

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	11 May 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2307 – Contract Management
REPORT NUMBER	IA/AC2307
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Contract Management

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of Contract Management.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2307 – Contract Management

12. REPORT AUTHOR CONTACT DETAILS

Name	Jamie Dale
Title	Chief Internal Auditor
Email Address	Jamie.Dale@aberdeenshire.gov.uk
Tel	(01467) 530 988



Internal Audit

Assurance Review of Contract Management

Status: Final

Date: 21 April 2023

Risk Level: Corporate

Report No: AC2307

Assurance Year: 2022-23

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

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Director	Gale Beattie, Director of Commissioning
Process Owner	Craig Innes, Head of Commercial & Procurement
Stakeholder	Melanie Mackenzie, Strategic Commercial Manager
	Neil Stephenson, Strategic Procurement Manager
	Steve Whyte, Director of Resources*
	Andy MacDonald, Director of Customer*
	Eleanor Sheppard, Interim Director – Children’s and Family Services*
	Sandra MacLeod, Chief Officer (Aberdeen City Health & Social Care Partnership)*
Final only	External Audit
Lead auditor	Phil Smith, Auditor

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1 Introduction

1.1 Area subject to review

The Council's Vision in its 2022-23 Delivery Plan is for Aberdeen to be 'a place where all people can prosper'. Its focus is on Aberdeen as a Place, its Economy and its People, and key policy statements with milestones have been established in the Local Outcome Improvement Plan which seek to deliver the Council vision. The outcomes involved are delivered through commissioning of both internal and external resources both of which are supported by external contracts for goods, supplies, works and services which contribute towards the Council's intended outcomes. In order to fulfil and maximise those outcomes, contracts must continually meet the Council's needs and standards, and deliver Best Value. Ensuring this, requires effective contract management.

The foundation for contract management is laid in service planning, commissioning, and procurement. The right solutions for the necessary goods, works and services, combined with sound contract management processes, better place the Council to ensure it realises its objectives. Clear, well-considered contract specifications, terms and conditions facilitate service delivery, and robust performance measures, established in the procurement phase, help Clusters discern the ongoing adequacy and success of contracts over their operational period.

Effective contract management has significant benefits but requires a corporate and strategic approach which is rooted in the contract tendering phase. A robust governance and procedural framework which involves good record keeping and monitoring against contractual obligations is essential and must be underpinned by good contractor relationships through which contracts can be proactively managed to meet Council needs and maximise value. The Council's Procurement Regulations provide the Framework for Contract Management. Tendering guidance is provided in the Procurement Manual, the contract management section of which is currently being refreshed. The Introduction to Contract & Supplier Management course must be completed before an officer is granted Delegated Procurement Authority (DPA), and where DPA level 3 or above is required, staff undergo Advanced Contract & Supplier Management training.

Rationale for the review

The objective of this audit is to obtain assurance that adequate contract management arrangements are in place to ensure that costs incurred are appropriate, and associated benefits are realised.

An audit of Procurement Compliance (AC2019) was undertaken in 2020 which identified a number of areas such as total contract spend monitoring, contract register update and clarity of the contract specification which impact on the management of contracts.

The Council requires assurance that what is required from each contract is clear, and that its requirements are being delivered as planned, throughout the contract term. If a contract is not fit for purpose, or where contractual obligations are not fulfilled in terms of quality, delivery, and timing, it will be more difficult for the Council to maintain high quality services.

Equally, should the Council's requirements change during the life of a contract, robust change management processes and records need to be in place to ensure and demonstrate compliance with procurement law, internal approvals and controls, and continued delivery of Best Value.

Contract cost and performance monitoring are essential to ensure approvals and authorisations are not exceeded, and contract terms are consistently met. In their absence costs could rise beyond agreed variances, quality requirements and standards may not be met, and obligations such as community benefits may not be fulfilled, and there is an increased risk of fraud.

Monitoring data needs to be supplemented with contextual information. Sound relationship management is important to maintain quality and maximise value, and to mitigate reputational and service delivery risks for the Council.

1.2 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later

sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Corporate	This issue/ risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to Contract Management.

