



Internal Audit Report 2016/2017

Contract Management

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Auditor
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**Audit: Contracts Management
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1 Introduction

- 1.1 An audit of Contract Management has been undertaken in accordance with the three year audit plan which was approved by the Corporate Governance and Audit Committee of Chichester District Council. Good Contract Management ensures that the council maximises savings and quality of service, while ensuring that all parties involved in the contract fully understand their obligations and responsibilities and fulfil them as efficiently and effectively as possible.

2 Scope

- 2.1 The scope of this audit was to include the following:-
- To document the processes for forming a contract, variations to a contract, contract management/monitoring, budget monitoring and management information.
 - Identify and test controls are in place within these processes

3 Testing and Findings

- 3.1 Testing was based on contracts that commenced within the financial year 2016/17 of which there were five. Of these, one was subject to a separate audit review (Leisure Centres contract SLM Ltd) and another (Les Searle Plant Hire and Sales Ltd) was for the delivery of goods and services, ie. the delivery of shingle, therefore for the purpose of this audit only three contracts were reviewed; Banking, Telecommunications and Building Maintenance.

3.2 Entering into a Contract

Ensuring that key requirements are fulfilled before a contract starts is a fundamental control for effective contract management. Testing was undertaken on each contract that had been entered into, to ensure that:-

- a) Key performance indicators are outlined within the contract to help the Council measure that the quality of service is received and value for money has been achieved,
- b) Signed contracts are in place which include terms and conditions to protect the Council

- c) Contracts and documentation relating to the contracts are kept in a safe, secure environment either in an electronic or paper format.

All three contract examined contracts were found to include the above.

Variations to Contract

- 3.3 As contracts progress, changes maybe required. It is necessary that these changes are implemented with a 'Letter of Variation'. Testing on variations included a review; that appropriate documentation had been maintained and approval obtained, ie. signed by both the Council and Contractor. Only the Telecommunications contract (with Azzurri) identified a potential variation, this was for additional telephone lines to be installed. At the time of the audit, this was being reviewed by legal sevicees who subsequently refused to agree or sign the variation. This company has since been sold to Mitel who are working with legal on a current variation, however, this is outside the period of audit's review.

Contract Monitoring

- 3.4 Once the contract commences it is important that there is a robust basis on which to monitor the performance of the contract. Testing on the contract management process was undertaken against what is set out within the individual contracts and included the following;-
 - a) Performance against the contract is monitored
 - b) Corrective action is taken where poor performance is identified
 - c) Regular meetings are undertaken as per the contract and a record made to that effect

Testing found that for two of the three contracts; telecommunications and building maintenance, there was a general lack of evidence to support whether managers were monitoring and measuring performance against the contract. Although regular meetings had taken place as per the contract, little or no documentary evidence could be provided to support these had taken place. Internal Audit recommends that all contract managers are reminded to retain minutes of meetings relating to contracts, in order to provide assurance. However, it is reported that none of the contracts reviewed, required corrective action due to poor performance.

Budget Monitoring and Management Information

- 3.5 Reviewing the financial position ensures that it is kept within budget and payments are made as stated in the contract.

Testing on the budget monitoring process included:-

- a) Agreed budgets set out within the contract are monitored

- b) Payments are made in accordance with contractual agreements and the Council's financial scheme of delegation.
- c) Action is taken where variances are identified and increases in budget are appropriately authorised

As a result, testing found that evidence of monitoring was different in each case. In one case the contract clearly stated instalment payments to be made together with payment dates. These payments had been made in accordance with the contract. A review of the budgets for the remaining two contracts showed that they had not been exceeded. One Contract Manager undertook quarterly monitoring while the other relied on experience to determine whether the costs set out in the contract were being adhered to. None of the contracts tested to date had any changes or increases in budgets that required authorisation.

- 3.6 All contracts should have a reporting structure which needs to be adhered to. Within this audit, the contracts were tested to ensure that performance and budget monitoring are reported appropriately. All Managers who deal with contracts, informed Internal Audit that they undertake regular meetings with the contract managers but as previously mentioned, minutes were not always taken. In addition, all contract managers have one to ones with their appropriate Head of Service, but these are not always minuted.
- 3.7 Contract Management training was provided to all senior managers in May 2016. Testing throughout the audit has shown that contract managers deal with their responsibilities and maintain evidence differently. Guidance on contract management is currently being produced by the Procurement Officer; this will provide continuity and consistency across the council and include what is expected from contract managers. Clear guidance should also enable effective monitoring in future. Internal Audit suggests that for assurance purposes, the guidance includes reporting procedures so that those responsible for monitoring of contracts across the council report to Senior Management on their findings. This will provide assurance that big contracts are being carefully monitored by the managers, thus mitigating risks to the council.

4 Conclusion

- 4.1 The introduction of Contract Management Guidance should ensure that the responsibilities and obligations of the contract manager are defined and fulfilled as efficiently and effectively as possible. Additional monitoring would provide the assurance that contract management within Chichester District Council is working in accordance with this guidance for the benefit of the Council. As a result of this audit, Internal Audit has made three recommendations.

5 Recommendations

- 5.1 An Action Table has been produced, see Appendix 1. In order to prioritise actions required, a traffic light indicator has been used to identify issues raised as follows:

Red – Significant issues to be addressed

Amber – Important issues to be addressed

Green – Minor or no issues to be addressed

6 Action Plan – Appendix 1

Paragraph Ref	Recommendation	Officer	Priority	Agreed	Comments	Implementation Date
3.4 to 3.6	The Contract Management Guidance (currently being produced) clearly states what documentation is required to be kept by contract managers, including agenda's and minutes of meetings.	Procurement Officer	● Important	Yes	New procedures are currently being completed.	September 2017
3.7	That Contract Management Guidance is completed as soon as possible.	Procurement Officer	● Important	Yes	New procedures are currently being completed.	September 2017
3.7	The Contract Guidance includes a corporate reporting protocol for the monitoring of all key contracts.	Procurement Officer	● Important	Yes	New procedures are currently being completed.	September 2017

Traffic Light Key

Significant Issues to be addressed ●

Important Issues to be addressed ●

Minor/No issues to be addressed ●