

Argyll and Bute Council
Internal Audit Report
February 2021
Final

**Contract Management-
Property Services**

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	1	2	1	1

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1. Executive Summary

Introduction

1. As part of the 2020/21 internal audit plan, approved by the Audit & Scrutiny Committee in March 2020, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Contract Management-Property Services.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. The purpose of contract and supplier management is to work closely with suppliers to maximise efficiencies for the Council and suppliers throughout the supply chain by:
 - ensuring the contract is successfully executed
 - maximising value for money
 - providing a system of monitoring, managing and improving performance
 - ensuring all parties recognise and understand their contractual roles and responsibilities
 - monitoring compliance by all parties to the terms of the contract, including contract Key Performance Indicators
 - driving continuous improvement
 - identifying lessons learned to inform future contract terms or strategies.
5. The Council's property portfolio comprises of approximately 645 buildings/sites. These assets require to be maintained so they function effectively and efficiently in supporting the delivery of services. Any deterioration in a building's physical condition, due to a lack of maintenance, can adversely affect service delivery, and also create legal, health & safety and reputational issues for the Council.
6. The property portfolio is maintained by six external contractors who are managed under nine term contracts split on a geographical basis covering:
 - Helensburgh and Lomond
 - Bute
 - Cowal
 - Mid-Argyll
 - Kintyre
 - Islay and the Isles
 - Oban and Lorn
 - Mull

- Coll & Tiree
7. The total value of the contracts is approximately £1.0m per annum with each lasting three years with an option of a one year extension.

Scope

8. The scope of the audit was to assess the arrangements for managing and monitoring property maintenance term contracts as outlined in the terms of reference agreed with the Head of Commercial Services on 13 November 2020.

Risks

9. The risks considered throughout the audit were:
- **Audit Risk 1:** Failure to have appropriately resourced and robust contract management arrangements in place
 - **Audit Risk 2:** Failure to ensure that services provided are in line with agreed contractual conditions
 - **Audit Risk 3:** appropriate performance monitoring arrangements are not in place

Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
11. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

Recommendations

12. We have highlighted one high priority recommendation, two medium priority recommendations, and one low priority recommendation where we believe there is scope to strengthen the control and governance environment. We have also highlighted one recommendation which may lead to more efficient working practice. These are summarised below:
- Key Performance Indicators (KPIs) should be supplied by contractors
 - annual review of contractors and contract risk assessments should be carried out
 - roles and responsibilities for contract management should be reviewed
 - the property contract manager should undertake contract management training
 - explore the possibility of a more efficient way to collate and report KPIs.
13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
CO1	The Council has appropriately resourced and robust contract management processes in place	Audit Risk 1	Reasonable	There are contract management plans for all contracts to provide guidance on the operational management of contracts. A single contract manager is assigned to cover all term contracts however roles and responsibilities for contract management require clarification and, whilst contract management training was delivered to property staff in 2019, the officer with overall responsibility for contract management was unable to attend and is still to receive the training.
CO2	Supplier performance is monitored and reported in line with established arrangements	Audit Risk 2	Limited	Until September 2020 no formalised supplier review meetings had taken place nor had KPIs been received from contractors to allow service delivery to be monitored. Annual contractor reviews and contract risk assessments have not been carried out.
CO3	Appropriate arrangements are in place for performance monitoring and reporting	Audit Risk 3	Substantial	Monthly reporting on actual spend versus budget is carried out and quarterly customer satisfaction surveys are carried out with the most recent highlighting 87% satisfaction. There may be scope to better automate the process to generate KPI reports however this would need to be assessed against any potential costs.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

[The Council has appropriately resourced and robust contract management processes in place](#)

16. Property Maintenance have prepared contract management plans for each of the six contractors. The plans adopt a standardised approach for operational day-to-day management

throughout the lifecycle of each contract that ensure both the Council and contractors obligations are understood and managed. They provide guidance on key areas such as:

- level of contract management based on assessed contract risk
- contract objectives
- contract meetings
- key performance indicators (KPIs)
- escalation protocols.

