

**Report of Acting Head of Internal Audit**

**Report to Scrutiny Board (Strategy and Resources)**

**Date: 21 December 2015**

**Subject: Internal Audit update report on Contract Extensions and Spending Money Wisely Challenge.**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. A report of the Chief Officer of PPPU was presented to Scrutiny Board (Strategy and Resources) on 'Effective Procurement and Contract Management' in July 2015. As part of this report it proposed that the findings of the follow-up review that Internal Audit was due to undertake on contract extensions would be reported to the board upon its completion. This audit has now been carried out and the findings present an improved picture from the previous audit in terms of directorates considering whether to extend a contract sufficiently in advance. However a best value analysis of the options available is still not always being completed.
2. The Spending Money Wisely Challenge reviews have also been undertaken as part of internal audit's coverage. These are reviews of a sample of off-contract and non-contract spend to identify whether these transactions are providing the authority with value for money and whether Contract Procedure Rules (CPRs) have been complied with in their procurement. The review has identified a low level of compliance with CPRs and we are currently working with directorates in order to establish the causes of these issues and make recommendations for improvements.
3. This report provides a summary of the findings from these two reviews.

## **Recommendations**

4. Scrutiny Board (Strategy and Resources) is asked to:

- Consider the contents of this report;
- Note the findings of the contract extensions audit and the progress made in this area, as well as the ongoing work to improve the use of the best value analysis; and
- Note the findings of the Spending Money Wisely Challenge reviews and the ongoing work to improve how the authority demonstrates that value for money is achieved for non-contract and off-contract spend.

## **1 Purpose of this report**

- 1.1 The purpose of this report is to provide an update on the findings of internal audit's recent reviews of contract extensions and off-contract and non-contract spend.

## **2 Background information**

### Contract Extensions – previous audit findings

- 2.1 A review of contract extensions was previously undertaken by internal audit in 2013/14. This involved selecting a sample of contracts to ensure that contract extensions were being invoked correctly and were being conducted in accordance with CPRs. A medium level opinion on compliance was given, with the key findings arising from the review being that:
- The option to extend the contract or re-procure was not reviewed sufficiently in advance of the end of the contract; and
  - There was insufficient evidence that a best value analysis had been undertaken of the options available.
- 2.2 Recommendations were made which were intended to improve compliance with CPRs in these areas. CPRs set out the key responsibilities and actions which officers must follow when undertaking procurements and are designed to help achieve the Procurement Strategy objective to “improve outcomes and value for money from the goods, works and services that the authority buys”. CPRs are also in place to provide transparency in the procurement process and protect officers from the risk of challenge. Implementing these recommendations to improve CPRs compliance would therefore contribute to the achieving these objectives.
- 2.3 The results of the audit were included in a report to Scrutiny Board (Strategy and Resources) by the Chief Officer of PPPU as part of his report into ‘Effective Procurement and Contract Management’. The report highlighted the actions being taken by PPPU in order to implement these recommendations.
- 2.4 A further audit has subsequently been undertaken to review a sample of recent contract extension decisions, to identify whether there have been improvements in the extension process.
- 2.5 This found that progress has been made in some areas, however further improvements could still be made and recommendations to assist in ensuring best value is achieved through contract extensions are detailed below in section 3.

### Spending Money Wisely Challenge – previous audit findings

- 2.6 A sample of payments per month was selected from the published payments lists covering the period April to December 2014. The sample of payments selected was based on expenditure not linked to a contract within the Financial

Management System and did not include payments which are exempt from Contracts Procedure Rules e.g. transfer payments such as direct payments. The sample was therefore chosen from a population which had 76% of published payments by value excluded.

2.7 Overall 46% of the transactions reviewed were found to be unsatisfactory in that there was 51 out of 110 instances where compliance with procurement could be improved or where there was insufficient evidence to demonstrate that value for money had been obtained. A low level of assurance was therefore provided.

The review found that:

- The most common reason for the non-compliances in the sample was that the supplier chosen was of a specialist nature or the sole provider of the goods or service purchased. A direct appointment was made without the relevant written record or waiver to support the action. A number of other direct appointments were fully funded by third parties who nominated the supplier.
- In a quarter of the non-compliant cases, evidence had not been retained to confirm that the correct number of quotes had been sought. In each of these cases, the procuring officers had advised internal audit that quotes had been obtained prior to the procurement and were confident that value for money had been achieved but were unable to provide the evidence of this during the audit.
- Other reasons for non-compliance included goods and services which required urgent procurement; lack of awareness of the procurement rules that should be followed and the identification of additional work after the terms of the initial engagement had been set.

2.8 The issues highlighted above have been raised with the relevant Chief Officers. Internal audit has recommended that officers who have not complied with CPRs should be required to undertake procurement training and that appropriate action is taken for consistent breaches of CPRs.

2.9 CPRs are in place for the purpose of meeting the council's ambition for procurement, with the achievement of Value for Money being one of the key elements of the Procurement Strategy. Although our findings identified that compliance with CPRs could be improved, there was no evidence that this would directly lead to significant budget savings. Specifically, as we found that there was a lack of quotes in some instances, directorates could not evidence whether there was a supplier who could have offered better value.

2.10 As a result of the findings detailed above, we have continued to review a sample of transactions to test compliance with CPRs and assess whether the expenditure meets the council's value of spending money wisely. The findings from this work are detailed below in section 3.

