

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 March 2014

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – Contract Payments

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Contract Payments.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Contract Payments.

3 BACKGROUND

- 3.1 A review of Contract Payments was undertaken as part of the audit plan for 2013/14.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for administering payments to suppliers were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None.

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – None.

6.2 Personnel – None.

6.3 Other – None.

7 BACKGROUND PAPERS

7.1 None.

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DATE	6 March 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONTRACT PAYMENTS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14, a review was undertaken of Contract Payments. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an approved Corporate Procurement Procedures Manual, which forms part of the Council's Standing Orders.

1.3 Areas with Scope for Improvement

- In two cases, the procurement option selected by officers did not meet the criteria set out in the Council's Corporate Procurement Procedures – contracts were awarded as part of a single source supply instead of being procured via a competitive process. *Risk – failure to obtain best value.*
- In some cases, there was a lack of adequate checking procedures in place to ensure that supplier invoices submitted for payment were accurate and complete – a number of errors were found in the invoices passed for payment. *Risk – errors and anomalies may occur and remain undetected.*
- In one case, there was a lack of adequate information on the Procurement Initiation Document to confirm the specific service the supplier was required to provide. *Risk – difficulties may be encountered in monitoring the service being provided.*
- In one case, there was a failure to ensure that products were purchased from the framework supplier offering the most competitive rates. *Risk – failure to obtain best value.*
- For payments made to one supplier, no bona fide invoices had been submitted – payments were based on internal memos that had been completed by the department, authorised for payment and passed to the Council's Creditors section for processing. *Risk – inappropriate payments may be made.*
- In one case, payments made to a contractor were in excess of the tender sum – the excess related to the contractor failing to price for all aspects of the job when the tender was submitted and to changes being made to the project specification after the contract had been awarded. *Risk – failure to demonstrate best value.*

1.4 Summary

Our review of Contract Payments has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

March 2014

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that Procurement Initiation Documents provide sufficient details of the service that is being procured.	Medium	Service Manager – Economic Development & Strategic Investment	Agreed		March 2014
	Management should ensure that single source requests are only approved in exceptional circumstances and are in line with the Council’s Corporate Procurement Procedures.	Medium	Heads of Service (Lead Officer – Head of Council Resources)	Agreed		March 2014
3.2.1	Management should ensure that payments are only made to suppliers on receipt of bona fide invoices.	Medium	Service Manager – Economic Development & Strategic Investment	Agreed		March 2014
3.3.1	Management should ensure that payments are only made to suppliers for services provided – final payment should only be made on completion of the full contract.	Medium	Service Manager – Economic Development & Strategic Investment	Agreed		March 2014
	The process of managing change to contract specifications or scope of works, after tenders have been received or contracts awarded, should be reviewed – Management should ensure compliance with the Council’s Corporate Procurement Procedures.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed – guidelines in place		March 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Appropriate checking procedures should be in place to ensure that the rates charged by suppliers agree to the contracted rates.	Medium	Service Manager – Engineering Services and Building Standards	Agreed		March 2014
3.4.1	Management should explore the use of products currently available as part of Scotland Excel contracts, to ensure that the best possible rates are obtained.	Medium	Service Manager – Property Maintenance	Agreed. Management to explore with approved suppliers possible like for like component alternatives that are more competitively priced through the contract but that also meet specification for service standards and ongoing maintenance requirements.		April 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.