenderer.

This audit, carried out in September and October 2014, focused on the Council's policy, procedures and practices with regard to the management of formal contracts with small and medium sized enterprises. Excluded from the scope of this audit were capital projects, commissioned services and service level agreements, since these areas of procurement have been or will be examined elsewhere by Internal Audit.

A small sample of three contracts was selected: one contract with a value in the region of £5m; a second with a value in the region of £350,000; and a third with a value in the region of £175,000.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation received throughout this audit from the Council's Corporate Procurement Team in Housing and Community Care and from staff in three separate teams in The Environment Service responsible for managing the contracts selected for audit.

## 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 1: To ensure the Council's policy on management of contracts provides a strong foundation for effective internal control	
Auditor's Comments: The Scheme of Administration requires Committees to consider tenders and contracts within their respective areas but the audit found Committees now receive only limited information on contracts; however such information is readily available to members via the Council's contract register.	
The Scheme allocates officer responsibility for contract engagement but not for contract management. This emphasis on the "front end" of contracts is carried forward into the corporate rules; but the rules do set out sound principles of good contract management based on national guidance.	
Strength of Internal Controls:	Moderate

Control Objective 2: To ensure that the Council's procedures on management of contracts provide a robust framework for effective internal control	
Auditor's Comments: The Council's contracts rules and guidance provide sound principles of effective contract management; but there is scope for improving the detail on how Services should organise the roles and responsibilities of staff in order to establish and maintain internal control.	
Strength of Internal Controls:	Moderately weak

Control Objective 3: To ensure that Council policy and procedures on management of contracts are applied in practice to deliver effective internal control	
Auditor's Comments: The audit found that two of the sampled contracts were well managed with effective internal control in place, but in the third case, the management of the contract was found to feature significant weaknesses.	
Strength of Internal Controls:	Moderately weak

## 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.

## Feedback

Internal Audit welcomes feedback from management, 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 Walker, Executive Director, Housing & Community Care

J Valentine, Executive Director, The Environment Service

I Innes, Head of Legal Services, Chief Executive's Service

A Taylor, Head of Finance & Support Services, Housing & Community Care

J Symon, Head of Finance, Chief Executive's Service

M Mitchell, Corporate Procurement Manager, Housing & Community Care

F Crofts, Finance & Resources Manager, The Environment Service

C Flynn, Democratic Services Manager, Chief Executive's Service

G Taylor, Head of Democratic Services, Chief Executive's Service

P Dickson, Complaints & Governance Officer, Chief Executive's Service

External Audit

## Authorisation

The auditor for this assignment was R D Watt, supervised by M Morrison.

This report is authorised for issue:

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Jacqueline Clark

Chief Internal Auditor

Date: 28 January 2015

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Committee oversight	Medium
2	Contract Rules	Low
3	Accuracy of contract information for Committees	Medium
4	Delegation of authority	Medium
5	The Council's corporate rules on contract management	Medium
6	Tayside Procurement Strategy	Low
7	Procurement guidance on ERIC	Low
8	Contracting for temporary staff	High



## Appendix 2: Action Plan

### Action Point 1 - Committee oversight

Since May 2014, Strategic Policy and Resources Committee has been advised of tenders received and contracts awarded: hitherto it was “service” committees which received this information, in accordance with the Council’s Scheme of Administration.

The Scheme of Administration needs to be updated to reflect this new policy in contract reporting.

In addition, Committees may benefit from information on other matters related to tenders and contracts, such as on contract delivery performance, and assurance that monitoring is being carried out and is effective.

### Management Action Plan

1. Scheme of Administration will be amended to the effect of moving responsibility for oversight of tenders and contracts from “service” committees to the Strategic Policy and Resources Committee.
2. As part of the Service’s anticipated review of guidance, consideration will be given to the best means of providing Members with information on contract delivery performance, and assurance that contract monitoring is efficient and effective.

Importance:	Medium
Responsible Officer:	1.C Flynn, Democratic Services Manager 2. M Mitchell, Corporate Procurement Manager
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	1. June 2015 2. December 2015
Required Evidence of Completion:	1. Copy of Scheme of Administration 2. Copy of report on the Review

### Auditor’s Comments

Satisfactory

## Action Point 2 - Contract Rules

The Council's "Contract Rules" require Committees to be informed six monthly of the contracts entered into by Services in their respective areas.

However, in April 2014, with the issue of Report 14/173, arrangements changed. The reporting interval increased to 12 months; only the Strategic Policy and Resources Committee received a report of contracts awarded.

This is balanced by the greater availability of contract information via the Council's public website.

## Management Action Plan

The "Contract Rules" are due to be revised, to reflect the endorsement by the Strategic Policy and Resources Committee of annual reporting on contract awards. The Corporate Procurement Manager will liaise with the Head of Legal Services.

Importance:	Low
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	July 2015
Required Evidence of Completion:	Copy of revised Contract Rules

## Auditor's Comments

Satisfactory

### Action Point 3 - Accuracy of contract information for Committees

In order for Committee oversight of contracts to be effective, it is essential that relevant reports provide a timely and complete record of contracts entered into.

However, one of the contracts examined in detail by this audit was disclosed accurately, but only after a lengthy delay. In addition the audit found some contracts awarded near the financial year-end were not promptly reported.

#### Management Action Plan

Prior to April 2014, each Service produced its own report on tenders received and contracts awarded; Report 14/173 constituted the first time the Corporate Procurement Team took on the task of disclosing contract awards by all Services. The team has gained a number of learning points from this experience; and the above issues, brought to its attention by the audit, will be addressed prior to the next annual reporting exercise in 2015.

Importance:	Medium
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	June 2015
Required Evidence of Completion:	Note to Internal Audit on procedures adopted to address issues identified above

#### Auditor's Comments

Satisfactory

### Action Point 4 - Delegation of authority

According to the Council's Scheme of Administration, services should maintain a record of officers authorised to enter into contracts.

The Environment Service has yet to establish such a record. There is scope to adapt the Services's existing Authorised Signatory List to identify those officers with the delegated authority to enter into contracts. At the moment there are 20 officers who are empowered to authorise purchase orders of unlimited value and a further 31 officers who can authorise expenditure up to £75,000.

### Management Action Plan

1. The corporate procurement rules will be amended to require all Services to have documented schemes of delegation in place to record the limits of any delegated authority to enter into contracts.
2. TES will review authorisation limits with regard to contract engagement.

Importance:	Medium
Responsible Officer:	<ol style="list-style-type: none"> <li>1. M Mitchell, Corporate Procurement Manager</li> <li>2. F Crofts, Finance &amp; Resources Manager</li> </ol>
Lead Service:	<ol style="list-style-type: none"> <li>1. Housing &amp; Community Care</li> <li>2. The Environment Service</li> </ol>
Date for Completion (Month / Year):	1&2 – April 2015
Required Evidence of Completion:	<ol style="list-style-type: none"> <li>1. Copy of new guidance</li> <li>2. Copy of authorised signatory list with regard to contract engagement</li> </ol>

### Auditor's Comments

Satisfactory

## Action Point 5 - The Council's corporate rules on contract management

According to the Contract and Procurement Guidance " the Council is committed to ensuring a consistent approach to contract management across all its services" .

There is scope to improve the practical guidance on how Services should achieve and maintain a consistent approach to contract management; eg to ensure that Contract Officers carry out these duties effectively, and that senior managers and decision-makers are regularly assured on an evidenced basis that contract delivery is working well.

In the absence of such regular reporting on the work of Contract Officers to Service and corporate managers there is a risk that excellence in contract management may not be recognised and brought to the attention of senior Council managers, so that the approach adopted may be more widely applied.

### Management Action Plan

The Corporate Procurement Team are working on a "roles and responsibilities" framework to help services identify appropriate measures; e.g., requirements for Contract Officers and their supervisors, to ensure that contract management is effective and proportionate, and Council decision-makers are regularly assured of same.

Importance:	Medium
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	September 2015
Required Evidence of Completion:	Copy of guidance

### Auditor's Comments

Satisfactory

## Action Point 6 - Tayside Procurement Strategy

The work of the Council's procurement team and Services is guided by the Tayside Procurement Strategy of 2011-15 which sets out a programme of improvement actions and priorities agreed by members of the Tayside Procurement Consortium. The Strategy focusses on arrangements for the sound establishment of contracts, which reflects the need at the time of Strategy approval to ensure compliance with new EU legislation.

The current Strategy is due for revision and as such there is scope for greater priority to be allocated to improvement actions for contract management.

### Management Action Plan

Council services are actively contributing to the Tayside Procurement Consortium's strategy document for 2015 and beyond. In line with Scottish Government priorities, it is anticipated the new strategy will incorporate a greater emphasis on ensuring that contract management arrangements are efficient and effective. The Council's Strategic Policy and Resources Committee will be briefed on the new Strategy in due course; such briefing will address the above issue identified by the audit.

Importance:	Low
Responsible Officer:	A Taylor, Head of Finance & Support Services
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	June 2015
Required Evidence of Completion:	Copy of report to SP&R Committee

### Auditor's Comments

Satisfactory

## Action Point 7 - Procurement guidance on ERIC

A substantial volume of practical procurement advice is available on the Council's intranet website, ERIC, which provides links to key Council documents and to Scottish Government resources.

The guidance is generally well laid out and comprehensive. However, the audit found the guidance to be complex with specialist language being used and there were seven broken hyperlinks.

### Management Action Plan

In the course of the audit and since, the Corporate Procurement Team has repaired the broken hyperlinks brought to its attention; and regularly actively reviews the links to ensure that staff have ready access to corporate guidance.

A full review of the guidance will be carried out in early 2015.

Importance:	Low
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	April 2015
Required Evidence of Completion:	Note confirming review of ERIC has found that the links relevant to contract management are sound

### Auditor's Comments

Satisfactory

## Action Point 8 - Contracting for temporary staff

The audit included a review of the arrangements put in place by The Environment Service (TES) for the supply of temporary manual workers based at Friarton Depot.

In 2006 and in 2007, Internal Audit reported on the contract management arrangements which were then in place for a specific contract. TES awarded a new 3-year contract (with a possible 2 year extension) in 2008, which was duly disclosed to Committee. During 2010, the Service advised that the company was renamed but continued to work to the terms and conditions of the 2008 contract. Although this contract expired in 2013, both parties subsequently continued to work to the terms and conditions of the 2008 contract with the same personnel and management structure.

However:

- There was no written record of the change to company name;
- There was no written record of the process adopted to enact the 2 year extension to the contract or to extend the contract beyond 2013; and
- since 2012, the contract has not appeared in Council reporting or the Contract Register.

During 2014, the Council undertook a competitive tendering process for agency staff. The new contract was won by the existing contractor.

### Management Action Plan

1. The awarding of the contract following the tendering exercise which was undertaken during 2014 has dealt with the issues raised during the audit.
2. A review of the completeness of the Contract Register for the Environment Service will be undertaken.

Importance:	High
Responsible Officer:	1. Not applicable 2. S Welsh, Finance & Governance Team Leader
Lead Service:	The Environment Service
Date for Completion (Month / Year):	1. Complete 2. April 2015
Required Evidence of Completion:	Evidence of review of completeness

### Auditor's Comments

Satisfactory