



INTERNAL AUDIT
FINAL REPORT

Title: Contract Procedures

Report Distribution

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EXECUTIVE SUMMARY

Introduction

An audit of Contracts was undertaken as part of the approved internal audit periodic plan for 2009/10.

Contracts and Tendering activities are undertaken within the various departments of the Council. There are ten open contracts on the contract register for the year 2008/09 with the total value of approximately £890,000.

Contracts are awarded and appointed fairly in accordance with the Council's Financial Regulations and EC directives. The tendering process is followed where the value of work is greater than £50,000.

Invites are logged in the tender register, along with tender returns. Tenders are opened at the same time on the specified date. The tender opening is recorded in the presence of the appointed officers and signed upon opening. In most cases the economically advantageous quote is accepted. If the cheapest quote is not accepted then a justification is provided to the relevant portfolio holder or committee.

Contracts are held under seal of the council in the strong room under custody of the Legal Department and a contracts register is maintained under the Head of Corporate Services.

Principal Findings

	High	Medium	Low
Number of recommendations	0	0	4

The detailed findings and associated recommendations are provided in the second part of this report. There were no high / medium risk recommendations made during this audit.

Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

INTRODUCTION

Objective & Scope

The objective of our audit was to evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The key risks associated with the system objectives are:

- That contracts are awarded unfairly, resulting in poor reputation;
- That contracts fail to represent value for money and quality for the Council.

The control areas included within the scope of the review are:

- Tendering (> £50k) and tender evaluation;
- Obtaining quotes/evidencing value for money (£10 - £50k);
- Contracts register;
- Compliance with policies/procedures;
- Contract payments;
- Contract monitoring - overspends and over runs;
- Conflicts of interest;
- Quality of Contractors and works;
- Post project reviews.

The following limitations to the scope of the audit were agreed when planning the audit:

- We will not actively seek to detect fraud.
- Testing will be carried out on a sample basis only and therefore assurance given that all transactions are free from error or fraud.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 1 - Contract Register Level of Risk - Low</p>			
<p>Where a revenue or capital contract exceed £50,000 per annum or provides for payment to be made by instalments, it should be recorded on the contracts register.</p> <p>Testing on a sample of ten contracts found that:</p> <ul style="list-style-type: none"> • five were recorded on the contracts register; • two of the sample did not require to be on the register as under £50,000 (quotes obtained); • one was a framework agreement led by Bassetlaw District Council and it is understood that the tender documents are retained there (minutes from CE Group meeting obtained for agreement of joint procurement of refuse vehicles); • two contracts were over £50,000, both were found not to be recorded on the register. 	<p>Contracts are at risk of not being monitored appropriately or are not transparent if they do not appear on the contracts register.</p>	<p>In order to be fully transparent and ensure that all contracts are administered and monitored appropriately, the Council should ensure that all contracts are recorded on the contract register in line with procedures.</p> <p>Action: Sue Sale – Head of Democratic and Community Services</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: A reminder will be issued to ensure all contracts are entered on the register.</p> <p>The contracts register was previously used as a key control to monitor expenditure. This is now achieved using the coding structure within Agresso. These procedural changes need to be reflected in the Financial Regulations (cross reference recommendation 2).</p> <p>Timescale: 31st December 2009</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Financial Regulations Level of Risk - Low</p>			
<p>The Financial Regulations were last updated in December 2007 and includes a section for Contracts. It was found that these were to be revised last year by the Financial Services Manager.</p>	<p>Contracts could be awarded and payments made that are not in line with up-to-date Financial Regulations.</p>	<p>The Council should ensure that the Financial Regulations are revised on a timely basis.</p> <p>Action: Alison Ball - Financial Services Manager</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: The Financial Regulations will be updated.</p> <p>Timescale: To commence January 2009.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Contracts Level of Risk - Low</p>			
<p>Contracts are signed on behalf of both, the Council and the contractor and the correct part is retained. For the sample of ten contracts reviewed:</p> <ul style="list-style-type: none"> • six contracts were signed by authorised members; • one contract could not be evidenced as this was led by Bassetlaw District Council; • one contract was in counterpart. It was found that the Council held the wrong part in its possession. Legal sent a letter to the contractor during the audit on the 17.07.09 to exchange counterpart contracts. It was noted that the work had been completed; • two of the samples were under £10,000 and only required quotes which proved satisfactory. 	<p>There is a risk that the Council cannot evidence that the contractor has agreed to the terms and conditions of the contract.</p>	<p>The Council should ensure that the contract in its possession is signed by the contractor.</p> <p>Action: Sue Sale – Head of Democratic and Community Services</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: A reminder will be issued to ensure the correct counterpart is retained.</p> <p>Timescale: 31st December 2009</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 4 - Blue Marble Level of Risk - Low</p>			
<p>The sample of reviewed contracts included a contract awarded to Tribal Consulting. It is understood that the Council approved an initial piece of work undertaken by Tribal Consulting. When the Council procured a second piece of work, two of the consultants working for Tribal, left and formed their own company called Blue Marble Business Services Ltd.</p> <p>In line with the Contract Standing Orders (section 7), a report was produced for Scrutiny Committee detailing the contract provider.</p> <p>The report proposed the appointment of Tribal Consulting and did not mention the change to Blue Marble or the background to the transition.</p> <p>Discussions with the Chief Executive confirmed that the Chair of the Scrutiny Committee was satisfied with the background to the appointment of Blue Marble.</p>	<p>Potential failure to adhere to Contract Standing Orders.</p>	<p>Although reasons for the change in use of contractors appear to be valid, the Council should have included the background to the appointment of Blue Marble in the report to Scrutiny Committee.</p> <p>Action: Sue Sale – Head of Democratic and Community Services</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: The purpose of the report to Scrutiny Committee was to explain the reasons for the use of the negotiated procedure. The report did this to the satisfaction of the Scrutiny Chair. No further report is required by the Standing Orders.</p> <p>The Council will continue to ensure openness and transparency through its Committee and Governance Structures.</p> <p>Timescale: Immediate.</p>

ANNEX A

Risk & Assurance – Standard DefinitionsAudit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are one or more significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Head of Corporate Services, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Manager of Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk