

Argyll and Bute Council

Internal Audit Report

November 2021

Final

Contract Management- Roads and Amenity Services

Audit Opinion: Limited

	High	Medium	Low	VFM
Number of Findings	2	1	0	0

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Contact Details

Internal Auditor: **David Sullivan**
 Telephone: **01546 604125**
 e-mail: **david.sullivan@argyll-bute.gov.uk**

www.argyll-bute.gov.uk

1. Executive Summary

Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Contract Management within Roads and Amenity 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 Argyll and Bute Council (the Council) and suppliers throughout the supply chain by:
 - ensuring the contract(S) are successfully executed utilising the Mixed Economy Model deployed by the service
 - 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 key Performance Indicators
 - driving continuous improvement
 - identifying lessons learned to inform future contract terms or strategies
5. The current value of fixed contracts is approx. £22.0m and covers 20 contracts of which 3 contracts cover some 80% of all contracts awarded.

Scope

6. The scope of the audit was to review the governance and contract monitoring arrangements for Roads and Amenity Services contracts as outlined in the Terms of Reference agreed with the Head of Roads and Infrastructure Services on 15 August 2021.

Risks

7. 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

8. 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.
9. Our overall audit opinion for this audit is that we can take a limited level of assurance. This means that 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.

Recommendations

10. We have highlighted two high priority recommendations and one medium priority recommendation where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - contracts should be monitored in line with the Councils contract and supplier management procedures
 - roles and responsibility for contract monitoring should be reviewed
 - performance reporting should be undertaken
11. 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

12. 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	Substantial	Contract management procedures are in place to provide guidance on the day to day operational management of contracts and roles and responsibilities clearly defined. Roles and responsibilities within the department have not been assigned resulting in day to day contract monitoring not being carried out.

				Contract management training was delivered to relevant staff in 2019 and also refresher training in April 2021.
CO2	Supplier performance is monitored and reported in line with established arrangements.	Audit Risk 2	No assurance	No formal contract monitoring has taken place for current Roads and Amenity services contracts. There were weaknesses identified in the following areas: <ul style="list-style-type: none"> • assignment of contract manager • completion of contract management plans • formal supplier review meetings • completion of key performance indicators • annual review of contracts and risk assessment.
CO3	Appropriate arrangements are in place for performance monitoring and reporting.	Audit Risk 3	Limited	No formal performance monitoring and reporting arrangements are in place for the 20 contracts currently in progress.

13. 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 process in place

14. The Procurement, Commercial and Contract Management Team (PCCMT) are responsible for overall contract management activity including the commissioning and quality assurance functions. They co-ordinate contract monitoring activity, analyse information from different sources, identify issues and risks and produce contract monitoring reports.
15. PCCMT have issued a generic 'Contract and Supplier Management Toolkit' which outlines a standardised approach for operational day-to-day management through the lifecycle of a contract. This ensures both the Council and supplier's obligations are understood and managed. It is the responsibility of the departments to ensure that the guidance is followed. The toolkit provides guidance on key areas:
- roles and responsibilities
 - level of contract management based on assessed contract risk
 - contract implementation
 - contract meetings
 - key performance indicators (KPI's)
 - contract variations

16. To address the specific requirements of Roads and Amenity contract monitoring the PCCMT have prepared a draft contract and supplier management procedure. The procedures state that all contracts should have a Contract and Supplier Management Plan detailing:

- the agreed level of management (low/medium/high)
- roles and responsibilities
- risks and issues
- escalation process (within supplier organisation and the Council)
- performance management framework (KPIs)
- review meeting schedule
- exit plan

17. PCCMT provided comprehensive training on contract and supplier management to all relevant staff during 2019 and refresher training in April 2021, including Roads and Amenity Services staff. A review of all contract management processes and procedures is currently being undertaken by PCCMT.

18. There are two services within Development and Infrastructure services namely Operations and Network and Standards services who are responsible for co-ordinating the contract monitoring activity, analysis of information from the external contractors, identifying issues, including risks and producing contract monitoring reports. No clearly defined roles and responsibilities have been identified for contract monitoring between the two services.

Action Plan 2

Supplier performance is monitored and reported in line with established arrangements

19. Development and Amenity services have in place 20 fixed cost contracts totalling approximately £22.0m of which 3 contracts cover some 80% of all contracts awarded.

20. All Roads and Amenity contractors are required to sign the Council's standard terms and conditions covering all aspects of contract performance including:

- performance of service
- financial regime
- contract manager
- disputes
- monitoring and reporting

21. We reviewed the contractual arrangements for all contracts in place to ensure compliance with the following:

- contract have been signed
- a contract management plan is in place
- contracts are monitored in line with 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

22. Signed contracts are in place for all contracts and the following was confirmed:

- Contract management plans were in place for two of the contacts
- no contract manager has been assigned to each contract and roles and responsibilities have not been identified
- formal contract monitoring and review meetings have not taken place
- formal performance review meetings have not taken place
- KPI's have not been monitored or recorded
- contracts have not been reviewed for risk

23. A review of all contracts found that no formal engagement with suppliers had taken place. Discussions with management noted that informal contact with supplier occurs on a regular basis in order to address areas where the supplier is not meeting their contractual requirements, however these discussions are not formally recorded.

Action Plan 1

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

24. Effective performance reporting ensures that management have the appropriate information to facilitate effective scrutiny of the contractual performance against agreed contractual arrangements. No formal performance monitoring and reporting arrangements in place for any of the 20 contracts currently in operation.

Action Plan 3

Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Contract Monitoring</p> <p>Monitoring of contracts has not been undertaken as required by the 'Contract and Supplier Management Toolkit', specifically: :</p> <ul style="list-style-type: none"> • no contract managers have been identified • contract and Supplier management plans have not been completed • formal supplier review meetings have not been undertaken • key performance indicators have not been identified • contracts have not been subject to formal annual review and risk assessments 	Contracts may not be subject to appropriate and robust contract monitoring.	Contract manager to be identified for each contract, key dates to be agreed including pre-start and review meeting, KPIs to be developed which include formal annual review and risk assessment.	Operations Manager and Network and Standards Manager 30 June 2022
High	2	<p>Roles and Responsibilities</p> <p>No clearly defined roles and responsibilities have been identified for contract monitoring between the Network and Standards services and Operational Services within Development and Infrastructure.</p>	Contract management may not be carried out in line with agreed procedures.	Contract manager to be identified for each contract which will work to the contract monitoring requirements detailed in action 1 above.	Operations Manager and Network and Standards Manager 30 June 2022

Medium	3	<p>Performance Reporting</p> <p>No formal performance monitoring and reporting arrangements are in place for any of the 20 contracts currently in operation.</p>	<p>Contracts may not be subject not the appropriate level of contract monitoring.</p>	<p>As detailed in action 1 and 2 above, the designated contract manager will be responsible for all performance monitoring and reporting for specific contracts.</p>	<p>Operations Manager and Network and Standards Manager</p> <p>30 June 2022</p>
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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.