

GEDLING BOROUGH COUNCIL

INTERNAL AUDIT REPORT

PROCUREMENT AND CONTRACT MANAGEMENT
JUNE 2025

Design Opinion



Moderate

Design Effectiveness



Moderate

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BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

REPORT STATUS

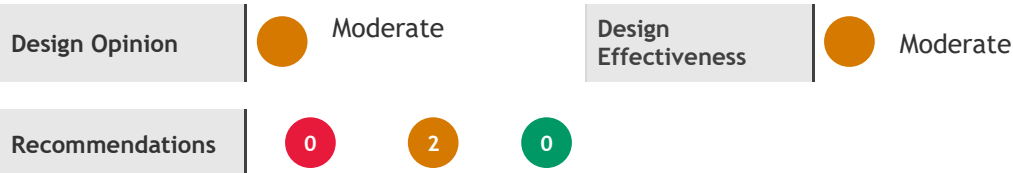
Auditors:	Gurpreet Dulay - Partner Max Armstrong - Manager Faye Orton - Auditor
Dates work performed:	25 March - 12 May 2025, with a closing meeting held on 12 May 2025.
Draft report issued:	4 June 2025
Final report issued:	16 June 2025

EXECUTIVE SUMMARY

CRR REFERENCE:

CR5 - THIS REFERS TO BOTH THE RISKS REGARDING PARTNERSHIP/CONTRACTUAL ACTIVITIES AND THE RISKS ASSOCIATED WITH THE PARTNERSHIP/CONTRACT DELIVERING SERVICES TO THE AGREED COST AND SPECIFICATION

CR8 - THERE ARE CHANGES TO AND BREACHES OF CURRENT LAW LEADING TO ADDITIONAL WORKLOADS, FINES, INTERVENTION BY REGULATORY BODIES, ETC.



BACKGROUND

- ▶ Procurement and contract management are critical to ensure that local authorities achieve value for money and provides effective service delivery that complies with statutory legislation. Gedling Borough Council (the Council) have implemented a new e-procurement system (Intend), in collaboration with Bolsover District Council (BDC).
- ▶ The Procurement service was previously outsourced to North East (NEDDC) Derbyshire District Council to administer. This included: performing due diligence checks and retaining evaluation records. The Council have recently changed its supplier for this service to Orbis Procurement in April 2025. Orbis Procurement is a public sector shared procurement service, hosted by East Sussex County Council and Surrey County Council.
- ▶ The Council have recruited a new Contract and Procurement Manager who started in April 2025. This role has been created as part of their Transformation Programme.
- ▶ The Council's Contracts and Procurement Procedure Rules are included in Section 22 of its Constitution. This sets out the procurement processes that should be followed for different levels of spend, including preliminary market testing, evaluating quotes and tenders, and contracting suppliers.
- ▶ The Procurement Act 2023 (the Act) received royal assent on 26 October 2023 and was due to come into force in October 2024. This was delayed by central government and so the legislation went live in February 2025. The new Act is designed to simplify the bidding process to work with the public sector and make commercial frameworks more open. A new Procurement Review Unit (PRU) will also be established for better oversight of the adherence to the new Act's requirements.
- ▶ In preparation for the new Act, the Council have updated its Contracts Register on the Intend System (the procurement system). It has also conducted a compliance exercise of spend with suppliers to identify any

aggregated purchases or suppliers used by several departments. This could enable efficiency savings to be developed.

PURPOSE

- ▶ The purpose of the review was to assess the effectiveness of the Council's procurement and contract management processes and its preparedness for the new Procurement Regulations which came into full effect in February 2025. The audit also evaluated the Council's contract management arrangements with key suppliers to ensure proper oversight of contractor performance and timely escalation of issues.

