



**FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT**

REVIEW OF CONTRACT MANAGEMENT OF THE COUNCIL'S IT CONTRACTOR

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INTRODUCTION

1. This report sets out the results of our audit of contract management of the Council's IT contractor. The audit was carried out as part of the work specified in the 2018-19 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. We would like to thank all staff contacted during this review for their help and co-operation.
3. IT Contracts and Operations are responsible for the client management of the IT contracts placed with the Council's IT contractor. These contracts were originally tendered under a joint procurement on behalf of both Lewisham and Bromley Councils in 2010, and as a result awarded to 'Contractor A', with the contract commencing 1 April 2011 for an original five year term and an option to extend for two further periods of two years each. That contractor was subsequently bought out by 'Contractor B' and has performed the contract for both authorities. New contracts were placed with the Council's current IT contractor under a Framework Agreement held by Westminster City Council. The contracts commenced 1 April 2016 and cover Distributed Computing and the Data Centre.

AUDIT SCOPE

4. The original scope of the audit was outlined in the Terms of Reference issued on 21 March 2019.
5. The following were considered to be the key risks inherent to the contract management process for the Council's IT contractor:
 - Where a contract is not in place and signed by all parties there is a risk that, if disputes arise, they cannot be easily resolved. Furthermore, it may mean that the contract cannot be easily monitored to ensure that an appropriate service is being delivered.
 - Where a contract specification is not in place, there is an increased risk that planned work may not be carried out, or may not be completed to the required standard.
 - Where ordering, payment and reconciliation for works is not carried out effectively, there is a risk to the Council that work may not be carried out by the contractor but the Council is still paying for it.

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- Where performance is not monitored, there is a risk that the contractor may not carry out their duties in line with the contract. In turn this could lead to both reputational and financial loss.
- Where budgets are not monitored effectively, there is an increased risk that more money could be spent than is available. Where management are unaware of the performance of the contract there is a risk that the contract may be underperforming without the ability to take effective and timely mitigating actions.

AUDIT OPINION

6. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Substantial Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	0	3

SUMMARY OF FINDINGS

7. Controls noted to be in place and working well, based on the audit testing conducted, included:
- The Council has entered into call-off contracts under Westminster City Council Framework Agreements related to IT services. The framework agreements are dated 19 December 2013 and are for Distributed Computing (Lot 1) and Data Centre Legacy Systems (Lot 3). The Framework Agreements commenced 1 January 2014 and are for a four year term.

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The call-off contracts were formed by completion of the Framework Agreement Schedule 7 Order Forms for each of the two lots on 16 December 2015. The order forms identify both Lots as being effective from 16 December 2015 and services commencing 1 April 2016 (Lot 1 to expire on 20 December 2020 and Lot 3 to expire on 15 November 2020). Both order forms, for the call-off contracts under the Westminster City Council Framework, were signed for the Council by the Director of Corporate Services on 17 December 2015. The call-off contracts were executed under seal as required and the original documents retained by Legal Services.

- Both of the above call-off contracts have since been extended to 15 December 2023, which were completed by Change Control Notice, executed under seal and signed by the Director of Corporate Services. A report was prepared seeking approval for the transfer of the remaining IT services to the Council's current IT contractor as from November 2017 and for a minimum of six years, by way of a variation to the existing call-off contracts. This report was approved by the Executive on 9 August 2017 in accordance with the requirements of Contract Procedure Rules. It is noted that an e-mail conversation between the Director of Corporate Service and Legal Services commented that, while framework agreements are for a fixed term of up to four years, and cannot be extended beyond the end date, it is possible to call-off contracts under the framework agreement which do last beyond the framework.
- There is, for each Lot, a Framework Agreement (Schedule 5) which specifies the terms and conditions for the call-off contracts.
- A report was prepared for the Executive on 17 September 2015 by the Head of ISD. This report reviewed the history of the IT contracts and included consideration of five options for the future, which covered the option of the framework agreements for the Council's current IT contractor. It also included a financial comparison of using the frameworks over continuation of the contracts operated by the Council's IT contractor at that time, which identified a saving of £400k per annum (pa). The report recommended approval in principle to employ the frameworks, which was approved by the Executive. A further report was prepared for the Executive on 14 October 2015, providing an update and calculated the savings over the contracts operated by the Council's IT contractor at that time as being £476k pa. It recommended the use of the framework agreements with effect from 1 April 2016 and this was approved by the Executive.
- The desired outcomes for each call-off contract are stated in the Framework Agreement Schedule 15.2. There are 12 and 11 such service areas for each of Lots 1 and Lot 3 respectively. Each of these service areas includes a description of what the service is, desired outcomes and service provider requirements.
- The Contract Call-Off Order Forms include Appendix 1, which lists each Service Entity Description Name, the Service Entity Code, volumes at the contract effective date, anticipated volumes across the following 12 months, price based on current framework volumes, notice period for volume changes and minimum call-off period. The Contract Call-Off Order

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Forms specify the individual fee payable for each service entity to be provided under the contract and, using the volumes stated at the start date of the contract, an estimated cost for the contracts. These are as follows:

- Call-Off Contract Lot 1 estimated cost over five years for Distributed Computing £3.185M, Service Desk £1.538M; and Network Monitoring & Management £1.422M; and
- Call-Off Contract Lot 3 Data Centre estimated cost over five year £3.836M.
- Purchase Order (PO) 19040 was raised by the Council on 10 May 2018 for £2.385M, against which, all invoices raised in 2018/19 by the Council's IT contractor for Lots 1 and 3 are paid. PO 19625 was raised on 2 May 2019 for £2.414M against which all the Council's IT contractor invoices raised in 2019/20 for Lots 1 and 3 are paid. The POs are orders against which invoices are paid, as and when amounts are confirmed as received. It was confirmed the amount invoiced for May 2019 was in accordance with that agreed as received.
- The Council's IT contractor submits, in arrears, a monthly summary invoice which states the amount payable for the month. In addition, they submit a spreadsheet which encloses the volume data for each service and with the appropriate fee for each service. These figures are reviewed and verified by the Council against the raw data supplied e.g. Daily Volume and Back-ups, and the volume and performance reported monthly by the Council's IT contractor. Where agreed, the value of the invoice is goods received against the annual PO.
- Framework Agreement Schedule 2 sets out the reporting requirements for the service provider, which states that Service Reports shall be provided at least monthly, unless otherwise agreed. It was confirmed that the Council's IT contractor has produced and submitted to the Council presentations on performance for January, February, March and April 2019. Examination of these performance presentations confirm they review Key Performance Indicators (KPIs) for Lots 1, 3 and bespoke services, service volumes, risks and issues and service improvements. It is noted that, over the period selected, there is only one KPI where performance is poor. This is for Lot 3 with regard to P3 Incident Management, and it is only off target in January and April 2019, with an explanation noted.
- There is a Contract Monitoring and Performance Board (CMP) which is required to meet at least once a month. Minutes of these meetings were provided which had file names of 17 January 2019, 14 February 2019 and 23 April 2019. Examination of these minutes identified:
 - they consist of a series of actions, stating whether they are ongoing or closed, and record an update from each meeting; and
 - meetings are attended by both the Head of ISD and IT Contract & Operations Manager.

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- A 2019/20 original budget of £3.711M for the costs of the IT contracts has been allocated within the financial system on cost centre 400031 and against the following subjective codes:
 - 3005 (Contract Payments) Original Budget £1.594M (Revised Budget £1.679M).
 - 3664 (Core IT Contract) Original Budget £1.844M.
 - 3665 Main IT Contractor Original Budget £0.272M (Revised Budget £0.221M).
- The IT Contracts and Operations Manager has access to the financial system through which transactions and actual spend against budget can be viewed as and when required. Examination of the most recent financial statement identified the forecast year end outturn is in line with the revised budget.

8. We would like to bring to management attention the following issues:

- CMP meetings are required to be held between the Council and the service provider on a monthly basis, but it was noted there was no meeting in March 2019.
- Minutes are taken for each CMP meeting recording actions agreed, though it was identified there were none for the meeting of 14 February 2019. The meeting minutes for 24 April and 30 May 2019 do record updates to actions for 14 February 2019.
- CMP minutes were provided which were titled 14 February 2019, but which were those for 30 May 2019. CMP minutes were also provided which were titled 14 February 2019 but were in fact the minutes for 23 April 2019.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

9. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised, together with management's responses and timescales for implementation. Appendix B details the definition of the audit assurance and priority ratings.

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
1	<p><u>Contract Meetings</u> Contract Monitoring and Performance Board (CMP) meetings are required to be held between the Council and the service provider on a monthly basis, but it was noted there was no meeting in March 2019.</p>	<p>There is a risk that where issues arise, there are delays in taking remedial action.</p>	<p>In the event that regular physical meetings cannot be held (for CMP), arrangements should be put in place to allow for an alternative date, or a review by conference call, with an email confirmation of any actions agreed issued.</p> <p>Priority 3</p>	<p>There was one instance this year whereby it proved impossible to co-ordinate diaries for one month CMP Board – the invoice for that month was not paid until the CMP Board for that month was held with the following month's CMP Board.</p>	<p>IT Contract and Operations Manager</p> <p>Implemented</p>
2	<p><u>Meeting Minutes</u> Minutes are taken for each CMP meeting recording actions agreed, though it was identified there were none for the meeting of 14 February 2019. The meeting minutes for 24 April and 30 May 2019 do record updates to actions for 14 February 2019.</p>	<p>There is a risk that actual minutes of meetings may be misplaced and / or lost.</p>	<p>Minutes should be taken of each CMP meeting and circulated to all relevant officers.</p> <p>Priority 3</p>	<p>Every meeting is minuted with key discussion points and actions and then circulated. Recommendation noted and addressed with the attendees from both LB of Bromley & the Council's IT contractor.</p>	<p>IT Contract and Operations Manager</p> <p>Implemented</p>

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3	<p><u>Accuracy of Minutes</u> CMP minutes were provided, which were titled 14 February 2019, but which were those for 30 May 2019. CMP minutes were also provided, which were titled 14 February 2019 but were in fact the minutes for 23 April 2019.</p>	<p>There is a risk that disputes may arise over agreed actions, and delays in their implementation.</p>	<p>CMP minutes should be checked to confirm accuracy, including the dates of such meetings. Where errors are identified, these errors should be noted and corrected. Such checking should be a standard agenda item at the beginning of each meeting.</p> <p style="text-align: center;">Priority 3</p>	<p>Recommendation noted and addressed with all attendees of C&P board from both LB of Bromley & the Council's IT contractor.</p>	<p>IT Contract and Operations Manager Implemented</p>

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.