Contract Management across the Council is overseen centrally by Commercial & Procurement Shared Services (CPSS). Delegated responsibility for individual contracts is assigned across Clusters. This second line vs first line approach is consistent with other Councils and also other aspects of operations such as Finance or Risk Management. The Council's procurement and financial systems and procedures, and policies in place such as the Employee Code of Conduct and the Whistleblowing Policy & Procedure, provide assurance over the standards set for internal control in these areas.

The Council needs to maximise value and benefits through its contracts and ensure supply chain efficiencies and other improvements are being made. Recommissioning and Budget Savings are required from across Functions in order to balance the Council's 2023/24 Revenue Budget. Ongoing delivery of savings and efficiencies will require appropriate contract management.

A variety of types of contracts are used by the Council, which derive from adopted frameworks (internal and external), call offs from these, direct awards, and individual tenders. Some are corporate contracts such as Print & Bulk Mailing or the Data Centre and Cloud Services contracts; others like Frozen Food, Catering and Janitorial Supplies are used mostly by one or two Clusters or parts thereof; and some contracts like those for supply of Vehicle Parts or for Older People's Support Services are unique to a specific section of the Council.

Contracts vary significantly in value and are managed to varying degrees by contract managers at a Cluster level, by CPSS and by framework providers such as Scotland Excel. A dedicated team within CPSS manages almost 150 Social Care contracts with a total value of £606m, £125m of which relates to the 2022/23 financial year, the Social Care team also manage 4 Scotland Excel Frameworks with a total value of £84M, £21M of which relates to the 2022/23 financial year.

Other Services within the Council call off from an additional 47 Scotland Excel frameworks with a total spend of £10m in 2022/23, there are also a number of frameworks in use hosted by other framework providers for example Scottish Government or Crown Commercial Services. These, and other strategic cross-service contracts such as Managed Print, are managed with full support from CPSS because of their complexity and inherent risk.

The remaining contracts 451 (including all contracts for Capital projects) with an annual value of £462m are devolved to varying degrees to procuring Functions. CPSS has developed a Contract Management Framework to support the administration of procurement, record keeping and performance monitoring, which provides for a consistent and transparent approach to social care contract management. Although there are too many variables to establish a one-size-fits-all procedure for where contract

management is more devolved, CPSS intends to issue refreshed guidance in 2023 that includes resources that have the potential to improve consistency and transparency. This should increase assurance regarding compliance and the effectiveness of contract management regardless of the level of support CPSS provides. The framework adoption report has recently been updated to include a section on contract management and a revised version added to the Procurement Manual. This is intended to ensure that roles & responsibilities for Contract Management are considered at the adoption stage of any framework agreement.

This review looked at a series of contracts across different Functions and although many findings relate to where management are largely responsible for elements of contract management, the findings and recommendations have been focused on Contract Management in general so as to provide the greatest level of assurance and benefit on the whole.

Recommendations have been made across six key areas:

- **Training and Guidance** – Whilst positive, planned updates to guidance remain complex and theoretical. More concise notes on practical application would assist in providing assurance that practice is meeting relevant requirements.
- **Consistency of Practice** – There is some variation in practice due to the extent certain categories of spend and key strategic contracts are devolved or managed centrally, and differences in the way contracts are grouped / categorised, and how much they are aligned with functional service delivery.
- **Best practice and Sharing the Learning** – Devolved procurement could lead to reduced opportunities to learn, determine, apply, and share best practice. Improved routes to sharing knowledge and providing assurance over procurement and application of contract management practice have been explored through workshops involving contract managers which could have financial and operational benefits for the Council if progress is made.
- **Ownership of Contracts and Escalation** – The Council utilises many contracts across different Clusters / services to varying degrees. Internal Audit analysis has highlighted that it can be unclear whether the allocation of contract management responsibility is assigned to the most appropriate contract managers across the Council.
- **Contract Management Records** – New guidance includes a series of templates, but their use and applicability has still to be determined. The contracts register system is not always well used to record contract management ownership and evidence. Improved clarity over requirements, and identification of appropriate lead officers, will increase assurance over actions.
- **Assurance Reporting** – Due to variation in practice and recording, there is a lack of assurance that risk-proportionate performance monitoring is in place across the board. Improvements are required to provide assurance over delivery of value, benefits, and outcomes.

Where contract management responsibility and basic contract management principles and procedure are unclear or not applied, risks to service quality, sustainability and the Council's reputation are increased.