AREAS REVIEWED

The following areas were reviewed as part of this audit:

Procurement

- ▶ The Financial Regulations and Procurement Strategy to assess whether these provide clarity on the Council's procurement requirements and comply with regulatory requirements.
- ▶ Processes for assessing annual supplier spend to ascertain whether the Council have appropriate controls in place to detect aggregated spend to avoid procurement requirements.
- ▶ A sample of eight suppliers with different levels of spend to assess whether appropriate procurement processes had been followed. Specifically, we assessed whether:
 - Quotes or tenders were received and evaluated in accordance with the Contract and Procurement Procedure Rules
 - Multiple suppliers were evaluated, and evidence of the supplier evaluation was documented with sufficient rationale for the selection of the successful supplier
 - Contract notices and award notices were published on Contracts Finder or the Find a Tender Service, as appropriate
 - Financial and reputational due diligence was conducted on suppliers before entering into legal agreements.
- ▶ Preparedness for the implementation of the Act to assess whether adequate governance and operational changes were made to ensure the Council are complied with new or amended requirements. This included review training sessions and updates to templates.

Contract Management

- ▶ Ascertain whether contracts were recorded on a central contract register and the accuracy and completeness of this. Also, assess whether the Council monitor the procurement pipeline to identify when contracts are due to end so that sufficient time was available for a procurement process to take place or quotes to be obtained from multiple suppliers.
- ▶ For the same contracts as those tested in the procurement sample, we assessed whether:
 - Contracts had been signed by both parties and had been retained
 - Contracts had break clauses or penalty clauses for poor performance
 - Contract management procedures were in place to monitor the performance of the suppliers and resolve or escalate issues for underperformance
 - Actions agreed with contractors in contract management meetings were recorded and followed up to support effective service delivery and improvement over the duration of the contract.

- ▶ Internal reporting to the Senior Leadership Team (SLT) for service critical or high value contracts to ascertain whether there was adequate senior oversight of performance of key contractors.



AREAS OF STRENGTH

We identified the following areas of good practice:

- ▶ The Council published a notice to amend its Constitution to comply with the requirements of the Act, with the new Contract and Procedure Rules approved by Full Council on 22 January 2025. This was to comply with the new requirements for procurement and contract management in the new Act.
- ▶ We reviewed a sample of eight contracts with suppliers from Contract Register, with varied values, and confirmed that in all instances:
 - The contract was signed by both parties
 - Contract notices were published on Contracts Finder, if over the value of £25,000, as required by statutory legislation
 - Live contracts were recorded on the Contract Register which was held on Intend
 - The contract had provisions for break clauses or a warranty for equipment.
- ▶ Through contract management processes, there have been instances where underperformance of contractors has been escalated to the Senior Leadership Team (SLT), eventually resulting in the termination of the contract. Broadly, only contracts where there was significant underperformance would be escalated to the SLT as performance is generally monitored by the contract manager, with support from Directors and Assistant Directors. The Council has introduced a new Risk Board in April 2025 to enable contract risks and issues to be escalated to SLT members where necessary.
- ▶ The Council undertook an exercise of analysing spend with its suppliers in October 2024 to identify potential non-compliance with its procurement procedures. For instances where the spend with suppliers exceeded procurement thresholds and contracts were not in place, the Legal Team met with the heads of departments to address knowledge gaps and non-compliance. An observation has been raised to ensure this is included within our follow up as the process should be completed annually.
- ▶ In-tend generates automatic notifications for when contracts are due to end to provide oversight of the procurement pipeline. The reminders are sent at different times depending on the type of contract to allow a sufficient lead-in time to evaluate options for the renewal of the contract or service provided.



AREAS OF CONCERN

We found:

- ▶ In our sample of contracts, due diligence checks were not retained or completed in all instances to identify any financial or reputational risks of engaging with a supplier. These were the responsibility of NEDDC to perform and will be the responsibility of Orbis Procurement under the new contract (Finding 1 - Medium).
- ▶ There were inconsistencies in contract management processes for different contracts, with documentation not being retained to demonstrate monitoring and oversight of contractors in some instances. The Act places more responsibilities of public authorities for monitoring

supplier performance and publishing contract notices for underperforming suppliers (Finding 2 - Medium).



CONCLUSION

We conclude that the Council has a Moderate design and effectiveness of controls for the management of procurement and contract management. Due to changes in legislations, there have been new requirements placed on local authorities to ensure more transparent reporting of procurement and contract management. The Act has streamlined other processes, making it simpler supplier to access commercial frameworks. The Act went live in February 2025, therefore, most of the contracts that we reviewed pre-dated these requirements. However, we have assessed the actions taken by the Council to prepare for the Act.

