

# FINAL INTERNAL AUDIT FOLLOW-UP REPORT

## Contract Management

Nottingham City Council  
Internal Audit



Nottingham  
City Council

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<b>Distribution List</b>	
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Executive Summary

Directorate: Finance & Resources  Previous reviews: Contract Management 2019/20	Overall Opinion: <b>Limited Assurance</b>	Direction of Travel: 
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Scope and Approach:

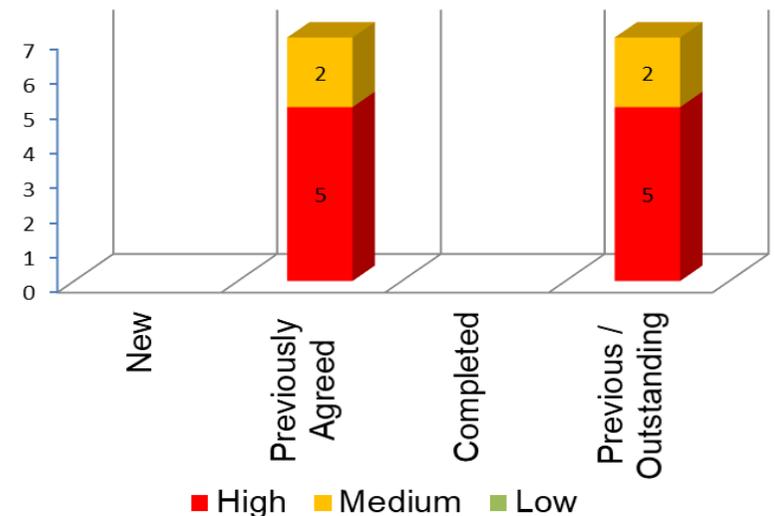
Follow up of the recommendations in the 2019/20 Contract Management audit report

**High Priority Recommendations from our 2019/20 Audit**

R1 As part of an assurance framework for contract management:

- Implement a clear contract management framework that manages contract risk and allocates contracts to governance tiers and contract management responsibilities to competent contract managers either centrally or departmentally, by considering factors including value, risks, importance, and complexity.
- Implement corporate oversight by portfolio to provide assurance that clear contract management plans are in place and contracts are well-constructed and performance based.
- Implement contract management systems and processes that allow consistent measurement of performance and value for money in line with the Council’s objectives and savings targets.
- Collect customer and supplier feedback in order to :
  - help monitor contract compliance
  - support strategy development
  - measure benefits, including savings obtained.

**Summary of recommendations by priority**



R2 A Contract Management Policy and associated standards and guidance toolkit should be developed to ensure that all contracts are managed in a consistent and compliant manner. This should be available to all contract managers.

R4 The level and location of scrutiny that contracts should receive should be determined at the contract procurement stage. A Contract Assessment Matrix should be introduced and completed to confirm the governance tier required.

R5 Procedures should be in place to ensure that all contracts are subject to a commercial risk assessment. There should be regular risk reviews across the whole contract portfolio to test and benchmark commercial risk and consider other risk themes such as supplier risk. A risk register should be developed and any departmental or corporate risks escalated as appropriate.

R6 The new corporate financial system Oracle Fusion should ensure the following:

- contract identification
- contract details i.e. value, start and end dates, manager's name
- contract creation only if there is relevant approval
- approval to spend only if there is contract in place
- approval of payments should be automatically linked to contract
- reporting facilities to evidence spend by contract and business area

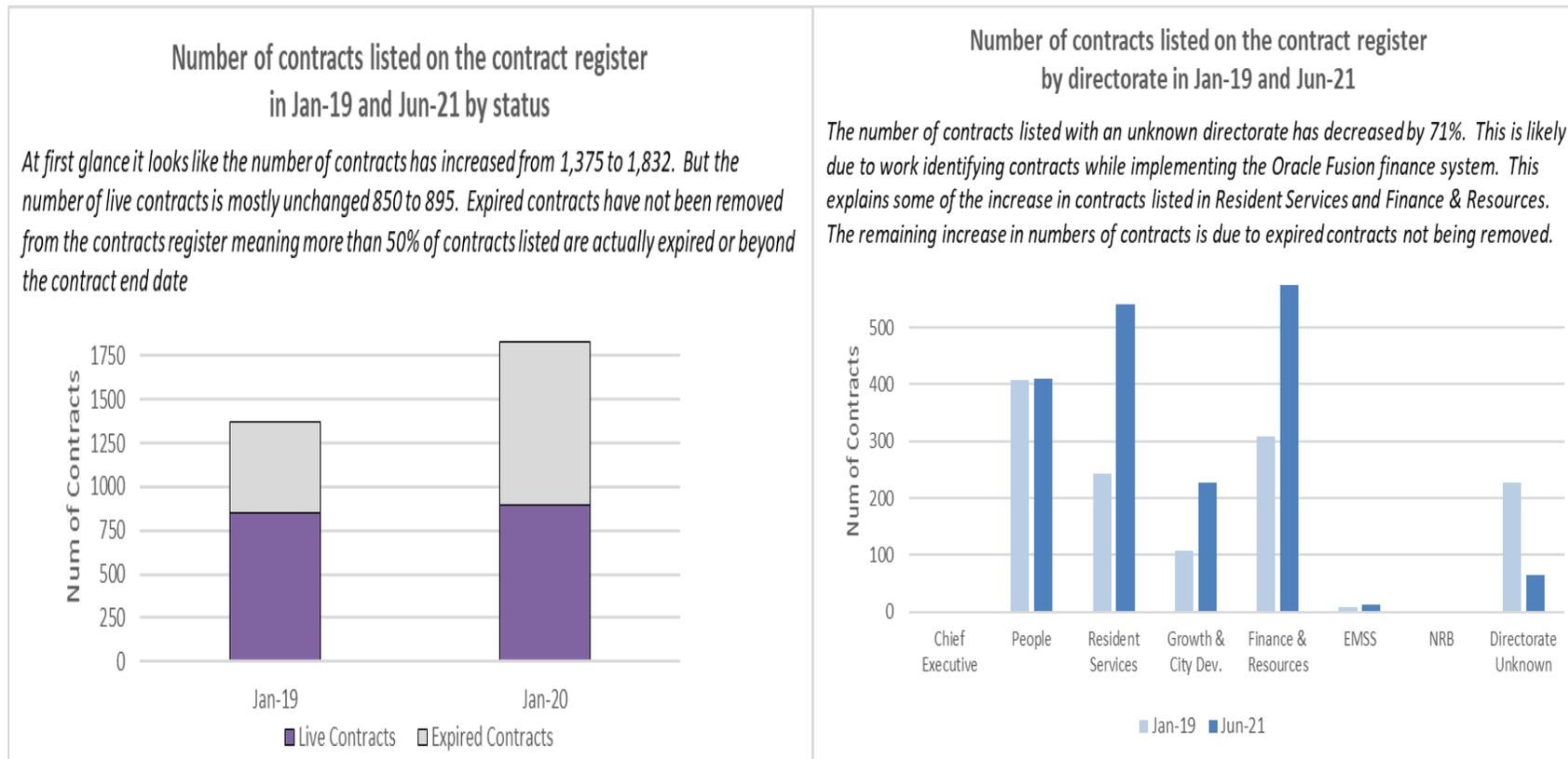
## Introduction and Background

- 1.1 We have undertaken a follow-up review of the 2019/20 Contract Management Audit Report. This work forms part of the Procurement/ Contract Management audit review 2020/21 which covers :-
- Procurement Dispensations
  - Follow Up of Contract Management 2019/20 audit review
  - Oracle Fusion
- 1.2 The Corporate Director of Finance & Resources has serious concerns regarding the standard of contract management within NCC and the Contract Management Follow Up will be reported alongside the Procurement Dispensations Audit Report.
- 1.3 Our 2019/20 report covered the following areas:
- Corporate support for contract management /strategic direction and oversight on contract management, including contract management policy and procedures
  - Governance arrangements
  - Roles, responsibilities, competencies and accountabilities
  - Supplier management, change control and contract performance monitoring
  - Financial and risk management
- 1.4 The overall audit opinion was classified as **Limited** and seven recommendations were raised and we can report that all recommendations remain outstanding.

## Key Findings

- 1.5 According to CIPFA's Practical Guide to Contract Management, *the foundations of good contract management lie in the planning and procurement phases*. Nottingham City Council has numerous contracts, large and small and often several contracts with the same supplier. It is important that these contracts are managed efficiently throughout the contracts lifecycle.