2.3 Severe or major issues / risks

No severe or major issues or risks were identified as part of this review.

2.4 Management response

The audit is welcome reassurance that the Contract Management Framework established for Social Care (where the Social Care and Commissioning team within Commercial & Procurement provide full support for all contracts) is working well, contracts are managed appropriately depending on risk and all records relating to Contract Management are held appropriately.

For all other contracts where the model ranges from fully supported to devolved, the audit report has provided reassurance that in the main the Contract Management Framework is adhered to by Delegated Procurers. However, as the Council is reliant on application of the guidance, processes and procedures within the Procurement Manual across a large number of officers across all services the audit has identified some areas for improvement to ensure consistency.

Actions have been identified over 6 key areas to improve the current guidance, processes and procedures to improve consistency of application.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Training and Guidance – Comprehensive training and written procedures are vital to ensure that contract managers throughout the organisation are aware of their responsibilities and understand the process that needs to be followed to maximise the value and benefits the Council receives from its contractual arrangements.</p> <p>Two specific contract management training modules (introductory and advanced courses) are included in the Council's Delegated Procurement Authority (DPA) training. Staff seeking any level of DPA must complete the introductory course. The advanced course only needs to be completed by those with responsibility for contract management. The modules provide a comprehensive overview of the necessity, purpose, approach to, and benefits of contract management, and completion rates are high. However, the Procurement Manual on the Council's intranet has not been updated to reflect changes included in current DPA training modules, and web-links in the contract management section no longer work.</p> <p>CPSS has drafted refreshed contract management guidance for Functions managing devolved contracts. As well as the key elements of contract monitoring, it advises what the contract manager's approach should be towards contract changes, extensions, end of life options, and contract exit arrangements. The guidance incorporates a 'toolkit' that includes documents to enhance planning, consistency and compliance with good practice, to make contract management more transparent and allow CPSS to more easily determine the success of contract and supplier management. The guidance is extensive and covers substantial elements of contract management theory as well as practice. It includes a number of documents to aid contract management, but the risk of overwhelming contract managers should be considered in its rollout.</p>		
IA Recommended Mitigating Actions			
Management should consider whether initially a more baseline contract management framework guide would be a better foundation upon which consistent contract management practice could be developed.			
Management Actions to Address Issues/Risks			
<p><i>a) The Commercial & Procurement team recognise that the proposed contract management guidance and training is comprehensive but given the scale, nature and risk of the Council's contracting activity it needs to be comprehensive.</i></p> <p><i>The refreshed guidance will be reviewed to see where more practical guidance can be provided in application, including use of visual aids for example flow charts to assist in breaking down complex information to aid ease of understanding.</i></p> <p><i>b) The Commercial & Procurement team will ensure that the roll out of the new guidance and toolkit will be supported by a programme of virtual sessions for contract owners.</i></p>			
Risk Agreed		Person(s)	Due Date
Agreed		Strategic Commercial Manager	a) 30 June 2023 b) 30 September 2023