Control Design


The control design was Moderate because there was generally a sound system of internal control designed to achieve system objectives with some exceptions. Procurement support and administration was provided by NEDDC; however, the Council have recently signed a contract with Orbis Procurement for these services. There has also been limited central resource to monitor procurement processes in the past, but a Contract and Procurement Manager joined the Council in April 2025, which is expected to improve these. As such, several recommendations from our Procurement and Contract Management audit in 2021/22 (Limited/ Moderate) were still outstanding prior to this review. Key findings in the previous report included, contracts missing from the contract register, a lack of control for contracts coming towards renewal, a lack of contract procedure rules alignment to strategy and the lack of a social value policy. There have been improvements in these areas as the contracts register is now up to date including the contracts we reviewed, the Intend system sends notifications to alert contract managers for contracts due for renewal, in advance and the contract procedure rules are up to date including a social value focus. However, in the last report there was a high finding as a result of a lack of contract management arrangements, after several years there is still not a consistent approach to contract management across the council as raised in Finding 2.

The Council have updated its Contract Procedure Rules to incorporate the requirements of the Act and provided some training and guidance to staff on this. However, there was no formal guidance on the expectations for contract management which led to inconsistent procedures and a lack of documentation to demonstrate contract management in some instances. Furthermore, contract managers were not provided with formal training. This has been recognised in the Procurement Strategy for 2025-27 as an action to take forward.

Control Effectiveness

The control effectiveness was Moderate because there was evidence of non-compliance with some controls, that may put some of the system objectives at risk.


We identified some contracts where there was inadequate evidence for due diligence checks performed on the supplier to provide the Council with assurances that financial and reputational risks were in line with its risk appetite.



With the changes that the Council have made, increasing resources for procurement and contract management, is expected to address these areas of non-compliance. This acknowledges the feedback that the Council received from external consultants, Spend Solutions, that there had been under-investment in the procurement function.

DETAILED FINDINGS

1 THERE WAS A LACK OF EVIDENCE RETAINED TO DEMONSTRATE DUE DILIGENCE CHECKS PERFORMED ON NEW SUPPLIERS

TOR Risk:	Due diligence is not performed on suppliers and full supplier details, as specified in the Procurement Act 2023, are not recorded in the Council's procurement system.
Significance:	 Medium



FINDING

To manage supplier risk, due diligence is critical to identify potential financial or reputational risks for suppliers and to ensure suitable controls are implemented to mitigate these. The responsibility for performing due diligence checks on new suppliers was previously the responsibility NEDDC when the procurement service was outsourced to them. Since April 2025, Orbis Procurement have been responsible for performing these checks.

The Council's Procurement Policy does not establish values for when due diligence is required.

For each supplier, the due diligence performed by NEDDC was based a list of factors, including information about the supplier and grounds for exclusion. The checks are split into reputational and financial risks. Reputational risks include technical and professional ability, health and safety, environmental management, safeguarding and modern slavery. Financial risks are then evaluated to assess the supplier's economic and financial standing (using a CreditSafe Report) and confirmation that they hold appropriate insurance cover.

The supplier's score for each due diligence factor is documented on a separate tab on the Evaluation Form template. The evaluators confirm whether the supplier complied with the specification's requirements for due diligence and document what the Creditsafe score was. CreditSafe will apply a risk score to the supplier using its own matrix depending on what the credit score was. However, this was not completed for each supplier in our sample of eight contracts. We found:

- ▶ The Council do not receive the source evidence for the CreditSafe reports to obtain assurance over the scores. There was one CreditSafe Report that was retrospectively obtained from NEDDC during our audit. The Council rely on the scores reported by NEDDC on the Evaluation Form. For one supplier, a CreditSafe report was provided after request from NEDDC following the audit however in all other cases such evidence was not available (GBC/00000071/2020). There were three other suppliers where credit scores had been documented on the Evaluation Form but we were not able to agree this to the original report (GBC/024/2023, GBC/057/2024, GBC/041/2024).
- ▶ In one instance, as the contract was for £7,652 there was no Evaluation Form in place as it was below the thresholds for a full procurement exercise. Therefore, there was no evidence of any due diligence checks being performed. This is a lower risk contract due to the value, however, as there are no thresholds for due diligence in the Procurement Policy, we would expect that a form of due diligence should still be performed to identify any potential reputational or financial risks (CON003457).
- ▶ For one supplier providing all weather sports pitch maintenance, the due diligence tab on the Evaluation Form was not completed, demonstrating that sufficient due diligence was not performed (GBC/073/2024).

