



Dacorum Borough Council

Final Internal Audit Report

Contract Management

April 2014

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

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Key Dates:

Date of fieldwork: March 2014
Date of draft report: April 2014
Receipt of responses: April 2014
Date of final report: April 2014

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1. Executive Summary

1.1. Background

As part of the Internal Audit programme for 2013/14, we have undertaken an audit of the Council's systems of internal control in respect of Contract Management.

The following four current contracts were selected from the Council's Contract Register for testing:

- Preventative Asbestos Management Surveys Contract,
- Recruitment Advertising and Statutory Notices Contract,
- Customer Service and Gateway Agreement Contract.,
- Repair and Maintenance Services of Boilers

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Contract Management, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Form of Contract; Variation of Contract; Contract Monitoring; Budget Monitoring and Management Information.

1.3. Summary Assessment

Our audit of DBC's internal controls operating over Contract Management found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Limited

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Contract Management is shown in Section 3.

1.4. Key Findings

We have raised one priority 1 recommendation and two priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- The meetings held between the Council and the Contractor should be documented and recorded as formal meeting minutes and/or action notes. *(Priority 2)*
- Key Performance Indicators as specified in contracts between the Council and service providers should be formally monitored and recorded. *(Priority 1)*

- Contracts which are defined as being of key importance to the Council should be identified and the performance of these contracts should reported formally to the Council on a regular basis . (*Priority 2*)

Full details of the audit findings and recommendations are shown in Section 4 of the report

1.5. **Management Response**

We have received the management responses and have included them in our Final report.

1.6. **Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Contract Management, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

- *Form of Contract*
To confirm that signed contracts are in place which include terms and conditions to protect the Council. To confirm that performance requirements and indicators are outlined to help ensure that the Council receives quality services and value for money.
- *Variations to Contract*
To confirm that variations to contract are appropriately documented and approved by both the Council and the contractor.
- *Contract Management*
To confirm that performance against contracts is monitored and corrective action is taken where poor performance is identified.
- *Budgetary Control*
To confirm that payments are made in accordance with contractual agreements and the Council's financial scheme of delegation. To confirm that agreed budgets are monitored and action taken where variances are identified.
- *Management Reporting*
To confirm that contractor performance and budget monitoring are appropriately reported to management.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Form of Contract			
Variation of Contract			
Contract Monitoring			Recommendations 1 and 2
Budget Monitoring			
Management Information			Recommendation 3

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Contractor Meetings (Priority 2)

<p>Recommendation</p> <p>The meetings held between the Council and the Contractor should be documented and recorded as formal meeting minutes and/or action notes.</p>
<p>Observation</p> <p>There should be regular meetings between the Council and the Contractor to discuss performance, provide an update on the Contract and to resolve any issues identified. Furthermore, in order that agreed actions are documented and can be followed up meeting minutes or action notes should be recorded for meetings held between the Council and Contractor.</p> <p>Through testing a sample of four contracts selected from the Contract Register it was found that meetings are held between the Council and the Council's Contractors. However, it was noted that for two contracts, Preventative Asbestos Management Surveys Contract, and the Recruitment Advertising and Statutory Notices Contract, there was an inconsistent approach to recording the issues discussed at the meetings and actions agreed.</p> <p>Where there are no documented action notes or meeting minutes there is a risk that agreed actions may not be addressed or decisions made may not formally recorded which may lead to difficulties in resolving disputes between both parties.</p>
<p>Responsibility</p> <p>Group Manager (Corporate Procurement)</p>
<p>Management response / deadline</p> <p>Agreed.</p> <p>As part of the on-going 'review of procurement' project that is being undertaken, Contract Management has already been identified as an element of the commissioning & procurement cycle that the Council needs to focus on.</p> <p>Formal contract management guidance is being produced and will be shown in its own section within the Procurement Standing Orders (PSO's). The PSO's are currently being redrafted to take account of the outcomes of the 'review of procurement' and are due to be presented to Scrutiny and Cabinet in June 2014 and Full Council in July 2014.</p> <p>This will address the recommendation identified above.</p>

Recommendation 2: Key Performance Indicators (Priority 1)**Recommendation**

Key Performance Indicators as specified in contracts between the Council and service providers should be formally monitored and recorded.

Observation

In order that poor performance can be identified and appropriately rectified the key performance indicators in the contracts should be agreed by both the Council and the Contractors. Furthermore, the key performance indicators should be recorded and monitored on a regular basis.

Through testing a sample of four contracts across the Council it was found that the performance frameworks have been included within the contracts. However, it was noted that with the exception of the Customer Service Gateway Contract, the key performance indicators are not monitored on a regular basis as specified in the contract for the other three contracts.

Where performance of contractors is not monitored there is a risk that poor performance is not identified and appropriately rectified.

Responsibility

Group Manager (Corporate Procurement)

Management response / deadline

Agreed.

As part of the on-going 'review of procurement' project that is being undertaken, Contract Management has already been identified as an element of the commissioning & procurement cycle that the Council needs to focus on.

Formal contract management guidance is being produced and will be shown in its own section within the Procurement Standing Orders (PSO's). The PSO's are currently being redrafted to take account of the outcomes of the 'review of procurement' and are due to be presented to Scrutiny and Cabinet in June 2014 and Full Council in July 2014.

This will address the recommendation identified above.

Recommendation 3: Reporting to the Council (Priority 2)**Recommendation**

Contracts which are defined as being of key importance to the Council should be identified and the performance of these contracts should reported formally to the Council on a regular basis.

Observation

In order that the Council is aware of the contractor's performance for its key contracts and are receiving the required level of service from these contractors, regular performance reports should be prepared and submitted to the appropriate forum.

Through testing a sample of four contracts selected from the Council's contracts register, it was noted that for two contracts, namely Preventative Asbestos Management Surveys Contract and the Recruitment Advertising and Statutory Notices Contract, there was no evidence to demonstrate that performance is formally presented to the Council. Furthermore, it was noted there was no framework to determine which contracts are formally reported to the Council.

Where contractor performance is not reported to the Council there is a risk that critical services may not be provided to the required standard expected by the Council which may lead to reputational damage to the Council and may lead to the objectives of the Council not being achieved.

Responsibility

Group Manager (Corporate Procurement)

Management response / deadline

Agreed.

As part of the on-going 'review of procurement' project that is being undertaken, Contract Management has already been identified as an element of the commissioning & procurement cycle that the Council needs to focus on.

Formal contract management guidance is being produced and will be shown in its own section within the Procurement Standing Orders (PSO's). The PSO's are currently being redrafted to take account of the outcomes of the 'review of procurement' and are due to be presented to Scrutiny and Cabinet in June 2014 and Full Council in July 2014.

This will address the recommendation identified above.

Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B - Staff Interviewed

The following personnel were consulted:

Ben Hosier	-	Group Manager (Corporate Procurement)
Matt Rawdon	-	Group Manager (HR)
Anne Stunnel	-	HR Team Leader
Mark Housden	-	Commercial Contracts and Supplier Relationship Lead Officer
Neil Brown	-	Programme and Procurement Team Leader
Adrian Hoole	-	Lead Officer

We would like to thank the staff involved for their co-operation during the audit.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

April 2014

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