
Final Internal Audit Report

North Wiltshire District Council

Corporate Services – Contract Monitoring

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*North
Wiltshire
District
Council*

INTERNAL AUDIT

Report No 7 - Appendix 1

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Executive Summary

Introduction

This report details the Internal Audit review of procedures and controls in place for Contract Monitoring. The audit has been undertaken in accordance with the 2008/2009 Internal Audit plan. The audit approach and summary of the work undertaken is provided in the audit framework in Appendix One.

Contracts are set up on a regular basis and within all teams in the Council. For the purposes of this audit ten large value contracts were chosen ranging between £25,361 and £995,037.79. This selection was mainly large works contracts carried out by the Asset Design and Regeneration Team as well as assessments carried out by the Policy and Performance Team.

Unlike many authorities NWDC do not have a central procurement or contracts team. This has resulted in information being disseminated across the Council and no one responsible party.

Overall Conclusion

Internal policies and procedures are in place and are regularly reviewed to ensure a common consistent approach is taken regarding contracts.

Contract procedure rules are contained in the Draft Financial Regulations paragraph 4.8 and state clearly the method to be adopted for entering into contracts. The regulations contain details on delegated authority, the tendering process and the acceptance of tenders. The Policy and Democratic Services Team Leader is mentioned in paragraphs 9 and 10, a post that no longer exists. A recommendation has been made to address this issue.

A procurement check list for managers is available on the Intranet for all officers to use but has not been updated to include the revised contract limits as agreed in the Schedule of Monetary Limits by Council in April 2006. A recommendation has been made to address this issue.

To ensure awarded contracts are compliant with the relevant laws, regulations and the Councils own policies and procedures.

Testing was carried out on the last 10 contracts on the contracts list obtained from the Legal Team. It became clear that this list did not contain all the contracts that had been let. Further investigation found additional lists throughout the Council and there was no evidence to suggest these had been amalgamated and were being controlled centrally. A recommendation has been made to address this issue.

Not all contracts issued go through the Legal Team. This decision is based on value (£50k) and the complexity of the contract. A recommendation has been made to address this issue.

When the Legal Team are involved they review the paperwork to ensure the tender process was completed correctly and that the contractor has adequate insurance, they also set up bonds with the banks if required.

The testing concluded that 6 of the contracts were signed between 31 and 153 days after the work had started on the project. 2 of the 10 were signed after the project had been finished. A recommendation has been made to address this issue.

The tendering process is carried out in accordance with internal policies and relevant legislation.

Ten contracts were tested to ensure the correct procedures were followed during the tendering procedure. Tenders are sent to suppliers from a list made up of suppliers suitable to carry out the required works. In all cases the correct number of quotes or tenders was requested as per the financial regulations.

Tenders are controlled centrally by the CAMS and Democratic Services Teams who record and witness their opening. No errors were found with regards to the tendering process, although to access all the information resulted in having to review files held within 3 separate teams. A recommendation has been made to address this issue.

Although evidence was found to support the tendering process there is a doubt as to whether the CAMS and Democratic Services Teams are capturing all the contracts that should adhere to this process as there are no controls in place to ensure compliance. There is the possibility that a contract could be let without their knowledge. A recommendation has been made to address this issue.

There is no mention of the requirement to advertise contracts in excess of £139,893 on the Official Journal of the European Union (OJEU) in the Council's Contract Procedure Rules. Although evidence to indicate this is happening in practice was found. A recommendation has been made to address this issue.

Regular and frequent monitoring of contracts takes place and continuous evaluation of supplier performance is measured. Identified problems are dealt with quickly and effectively and in a consistent manner.

All of the contract files reviewed contained masses of information including emails, details of phone calls and correspondence and in every case it was possible to follow the progress being made on the project. Some of the contracts are effectively sub contracted out so the Council become the client and therefore do not get involved to the same degree as the project manager is be employed by another company.

Contract numbers are not used by the finance team to pay for invoices relating to contracts. It is therefore difficult to ascertain at this point if the contract has exceeded its agreed contract price, although capital projects are monitored by the Capital Accountant. Most of the contracts are for specific pieces of work and are awarded after a tendering process so this will reduce the risk of being overcharged but because there are no controls to match contracts with invoices on the finance system there remains a risk. Without significant investment in the Forte purchase ledger system, which only has 6 months left to run, this problem can't effectively be addressed.

An area of inconsistency exists regarding contract numbers. There are multiple contract list around the Council, the list held by the legal team goes back a number of years and uses one alpha and four numeric fields. This contract number is not used by the other Teams who instead use their own contract numbers; this makes it difficult to identify the contract information in other Teams. A recommendation has been made to address this issue.

Sufficient planning is taking place to ensure contracts can be handed over to the new Unitary without causing financial or reputational loss.

Estate management needs to continue to meet the obligations of the Council. Thought has been given to contracts that will transfer to the new Unitary and as such the Estates Valuer at WCC has delegated approval from the CEO to agree terms of all estate work with NWDC under the transition rules.

The CAMS team have been tasked to produce one list containing all the contracts in place and this work is currently ongoing. Without this list and some kind of central monitoring process it will be difficult to inform the new Unitary Council of ongoing contracts and any legal or financial commitments that have been made.