- 1.6 The Contracts Register is an important corporate resource to keep track of live contracts and to highlight expiring contracts, allowing the Procurement Team to plan future procurement exercises. The Contracts Register is also published to the public, on the Open Data Nottingham website, [www.opendatanottingham.org.uk](http://www.opendatanottingham.org.uk), to meet requirements of the Local Government Transparency Code 2015.
- 1.7 Concerns were raised during audits for Contract Management 2019/20 and Procurement 2019/20 that the Contract Register held by NCC is incomplete. Further testing completed during the recent Procurement Dispensation Audit found that the register still does not contain all contracts held by NCC. A comparison of contracts held on the Contracts Register June 2021 and January 2019 (previous audit) has been undertaken, with the following results :-



- 1.8 The following concerns are noted regarding the Contracts Register :-
- Although 1,832 contracts are listed on the register. 937 (51%) are expired according to the listed contract end date (dating back to August 2013).
  - The Directorates have now changed and some Service Areas have moved between directorates but the Contract Register has not been updated to reflect that
  - Chief Executive is not a directorate
  - There are Council companies listed within the directorate category (EMSS & NRB) but not all Council companies are included here
- 1.9 Whilst ever the Contracts Register remains incomplete, the Council is unable to assess what contracts are currently being undertaken, who is managing the contract and when the contract is due for renewal. A contracts register should allow the Council to track and monitor performance of all contracts in one central location.
- 1.10 Oracle Fusion was implemented for finance in April 2021 and should introduce a number of changes/improvements regarding how purchases are made by departments. A key change is an expectation that all purchases will now be linked to a category code allowing improved spend analysis to be undertaken, something which was limited within the old Oracle BS system. A second significant change is the use of 'Contract Purchasing Agreements' (CPA). Departments will have to select a CPA when raising a requisition and a CPA will only be available if the correct procurement process has been undertaken. It is understood that Procurement are currently dealing with a large volume of new CPA requests. As CPAs are raised then the contract details should be updated on to the Contracts Register. Further testing regarding the new Oracle Fusion and the impact on procurement is to be undertaken by Internal Audit later this year.
- 1.11 The Contracting and Procurement service still has no information regarding the management of contracts where they are not involved at the procurement stage. We understand that where teams carry out their own procurement, they do not always approach the Contracting Team to support their contract management. However, as teams are starting to require CPAs in order to raise orders through Oracle Fusion, the Contracting Team are being approached. A number of temporary CPAs have been completed which will allow the Department to pay invoices for services received.
- 1.12 There is still no corporate approach that defines how contracts should be managed. In response to the previous audit review, Procurement and Contracting were to develop a contract tool kit which would enable contract managers to have a joined up

approach for the managing and procurement of contracts. Procurement and Contracting have confirmed that due to resources, no work has been undertaken in this area so far. The findings from our recently completed Dispensations Audit indicate that one of the main factors causing dispensations in our sample (40%) was poor planning. A corporate strategy would ensure that the planning, procurement and management of contracts are joined up, sufficient resources are allocated and a culture that supports contract management is adopted.

- 1.13 The lack of training available colleagues who manage contracts was an issue raised previously and discussions with the Head of Contracting & Procurement have confirmed that the department has not made any progress towards sourcing any suitable material which could be attached to the Learning Zone.
- 1.14 Ensuring that people with the right skills are in place to carry out contract management is essential to release more value from contracts. Training in contract management is vital in order to prepare colleagues for third-party arrangements, and must be adequately resourced.
- 1.15 Theme Seven 'Delivery Options' of the Recovery & Improvement Plan 2021-2024 looks towards improvements in the Procurement Strategy and a number of work streams are being implemented. For this reason we have not made any further recommendations in this area.

### Opinion

- 1.16 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed. Overall, we are able to give **Limited Assurance** on the controls with a direction of travel of **No Change**. No work has been undertaken in implementing the recommendations made during the 2019/20 audit. The Head of Contracting and Procurement has stated that this is due to a lack of resources and a difficult operating year with the Pandemic and Oracle Fusion being implemented.
- 1.17 Areas of concern remain :-
  - a lack of defined corporate contract management approach or arrangements
  - no comprehensive training courses developed for contract managers
  - a lack of contract management policy and common standards and guidance for contract management

- the current financial system (Oracle) does not allow to measurement of how much is spent by contract
- no data analysis on contract performance, including performance dashboards to enable strategic decision making
- no corporate oversight and assurance reporting
- a lack of systematic approach to addressing risk, supporting delivery and increasing value for money

1.18 By having a corporate approach towards contract management this would look towards meeting part of the council's objectives in implementing the Recovery and Improvement Plan. It should be acknowledged that additional resources will be required in order to implement these changes and to ensure that NCC has the appropriate level of contract management.

### Reporting to Committee

1.19 As we continue to report a **Limited Level of Assurance** on the controls in this area, it is likely that this report will need to be discussed at a future Audit Committee.

