

# MALDON DISTRICT COUNCIL

## INTERNAL AUDIT REPORT - FINAL

CONTRACT MANAGEMENT  
JANUARY 2025

Design Opinion



Substantial

Design Effectiveness



Moderate



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BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

## REPORT STATUS

<b>Auditors:</b>	Aaron Winter - Partner Andrew Billingham - Manager Bismah Rahman - Auditor
<b>Dates work performed:</b>	9 October 2024 - 9 January 2025
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<b>Final report issued:</b>	28 January 2025

# EXECUTIVE SUMMARY

Design Opinion	 Substantial	Design Effectiveness	 Moderate
Recommendations	 0	 1	 1

## SCOPE

### BACKGROUND

- ▶ The achievement of many aspects of the Council's purpose and vision relies on effective contract management, alongside the management of relationships with key partners. All Local Authorities are required to demonstrate sound financial administration which supports protection of the public purse.
- ▶ As well as financial benefits, good contract management can also strengthen working relationships with key providers, bring improvements in the quantity and/or quality of services, help avoid service failure and encourage better management of risk.
- ▶ Sound contract management practices enable the Council to obtain ongoing assurance that contracts continue to meet their aims and support Council objectives, attain value for money, and any timely information on potential contract issues is captured to facilitate early resolution.
- ▶ The Council maintains contract registers (£5,000-£50,000; and £50,000+, highest value contract is for Waste and Recycling Services, value of £50 million) that are published on its website and updated quarterly by the Council's Lead Specialist for Procurement using information provided by the departments. The registers outline the following key information for each contract:
  - Reference
  - Responsible Officer
  - Title
  - Contractor name
  - Small and medium-sized enterprise (SME - yes or no)
  - Start and end date
  - Value (£)
- ▶ The Council has a procurement and contract management procedural framework in place. These are being developed further to ensure that the Council is ready to implement the Procurement Act 2023 (required from February 2025).
- ▶ Currently, the Contract Manager is responsible for all aspects of the execution and performance of the contract, proactively managing the Council's interests in relation to the contract and acting as a pivotal interface for communications and transactions with associated parties at all levels.

### PURPOSE

The purpose of this audit was to consider the adequacy and effectiveness of arrangements for contract management, assessing whether arrangements

are robust and transparent and that effective relationships are maintained with key partners.

#### AREAS REVIEWED

- ▶ We reviewed the Council's contract management policies and procedures, and training provision, to ensure sufficient guidance on contract management requirements is provided, including clarity in relation to roles and responsibilities.
- ▶ We reviewed the processes in place to ensure that the contracts register is kept up to date, accurate and complete.
- ▶ We reviewed a sample of high and low value contracts from the register to confirm whether these were signed (by both parties) and currently in date.
- ▶ We reviewed a sample of contracts to assess whether performance is subject to effective scrutiny and oversight.
- ▶ We reviewed the Council's contract extensions processes to confirm these are sufficiently robust.



#### AREAS OF STRENGTH

During our review, we identified the following areas of good practice:

- ▶ We found that the Contract Procedure Rules and Contract Management Procedure were clear, comprehensive and up to date at the time of review, covering key requirements pertaining to contract management:
  - Contract management principles and definitions
  - Roles and responsibilities
  - Key Performance Indicators (KPIs)
  - Contract monitoring and meeting arrangements
  - Risk management requirements
  - Contract amendments / variations procedure
  - Procedure for renewals / extensions
- ▶ We reviewed templates to be used following the implementation of the new Procurement Act 2023. These will be rolled out in briefings and clearly covered key areas being impacted by the new legislation:
  - Contract management meeting agenda
  - Contract management meeting minutes
  - KPI management
  - Change Control Log (decisions log regarding contract variation approvals)
  - Contract outcomes record sheet (evaluation to be used when considering a contract renewal or extension)
  - Risk register
- ▶ Training/Q&A sessions were rolled out for the Asset Team (as the team with the largest number of contracts requiring monitoring). These sessions, held throughout 2022, covered areas such as the quotations and tendering process, frameworks, and contract management.
- ▶ We confirmed, to ensure that the contracts register is kept up to date, the Lead Specialist for Procurement adds new contracts to the register as soon as these are signed. A Caseworker updates the contracts register on the Council's website quarterly (the Officer has reminders set to do so). Contract review dates within the register are set ahead of contract expiry dates, to allow for contingency. For contracts below EU/UK thresholds, review dates are set six months ahead of expiry;

contracts over the threshold have review dates of one year ahead of the contract end date. We confirmed these arrangements in practice for the five contracts reviewed as part of our sample testing.