Ref	Description	Risk Rating	Moderate
1.2	<p>Consistency of Practice – There is some variation in practice due to the extent certain categories of spend and key strategic contracts are devolved or managed centrally, and differences in the way contracts are grouped / categorised, and how much they are aligned with functional service delivery.</p> <p>The Commissioning, Procurement and Contracts (CPC) Team (Social Care) has guidance in place for the 'fully supported' social care procurement model in the form of a Contract Management Framework. Depending on compliance, this improves the consistency and transparency of contract management and record keeping under this business category. The Framework requires each social care contract to be risk assessed. Risk is typically increased where the contract relates to service users with higher support needs. Financial risk, supplier sustainability and service quality are also factored into the risk assessment using a contract value threshold, credit-worthiness check, and Care Inspectorate ratings respectively. The elements, requirements and frequency of contract monitoring are detailed by care category. Monitoring approaches include desktop exercises to reflect on accumulated awareness and knowledge, the receipt and review of data returns from Providers, and monitoring meetings which foster supplier relationships. Establishment visits are reserved for where concerns are escalated or monitoring returns and review of data identifies a significant issue.</p> <p>Cross-service strategic contracts (for example Printing, Equipment, Stationery) and frameworks are often managed, to varying degrees, by CPSS on behalf of the Council. CPSS is dependent on Functions to ensure that these are being used effectively to maximise their value through purchasing practice at the operational level.</p> <p>Devolved contracts (managed by Functions) are diverse in their nature, and the level of their risk and impact varies. The resources contract managers have to apply the guidance is limited and contract management arrangements may have been 'inherited', or performance data and ancillary notes may be captured in a Cluster workflow system. Regardless of these variances, adequate records are needed for discussion with contract users and suppliers, and for recording any decisions and action taken. Gaps may result in the contract management account, unrecorded information may be lost when key individuals leave their post, and knowledge of contract and supplier performance could be incomplete.</p> <p>The guidance presents a range of options but is limited in terms of identifying which elements of practice are critical and what should happen in specific circumstances. For example: although the guidance includes a risk matrix, it does not define 'high risk' or 'high value' to aid in selection of relevant practice, and whilst indicative contract management activities are listed, there is no clarity over what is required and to what extent. There is therefore a risk of inappropriate variation.</p>		
IA Recommended Mitigating Actions			
Guidance should clearly set out the required elements of practice, and the circumstances in which options for variation should be applied.			
Management Actions to Address Issues/Risks			
<i>The Commercial & Procurement team will include a revised risk matrix within the refreshed guidance, including addition of a definition around high risk/high value. Required elements of practice around variation of contracts will be linked to the risk level and examples provided within the guidance where appropriate to provide a reference point for delegated procurers.</i>			
Risk Agreed	Person(s)	Due Date	
Agreed	Strategic Commercial Manager	30 June 2023	

Ref	Description	Risk Rating	Moderate
1.3	<p>Best Practice and Sharing the Learning – Where contracts are more strategic, cross-service, or multi-Council, the high level approach of category management by CPSS is vital. However, the categories do not always align with service / Function boundaries – due to the way in which they are grouped, and due to the number of participants in such contracts. The risk of disconnect between CPSS, services and contract managers is therefore increased, and information flow could be impacted. An approach that harnesses the benefits of both category management and partnership working at a corporate level needs to be explored. This would allow CPSS to play a more proactive role, confirming assurance over contract management as a routine as well as responding to performance issues it may be made aware of.</p> <p>CPSS recognises that a good communication strategy and a structure to disseminate good practice and obtain feedback on contract management compliance, performance, and matters arising, is required to facilitate Clusters in embedding good practice.</p> <p>Opportunity to share good practice and collectively consider significant matters more widely needs to be available to ensure awareness of contract management maximises the value of contracts for the Council and opportunities to improve current and future contracts through the commissioning cycle.</p> <p>Where procurement is devolved, staff often have fewer opportunities to apply the procurement process. Where familiarity is reduced, compliance with due process and procurement efficiency could be impacted. Non-compliance could impact the quality of the foundation laid for contract management. Staff need a resource whereby clarification on due process and confirmation of their actions can be confirmed where uncertainty arises. CPSS itself has limited resources to meet this need, but also requires assurance over compliance. Although enquiries can be posted to procurement query email addresses, services may not be aware of these or unsure if these addresses are the correct place to direct queries.</p> <p>These matters were raised at workshops held as part of a Transformation Project for Procurement & Contract Management in 2019 and 2020, where responses to questionnaires were used to facilitate consideration of procurement, contract management, purchasing processes and the support received. Issues around support and communication, guidance and processes, and systems and record-keeping were identified. Staff were not clear on what evidence was required to demonstrate contract management. Discussion also identified that limited checks were being done to ensure all elements of contract specifications are delivered. The Covid-19 pandemic brought a shift in priorities across the Council and as the project was put on hold results of this exercise were not shared with CPSS and no further progress was made.</p>		
IA Recommended Mitigating Actions			
<p>Management should consider its approach to communicating good practice, sharing information that can increase contract manager experience and awareness, and providing assistance as and when required to develop the Council's procurement and contract management culture.</p> <p>Management should ensure that Clusters identify officers who monitor and provide assurance to CPSS and Management Teams regarding compliance with contract management guidance, and ensure this assurance is provided.</p>			
Management Actions to Address Issues/Risks			
<p><i>a) The Commercial & Procurement team are working on a communication programme with a series of Procurement Blogs/News Articles planned across a number of subjects, as part of each Communication issued a section will be included around how to ask questions with key contact information details.</i></p>			