17. Each of the six contracts has been assigned a 'high' level of risk which means the following is required:

- attendance by contract provider at monthly contract review meetings
- provision of contract monitoring data to be supplied by contract provider (e.g. KPI's) prior to meetings
- completion of a full balanced scorecard
- contract performance monitoring data to be reviewed at meetings and minutes kept .

18. Property Maintenance are responsible for co-ordinating the contract monitoring activity, analysis of information from the external contractors, identifying issues and risks and producing contract monitoring reports. A nominated contract manager is in place who is responsible for ongoing engagement with the contractor throughout the life of the contract. Discussions with the contract manager highlighted that some clarification regarding roles and responsibilities in relation to managing property services contracts is required.

Action Plan 3

19. The Procurement, Commercial and Contract Management Team (PCCMT) provided training on contract and supplier management to all relevant Council staff during 2019. A review of the training provided confirmed it was comprehensive and the list of attendees confirmed that Property Services staff attended. However the contract manager responsible for the term contracts was unable to attend due to prior commitments. The contract manager should undertake the training course as soon as possible to ensure robust contract monitoring arrangements are in place.

Action Plan 4

20. Each contract has an escalation procedure outlined within the contract management plan for both the Council and the contractor. The plan identifies responsible persons for the Council and the contractor and the process involved.

21. During the current contract period of the nine term contracts, the technical support to the contract administrator has reduced from five officers to two, however there has been no change to the technical/administrative requirements of the contracts.

Supplier performance is monitored and reported in line with established arrangements

22. All maintenance contractors are required to sign up to the Council's standard terms and conditions which cover all aspects of contract performance including:

- performance of service
- financial regime
- contract manager

- disputes
- monitoring and reporting.

23. We reviewed the arrangements for the six contract providers to ensure that:

- there is an established and signed contract
- contracts are monitored in line with the requirements of the contract management plan including attendance at performance review meetings
- KPIs are provided by the contractors
- contracts are regularly reviewed for risk and the contract management plan updated accordingly.

24. We confirmed that signed contracts are in place for all nine geographical areas and that three of the nine contracts have been extended for one year.

25. Formal engagement with contract providers is required to be carried out via regular contract review meetings the frequency of which is dependent upon the risk category assigned to the contract. Proposed dates are specified within each contract monitoring plan. These meetings are critical as they should highlight where the service is performing well, where the provider is not meeting contract requirements and where corrective action is required with corresponding timescales and responsible person. As all contracts have been designated high risk there is a requirement for these meetings to be monthly.

26. Prior to September 2020 no formalised contract review meetings had taken place with any of the contract service providers. Since September 2020 the PCCMT have engaged with Property service officers to reinstate contract review meetings. The contract manager confirmed that, in some instances, informal telephone meetings had taken place with contract providers prior to September 2020 in order to resolve ongoing service issues however no records of these meetings were taken.

27. No action point has been raised in regard to supplier meetings as we recognise that corrective action has been taken since September 2020. However given that no formalised engagement with service providers had taken place for some two years prior to September 2020 and that corrective action has only recently been implemented it is too early for us to provide assurance over the new arrangements. However, as set out, at paragraph 36, it is clear that repairs are predominantly being carried out to a satisfactory standard and some assurance can be taken from this.

28. KPIs are a standard tool for contract management to ensure contracts are managed to determine whether or not best value is being achieved. The KPI information required from each contractor is specified in the contract management plan and is set out in exhibit 2.

Exhibit 2 – Established KPIs

Category	KPI	Target
Quality	• Photo records taken of the work and repair log book showing attendance periods	98%
	• Community benefits	Varies
Service	• Number of complaints	5% (Max)
	• Complaints not rectified within 21 days from date of notification	0%
Delivery	• Response times met	95%
	• Completed targets	95%

	<ul style="list-style-type: none"> Follow up work reported to help desk 	99%
Cost	<ul style="list-style-type: none"> Submission of invoices within 21 days of completion date Returned invoices to contractor Outstanding returned invoices from previous month 	98% 5% (Max) 0%

29. We found that no KPI information has been supplied by any contractor during the course of the current contracts. Minutes from supplier meetings held since September 2020 highlighted that contractors were querying why they were now being asked to supply KPIs as they had not previously been asked to.