There risks to the Council of inadequate completion or evidence for due diligence is two-fold:

- ▶ Suppliers do not comply with statutory requirements which brings the Council into disrepute.
- ▶ If the supplier has financial issues that the Council are not aware of, then this could impact the quality of services to the Council and the supplier's ability to deliver on contractual agreements.

We have raised this as a Medium significance finding because we did not identify any non-compliance with statutory obligations in our sample testing. Furthermore, there were some controls in place, managed externally, to perform checks on higher value and risk contracts.



RECOMMENDATION

- A. Due diligence thresholds for suppliers (based on value or risk level of the contract) should be documented in the Procurement Strategy or Policy. The Council may wish to consider a minimum credit score for a supplier before entering into a contract. We have provided an example in Appendix I of due diligence guidance used by a different public sector organisation.
- B. The Council should obtain the original credit report for new suppliers from Orbis Procurement and retain this on Intend to obtain assurances over the supplier's credit score. It could seek to obtain subsequent credit scores on suppliers during the contract to obtain assurances over the supplier's financial sustainability over the whole contract term. Annual intervals may be appropriate for these ongoing checks.



MANAGEMENT RESPONSE

The Council is currently undertaking a piece of work around Due Diligence of suppliers, which include the following:

- ▶ All procurements under £30k will have a minimum Red Flag score. The score is yet to be determined, however the score table provided seems like a good starting point. Once agreed this will be built into new tender templates.
- ▶ The Procurement manager is working with finance staff to develop an in depth financial analysis for over threshold procurements and potentially any other procurements deemed to be higher risk.
- ▶ We are currently considering the use of patent Company Guarantees, there will be a new PCG section in the new ITT template, consideration will be given to mandating on over threshold tenders.
- ▶ Potentially some due diligence around modern day slavery, human trafficking and child labour in high-risk markets.


Responsible Officer:

Paul Williams, Procurement Manager

Implementation Date:

30 September 2025

2 THERE WERE INCONSISTENT, AND OFTEN NOT DOCUMENTED, CONTRACT MANAGEMENT PROCESSES

TOR Risk:	Contract managers do not hold contract management meetings with suppliers or monitor contractor's performance, leading to inadequate service delivery not being identified and addressed.
Significance:	 Medium



FINDING

Contract management processes are essential to monitor the performance of suppliers against outcomes and metrics agreed in the contract. The Council does not have an explicit set of expectations or procedures that should be followed for contract management, although it does require each contract to have at least three key performance indicators to monitor. The responsibility for contract managers is to establish proportionate contract management arrangements for the value and risk of the contract. For instance, some contracts may be monitored via regular meetings and performance reporting, or site visits and inspections may be appropriate for others. For smaller contracts, there may be no documented evidence of contract management as informal oversight is provided.

The Procurement Act 2023 places greater requirements on public authorities for transparent reporting on contractor performance, such as issuing Contract Performance Notices where there have been breaches by suppliers.

For the sample of procurement exercises tested, we also ascertained the adequacy and proportionality of the contract management for these suppliers. In the absence of formal guidance set by the Council for contract management, we assessed the adequacy of contract management against expected monitoring levels. We found:

- ▶ There were two contracts, for the provision of modernising the delivery of waste and street services and the provision of IT hardware, where minutes were not retained to demonstrate contract management, however, we understand that there were regular contract management meetings with the supplier (GBC/057/2024 and GBC/012/2025). There was another contract for the provision of a Customer Experience Platform where there was no evidence of contract management. A set of key performance indicators were identified in the contract but these were not reported to the Council to monitor supplier performance (GBC/041/2024).
- ▶ A supplier who provided watches to the Council for the purpose of collecting data was underperforming on the services as the data was not being collected properly. This was raised to the supplier's help desk to rectify but there were no regular contract management meetings with the supplier over the duration of the contract to escalate these matters. The contract with this supplier was for the provision of the watches but does allow for faulty goods to be replaced, unless damaged or lost by the buyer. This was also not escalated internally to SLT. The contract value was £7,651 (CON003457).

