



APPENDIX 2c

South Lakeland District Council

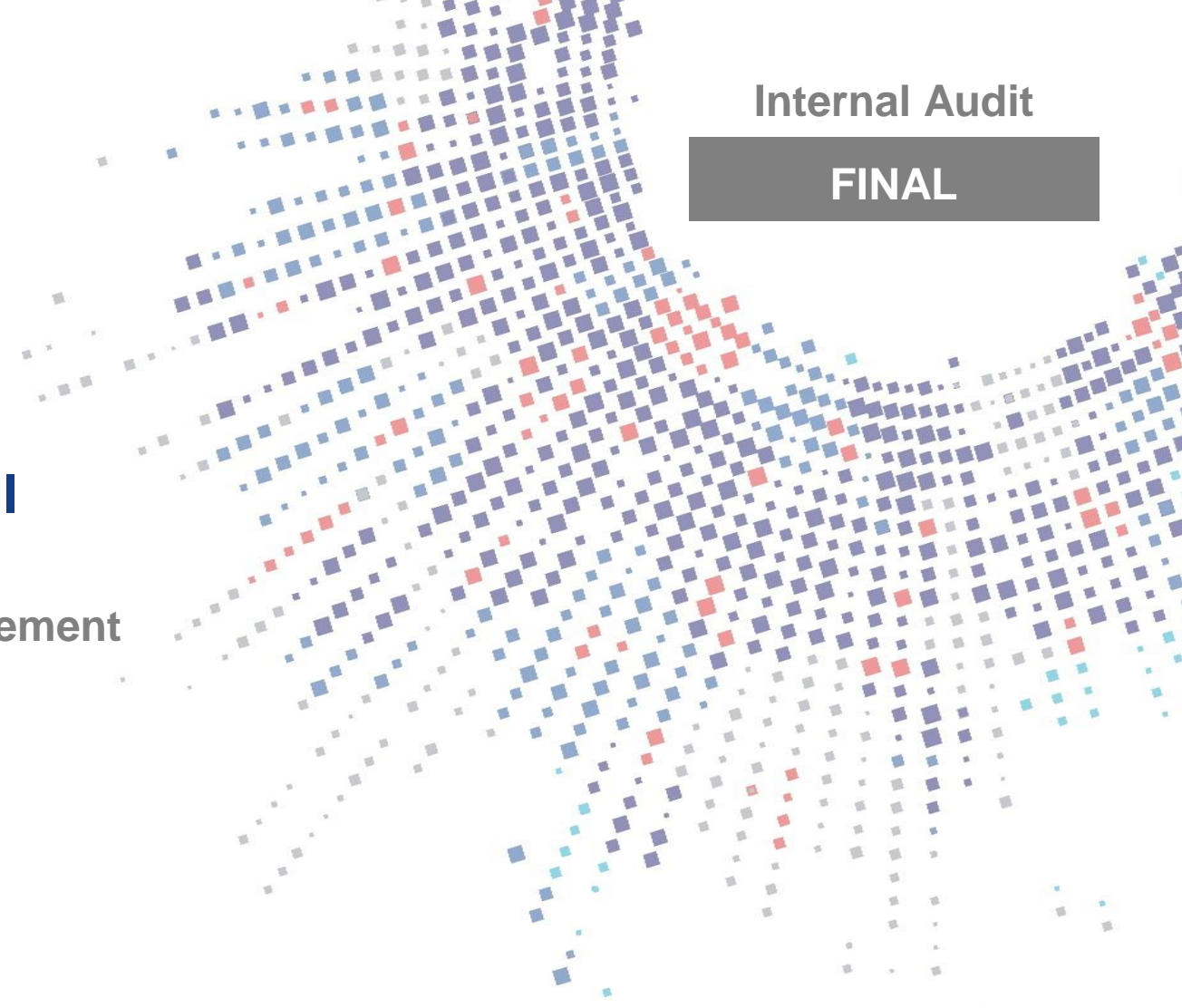
Assurance Review of Contract Management

2019/20

September 2020

Internal Audit

FINAL



Executive Summary

OVERALL ASSURANCE ASSESSMENT

OVERALL CONCLUSION

The basic elements are in place for procurement, however, a number of recommendations are made to improve the process particularly with contract management and include:

- The need for detailed guidance procedures to support the contract management process.
- Providing training to responsible officers in contract commissioning, procurement and delivery.
- Maintaining a central register of ongoing or recurring contracts to ensure a robust tender process.

