

REPORT TO: Audit and Governance Committee

MEETING DATE: 24 January 2017

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Contracts

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on 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 In May 2016 the Audit and Governance Committee asked Internal Audit to undertake additional work on contract awards to provide assurances that internal controls were operating effectively.
- 3.2 A sample of five contracts from across the Council was selected for examination. Of the five contracts examined, two are currently being considered by management and will be subject to a separate report. This report sets out the main findings from the remaining three contracts that formed part of this review.
- 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

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DATE	12 January 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONTRACTS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2016/17, a review was undertaken of the award of contracts. 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 to provide guidance to staff on procurement – the procedures form part of the Council's Standing Orders.
- For the three contracts examined, there was a clear audit trail of the tendering process undertaken.
- A Members' Library report was prepared for each of the contracts examined detailing the tenders received and the award of the contract – in each case the contract was awarded to the contractor submitting the lowest tender.

1.3 Areas with Scope for Improvement

- For one contract examined (fire damage works to a Council house), the procurement was undertaken under the Council's Framework Agreement for the Provision of Construction Works, however this category of work was specifically excluded from the scope of the framework. *Risk – failure to identify the contractors most suited to undertake the work.*
- For a second contract examined the following points were noted:
 - ❖ The tender was issued as a Drawings and Specification tender – the tender return date (26 February 2016) was two weeks from the date of issue (12 February 2016), with work anticipated to commence in March 2016.
 - ❖ The six contractors on Lot 1 of the Council's Framework Agreement for the Provision of Construction Works were contacted, however only two confirmed that they would submit a tender. Of the remaining four contractors who indicated that they would not be submitting a tender, two contractors stated that they would be unable to return the tender within the specified timescale. Due to insufficient interest from the framework contractors, the tender process under the framework was abandoned and a Quick Quote process was initiated.
 - ❖ The Council did not include a formal Mechanical and Electrical (M&E) design package in the tender documents – instead tenderers were instructed to include a provisional sum for M&E works. The M&E works subsequently undertaken (by a sub-contractor) had not been competitively tendered.
 - ❖ There was a significant delay between tenders being received and work commencing on site – work did not commence until July 2016.
Risk – failure to ensure an effective tendering process.

1.4 Summary

Our review of the award of contracts has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

January 2017

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
CONTRACTS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure compliance with the Framework Agreement in place.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed		March 2017
3.3.1	Management should review the adequacy and effectiveness of the current approach adopted for the tendering of contracts.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed		March 2017

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.