There is a risk that without regular contract management the contract objectives are not achieved, and poor performance is not escalated to SLT.



RECOMMENDATION

- A. The Council should develop a contract management guide for staff to refer to for minimum expectations for contract management. This should have thresholds for the expectations based on the level of spend and/or the risk of the services, ie whether they are critical to the Council service delivery objectives. This should ensure that there is sufficient contract performance monitoring and evidence retention to fulfil the Council's obligations under the Act, ie publishing contract notices.

- B. Training on the basic and fundamental principles of contract management should be offered to contract manager, particularly those that have limited experience of managing contract. E-learning modules for public sector organisations could be used to support this, eg Civil Service Learning or the Government Commercial College, which are used by other public sector organisations. Providing training to contract managers is identified as an action in the Procurement Strategy.



MANAGEMENT RESPONSE

The newly appointed Procurement Manager is currently looking at a number of areas within contract management to aim to strengthen the process including:

- ▶ A specification template using mandatory sections where service areas will be able to demonstrate the bidder has met KPI and minimum performance requirements. This will create focus on contract management and the template will have a set section on contract management to consider from the outset of the contract. Some standard questions are also being developed on the bidder's approach to contract management when creating the tender.
- ▶ Training on contract management will be developed and rolled out; in addition, Drop-in clinics with service areas are being developed to support managers with contract management. A database is intended to be built to track and monitor contract performance.
- ▶ A section in the ITT will focus on contract-based risks, which will help us to have an effective contract variation process in place which is compliant.
- ▶ A mandatory section in the ITT is being developed for KPI's to enforce contract management into the tender.

Responsible Officer:

Paul Williams, Procurement Manager

Implementation Date:

31 October 2025

OBSERVATIONS

WHILST THE COUNCIL HAVE TAKEN STEPS TO PREPARE FOR THE NEW PROCUREMENT ACT THERE ARE STILL IMPROVEMENTS TO BE MADE

Observation

The Act came into effect on 24 February 2025. In preparation for this, the Council updated its Contract Procedures Rules, revised the guidance on its intranet and there were training sessions provided by the Legal Team. We understand that there are further actions required to ensure staff are aware of the new requirements to maintain compliance with the Act, such as: more extensive training sessions, drop-in clinics and updating procurement templates and forms.

A new Contract and Procurement Manager joined the Council on 13 April 2025. Part of their role will be to roll out these measures to ensure the Council comply with the legislation in full.

The Council undertook an exercise of analysing spend with its suppliers in October 2024 (for the first time) to identify potential non-compliance with its procurement procedures. For instances where the spend with suppliers exceeded procurement thresholds and contracts were not in place, the Legal Team met with the heads of departments to address knowledge gaps and non-compliance. As part of this audit, we have not subsequently confirmed that contracts were entered into where any non-compliance was identified from this exercise, as this was not within the scope of our audit. However, we understand that the Council intend to repeat this process annually to address suppliers with high values of spend where formal contracts are not in place. As this is a key audit control we will follow up to ensure this process has been completed annually.



APPENDIX I - EXAMPLE OF DUE DILIGENCE POLICY

Creditsafe Ratings

Each Creditsafe report includes the following ratings information:

Rating Name	Description												
Risk Score: Credit Score	<p>The Creditsafe Rating works on a scale of 1-100 and predicts the likelihood of the company becoming insolvent (fail) within the next 12 months.</p> <p>A higher score indicates a lower risk of insolvency while a lower score identifies higher risk of insolvency.</p> <table border="1"> <thead> <tr> <th>Risk Level</th><th>Risk Score (0-100)</th></tr> </thead> <tbody> <tr> <td>Very Low Risk</td><td>71 - 100</td></tr> <tr> <td>Low Risk</td><td>51-70</td></tr> <tr> <td>Moderate Risk</td><td>30 - 50</td></tr> <tr> <td>High Risk</td><td>21-29</td></tr> <tr> <td>Very High Risk</td><td>0 - 20</td></tr> </tbody> </table>	Risk Level	Risk Score (0-100)	Very Low Risk	71 - 100	Low Risk	51-70	Moderate Risk	30 - 50	High Risk	21-29	Very High Risk	0 - 20
Risk Level	Risk Score (0-100)												
Very Low Risk	71 - 100												
Low Risk	51-70												
Moderate Risk	30 - 50												
High Risk	21-29												
Very High Risk	0 - 20												
International Score: Company Credit Score Globally	The International score is a credit risk comparison between companies that are registered in different countries.												
Credit Limit	The recommended maximum amount of credit the supplier should be offered.												
Contract Limit	Recommended contract value limit.												
Status	Is the company active.												
DBT (Days Beyond Term)	Number of days the company is overdue on payment of invoices.												
Industry DBT:	Number of average days the industry is overdue on payment of invoices.												