SCOPE

The review considered the arrangements in place for managing major contracts and programmes including grounds and general maintenance, and property services. The review included particular focus on the progressing of contractual arrangements for cyclical servicing and testing as highlighted in the Property Services review in 2018/19. This review forms part of the rolling three-year programme of key financial and governance audits.

ACTION POINTS

Urgent	Important	Routine	Operational
2	9	5	1

Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
<p>The management comments and implementation timetable were originally prepared before Covid-19 changed the priorities of the procurement team who have had to spend much more time than expected on Covid-19 related contract amendments, new and urgent procurements and re-running procurement exercises. As a result many of the implementation targets have been missed and have been re-scheduled. Both the original and revised deadlines are noted. Helen Smith, Finance Lead Specialist.</p>							
10	Compliance	Discussions with various officers with contract management responsibility confirmed varying degrees of compliance with contract management.	A guidance procedure be developed to provide responsible officers with a framework for managing and monitoring their contracts.	1	<i>Noted that this is the case. Updated guidance procedure to be developed and implemented in line with recommendations 11 and 9</i>	Original target: 31/5/20 Revised target: 31/12/20	Finance Lead Specialist & Procurement Specialist
11	Compliance	There is limited contract management training. Commissioning, procurement and contract management training needs to be developed for all officers responsible for the delivery of projects and contracts for the Council.	Training be developed and provided to staff who are responsible for the delivery of contracts and projects.	1	<i>Noted, training to be developed or sourced and rolled out to those responsible for the delivery of contracts</i>	Original target: 31/5/20 Revised target: 31/12/20	Finance Lead Specialist & Procurement Specialist

PRIORITY GRADINGS

1 URGENT Fundamental control issue on which action should be taken immediately.

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Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	The current Sustainable Procurement and Commissioning Strategy requires that an action plan is developed to meet the Council objectives, vision and values and strategy requirements for sustainable procurement and commissioning with reporting to senior management quarterly and the Cabinet annually on how the Council is delivering against the strategy. It was ascertained that the regular reporting is not always carried out to Cabinet, however, reporting on some larger capital projects is carried out. A Procurement Review presented to the Cabinet meeting on 17 th July 2019 was effectively a summary of procurement work for the previous 12 months and did not set out progress against the Strategy.	It be ensured that the Sustainable Commissioning and Procurement Framework currently being developed includes an action plan for robust monitoring processes, similar to the current strategy, to ensure continual improvement, value for money and to confirm that the Council's vision and objectives are being achieved.	2	<i>Full Procurement review including response to the action plan to be prepared to Cabinet and annually thereafter. Currently being reviewed by a Strategy Specialist.</i>	<i>Original target: July 2020 Revised target: February 2021</i>	<i>Finance Lead Specialist & Procurement Specialist</i>
6	Directed	There is currently no central register of exemptions and waivers from the Council's approved commissioning and procurement guidance and rules.	A central register of exemptions and waivers from the Council's approved commissioning and procurement rules be maintained.	2	<i>To develop and implement a central register of exemptions and waivers and ensure that training given in its use. Register used to generate Procurement Schedule update to Cabinet September 2020.</i>	<i>Original target: 30/4/2020</i>	<i>Finance Lead Specialist & Procurement Specialist</i>

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7	Directed	From discussions with the Interim Procurement Manager, it was understood that there is little involvement from a procurement aspect in the specification of need for projects, however, the Procurement team have been involved in the development of the new Sustainable Commissioning and Procurement Framework. There has been a short handover from the Interim Procurement Manager, who finished on 17 th January 2020, to the new Procurement Manager and it is important that this involvement from the Procurement team continues.	It be ensured that the new Procurement Manager involvement in the development of the new Sustainable Commissioning and Procurement Framework continues.	2	<i>Noted and agreed and in progress.</i>	<i>Implemented</i>	<i>Procurement Specialist</i>
8	Directed	The Council has a Contract Management Policy and Procedure, which were produced in November 2014, and are supported by a flow chart. These documents were produced before the revised procurement and contract management process was introduced in 2016 and, whilst the process is supported by the Council's Constitution (Section 4), they need updating to provide detailed internal guidance for staff.	The contract management and procedure documents be updated to reflect the new procurement and contract management processes within the Council.	2	<i>Noted and agreed. There is conflicting policy information which is leading to poor practice. Currently liaising with Strategy Specialist.</i>	<i>Revised target: 31/12/20</i>	<i>Procurement Specialist</i>

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9	Compliance	Whilst it understood that the responsibility for the delivery and performance monitoring of the individual contracts sits with senior managers, the lack of an oversight group means that there are inconsistent practices relating to contract management. The requirement for an oversight group for contract management is important to ensure consistent practices and in achieving the Council's vision for sustainable cost effective procurement.	A Contract Management Group be established to oversee the delivery and performance management of contracts for the Council.	2	<i>A contract management group has been established with the remit of standardising and reporting delivery and performance management.</i>	<i>Implemented</i>	<i>Procurement Specialist and Legal, Governance and Democracy Lead Specialist</i>
12	Compliance	There is no standard format for the contract management files used by the responsible officers.	A standard format for all contract files be developed including a contract risk register.	2	<i>Noted and agreed. Although there are some template documents the portfolio needs to be increased and included in the training.</i>	<i>Original target: 31/5/20 Revised target: 31/12/20</i>	<i>Procurement Specialist</i>
13	Compliance	There are limited formal minuted contract meetings with the supplier / contractor during the delivery phase of the contract to identify any potential issues that make impact on the delivery of the contract.	Formal minuted ongoing contract meetings be introduced to ensure the smooth implementation of the contract and the early identification of areas of concern that may impact on delivery.	2	<i>Training to include recording contractor encounters including minuted meetings and file notes of telephone conversations.</i>	<i>Original target: 31/5/20 Revised target: 31/12/20</i>	<i>Procurement Specialist</i>

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14	Compliance	There are limited post contract reviews undertaken to ensure that the contract has delivered on all aspects including VfM, social value, equality and any lessons learned are fed back to relevant officers.	Post contract reviews be undertaken with any lessons learned fed back to relevant staff.	2	<i>This will be included in any training. This will include a review of major tender exercises and any lessons learnt from the process. Where KPI's have been set within the tender documents or contract setting up, check whether these have helped or hindered.</i>	<i>Original target: 30/6/20 Revised target: 31/12/20</i>	<i>Procurement Specialist</i>
15	Compliance	There is no central register of ongoing or recurring contracts, for example paper supplies, printing and service contracts which allows staff to plan in advance of need. Typically, work should begin on contracts some 12 to 15 months before they expire to ensure that there is an opportunity to carry out soft market testing, review the service / contract need, allow for capacity planning within Procurement, Legal and the Service department and more informed budgeting.	A central register of ongoing or recurring contracts be put in place to ensure a smooth and robust tender process.	2	<i>Fully agree. A point of frustration is that there is no generic contract register overseen by Procurement that reflects the Legal Contracts list and can feed into the procurement schedule. This is currently work in progress.</i>	<i>Original target: 31/3/20 Revised target: 31/12/20</i>	<i>Procurement Specialist</i>

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2	Directed	A Procurement Schedule is produced in February each year, to support the budget, with all intended commissioning and procurement projects. The schedule is further updated in July and December each year with any further identified projects. The identification of further contracts through the year can impact on the budget and effectively the majority of the December approved projects are likely to start in the new financial year. To ensure that the Procurement Schedule is accurate, it would be appropriate to identify all projects at the start of the year, however, it is understood that there will be a small number of projects not easily identified at the start of the year.	All projects be identified prior to the start of the new financial year.	3	<i>Finance directive, but with improved contracts register this can feed in and hopefully make the process more accurate.</i>	Original target: 31/3/20 Revised target: 31/12/20	Finance Lead Specialist with Procurement Specialist
3	Directed	The format of the Procurement Schedule also needs to be reviewed and updated and should include: capital, revenue and grant; one off, continuing or recurring contracts; type of funding; links to the operational budget and business objectives; more contract detail; and a unique contract identifying number that is used by all departments with the Council.	The Procurement Schedule be reviewed and updated to include a split between capital, revenue and grant funding; one off or recurring contracts; funding types; links to the relevant budget and Council objectives; and a unique identifying number for use throughout the process.	3	<i>Agreed. From strategic procurement view the financial worth and type asset is useful for determining the route to procurement. To be added to the new contracts register.</i>	Mainly implemented for the Procurement Schedule approved February 2020 for 2020/21 financial year. Unique identifying number to be resolved for next update of schedule (due October 2020)	Finance Lead Specialist and Procurement Specialist