- ▶ Regarding completeness and ensuring that the register includes all current contracts, all contracts valued over £5,000 must be assigned a reference (PS) number at initiation by the Lead Specialist for Procurement; a purchase order (PO) cannot be raised without the PS number. A PO for a contract worth over £5,000 must provide the PS number and evidence (PS reference, three quotes, and authorisation) of compliance with the correct procedure, which must be confirmed by the Lead Specialist, prior to the PO being raised. These measures ensure that the Lead Specialist for Procurement has sight of all contracts and can update the contracts register accordingly.
- ▶ We reviewed a sample of three high (PS/2022/095, PS/2024/011, and PS/2023/064) and two low (PS/2023/004 and PS/2023/046) value contracts from the register and confirmed these were signed and in date.
- ▶ For the same sample, we confirmed that:
  - There were defined contract ownership, roles, and responsibilities
  - Penalties and break clauses were referenced within contracts as required
- ▶ We reviewed the Council’s contract extension processes and confirmed these are sufficiently robust, with detailed guidance provided in the Contract Procedure Rules, Contract Management Procedure, and the Procurement Toolkit. We confirmed that, where applicable for our sample of contracts, the correct extension processes were followed (with appropriate delegated approval obtained, and value for money processes followed):
  - High value: PS/2022/095 and PS/2023/064
  - Low value: PS/2023/046

## AREAS OF CONCERN

- ▶ As already identified by the Council, regular training is not provided to contract managers (although we note that the training provision is being revised to reflect requirements per the Procurement Act 2023). Furthermore, there is a 56% completion rate across the Council for the mandatory Procurement e-learning. **(Finding 1 - Medium)**
- ▶ We identified administrative areas for improvement in relation to the management and monitoring arrangements for four of the five contracts within our sample. **(Finding 2 - Low)**

## CONCLUSION

Overall, we have concluded Substantial assurance over the design and Moderate assurance over the operational effectiveness of the Council’s governance, risk management, and control arrangements in relation to contract management.

### Control Design


- ▶ The control design is Substantial because there is a sound system of internal controls, including policies, procedures and oversight arrangements to help ensure contracts are managed and monitored

effectively, and these continue to be improved and consolidated in light of the Procurement Act 2023.

#### Control Effectiveness

- ▶ The control effectiveness is Moderate because, for the sample of five contracts reviewed (three high and two low value), we identified instances where the controls and processes in place are not being consistently applied.
- ▶ The control environment could be further enhanced by ensuring that training is completed by staff as required, and the administration of contracts is updated so that the contract is in line with the monitoring arrangements required in practice.
- ▶ We have therefore raised one Medium and one Low priority finding to strengthen the effectiveness of controls.

# DETAILED FINDINGS

1 Training Provision	
TOR Risk:	Roles and responsibilities, including contractor relationship management, are not defined or are inadequate and/or ineffective, resulting in lack of clarity for key staff.
Significance	 Medium



## FINDING

Training helps to ensure that key staff are aware of requirements and expectations, and their corresponding roles and responsibilities, regarding contract management.

### Training for Contract Managers

Ad hoc training is provided to contract managers. Most recently, two training sessions were held in June 2024 by an external training provider, which covered the basics of contract and relationship management, including:

- Procurement Act 2023 requirements
- Contract record keeping
- Running a contract review meeting
- Performance warning signs
- Signposting further resources.

As there was a limit of 15 attendees per session, the training could not be provided to all contract managers and was only offered to those managing high value contracts. We found that of the Council's 38 contract managers (as at December 2024), 16 attended a training session.

### Council-wide Procurement e-learning

As part of a suite of mandatory training, the Council has a dedicated Procurement e-learning module, which briefly covers contract management. Staff are required to undertake the training upon joining the Council and annually thereafter. For 2024/25, the training was rolled out on 9 August 2024 and was required to be completed by all staff within six weeks. As of November 2024 (data reported in Balance Scorecard in December 2024), the compliance rate across the Council was 56% (Extended Leadership Team meeting minutes reviewed for October, November and December 2024 indicate that specific discussions/monitoring around non-completion of this training were not recorded; while there is a general comment that target completion is not met, remedial actions are not identified).

We found that eight of the Council's 38 contract managers (as of December 2024) had not completed the Procurement e-learning too.

Without sufficient training, there is a risk that staff may not fully understand obligations, and implications of these, which could lead to failures to enforce critical provisions as well as errors, in light of the new Procurement Act requirements particularly.



**RECOMMENDATION**

1.1. As already planned by the Lead Specialist for Procurement as part of readiness for the Procurement Act, the Council should roll out training to all contract managers (if feedback indicated that the June 2024 training sessions were helpful, the Council may wish to rework and reuse these sessions in light of the Procurement Act).