### Summary of Recommendations

- 1.20 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.
- 1.21 Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

Priority	Previous Recommendations	Completed	Recommendations Outstanding
High	5	0	5
Medium	2	0	2
Low			
<b>Total</b>	<b>7</b>	<b>0</b>	<b>7</b>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
<b>Contract Management</b>						
R1 2019-20	<p>We have noted a lack of a common framework to ensure:</p> <ul style="list-style-type: none"> <li>a defined corporate contract management approach which allocates the responsibility for managing contracts dependent on the:                             <ul style="list-style-type: none"> <li>contract type</li> <li>strategic importance, and</li> <li>risks involved</li> </ul> </li> <li>corporate oversight that ensures a clear contract management plan is in place for each Council contract</li> <li>direction on how contractual performance should be designed, monitored, and evaluated</li> </ul>	<p>As part of an assurance framework for contract management:</p> <p>Implement a clear contract management framework that manages contract risk and allocates contracts to governance tiers and contract management responsibilities to competent contract managers either centrally or departmentally, by considering factors including value, risks, importance, and complexity.</p> <p>Implement corporate oversight by portfolio to provide assurance that clear contract management plans are in place and contracts are well-constructed and performance based.</p>	High	<p>As part of the contract toolkit an assessment matrix should be developed</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	No change <b>Outstanding</b>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by</p> <p>July 2022</p> <p>Head of Contracting and Procurement</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
	<ul style="list-style-type: none"> <li>• assurance that value for money is being achieved from the Council's contracts</li> <li>• assurance that the Council's objectives and obligations are met</li> <li>• awareness as to how the Council's contracts are performing operationally and financially.</li> </ul> <p><b>Risk</b> Contracts are not managed in a consistent and robust manner.</p>	<p>Implement contract management systems and processes that allow consistent measurement of performance and value for money in line with the Council's objectives and savings targets.</p> <p>Collect customer and supplier feedback in order to :</p> <ul style="list-style-type: none"> <li>• help monitor contract compliance</li> <li>• support strategy development</li> <li>• measure benefits, including savings obtained.</li> </ul>				

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R2 2019-20	<p>NCC does not have:</p> <ul style="list-style-type: none"> <li>a Contract Management Policy that adopts good practice, maximises financial and operational performance whilst minimising risk</li> <li>a common standards and guidance toolkit which illustrates good contract management</li> </ul> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>A Contract Management Policy and associated standards and guidance toolkit should be developed to ensure that all contracts are managed in a consistent and compliant manner.</p> <p>This should be available to all contract managers.</p>	<b>High</b>	<p>Consider as part of the contract toolkit as the risks need to feed into the departmental risk registers</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by July 2022</p> <p>Head of Contracting and Procurement</p> <p>July 2022</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R3 2019-20	<p>It was not evident that contracts are being allocated based on the complexity of the contract as well as the level of competencies required.</p> <p>To date, there are no training courses available for contract managers. We understand that on the job training is being provided for contracts managed centrally.</p> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>Contracts should be allocated to managers with the appropriate skills.</p> <p>Comprehensive training courses should be developed for all contract managers to provide assurance of competence in contract management roles.</p>	Medium	<p>Explore the options for training colleagues on contract management this will require resources to provide or purchase</p> <p>Head of Contracting &amp; Procurement</p> <p>08/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>The central government commercial college provide free contract management training which has been reviewed by Contracting and Procurement and is suitable for officers undertaking contract management as the main part of their job. To be part of the toolkit from July 2022</p> <p>Head of Contracting and Procurement working with HR develop an NCC specific Contract Management Training pack to be available from April 2022 for all colleagues undertaking Contract Management</p> <p>Head of Contracting and Procurement</p> <p>April 2022</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
<p><b>R4</b> <b>2019-20</b></p>	<p>We have noted a lack of corporate governance processes and assurance for reporting.</p> <p>There are examples of accountability gaps as it is not always clear who “owns” a contract and who is responsible for ensuring the contract is implemented.</p> <p>Key information is not held centrally and regular management information is not obtained for all contracts managed. (R1 in the Procurement Audit 2019/20)</p> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>The level and location of scrutiny that contracts should receive should be determined at the contract procurement stage.</p> <p>A Contract Assessment Matrix should be introduced and completed to confirm the governance tier required.</p>	<p><b>High</b></p>	<p>As part of the contract toolkit an assessment matrix should be developed</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by July 2022</p> <p>Head of Contracting and Procurement</p> <p>July 2022</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R5 2019-20	<p>No evidence could be seen that corporate contract risk management is in place.</p> <p>It was not evident that for all contracts:</p> <ul style="list-style-type: none"> <li>risks were considered at corporate level in advance</li> <li>risks were allocated appropriately to those able to manage them</li> <li>risk reviews were carried out regularly at corporate level</li> </ul> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	<p>Procedures should be in place to ensure that all contracts are subject to a commercial risk assessment. There should be regular risk reviews across the whole contract portfolio to test and benchmark commercial risk and consider other risk themes such as supplier risk.</p> <p>A risk register should be developed and any departmental or corporate risks escalated as appropriate.</p>	High	<p>Consider as part of the contract toolkit as the risks need to feed into the departmental risk registers</p> <p>Head of Contracting &amp; Procurement</p> <p>06/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource.. Aiming to have all actions implemented by July 2022</p> <p>Head of Contracting and Procurement</p> <p>July 2022</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
<p><b>R6</b> <b>2019-20</b></p>	<p>It was not possible to identify spend per contract. The financial system (Oracle) is currently unable to report these details.</p> <p>Services are able to purchase goods or services where no contract is in place and no approval to purchase has been obtained.</p> <p>Approval of payments is not automatically linked to contract management, which itself creates risk.</p> <p>It is our understanding that better spend controls are expected with the new Oracle Cloud. The proposed changes are expected to increase compliance with our obligations under both the Procurement Regulations 2015, as well as each partners CPRs and Financial Regulations.</p> <p><b>Risk</b></p> <p>Poor value for money</p>	<p>The new corporate financial system Oracle Fusion should ensure the following:</p> <ul style="list-style-type: none"> <li>• contract identification</li> <li>• contract details i.e. value, start and end dates, manager's name</li> <li>• contract creation only if there is relevant approval</li> <li>• approval to spend only if there is contract in place</li> <li>• approval of payments should be automatically linked to contract</li> <li>• reporting facilities to evidence spend by contract and business area</li> </ul>	<p><b>High</b></p>	<p>The implementation of Contract Purchase Agreements will ensure spend is linked to contracts and will be implemented by Procurement as part of Oracle Fusion.</p> <p>Head of Contracting &amp; Procurement</p> <p>10/2020</p>	<p>No change</p> <p><b>Outstanding</b></p>	<p>This has been implemented as part of oracle fusion and needs colleagues to follow procedures for CPAs currently significant non-compliance which is being raised with CLT.</p> <p>Review following CLT on 15/09/21.</p> <p>Significant improvements in compliance noted since CLT and Senior Leadership Forum. Spend analysis work being undertaken as part of Transformation and actions taken as necessary.</p> <p>Review April 2022</p> <p>Head of Contracting and Procurement</p>