Opinion

Within the terms of objectives and the testing undertaken in the period under review, we give a **Limited (4)** level of assurance opinion, in respect of the systems and internal controls operating within the area audited. The context of this assurance level is explained in more detail in Appendix Three.

Acknowledgement

We would like to take this opportunity to thank all staff for their assistance with the audit.

Categorisation of Recommendations

To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High Priority Fundamental control weakness for senior management action

Medium Priority Other control weakness for local management action

Low Priority Recommended best practice to improve overall control

Section One- Findings & Recommendations

Control Objective 1

1. Internal policies and procedures are in place and are regularly reviewed to ensure a common consistent approach is taken regarding contracts **(Medium Priority)**

Finding	Recommendation	Responsibility
Contract procedure rules are contained in the Financial Regulations state clearly the method to be adopted for entering into contracts. The regulations contain details on delegated authority, the tendering process and the acceptance of tenders.	Draft New Financial Regulations should be updated to include the correct officers responsible for the tendering process and the up keep of the Standing approved list.	Chief Financial Accountant
Management response		Deadline
Agreed.		November 2008

Control Objective 1

2. Internal policies and procedures are in place and are regularly reviewed to ensure a common consistent approach is taken regarding contracts. **(Medium Priority)**

Finding	Recommendation	Responsibility
<p>The Procurement Checklist is a document intended for Team Leaders to use and is held on the bulletin board. The contract procedure rules contained in the document details the values and what is necessary regarding quotations and tenders, the information does not agree to the information contained in the Financial Regulations as amended in April 2006.</p>	<p>The Procurement Checklist and the Financial Regulations should be brought up to date and should contain the same information regarding procurement values as agreed by the Council in April 2006.</p>	<p>CAMS Manager</p>
Management response		Deadline
<p>Agreed. The Procurement Checklist Document will be removed from the bulletin board and replaced with a new set of guidelines that are currently being agreed for the new Unitary Council.</p>		<p>November 2008</p>

Control Objective 2

3. To ensure awarded contracts are compliant with the relevant laws, regulations and the Councils own policies and procedures. **(Low Priority)**

Finding	Recommendation	Responsibility
There is no mention of the requirement to advertise contracts in excess of £139,893 for supplies or services or £3,497,313 for works on the Official Journal of the European Union (OJEU) in the Council's Contract Procedure Rules which is part of the Financial Regulations, although evidence to indicate this is happening in practice was found.	Details of the Council's responsibility to advertise with the Official Journal of the European Union (OJEU) where Supplies, Services or works exceed the threshold should be included in the Financial Regulations contract procedure rules (section 4.8).	Chief Financial Accountant
Management response		Deadline
Agreed.		November 2008

Control Objective 2

4. To ensure awarded contracts are compliant with the relevant laws, regulations and the Councils own policies and procedures. **(High Priority)**

Finding	Recommendation	Responsibility
Ten contracts were tested as part of the audit. Testing concluded that 6 of the contracts were signed between 31 and 153 days after the work had started on the project and 2 of the 10 were signed after the project had been finished.	A legally binding contract should be signed before the project work commences to formally agree the terms and conditions between the relevant parties.	CAMS Manager
Management response		Deadline
Agreed. Teams will be reminded that contracts should be in place before any work commences.		November 2008

Control Objective 2

5. To ensure awarded contracts are compliant with the relevant laws, regulations and the Councils own policies and procedures.

(Medium Priority)

Finding	Recommendation	Responsibility
<p>The Legal Team review the paperwork to ensure the tender process was completed correctly and that the contractor has adequate insurance. They also create the contract and set up bonds with the bank if required. Bonds are insurance policies with the bank in case the contractor goes out of business an element of the cost is paid for by the contractor.</p> <p>Not all contracts issued go through the Legal Team. This decision is based on value (£50k) and the complexity of the contract.</p>	<p>The Legal Team should be made aware of all potential contracts and should be given the opportunity to review the documentation before any terms or conditions are agreed. This would also ensure that the project is given a contract number and added to the list held by the Legal Team.</p>	<p>CAMS Manager</p>
Management response		Deadline
<p>Agreed.</p> <p>Teams to be informed of the need to inform the Legal Team of new contracts. This may become easier as copies of all contracts will soon be held within the CAMS Team.</p>		<p>November 2008</p>

Control Objective 3

6. The tendering process is carried out in accordance with internal policies.

(High Priority)

Finding	Recommendation	Responsibility
Information regarding contracts is held within various files and in various locations around the Council. There is not one central point where this information is brought together and managed.	Contract information should be retained by one department and it should be there responsibility to maintain the files and ensure that the correct procedures are followed. This Team should also act as the central point of contact and be liaising with all the departments involved in the process. Central files should be monitored and should include version control. This role would also be responsible for issuing information to relevant parties and ensuring that master copies are protected.	CAMS Manager
Management response		Deadline
Agreed. As in recommendation 5, copies of all contracts will soon be held within the CAMS Team.		January 2009

