



# Sub-Contracting Arrangements (Civil Engineering and Building Maintenance) 2015-16

## City of York Council

### Internal Audit Report

Business Unit: Communities and Neighbourhood Services, City and Environmental Services

Responsible Officer: Director of CES, AD Housing and Community Safety

Service Manager: Operations Manager of Civil Engineering and Highways

Head of Building Services

Date Issued: 05.08.16.

Status: Final

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	P1	P2	P3
<b>Actions</b>	<b>2</b>	<b>2</b>	<b>0</b>
<b>Overall Audit Opinion</b>	Limited Assurance		

# Summary and Overall Conclusions

## Introduction

The Contract Procedure Rules (CPR) state that all procurement procedures must operate in a transparent manner and ensure fairness in the allocation of public contracts. It is the responsibility of Chief Officers to ensure that all Contracts are properly entered into, administered and controlled to safeguard the Council's interests, secure Best Value and minimise the risk of theft, fraud and corruption.

Construction works and buildings maintenance represent a significant proportion of council expenditure; with the expenditure for highway infrastructure and civil works from June 2014 to the present totalling approximately £10,400,000 and the expenditure for reactive repairs and capital projects totalling approximately £14,300,000.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that:

- the scoping of work involving specialist sub-contractors in buildings maintenance and small civil works is not too specific and does not give individual suppliers a competitive advantage;
- works completed by sub-contractors in buildings maintenance and small civil works are authorised appropriately and in accordance with the CPR, with due consideration given to obtaining Best Value.

## Key Findings

Insufficient evidence was available in order to provide assurance for the original objectives of the audit. Various documents were requested from the quoted services; including specifications and estimates of project costs, evidence of procurement activities, evidence of project authorisation and the contract documents themselves. No evidence could be produced by the Highways and Civil Works, Sustainable Transport or the Reactive Repairs services for the sampled contractors. Some evidence was available for contractors commissioned by the Street Lighting and Capital Projects services and limited conclusions have been drawn in these specific cases.

The Reactive Repairs, Street Lighting and Highways and Civil Works services do not retain contractual documentation. These services do not know the value of the agreements they have in place or when they are due to expire. Some contractual documents were available for the Capital Projects service and limited conclusions have been drawn in these specific cases.

## Overall Conclusions

It was found that the arrangements for managing risk were poor with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided Limited Assurance.

## 1 Procurement Documentation

### Issue/Control Weakness

The services reviewed do not keep comprehensive evidence of procurement activities.

### Risk

Evidence is not available to prove that these services undertook the correct procurement process, according to the estimated value of the works. Services may undertake incorrect procurement processes, in breach of the Contract Procedure Rules and EU procurement law.

### Findings

#### Civil Engineering

The limited evidence available for Street Lighting would suggest that the scoping of works for specialist sub-contractors is not too specific and does not give individual suppliers a competitive advantage.

However, testing demonstrated that the Street Lighting, Highways and Civil Works and Sustainable Transport services do not keep sufficient information regarding their procurement processes, in accordance with Public Contracts Regulations and section 4 of the Contract Procedure Rules.

Maintenance works are an area of particular concern, as commissioners stated they were unsure of how to estimate this type of variable cost.

#### Buildings Maintenance

The evidence available for Capital Projects would suggest that the scoping of works for specialist sub-contractors is not too specific and does not give individual suppliers a competitive advantage.

However, testing demonstrated that the Capital Projects and Reactive Repairs services do not keep sufficient information regarding their procurement processes, in accordance with Public Contracts Regulations and section 4 of the Contract Procedure Rules.

Maintenance works are an area of particular concern, as commissioners stated they were unsure of how to estimate this type of variable cost (with the exception of the Capital Projects team who have access to surveyors and tend to commission project work).

### Agreed Action 1.1

The Highways and Civil Works service are currently undertaking an exercise with the corporate procurement team in order to put in place preferred suppliers or framework agreements for all required materials and services. On completion of this exercise, the Highways and Civil Works service will retain evidence of their procurement activity. This will be in the form of tender and contract documentation. Contractors selected from framework agreements will be chosen according to performance based criteria. A job sheet will be retained which shows the details of the materials and contractor that were used for each job and an explanation of why they were selected.

<b>Priority</b>	2
<b>Responsible Officer</b>	Commercial Business and Delivery Manager
<b>Timescale</b>	1 October 2016

### Agreed Action 1.2

The Reactive Repairs service is currently undertaking a procurement exercise with the consultant group Turner and Townsend in order to put a framework agreement for all required services in place. On completion of this exercise, evidence of procurement activity will be retained in the form of tender documentation. The agreement will specify performance based criteria for selection of suppliers for jobs. The performance of contractors will be monitored and recorded on a monthly basis in order to explain their selection for jobs.

<b>Priority</b>	2
<b>Responsible Officer</b>	Head of Building Services
<b>Timescale</b>	1 October 2016

## 2 Contract Monitoring

### Issue/Control Weakness

The services reviewed do not retain evidence of contract authorisation or evidence of the contract itself. Services do not monitor their contracts and do not know the value of the agreements they have in place or when they are due to expire.

### Risk

These services are in violation of the Public Contracts Regulations and section 4 of the Contract Procedure Rules. Services may be unaware of the value or expiry date of contractual agreements and may violate the Contract Procedure Rules and EU procurement regulations by commissioning works in excess of certain thresholds.

### Findings

#### Civil Engineering

Testing demonstrated that the Highways and Civil Works, Street Lighting and Sustainable Transport services do not monitor their expenditure with contractors in order to determine whether they are in breach of the Contract Procedure Rules or EU procurement law.

Testing demonstrated that services do not retain sufficient information regarding their contractual agreements, in accordance with the Public Contracts Regulations and section 4 of the Contract Procedure Rules. Maintenance works are an area of particular concern, as the services concerned stated they relied on "word of mouth" to determine which contractor they have in place for a certain type of work.

#### Buildings Maintenance

The contractors sampled for Capital Projects would suggest that the service usually obtains appropriate authorisation for works and that appropriate contract documentation is put in place and then archived.

Testing demonstrated that the Reactive Repairs service do not retain sufficient information regarding their contractual agreements, in accordance with the Public Contracts Regulations and section 4 of the Contract Procedure Rules. Maintenance works are an area of particular concern, as the service stated they relied on "word of mouth" to determine which contractor they have in place for a certain type of work.

**Agreed Action 2.1**

The Highways and Civil Works service are currently undertaking an exercise with the corporate procurement team in order to put in place preferred suppliers or framework agreements for all required materials and services. On completion of this exercise, appropriately authorised contract documentation will be retained. A monitoring spread sheet will also be retained by the service, detailing contract values and their expiry dates.

**Priority**

1

**Responsible Officer**Commercial Business  
and Delivery Manager**Timescale**

1 October 2016

**Agreed Action 2.2**

The Reactive Repairs service are currently undertaking a procurement exercise with the consultant group Turner and Townsend, in order to put a framework agreement for all required services in place. On completion of this exercise, an appropriately authorised contract document will be retained.

**Priority**

1

**Responsible Officer**Head of Building  
Services**Timescale**

1 October 2016

## Audit Opinions and Priorities for Actions

### Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

### Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.



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