

Internal Memo



To: Doug Meeson
Chief Officer, Financial Management

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Subject: External Consultants Review 2009/10

Introduction

As part of our annual coverage, Internal Audit planned to undertake a review of External Consultants. The aim of the review was to identify the extent to which external consultants provide value for money to Leeds City Council (LCC). Following the commencement of the review, Internal Audit was informed by Corporate Financial Management that the Scrutiny Board has also instigated a review of external consultants with similar objectives. In order to avoid the duplication of work between the two reviews and to ensure consistency of results, this memo details the audit findings and draft recommendations made to date so that they can be used for reference by Financial Management in conjunction within the Scrutiny Board review. Given the Scrutiny Review already underway, Internal Audit are not undertaking any further work.

Work undertaken by Internal Audit

Analytical Review

Internal Audit undertook an analytical review on the expenditure codes used within the Financial Management System (FMS) to record external consultancy within LCC. This confirmed that the main expenditure codes used are:

- Revenue vote code 259 – Consultancy Services.
- Capital code CPRH 7 subcode 62 – Other Consultants Fees.

A further review was undertaken to identify the suppliers with the highest levels of spend against each of the two FMS codes for the period from 2008/09 to 2009/10 to date (period 4). The review identified that 196 suppliers had been used for revenue related consultancy services and 135 suppliers for capital schemes.

The suppliers with the highest levels of expenditure for the two codes were subject to a further review against their overall levels of spend in FMS to identify the extent of any possible miscoding. The results can be seen in the following table:

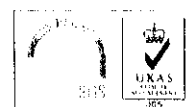


Table: Highest value External Consultancy suppliers

Creditor Reference	Creditor Name	Finance Codes	Transaction Value on the Consultancy codes (£)	Total Transaction value in FMS (£)	Variances (£)
DL010X	DLA Piper UK llp	Vote 259	176,638	722,506	545,868
PR3252	Pricewaterhouse Coopers	Vote 259	121,596	381,017	259,421
TR1473	Trowers & Hamlins	Vote 259	99,986	101,090	1,104
WS0056	WSP Environmental Limited	Vote 259	97,068	97,068	0
CO0089	Compacta Ltd	Vote 259	85,159	85,159	0
EN0350	Enviros Consulting Ltd	Vote 259	69,223	76,437	7,214
EL0237	ELAN Computing Limited	CPRH 7 sub 62	269,332	381,597	112,265
DE0672	Delcam International	CPRH 7 sub 62	154,714	154,714	0
DA0566	David Young Community Academy	CPRH 7 sub 62	153,448	153,448	0
MO1750	Modis International Ltd	CPRH 7 sub 62	120,664	340,174	219,510

Source: FMS 2008/09 and period 1-4, 2009/10

The testing results show that for 6/10 suppliers, the total values in FMS were in excess of those used on the external consultancy codes. This indicates that either the suppliers are providing services to LCC other than consultancy, or that some of their expenditure is being miscoded.

Further analysis of the expenditure against these suppliers was undertaken and this identified that:

- Revenue: Other than vote 259, 10 other vote codes had also been used in FMS to code the above creditor expenditure to. Of these codes, vote 265 (Other Hired Services) and vote 277 (Bought In Professional Services) showed the highest total transaction values, of £563k and £161k respectively.
- Capital: other than code CPRH 7 sub 62, transactions have also been coded to 3 other subcodes; these being CPRH 5 (Furniture and Equipment), CPRH 7 sub 01 (Project Management) and 42 (Other Private Arch Charge).

Internal Audit undertook additional testing on a sample of three invoices for DLA Piper UK, the supplier sampled with the highest overall revenue value in FMS. One invoice was selected for each for the three revenue vote codes; 259, 277 and 265. The testing identified that despite being coded differently; all three invoices had identical narratives - 'Fees for professional services'. This could indicate that external consultancy work is not being coded consistently in FMS, increasing the risk of inaccurate management information. However, it is understood from discussions with the Senior Financial Manager that Financial Management undertake monitoring on expenditure under the 265 and 277 codes for Private Finance Initiative (PFI) schemes.

Policy and Guidance

Internal Audit identified that there is no current policy or guidance on the use of external consultants within LCC. Although general procurement arrangements are included within Contract Procedure Rules, these do not specify any specific considerations to be given when procuring external consultants.

The inconsistency in coding identified in the table above may have arisen due to the lack of current guidance on the correct expenditure code(s) to use and also there being no definition as to what type of work should be classified as external consultancy as opposed to bought in professional services and other hired services.

The review confirmed that two previous areas of guidance and procedure are no longer in place, these being:

- An external consultancy guidance note issued by the Procurement Unit (PU) which had been previously available on the LCC Intranet.
- The Application to Engage Consultants process introduced by LCC Financial Management in 2007/08 which, after review, they did not consider to be productive.

Without guidance on the use of external consultants being developed and communicated to relevant staff, there is reduced assurance that the following issues are properly complied with:

- The requirement for checks to be undertaken and recorded to demonstrate that no internal service provider is able to undertake the work.
- The correct expenditure codes to be used. .
- The need to demonstrate that there is a business need for the use of the external consultants.
- How the work is expected to provide value for money, and how this will be reviewed.
- Whether there is potential for the skills and knowledge obtained through the use of the external consultant to be transferred to LCC staff.

To date, due to the Scrutiny review, Internal Audit has not undertaken any substantive work to identify whether there was the business need for consultancy work and whether value for money had been obtained from their use.

Recommendations

- Consideration should be given to analyse all transactions of the consultancy provider companies on other vote codes, and to assess the impact of such expenditure on the overall external consultancy spending in LCC.
- Policy and guidance on external consultancy should be developed and communicated to relevant staff. This should include:

- A definition of the types of work which can/cannot be classed as external consultancy.
- The circumstances and justification against which external consultants can be used.
- The need to be able to demonstrate value for money from the use of external consultants.
- Instructions on which FMS expenditure codes should/should not be used for external consultants.

If you require any further assistance in this matter please contact Alex Firth on extension 74497.

for Alex Firth

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