

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 29 November 2016

**BY:** Depute Chief Executive – Resources & People Services

**SUBJECT:** Internal Audit Report – Roads Contracts

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## **1 PURPOSE**

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

## **2 RECOMMENDATION**

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

## **3 BACKGROUND**

- 3.1 A review of Roads Contracts was undertaken as part of the audit plan for 2016/17.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for the administration of Roads Contracts 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 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	17 November 2016

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT ROADS CONTRACTS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Roads Contracts was undertaken as part of the Audit Plan for 2016/17. 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 – access to these procedures is available via the Council's intranet.
- Adequate arrangements are in place for the authorisation of interim and final certificates of payment.

#### **1.3 Areas with Scope for Improvement**

- In some instances, there had been a failure to follow the Council's Corporate Procurement Procedures – additional work had been awarded to existing contractors without following the appropriate procurement procedures. *Risk – failure to obtain best value.*
- In one case, the contract was awarded to a contractor who had failed to submit all requested tender documentation – the signed contractor's offer, the goods vehicle operator licensing certificate, the prompt payment certificate and the anti-collusion certificate did not form part of the tender submission, but were accepted by the Council after the deadline date. *Risk – failure to comply with the Council's procedures.*
- There was a failure to ensure that contract variations had been appropriately documented and properly authorised – in a number of cases variation orders had not been issued where additional costs had been incurred during the course of the contract. *Risk – errors or irregularities may occur and remain undetected.*
- There was a lack of appropriate checking procedures in place to confirm that contractors held a valid insurance certificate. *Risk – failure to comply with the Council's insurance requirements.*
- The procedures in place for calculating liquidated and ascertained damages require review – in a number of cases the rates had been incorrectly calculated. *Risk – failure to recover all amounts due.*
- In two cases, no VAT receipts were held in respect of significant payments made to contractors. *Risk – failure to comply with HMRC requirements.*
- In some cases, an inconsistent approach had been adopted for calculating contract over or under spends on the final certificate of payment. *Risk – errors and anomalies may occur and remain undetected.*

#### **1.4 Summary**

Our review of Roads Contracts 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

**November 2016**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
ROADS CONTRACTS**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.2	Management should review the adequacy and effectiveness of the existing procedures in place.	Medium	Acting Team Manager – Engineering and Operations	Agreed		February 2017
3.2.1	Management should ensure that cost estimates provided on the Procurement Initiation Document are consistent with the programme of works.	Medium	Acting Team Manager – Engineering and Operations	Agreed – where rates change the programme of works will be updated.		November 2016
3.2.2	Management should ensure that all works are properly procured in line with the Council's Corporate Procurement Procedures.	High	All Service Managers	Agreed – raising awareness of Council's Corporate Procurement Procedures.  Provision of Procurement training.		November 2016  Spring 2017

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3.2.2 (cont)	Management should ensure that all Procurement advice provided to service areas is clearly documented.	High	Service Manager – Legal and Procurement	Agreed – Procurement advice to be confirmed in writing.		November 2016
3.2.3	Management should review the current practice of accepting tender submissions where there has been a failure by the contractor to submit all requested tender documentation.	Medium	Service Manager – Legal and Procurement	Agreed – review of current practice and development of guidelines regarding what is considered essential tender information.		November 2016
3.2.4	Management should ensure that the successful contractor is formally advised of the contract award.  Management should ensure that the signed copy of the Council's acceptance of the contractor's offer is sent to the successful contractor.	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016
3.3.1	Management should ensure that all tender documents issued by the Council clearly set out the contractors' insurance requirements.	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016

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3.3.1 (cont)	Management should ensure that appropriate checking procedures are in place to confirm contractors hold a valid insurance certificate.	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016
3.4.1	<p>Management should ensure that the daily rate for liquidated and ascertained damages is correctly calculated – evidence of the calculation should be retained on file.</p> <p>Management should ensure that calculations for liquidated and ascertained damages are checked and approved by a person independent of the preparer.</p>	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016
3.5.1	<p>Management should review the existing arrangements in place for contract variations.</p> <p>Management should ensure that contract variations are appropriately documented and properly authorised.</p>	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1	<p>Management should ensure that contractors are notified of wrongly assessed amounts – evidence should be retained on file.</p> <p>Management should ensure that valid VAT receipts are obtained for payments made to contractors in line with HMRC requirements.</p>	Medium	<p>Acting Team Manager – Engineering and Operations</p> <p>Service Manager – Corporate Finance</p>	<p>Agreed</p> <p>Agreed – requests will be made weekly for all outstanding VAT receipts – electronically where possible. This will then be reconciled on a monthly basis to ensure that receipts are being received within an appropriate timescale.</p>		<p>November 2016</p> <p>Ongoing</p>
3.7.2	<p>Management should ensure that the information submitted on the final certificate of payment is accurate and complete.</p> <p>Management should review and update the final certificate of payment form.</p>	Medium	Acting Team Manager – Engineering and Operations	<p>Agreed</p> <p>Agreed</p>		<p>November 2016</p> <p>February 2017</p>

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