Control Objective 3

7. The tendering process is carried out in accordance with internal policies.

(High Priority)

Finding	Recommendation	Responsibility
Although evidence was found to support the tendering process there is a doubt as to whether the CAMS and Democratic Services Teams are capturing all the contracts that should adhere to this process as there are no controls in place to ensure compliance. There is the possibility that a contract could be let without their knowledge.	Adequate controls should be in place to ensure that all contracts are captured and that the tendering process adheres to the correct procurement procedures as agreed by the Council and detailed in the Financial Regulations.	CAMS Manager
Management response		Deadline
Agreed. Will endeavour to capture all contracts in future.		November 2008

Control Objective 4

8. Regular and frequent monitoring of contracts takes place and continuous evaluation of supplier performance is measured. Identified problems are dealt with quickly and effectively and in a consistent manner.

(Medium Priority)

Finding	Recommendation	Responsibility
<p>There are physical files containing contract documentation held within various teams in the Council. The Legal Team has another file containing the contract information and the contract number. The contract number is not universally used outside the Legal Team and as such there is no common reference used between all the teams involved in running the contract.</p>	<p>One contract number should be allocated to each contract and this should be used by all Teams within the Council. This number could be issued by the CAMS Team who would be responsible for creating and maintaining a single contract list.</p>	<p>CAMS Manager Legal Services Manager</p>
Management response		Deadline
<p>Agreed. Will look into ways of using one contract reference or having a method of linking the physical files.</p>		<p>November 2008</p>

Control Objective

9. Sufficient planning is taking place to ensure contracts can be handed over to the new Unitary without causing financial or reputational loss. **(High Priority)**

Finding	Recommendation	Responsibility
<p>One master list could not be found that contained all of the contracts partly because there is not a single point of contact within the Council responsible for contract monitoring.</p> <p>Note: This list is currently being constructed by the CAMS Team.</p>	<p>One list should be produced containing all the contracts that are in place at NWDC. This register should be kept up to date so that it reflects a true position of ongoing contracts at the end of March 2008, information that will be vital for the new Unitary.</p>	<p>CAMS Manager</p>
Management response		Deadline
<p>Agreed. Work on this has started.</p>		<p>November 2008</p>

Appendix 1 - Audit Framework

Audit Objectives

The audit was designed to ensure that management has implemented adequate and effective controls in respect of Contract Monitoring.

Audit Approach and Methodology

The audit approach was developed with reference to the Internal Audit Manual and by an assessment of risks and management controls operating within each area of the scope.

The following procedures were adopted:

- identification of the role and objectives of each area;
- identification of risks within the systems, and controls in existence to allow the control objectives to be achieved; and
- evaluation and testing of controls within the systems.

From these procedures we have identified weaknesses in the systems of control, produced specific proposals to improve the control environment and have drawn an overall conclusion on the design and operation of the system.

Areas Covered

Audit work was undertaken to cover the following areas:

- Policies and procedures are in place and are regularly reviewed and updated.
- Invitation to tender and tender/quote process is carried out in accordance with internal policies and procedures.
- Awarding of contracts is carried out in accordance with internal policies and procedures.
- Contract review and reporting is carried out at regular intervals.
- Planning for handing over contracts to Unitary Council is being carried out.

Appendix 2 - Staff Interviewed and Report Distribution

- Carole Stevens Legal Assistant (Property)
- Lorraine Hawkins Senior Admin Officer Assets
- Mike Hasted Senior Regeneration Officer
- Wendy Gubbins CAMS Manager
- Louise Tilsed Spatial Plans Officer
- Cheryl Gillen Payments Officer

Report Distribution

A copy of the report has been distributed to the following officers:

Draft Report:

- Stuart McGregor Assistant Chief Executive
- Nick Hatton Chief Financial Accountant
- Peter Jeremiah Legal Services Manager
- Wendy Gubbins CAMS Manager

Final Report:

- Stuart McGregor Assistant Chief Executive
- Nick Hatton Chief Financial Accountant
- Peter Jeremiah Legal Services Manager
- Wendy Gubbins CAMS Manager

Appendix 3 - CONTROLS ASSURANCE DEFINITIONS

- Excellent (1)** *“A cost effective control system is in place commensurate with the risks facing the activity. Compelling evidence is found to corroborate the conclusion that the control systems are operating as expected.”*
- Good (2)** *“A system of control is in place that is designed to assist in the achievement of service objectives. Strong evidence is available to support the conclusion that controls are operating as expected.”*
- Satisfactory (3)** *“A system of control is in place that is designed to assist in the achievement of service objectives although there may be opportunities to improve controls. Some evidence is available to support the conclusion that controls are operating as expected.”*
- Limited (4)** *“A system of control is in place but omits one or more key elements from its design. Alternatively, the auditor may be unable to find any firm evidence that a system is operating as expected. There is a quantifiable risk that service objectives will not be achieved and/or a serious loss (financial or otherwise) will be suffered by the Council.”*
- None (5)** *“Key features of internal control are missing from the system. The effect of this is to create a strong likelihood that service objectives will not be achieved and/or a serious loss (financial or otherwise) will be suffered by the Council.”*