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4	Directed	<p>The Contracts Register can be further improved by:</p> <ul style="list-style-type: none"> Separating the register between current and completed contracts for ease of use; and Recording one off and continuing contracts and recording the funding type. 	The Contracts Register be updated to include the contract and funding type and separating current and completed contracts.	3	<i>Agreed. Would also like to add a field of "contract review date" which gives plenty of time, not only to review the contract strategy but also to do the follow on procurement.</i>	<p>Original target: 31/3/20</p> <p>Revised target: January 2021 for 2021/22 schedule/register</p>	Finance Lead Specialist / Procurement Specialist
5	Directed	It was also noted that some data fields within the Contracts Register were not fully up to date i.e. contract value, review date and contract type. It was also noted that the November 2019 Contracts Register is available for public viewing (under DCLG Transparency Code) and this also contained missing or incorrect data.	As part of the review of the Contracts Register, the fields with incorrect and missing data be updated to ensure that the register is complete.	3	<i>Agreed. See previous notes.</i>	<p>Original target: 31/3/20</p> <p>Revised target: January 2021 for 2021/22 schedule/register</p>	Finance Lead Specialist / Procurement Specialist
16	Reputational	Apart from the Customer Connect project, there are no formal risk registers in place for each contract (a de minimus value or reputational level be determined).	Risk registers be developed for each project / contract over an agreed de minimus value or reputational impact.	3	<i>Agreed. This should be a standard requirement within all procurements over de minimus.</i>	<p>Original target: 30/9/20</p> <p>Revised target: 31/3/20</p>	Procurement Specialist

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Operational Effectiveness Matters

Ref	Risk Area	Item	Management Comments
1	Directed	Consideration be given to the inclusion of post contract reviews in the Framework to ensure that lessons learnt from project and contract commissioning, procurement and contract management are fed back into the process.	<i>Agreed – good practice and can easily be overseen by Procurement</i>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Detailed Findings

Introduction

1. This review was carried out in January 2020 as part of the planned internal audit work for 2019/20. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

Background

2. A previous internal audit review identified that contracts for property servicing were out of date and required action.

Materiality

3. The 2019/20 procurement schedule has circa 110 procurement projects approved by the Council from capital, revenue and grant budgets. It is, therefore, crucial that the Council has robust arrangements in place for the contract management process once the contract has been awarded to protect staff and the reputation of the Council.

Key Findings & Action Points

4. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

Scope and Limitations of the Review

5. The review considered the arrangements in place for managing major contracts and programmes including grounds and general maintenance, and property services. The review included particular focus on the progressing of contractual arrangements for cyclical servicing and testing as highlighted in the Property Services review in 2018/19. This review forms part of the rolling three-year programme of key financial and governance audits.
6. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

Disclaimer

7. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Risk Area Assurance Assessments

8. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Audit Contacts

9. For any queries or to discuss the content of this report, please contact either of the following:

Lead Auditor:	Andrew Fife andrew.fife@ttaa.co.uk 07980 717194
Head of Internal Audit:	Peter Harrison peter.harrison@ttaa.co.uk 07970 376542

Audit Report Distribution

10. We would like to thank staff for their co-operation and assistance during the course of our work.

For Action:	Linda Fisher, Legal, Governance and Democracy Lead Specialist (Monitoring Officer)
For Information:	Helen Smith, Finance Lead Specialist and Section 151 Officer

Release of Report

11. The table below sets out the history of this report.

Date draft report issued:	21 st January 2020
Date management responses received:	2 nd September 2020
Date final report issued:	2 nd September 2020