Ref	Description	Risk Rating	Moderate
	<p><i>b) The Commercial & Procurement team will contact each service to ask them to nominate an officer or officers to monitor contract management across the service and provide C&PSS with assurance regarding compliance going forward. This will take place in the run up to the launch of the new contract management guidance so details of the officers can be shared in the roll out information.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Agreed	Strategic Commercial Manager	a) 30 June 2023 b) 30 September 2023

Ref	Description	Risk Rating	Moderate
1.4	<p>Ownership of Contracts and Escalation – The Council utilises many contracts across different services to varying degrees. Internal Audit analysis has highlighted that it can be unclear whether the allocation of contract management responsibility is assigned to the most appropriate contract managers across the Council:</p> <ul style="list-style-type: none"> • For the Council's Data Service Centre contract, although used by many Clusters, it is appropriate that responsibility lies with Digital & Technology, where the operational knowledge is. • The dedicated team in CPSS manages social care contracts. The expertise and oversight it has and the close relationship it forges with contract users (e.g. Care Managers) and care providers, increases transparency and significantly reduces contract related risk. • Where the Council's Printing and Mail Services contract is concerned, the majority of the expenditure is incurred by Education and Finance respectively, yet contract management responsibility is held by CPSS. <p>The contracts register system (BOrganised) includes a field for 'contract manager' which should reflect the lead officer assigned contract management responsibility. These records are regularly blank or indicate that CPSS Category Managers have contract management responsibility. Category Managers are not operationally involved and do not incur any of the expenditure involved. External contract managers are also referenced in some cases. Additionally, where contract managers have changed or left the Council's employment the system has not been updated to reflect this.</p> <p>Where there is a lack of clarity over contract management responsibility or where responsibility could be better allocated, contract management responsibilities may not be given due consideration. Where performance issues need to be addressed, it may be unclear as to who is responsible for doing this. Contract management success, supplier relationships and the ability to achieve supply chain efficiencies and contract improvements may be impacted. Financial and reputational risks are also increased where contract managers are not made aware of their responsibility.</p>		
	IA Recommended Mitigating Actions		
	<p>Management should establish a clear methodology for the allocation and recording of contract management responsibility and ensure this is used going forward. Any reallocation of current responsibility should be done with the minimum impact on contract management currently. An exercise should be conducted to ensure that BOrganised is up to date and kept as such.</p>		
	Management Actions to Address Issues/Risks		
	<p><i>a)The Commercial & Procurement team will conduct a one off exercise, a request will be issued to each Service to review the contract register for their area and advise of any changes</i></p>		

Ref	Description	Risk Rating	Moderate
	<p>to Contract Managers. Services will be advised that it is their responsibility to keep the register up to date with any changes thereafter (this will also be made explicit within the guidance).</p> <p>b) In addition the current delegated procurement authority request form will be amended to include a section for DPA's to select whether they are requesting delegated authority for Procurement or Contract Management or both. On an annual basis the DPA register will be checked with Service contract management contacts to validate accuracy.</p>		
	Risk Agreed	Person(s)	Due Date
	Agreed	Strategic Commercial Manager	31 December 2023

Ref	Description	Risk Rating	Moderate
1.5	<p>Contract Management Records – The Head of Commercial & Procurement needs to be able to demonstrate that the Council is maximising value, receiving intended benefits, achieving supply chain efficiencies, and making contract improvements. This requires contract managers to manage contract risk, costs, changes, and performance. Records should be kept to evidence that contracts are subject to risk appropriate contract management.</p> <p>The revised Contract Management guidance for devolved contracts covers matters such as business continuity, supplier relationship management and the need for continuous improvement. It also includes templates, logs and recording sheets. In addition, the approach towards supplier price increases and contract negotiations is covered and the contract manager's exit strategy can be recorded in a specific planning document that ensures that the need to reprocur, and risk around the end of a contract are duly considered.</p> <p>As indicated in section 1.1 above, the administrative demand the guidance places on contract managers could be difficult to sustain, and may be disproportionate depending on the risks of the contract involved. The degree to which record keeping should be applied, dependent on the contract type (e.g. adopted frameworks (internal and external), call offs, direct awards, and individual tenders); and by whom; is not clearly set out.</p> <p>Although BOrganised is a contract management solution, it is generally used only as a contract register to hold business cases, some tender documents, Committee and other approval documents, established contracts and amendments thereto. Storage of documents and record-keeping both within and outside of the system is currently inconsistent across different Clusters.</p> <p>CPSS needs to consciously assess the current arrangements in place and provide guidance so that the essential compliance and contract performance assurance documents are consistently in place for the Head of Commercial & Procurement.</p>		
	IA Recommended Mitigating Actions		
	Management should ensure there is clarity regarding the responsibility for and extent of record keeping required for different types of contracts and different levels of contract risk. Consideration should be given to whether a more automated process could be established for contract management and record keeping.		
	Management Actions to Address Issues/Risks		
	a)The revised contact management guidance will include clear guidelines around record keeping for different types of contracts/different levels of risk.		