1.2. Where staff and Members have not completed the mandatory Procurement e-learning, the Council should investigate reasons for non-completion (including any possible barriers to completion) and implement remedial actions as required (for example, explore whether training can be delivered in another format).

1.3. To assess understanding, compliance with expectations in practice and provide an opportunity for sharing lessons learnt, a quality assurance process should be established. Spot checks should be undertaken regularly for high value contracts (ie worth £5 million and above per the Procurement Act 2023). The Council should consider how it will test a sample of contracts, responsibilities for this and for following up with contract managers and providing opportunities to share learning wider (for example through one-to-ones, internal communications, team meetings, or training).

**MANAGEMENT RESPONSE**

1.1 Procurement Act Briefings are currently taking place including the importance of contract management. As Contract Management is now required within the Act it is being highlighted in the briefings. The contract management training sessions are being updated and further meetings with contract managers will be put in place, once the first round of briefings are complete. These sessions will then concentrate solely on contract management. Guidance for using the templates will also be provided.

1.2 Assistant Directors are responsible for ensuring all of their staff complete mandatory E Learning courses and the CEO and Deputy CEO are responsible for ensuring this is completed. Monthly reports are provided to AD's to highlight by staff name non completions and they are reminded to ensure staff these are completed within the 3 month time span allowed.

1.3 Lead Specialist Procurement will meet with Assistant Directors/Heads of Service to agree responsibilities and put in place a quality assurance process against samples of contracts taken from the contracts register. By end March 2026 it is hoped we will have a good working quality assurance process, with testing of contracts & reporting on findings with any actions coming out of the testing worked through with the contract manager.

Further Contract Management training sessions are to take place over the next year.

**Responsible Officer:**


Debbie White Lead Specialist for Procurement for 1.1 and 1.3. The action on point 1.2 is completed

**Implementation Date:**

31.3.26



## 2 Contract Monitoring and Management Administration

TOR Risk:	Contract performance is not subject to effective scrutiny and oversight by management and those charged with governance, resulting in delivery under-performance and failure to obtain value from contracts.
Significance	 Low

### FINDING

Contract monitoring meetings help to ensure that both parties are fulfilling their obligations and allow for performance tracking (including against agreed KPIs and using risk registers), early identification of issues, improved communication and accountability.

We reviewed a sample of three high value (PS/2022/095, PS/2024/011, and PS/2023/064) and two low value (PS/2023/004 and PS/2023/046) contracts from the register and identified the following:

#### Contract PS/2024/011 (high value, £247,613.75)

- IDOX - Uniform Application Suite (license granting access to the software solution's various modules; established track record of providing software solutions to the public sector)
- Owing to the nature of the contract (license), monitoring meetings are not required. Any performance issues ie downtime (it is not necessary to monitor any other KPIs) would be flagged as required
- Council policies and procedures should reflect exceptions such as licenses, where standard contract management and monitoring processes would not apply.

#### Contract PS/2022/095 (high value, £190,000)

- Consultancy - licensing and hackney carriage: This agreement covers an outsourced licensing arrangement provided by Chelmsford City Council (CCC) to Maldon District Council via a service level agreement (SLA), and liaison with the licensing provider (including fortnightly meetings and monthly monitoring of performance against Service Standards by the Head of Service) is treated as part of BAU operations (therefore, actions are not separately tracked).
- As above, policies and procedures should reflect exceptions such as licenses, where standard contract management and monitoring processes would not apply.

#### Contract PS/2023/064 (high value, £2,472,000)

- B G Appleton - Street Cleansing & Green Waste Processing contract
- Per the contract, meetings should be held quarterly, however this requirement was not consistently met at the time of review (December 2024). The last three meetings were held in January, May, and October 2024 (a meeting was planned for July and subsequently cancelled; although the contract manager noted that, informally, daily contact was maintained with the contractor).
- All agreed KPIs per the contract were not being reported on. Garden waste tonnages were provided on a monthly basis, and fly-tips were reported on a quarterly basis (per ELT Balance Scorecard and a report from Waste Data Flow(WDF), which is a government report that all local authorities must complete).
- It is noted that these KPIs were agreed in 2012, and these arrangements require review.

#### Contract PS/2023/004 (low value, £48,500)

- Contract monitoring meetings and KPIs are not required for low value contracts (worth less than £50,000), unless these have been stipulated within the contract.
- For contract PS/2023/004 in relation to Elections Printing/Canvass (Civica UK Ltd), the contract states that progress meetings should be held quarterly, and progress reports should be provided monthly. However, these measures are not deemed necessary in practice, as performance has consistently been strong, therefore the contract requires amending to reflect this.

Failing to identify, agree, and track KPIs, milestones and deliverables could result in unmet expectations or contractual breaches, and operational or financial loss for the Council.



