



# Contract Management

## City of York Council

### Internal Audit Report 2018/19

Business Unit: Director of Customer & Corporate Services  
Responsible Officer: Corporate Finance & Commercial Procurement  
Manager  
Service Manager:  
Date Issued: 25 June 2019  
Status: Final  
Reference: 19080/032.

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Overall Audit Opinion</b>	High Assurance		

# Summary and Overall Conclusions

## Introduction

The council has a wide range of contracts for goods and services across the council. All contract management activities should help to ensure that corporate objectives are achieved while providing value for money and efficient supply of goods and services.

Within the council, contract management is the responsibility of individual managers across the organisation with the Procurement section providing support. The council are in the process of developing contract management guidance & principles with training to be delivered to contract managers.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- The council's contract management guidance was in line with CIPFA best practice.
- The council's contract management processes complied with the council's guidance and principles.

As part of this audit we selected a sample of contacts and compared them with the council's contract management guidance in order to obtain a baseline of current contract management practices in place.

The audit testing compared the council's contract management principles with the following sample of contracts selected from a number of service areas across the council:

- Nutanix-Data Storage
- Air quality monitoring stations service and maintenance contract
- Commissioning of specialist services for single people/couples that are homeless and who approach the Provider
- Planned Re-roofing and associated works
- Disabled Children's Short Breaks Facility Designer

## Key Findings

The audit found that the council's contract management guidance was generally in line with CIPFA's contract best practice. All areas of CIPFA's best practice guidance were included within the council guidance and training presentation on contract management. The council's guidance to contract managers clearly sets out actions to take before a contract is in place and during the management of the contract. It also covers key areas that are essential for the management of a contract such as financial controls, management of risk and exit plans.

From the sample of contracts that the audit looked at it was found that before the contract was in place, the objectives of the contracts were clearly defined. The quality of contractors was assessed by looking at lessons learnt from previous contracts in place or similar contracts from other authorities. In addition to this the council obtained references for the contractor's work that they had carried out at other local authorities. Methods of measuring the performance of contractors and payment triggers were planned out before the contracts were in place.

The audit found that the contract managers review the cost of the contract to assess if they have obtained value for money. The contract managers review the performance of the contractors and the risks that could impact on the contract's goals being delivered. The performance of the contractors could be supported by documentary evidence that the contractors have met the objectives of the contract. The council's contract managers discuss the performance of the contract with the contractors and are meeting on a regular basis.

For each contract that was looked at during the audit there was a clear payment regime in place. For the two contracts that the audit looked at where the payments would be based on the performance of the contractors, clear payment triggers were in place to ensure payments were only paid once the contractors had carried out the predefined level of work. The timings of invoices and breakdown of cost was clearly defined within the contract. The audit found that the actual money paid was in line with the contract.

Out of the five contracts that the audit looked at there was only one contract, the Nutanix data storage contract, where the supplier had an exit strategy in place. This exit strategy was built within the call off contract. Even though the other four contracts all had circumstances that could mean the contract needs to be ended early, the contract did not cover how the contract could be terminated before the end date by either party.

## **Overall Conclusions**

It was found that the arrangements for managing risk were very good. An effective control environment appears to be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided High Assurance.

# 1 Exit Strategy

## Issue/Control Weakness

There is not an exit strategy in place for contracts.

## Risk

It is not possible to end poorly performing contracts without a cost to the council.

## Findings

Failure to plan for the exit of a contract far enough in advance could result in the following risk according to CIPFA's Contract Management guidance:

- *inadequate consideration of the options, resulting in a poor decision*
- *a rushed procurement process, resulting in poor value for money*
- *insufficient time for mobilisation, resulting in poor performance when the new arrangements commence*
- *a gap in the performance of the work due to the contract ending before new arrangements are in place*

Out of the five contracts that were looked at during the audit there was only one contract, the Nutanix data storage contract, where the contract with the supplier had an exit strategy in place if either party wanted to end the contract before the end date. In all the other cases within the sample that were reviewed although the contractor's performance was meeting the objectives set out within the contract there was no exit strategy written into the contract. Even though there was no evidence that the supplier was no longer capable of meeting their contractual obligation, it is still important to have contingency plans in place in case the contract is ended early. Further guidance of what action can be taken if the contractor no longer meets the standards set out within the contract would be beneficial to staff who manages contracts on behalf of the council.

## Agreed Action 1.1

The consideration of an exit strategy will be built into legal and procurement template documents.

**Priority**

3

**Responsible Officer**

Finance &  
Procurement Manager

**Timescale**

31 December 2019

## Audit Opinions and Priorities for Actions

Audit Opinions	
<p>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.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
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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