Ref	Description	Risk Rating	Moderate
	<p><i>b)The Commercial & Procurement team have planned to conduct a review of the requirements for a contract management system as the current contract is due to expire 31 March 2024. A working group will be established within C&PSS with feedback sought from key users to inform the review/requirements for system, consideration will be given to how processes could be automated.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Agreed	Strategic Commercial Manager/Strategic Procurement Manager (Social Care)	a) 30 June 2023 b) 31 March 2024

Ref	Description	Risk Rating	Moderate
1.6	<p>Assurance Reporting and Supporting Evidence – To demonstrate that contract management is adequate in its effectiveness, performance monitoring and assurance reporting are essential.</p> <p>Council expectations may involve performance indicators, community benefits, intended outcomes, management information requirements and performance review meetings. They may not all be captured in the contract document but detailed in several different procurement documents. A single document that details expectations to which contract managers and suppliers can refer and use as an aide memoire would be beneficial. Where a mismatch of expectations does occur the success of contract management could be impacted and could detract from supplier relationships, making it more difficult to achieve supply chain efficiencies and contract improvements.</p> <p>When CPSS and Cluster management is aware of a shortfall in contract performance, issues can be addressed and CPSS can intervene where necessary so that performance improves and lessons are learned for existing and future contracts. However, present records do not facilitate consistent assurance reporting. Social care contracts and strategic contracts led by CPSS can be more easily monitored however a holistic approach which covers all contracts needs to be established. Where performance against key indicators is not tracked and the delivery of agreed community benefits is not monitored, ensuring contract management success may not be seen as a priority. Reporting needs to be based on robust data held in records that Management and CPSS can interrogate when necessary.</p> <p>Monitoring and performance reporting needs to be proportionate to the risk a contract presents in terms of the Council's finances, business continuity, legislative compliance, and other risks including the supplier's own sustainability and the achievement of the Council's strategic objectives. There is currently no risk rating for devolved contracts which identifies where the contracts and suppliers involved present a higher risk and should be monitored more regularly.</p>		
	IA Recommended Mitigating Actions		
	<p>Management should ensure that contract performance reporting is adequate and based on records that are consistent across contracts and held in a suitable shared location, to which CPSS has access.</p> <p>Management should ensure that key indicators and community benefits, management information requirements, supplier contacts, and review meeting schedules are clearly set out to ensure clarity over Council expectations.</p> <p>Consideration should be given to applying a system of risk rating to contracts for monitoring and management reporting purposes to ensure that high risk contracts are reviewed more</p>		

Ref	Description	Risk Rating	Moderate
	<p>frequently by Cluster Management and at a Strategic Management Level. This should look at areas such as performance indicators and receipt of community benefits.</p> <p>Management Actions to Address Issues/Risks</p> <p>a) <i>The Commercial & Procurement team will advise through the refreshed Contract Management guidance that delegated procurers/contract managers should save contract management reports in BOrganised, the BOrganised system allows for restriction by Service etc. so the level of confidentiality required around contract can be maintained.</i></p> <p>b) <i>The Commercial & Procurement team will update procurement document templates specifically the Contract Management section within tender documents to ensure that Council expectations are clearly set out, including details of what is required in terms of reporting against KPI's, Community Benefits etc.</i></p> <p>c) <i>The Commercial & Procurement team will include a revised risk matrix within the refreshed guidance, including addition of a definition around high risk/high value. Required elements of practice around variation of contracts will be linked to the risk level and examples provided within the guidance where appropriate to provide a reference point for delegated procurers.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Agreed	Strategic Commercial Manager	a) 31 December 2023 b) 30 June 2023 c) 30 June 2023