## RECOMMENDATION

2.1. To ensure clarity of roles and responsibilities, the Council's contract management policies and procedures should reflect exceptions such as licenses, where standard contract management and monitoring processes may not apply.

2.2. Regarding PS/2023/064, while the contract has been performing in line with expectations, meetings should be held quarterly (given that this has already been reduced from the default of monthly meetings, as is usually required for high value contracts, unless CFO sign off has been obtained to permit otherwise). KPIs and monitoring arrangements were agreed in 2012, and the Council should revisit the contract to ensure that it reflects the most up to date arrangements.

2.3. For contract PS/2023/004 in relation to Elections Printing/Canvass (Civica UK Ltd), the contract states that progress meetings should be held quarterly, and progress reports should be provided monthly. However, these measures are not deemed necessary in practice, as performance has consistently been strong, therefore the contract should be amended to reflect this.



## MANAGEMENT RESPONSE

2.1. The new Contract Procedure Rules went to Performance Governance and Audit Committee on January 16<sup>th</sup> for approval. The exceptions were verbally noted to members at the meeting, following committee approval the Contract Procedure Rules were updated for Full Council on February 13<sup>th</sup>. The Contract Management policies, procedures have also been updated in line with the amendment.

2.2. A review of the KPIs and monitoring arrangements of the contract is now underway, once agreed following approval from the Assistant Director the CFO will sign off the new arrangements. The contract will then be updated to reflect the changes.

2.3. The contract is due to end February 2025, however there is an option to extend for a further 2 years in the current contract which was approved in October 24. The contract is being updated to reflect the approved % rise due to material costs and RPI and will include the suggested changes to the monitoring arrangements.

**Responsible Officer:**

Debbie White Lead Specialist for Procurement

**Implementation Date:**

July 2025

## APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

### RECOMMENDATION SIGNIFICANCE

<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	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 value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas 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.

## APPENDIX II - TERMS OF REFERENCE



### KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the potential key risks associated with the area under review are:

1. Roles and responsibilities, including contractor relationship management, are not defined or are inadequate and/or ineffective, resulting in lack of clarity for key staff
2. The contracts register is incomplete or out of date, with the result that management is not aware of all the contracts held within the Council and the value of these, and therefore lacks the data to inform its procurement pipeline (ahead of contract expiry dates, for example) and wider operations
3. Signed contracts with the Council's suppliers are not in place, therefore there is no assurance that the terms and conditions of the contract are acceptable to both parties or enforceable where required
4. Contract performance is not subject to effective scrutiny and oversight by management and those charged with governance, resulting in delivery under-performance and failure to obtain value from contracts
5. Contracts may be extended without assessing that they continue to deliver value for money, resulting in potential financial loss due to the inability to negotiate or market test for better terms.



### SCOPE & APPROACH

The following areas will be covered as part of this review:

- ▶ We will review the Council's contract management policies and procedures, and training provision, to ensure sufficient guidance on contract management requirements is provided. (Risk 1)
- ▶ We will review the processes in place to ensure that the contracts register is kept up to date, accurate and complete. We will confirm that the register identifies all current contracts, their value, the original contract period (including expiry date) and any extensions, assigned responsibility, key performance indicators (KPIs), and any approved variations to the contract (amongst any other key information as required). (Risk 2)
- ▶ We will review a sample of contracts from the register and confirm these are signed (by both parties) and currently in date. (Risk 3)
- ▶ We will review the efficacy of the Council's contract management and monitoring arrangements by confirming whether the following measures are in place for a sample of high and low value contracts across different departments (Risk 4):
  - Defined contract ownership, roles, and responsibilities - including contractor relationship management
  - Regular contract management meetings are being held. We will review meeting minutes and ensure actions arising from the meetings have been recorded, followed up, escalated where necessary, and signed off once completed
  - The agreed KPIs are reported as per contract terms. Where the provider is under-performing, we will review the escalation processes and resulting actions to manage performance

- We will confirm penalties are included within the contract, where appropriate, to penalise the provider for ongoing poor performance
  - We will confirm that break clauses have been referenced within contracts
  - Risk registers are maintained and regularly updated (which include measures, such as business continuity arrangements and insurance, to manage risks in relation to supplier resilience)
  - There is sufficient reporting to, and oversight by, the Project Board (for contracts worth over £5,000)
- ▶ We will confirm that contract renewal processes are sufficiently robust, with proactive negotiations with providers. We will review a sample of contracts that have been extended to assess whether appropriate processes were in place (including evidence of delegated approval) to ensure that the contracts continue to offer value for money before the extension was awarded. (Risk 5)

The scope of the review is limited to the areas documented under the scope and approach. All other areas are considered outside of the scope of this review. However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit.

We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

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FOR MORE INFORMATION:

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The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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