Note: Information from Creditsafe rating reports may not be available for a particular supplier, or may not be complete or up to date, which will influence the report conclusions. For example, new potential providers. The reports may also be sensitive to market information that could change at short notice.

New Supplier Request - Requisition Value below £10,000

A supplier with a rating above 29, Moderate Risk and Very Low Risk, will be approved within the Finance System. The report will be saved and kept on file and will be reviewed as part of the Creditsafe monitoring report on a monthly basis.

A supplier with a rating below 29, High Risk and Very High Risk will be flagged to the requisitioner for review. At this stage the requisitioner may wish to source an alternative supplier, due to the increased risk of the required goods/services not being delivered.

Pre-Contract Award - Contract Value between £10,000 & Threshold: Creditsafe ratings

When completing the financial due diligence pre-contract award, the following ratings information will be applied.

- ▶ Credit Score
- ▶ Status.

Credit Score

A supplier with a rating above 29, will be accepted.

A High Risk, and Very High-Risk rating will require further detailed due diligence assessment which may include:

- ▶ Parent company accounts (if applicable)
- ▶ Deeds of guarantee
- ▶ Bankers' statements and references
- ▶ Accountants' references
- ▶ Financial projections, including cash flow forecasts
- ▶ Details and evidence of previous contracts, including contract values
- ▶ Capital availability
- ▶ Clarifications with the bidder on ratings.

Please refer to the Government Commercial Function ['Assessing and Monitoring the Economic and Financial Standing of Bidders and Suppliers'](#) guidance notes for further information on the bullets above.

New suppliers may not have this information available via a Creditsafe report. The Procurement Team will support in the process of completing a risk assessment of suppliers with a rating below 29 and suppliers who have no information on Creditsafe.

The Procurement Team will review the organisation's available information. If this includes year end accounts, then finance will perform liquidity ratio calculations to assess the organisations likelihood of being able to manage the contract successfully. Furthermore, the Procurement Team will also review the organisations auditor report to identify what is deemed, if any, to be key challenges to be faced over the next 12 months. If accounts are not available then the Procurement Team, with support from the Finance Team, will review cash flow projections and amongst other things, calculate the proportion of income the Council's contract represents to the organisation.

All assessments of potential suppliers/bidders should be proportionate, flexible and not overly risk averse and whatever their size and constitution, shall be treated equally and without discrimination during the assessment.

Status

A supplier must be active, as the legal entity bidding, before an award of contract is made. The legal status for new suppliers do not present on the Creditsafe system will be further clarified before proceeding. This may include a review of the Companies house web-check portal, clarifications with the supplier, or support from the Procurement Team.

Post contract award - Creditsafe ratings

There is a risk that a supplier may enter financial distress during the contract term, either gradually or suddenly. When a supplier is at risk this can have an impact on the contract performance or if a supplier becomes insolvent the service may cease completely.

Early indication of a supplier's financial position may help the Council deal with issues of underperformance or failure. This may include mitigations, worst case, such as terminating a contract and awarding to a different supplier.

Monitoring of contracts frequently should highlight any potential financial risks. Though this will include wider performance Key Performance Indicators (KPI), metrics, and milestones a credit score snapshot will add to identifying risk.

The frequency of reviewing a Creditsafe report will be generated monthly for all suppliers, the frequency can be adjusted in line with risks being identified. The report will highlight the latest risk score including historical risk score based on frequency.

A supplier with a rating above 29, Moderate Risk and Very Low Risk, will be deemed to be financially stable. A High Risk and Very High-Risk rating will require further due diligence assessment. The Procurement Team will support in the process of completing a risk assessment of suppliers with a rating below 29 and suppliers who have no information on Creditsafe.