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

The Council's Vision in its 2022-23 Delivery Plan is for Aberdeen to be 'a place where all people can prosper'. Its focus is on Aberdeen as a Place, its Economy and its People, and key policy statements with milestones have been established in the Local Outcome Improvement Plan which seek to deliver the Council vision. The Services involved are delivered through commissioning of both internal and external resources both of which are supported by external contracts for goods, supplies, works and services which contribute towards the Council's intended outcomes. In order to fulfil and maximise those outcomes, contracts must continually meet the Council's needs and standards, and deliver Best Value. Ensuring this, requires effective contract management.

The foundation for contract management is laid in service planning, commissioning, and procurement. The right solutions for the necessary goods, works and services, combined with sound contract management processes, better place the Council to ensure it realises its objectives. Clear, well-considered contract specifications, terms and conditions facilitate service delivery, and robust performance measures, established in the procurement phase, help Clusters discern the ongoing adequacy and success of contracts over their operational period.

Effective contract management has significant benefits but requires a corporate and strategic approach which is rooted in the contract tendering phase. A robust governance and procedural framework which involves good record keeping and monitoring against contractual obligations is essential and must be underpinned by good contractor relationships through which contracts can be proactively managed to meet Council needs and maximise value. The Council's Procurement Regulations provide the Framework for Contract Management. Tendering guidance is provided in the Procurement Manual, the contract management section of which is currently being refreshed. The Introduction to Contract & Supplier Management course must be completed before an officer is granted Delegated Procurement Authority (DPA), and where DPA level 3 or above is required staff undergo Advanced Contract & Supplier Management training.

5.2 Rationale for review

The objective of this audit is to obtain assurance that adequate contract management arrangements are in place to ensure that costs incurred are appropriate, and associated benefits are realised.

An audit of Procurement Compliance (AC2019) was recently undertaken which identified a number of areas such as total contract spend monitoring, contract register update and clarity of the contract specification which impact on the management of contracts.

The Council requires assurance that what is required from each contract is clear, and that its requirements are being delivered as planned, throughout the contract term. If a contract is not fit for purpose, or where contractual obligations are not fulfilled in terms of quality, delivery, and timing, it will be more difficult for the Council to maintain high quality services.

Equally, should the Council's requirements change during the life of a contract, robust change management processes and records need to be in place to ensure and demonstrate compliance with procurement law, internal approvals and controls, and continued delivery of Best Value.

Contract cost and performance monitoring are essential to ensure approvals and authorisations are not exceeded, and contract terms are consistently met. In their absence costs could rise beyond agreed variances, quality requirements and standards may not be met, and obligations such as community benefits may not be fulfilled, and there is an increased risk of fraud.

Monitoring data needs to be supplemented with contextual information. Sound relationship management is important to maintain quality and maximise value, and to mitigate reputational and service delivery risks for the Council.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the Corporate level.
- Individual **net risk** ratings for findings.

Please see Appendix 1 – assurance Terms and Rating Scales for details of our risk level and net risk rating definitions.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Contract Tendering & Contract Management Guidance
- Contract Management Governance
- Contract Management Record Keeping
- Contract Management Performance Monitoring, Reporting & Action
- Contract Change, Extension, End of Life, Exit Arrangements

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, and guidance.

Due to flexible working, this review will be carried out primarily remotely.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 5.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Phil Smith (**audit lead**)
- Colin Harvey, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Council key contacts

The key contacts for this review across the Council are:

- Angela Scott, Chief Executive
- Gale Beattie, Director of Commissioning
- Craig Innes, Head of Commercial & Procurement (**process owner**)
- Melanie Mackenzie, Strategic Commercial Manager (**lead contact**)
- Neil Stephenson, Strategic Procurement Manager (**lead contact**)
- Steve Whyte, Director of Resources
- Andy MacDonald, Director of Customer
- Sandra MacLeod, Chief Officer (Aberdeen City Health & Social Care Partnership)

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	11-11-22
Scope agreed	07-12-22
Fieldwork commences	16-12-22
Fieldwork completed	27-01-23
Draft report issued	03-02-23
Process owner response	17-02-23
Director response	03-03-23
Final report issued	10-03-23