### 3 Main issues

#### Contract Extensions Audit 2015/16

- 3.1 The previous audit found that the option to extend the contract or re-procure was not being reviewed sufficiently in advance of the end of the contract. Good progress has been made in this area as in general contract managers are given sufficient notice of upcoming contracts expiring in order to make an extension decision. The sample of contract extensions tested as part of the audit had all been reviewed suitably in advance of the contract expiry date. However a review of data for all contracts with an extension option identified some areas where improvements could be made, in order to ensure contract extensions can be reviewed in a timely manner. The following recommendations have therefore been made:-
- A central check of review dates being set to ensure these are reasonable
  - Checks to ensure that contact information for the contract manager is kept up to date.
- 3.2 The audit found that there is still a lack of documentation being retained to evidence that options have been considered and that best value is being achieved. The delegated decision process ensured that all extensions tested had been signed off at the right level and this therefore provides assurance that there has been some level of check and challenge. However there were inconsistencies with the level of detail being documented to evidence the decisions made, and in approximately half of the sample there was insufficient information to be able to independently verify whether the extension decision did offer best value.
- 3.3 Recommendations have therefore been made to support officers to better complete the best value analysis, which will help with the achievement of value for money in the contract extensions process. These recommendations include:-
- Providing guidance material for contract managers on how to complete and document their best value analysis, such as a brief options appraisal template.
  - Carrying out central risk-based monitoring of contract extensions to ensure that a best value analysis of the options available has been carried out and to ensure consistency across directorates.
- 3.4 The audit also identified a further issue where spend had continued with a supplier from an expired contract and this was therefore off-contract spend as a new contract was in place. The following recommendation has therefore been made:-

- To carry out monitoring of off-contract spend including purchasing cards to identify where spend has continued on expired contracts.

3.5 We are currently working with PPPU and directorates to agree implementation of the above recommendations.

#### Spending Money Wisely Challenge 2015/16

3.6 As with the previous year's Spending Money Wisely Challenge reviews, the 2015/16 audits specifically targeted a restricted population of payments made where there is no contract (non-contract spend), or where a contract exists but it has not been used (off-contract spend). This year a sample of transactions in four directorates have been reviewed for compliance against CPRs and whether they provide value for money.

3.7 In 2014/15 we found a low level of compliance with CPRs and this has again been the case in 2015/16. The main issues found during the reviews were that Chief Officer approval or a signed waiver had not been obtained where there were no quotes, or evidence of quotes had not been kept. Where quotes have not been obtained and this has not been approved, there is a risk that value for money has not been achieved.

3.8 As the findings have not improved since the previous year's audits we are currently working with directorates to understand the root causes of these issues in order to make targeted recommendations in these areas. Following this work, we will report back as part of our regular updates to Corporate Governance and Audit Committee.

3.9 Reducing the amount of such non-contract spend is recognised as a potential area for budget savings, and the council has a target to make £1.2m savings in 2015/16 from a review of non-contract spend. For the sample tested there was no evidence that compliance with CPRs would directly lead to significant budget savings. Specifically, as we found that there was a lack of quotes in some instances the directorate could not evidence whether there is a supplier who could have offered better value.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 This report did not highlight any consultation and engagement considerations.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.2 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

### **4.3 Council policies and Best Council Plan**

4.3.1 The Best Council Plan 2015-20 includes an objective of "becoming a more efficient and enterprising Council". Both audits undertaken link to this objective,

and the recommendations made will help to uphold the council's value of spending money wisely.

#### **4.4 Resources and value for money**

4.4.1 CPRs are in place for the purpose of meeting the council's ambition for procurement, with the achievement of Value for Money being one of the key elements of the Procurement Strategy. Implementation of the recommendations made should improve compliance with CPRs and therefore improve the value for money that the authority is receiving when undertaking expenditure.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 None.

#### **4.6 Risk Management**

4.6.1 The internal audit plan has been developed on a risk basis and will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.

### **5 Conclusions**

5.1 The contract extensions audit found that in general contract managers are given sufficient notice of upcoming contracts expiring in order to make an extension decision. The delegated decision process had been complied with for all extensions tested and approval had been granted in accordance with the scheme of delegation. This therefore provides assurance that there has been some level of check and challenge. However there is a lack of documentation being retained to evidence that all options have been considered as part of the contract extension decision. Recommendations have been made to address these issues and ensure that value for money is being considered as part of the process.

5.2 The Spending Money Wisely Challenge reviews have identified that there remains significant non-compliance with CPRs. The main issues found during the reviews were that Chief Officer approval or a signed waiver had not been obtained where there were no quotes, or evidence of quotes had not been kept. Where quotes have not been obtained and this has not been approved, there is a risk that value for money has not been achieved. As the findings have not improved since the previous year's audits we are currently working with directorates to understand the root causes of these issues, in order to make targeted recommendations for improvement in these areas.

### **6 Recommendations**

6.1 Scrutiny Board (Strategy and Resources) is asked to:

- Consider the contents of this report;

- Note the findings of the contract extensions audit and the progress made in this area, as well as the ongoing work to improve the use of the best value analysis; and
- Note the findings of the Spending Money Wisely Challenge reviews and the ongoing work to improve how the authority demonstrates that value for money is achieved for non-contract and off-contract spend.

## **7 Background documents<sup>1</sup>**

7.1 None.

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.