Action Plan 1

30. None of the contractors have been subject to a formal annual review nor have the contracts been subject to a formal risk assessment during the contract life.

Action Plan 2

[Appropriate arrangements are in place for performance monitoring and reporting](#)

31. Property services sit within Commercial Services and have three layers of reporting:

- departmental management team
- property management team meetings within Property Services
- property maintenance staff meetings.

32. Property Services have a budget which reflects the expected total spend for the term contracts across all geographical areas. The budget is split between emergency, planned and statutory maintenance. Reports are produced on a monthly basis of actual spend against budget. These reports are discussed at appropriate management meetings.

33. As noted at paragraph 28 it is a requirement that contractors supply quarterly KPI information however this has not been occurring. However the Council's Concerto management information and administrative processes do allow the contract manager to monitor the three cost KPI's referenced at paragraph 28.

34. In order to do this the contract manager needs to download raw data from Concerto into an excel spreadsheet and then use pivot tables to extract the required performance data. There would be merit in investigating whether the required KPIs can be generated via a standard reporting package rather than through data manipulation although we acknowledge there may be a cost involved in this which would need to be considered.

Action Plan 5

35. Property Services undertake quarterly satisfaction surveys for all clients. The survey covers the following areas:

- initial contact from property/contractor
- emergency repairs
- planned maintenance
- statutory maintenance
- contractors performance.

36. The survey request respondents to quantify performance from “very satisfied” to “very dissatisfied” and are scored accordingly. Customers are also given the opportunity to provide a comment on performance. Results from the last survey carried out for the period July-September 2020 highlighted an 87% satisfaction score against a target of 80%. Where clients are dissatisfied or very dissatisfied follow up calls are made to attempt to resolve any particular issues.

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Key Performance Indicators</p> <p>Contractors have not been asked to provide the KPI information required by their contract management plans during the course of the current contracts.</p>	Issues in relation to service delivery may not be highlighted and corrective action taken	Instruct the various term contractors to provide KPI information and review at progress meetings.	Property Services Manager/Maintenance Manager: 30 September 2021
Medium	2	<p>Annual Contract Review</p> <p>Property Service contracts have been assigned a high level of risk which determines the level of contract monitoring required. None of the existing contractors have been subject to a formal annual review nor have the contracts been subject to a formal risk assessment during the contract life.</p>	Contracts may not be subject to the appropriate level of contract monitoring.	<p>Discuss level of risk with colleagues in the PCCMT and ensure that is included in any new contracts.</p> <p>Undertake formal annual reviews/risk assessments on all 9 term contracts</p>	Property Services Manager/Property Maintenance Manager: 30 September 2021
Medium	3	<p>Roles and Responsibilities</p> <p>There is a need for greater clarity over the roles and responsibilities of those involved in the overall management of the term contracts.</p>	Contract management may not be carried out in line with requirements.	<p>Review resource required to administer term contracts</p> <p>Issue roles and responsibilities guidance to staff involved in the overall management of the term contracts</p>	Property Services Manager/Property Maintenance Manager: 30 September 2021

Low	4	<p>Training</p> <p>Training on contract and supplier management was rolled out to all relevant property staff by the Procurement Commissioning and Contract Management Team in 2019 however the officer with overall responsibility for term contracts was not able to attend and therefore should do so as soon as possible</p>	Contract management may not be carried out in line with requirements.	Property Maintenance Manager to attend training	Property Services Manager: 30 June 20201
VFM	5	<p>Concerto</p> <p>In order to present cost KPI data the Contract Manager needs to extract data from Concerto and manipulate it in Excel using pivot tables. There would be merit in investigating whether the required KPIs can be generated via a standard reporting package rather than through data manipulation although we acknowledge there may be a cost involved in this which would need to be considered.</p>	Officer time is not being used efficiently.	Investigate and develop functionality of Concerto as necessary to minimise data manipulation and therefore officer time.	Property Maintenance Manager: 30 September 2021

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
VFM	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.