The Procurement Team, with support from the Finance Team, will review new sets of accounts as they are available and re-perform the same calculations as in the pre-award stage. These will be compared to the pre-award calculations to determine any trend in the organisation's performance during the contract period.

APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III - TERMS OF REFERENCE



KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the potential key risks associated with the area under review are:

Procurement

- ▶ The Council's Contract and Procurement Procedure Rules, Procurement Strategy and policies do not provide clarity on the procurement requirements or make reference to the new Procurement Regulations
- ▶ Appropriate procurement processes are not adhered to (clear thresholds; clear roles and responsibilities of the Procurement team and contract managers; publishing notices on Find a Tender; adherence to procurement regulations) across the Council leading to supplier's being appointed without the Council being able to demonstrate value for money
- ▶ Due diligence is not performed on suppliers and full supplier details, as specified in the Procurement Act 2023, are not recorded in the Council's procurement system
- ▶ Supplier spend and contracts are not monitored resulting in spend being aggregated to circumnavigate the procurement thresholds
- ▶ Adequate governance arrangements are not in place to identify the amended requirements of the new Act and implement these ahead of the go live date, resulting in the Council being non-compliant.

Contract Management

- ▶ Signed contracts are not retained in a centralised database, do not have clear contract owners and expiry dates are not monitored and managed effectively leading to reactive rather than proactive negotiations with suppliers
- ▶ Contract managers do not hold contract management meetings with suppliers or monitor contractor's performance, leading to inadequate service delivery not being identified and addressed
- ▶ Contracts do not include break clauses or penalties for poor supplier performance and/or the Council does not escalate and resolve repeated poor performance
- ▶ There is inadequate internal reporting of supplier performance for service critical or high value contracts leading the Senior Management team being unaware of potential issues to key services.



SCOPE & APPROACH

The following areas will be covered as part of this review:

Procurement

- ▶ The Financial Regulations, Procurement Strategy and policies to assess whether these provide clarity on the Council's procurement requirements and comply with regulatory requirements
- ▶ Processes for assessing annual supplier spend to ascertain whether the Council have appropriate controls in place to detect aggregated spend to avoid procurement requirements
- ▶ A sample of suppliers at different levels of spend to assess whether appropriate procurement processes have been followed. Specifically, we will assess whether:

- Quotes or tenders have been received and evaluated in accordance with the Contract and Procurement Procedure Rules
 - Multiple suppliers have been evaluated and evidence of the supplier evaluation has been documented with sufficient rationale for the selection of the successful supplier
 - Contract notices and award notices have been published on Contracts Finder or the Find a Tender Service, as appropriate
 - Financial and reputational due diligence has been conducted on suppliers before entering into legal agreements.
- ▶ Preparedness for the implementation of the new Act to assess whether adequate governance and operational preparations have been undertaken to ensure the Council are compliant. This may include review action plans, minutes of workshops, etc.

Contract Management

- ▶ Ascertain whether contracts are recorded on a central contract register and the accuracy and completeness of this. Also, assess whether the Council monitor the procurement pipeline to identify when contracts are due to end so that sufficient time is available for a procurement process to take place or quotes to be obtained from multiple suppliers.
- ▶ For the same contracts as those tested in the procurement sample, we will assess whether:
- Contracts have been signed by both parties and have been retained
 - Contracts have break clauses or penalty clauses for poor performance
 - Contract management procedures are in place to monitor the performance of the suppliers and resolve or escalate issues for underperformance
 - Actions agreed with contractors in contract management meetings are recorded and followed up to support effective service delivery and improvement over the duration of the contract.
- ▶ Internal reporting to the Senior Leadership team for service critical or high value contracts to ascertain whether there is adequate senior oversight of performance of key contractors.

The scope of the review is limited to the areas documented under the scope and approach. All other areas are considered outside of the scope of this review. However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit.

We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

In delivering this review BDO may need to observe and test confidential or personal identifiable data to ascertain the effective operation of controls in place. The organisation shall only provide the Shared Personal Data to BDO using secure methods as agreed between the parties. BDO will utilise the data in line with the Data Protection Act 2018 (DPA 2018), and the UK General Data Protection Regulation (UK GDPR) and shall only share Personal Data on an anonymised basis and only where necessary.

FOR MORE INFORMATION:

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The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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