Ref	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
R7 2019-20	<p>We have noted that contract management advice is generally not provided. It does not form a part of the current decision making process.</p> <p>This could be beneficial in allocating contract management appropriately and should ensure early involvement where necessary of central resource.</p> <p><b>Risk</b></p> <p>Poor value for money and unmet objectives</p>	Contracting advice should be provided as part of the decision making process.	Medium	<p>This will require significant resource so options appraisal to be undertaken</p> <p>Head of Contracting &amp; Procurement</p> <p>04/2020</p>	No change <b>Outstanding</b>	<p>It has been agreed that additional funding is required for strategic contract management. Transformation funding has been approved and The Head of Contracting and Procurement is working with Transformation office to identify resource. Aiming to have all actions implemented by</p> <p>July 2022</p> <p>Head of Contracting and Procurement</p>

### Client Responsibilities

- Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested
- Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.

**Levels of Assurance**

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

<b>Significant Assurance</b>	There is a generally sound system of control designed to meet the organisation’s objectives and that controls are being applied consistently in the areas reviewed.
<b>Moderate Assurance</b>	Generally a sound system of internal control designed to achieve the organisation’s objectives with some exceptions and / or evidence of non-compliance with some controls that may put some of the system objectives at risk
<b>Limited Assurance</b>	Weaknesses identified in the procedures and controls in key areas and / or non-compliance with key procedures and controls which constitutes a risk to the achievement of the organisation’s objectives
<b>No Assurance</b>	Poor system of internal control or consistent non-compliance with key controls which could result in failure to achieve the organisation’s objectives

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

**Categorisation of Recommendations**

The recommendations within this report have been categorised by Internal Audit as:

- High Priority**      A weakness where there is substantial risk of loss, fraud, impropriety, poor VFM or failure to achieve organisational objectives. Such risks could lead to an adverse impact on the business
- Medium Priority**      A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor VFM. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
- Low Priority**      Weaknesses that individually have no significant impact but where management would benefit from improved controls and / or have the opportunity to achieve greater effectiveness and / or efficiency.

In all cases, Internal Audit will follow up implementation of the recommendations by the agreed date.

