

REDACTED



FINAL INTERNAL AUDIT REPORT

PLACE DIRECTORATE

Review of Contract Monitoring of Environmental Services Contracts Audit 2021-22

Issued to: Director of Environment and Public Protection
Assistant Director of Performance Management and Business Support
Assistant Director, Environment
Assistant Director, Highways
Assistant Director, Traffic and Parking
Head of Finance ECS and Corporate

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Reviewed by: Director (Mazars LLP)

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INTRODUCTION

1. This report sets out the results of our internal audit (audit) of contract management arrangements for a sample of Environmental Services contracts.
2. The audit looked to review whether effective contract management arrangements were in place to ensure that:
 - The service was being delivered efficiently, effectively and in line with agreed service specifications;
 - Contractor staff had the necessary experience, qualifications and vetting to deliver services agreed;
 - Poor performance was identified and an effective course of action to address this was agreed and implemented;
 - Payments for the services provided were made accurately and in line with the terms of the contract; and,
 - Opportunities for increased value for money or service development were sought and realised.
3. We would like to thank all staff contacted during this review for their assistance and co-operation.

AUDIT SCOPE

4. The original scope of the audit was outlined in the terms of reference issued in October 2021.
5. The controls in place to mitigate the impact of the key risk areas were examined. Controls relating to corporate and departmental risks were also examined where applicable. The audit included a review of relevant documentation, interviews with key officers and testing of related procedures and processes.
6. The following were considered to be the key risks to the process:
 - Requirements on the contractor in terms of scope of work and quality standards are not clearly defined, communicated, or agreed, resulting in the contractor refuting/ not being bound to these.
 - Performance management and monitoring is not robust (e.g. no verification of performance reported by the supplier or disproportionate challenge), resulting in poor relationships with suppliers and untimely identification of delivery concerns.

- Ad hoc works or changes to the services provided are requested and implemented in an unstructured way, leading to services being requested that are not needed or a duplication of effort.
 - Payments are incorrect or are made for work not undertaken to a satisfactory standard or at all. Deductions are not made where applicable.
 - If non-compliance is identified and not addressed, this could lead to reputational and financial damage to the Council.
7. We reviewed any revised service delivery arrangements put in place within the past year as a result of Covid-19 and analysed the impact on other interrelated functions and services of any changes made. This included a consideration of any risk analysis and risk assessments to ensure that governance arrangements and the current and future business needs of the service are maintained. We have also considered whether any changes to controls may create an increased risk of fraud.

AUDIT OPINION

8. 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	1

SUMMARY OF FINDINGS

9. As agreed with the Council prior to the audit commencing, we reviewed the following contracts :

Contract	Contract Duration	Whole Life Value (£)	Annual Value (£)
CCTV- Monitoring	01/04/2019 -31/03/2024	£1,441k	£288,200
Bromley Market Assembly	01/01/2020 -31/12/2021	£154k	£77,000
Supply of Leased Cars	16/05/2019- 15/05/2023	£2,310k	£525,000
Central Depot Security	01/04/2020 - 31/03/2023	£317k	£98,281
Park Management and Grounds Maintenance	01/04/2019 - 03/03/2027	£37,591k	£4,698,854

10. Detailed below we have set out examples of controls noted to be in place and working effectively, based on the audit testing conducted. In addition, where we have identified issues, we have also highlighted these below:

• **CCTV Monitoring**

- This contract is for the provision of staff for the CCTV monitoring control room. There are a number of key performance indicators (KPIs), which are referred to as key sales objectives (KSOs) in monthly reports. As defined in the contract, these include having a full complement of appropriately trained security staff on duty, responding to law enforcement requests and data subject requests, reporting of faults, zero complaints received, performance reports being produced to the correct standard, operational reporting, financial performance and health and safety reporting. KPI reporting includes PAV (Performance Adjusted Value) criteria for where targets are not met. We confirmed that the KSOs are being actively monitored on a monthly basis, are appropriate and relevant to the nature of the contract.
- We confirmed through examination of relevant meeting minutes for all meetings taking place in 2020 and in 2021 (to September 2021) that monthly CCTV Monitoring contract meetings, attended by key stakeholders from both the Council and the contractor were in place.

- We confirmed that the monthly meetings included agenda items relevant to performance, such as previous minutes, Covid-19, Health and Safety, KPIs, Defaults, Contract financial management, customers and members, the contract risk register, training, and any other relevant matters for discussion. The monthly minutes included an action log to track issues raised, the due date for actions and comments.
- There were some variations to activities as a result of Covid-19 around the number of staff able to work in the control room as a result of social distancing. We confirmed that these variations were communicated in a clear and structured manner via the Covid-19 strategy for continued service of CCTV dated 29 March 2020.
- Sample testing of timesheets in 2020 and 2021 confirmed that reconciliations were performed between activity per timesheets and invoices, with variances between records being challenged by the Council. We also viewed evidence that budget monitoring was performed.
- There is a KSO in this contract which details that, 'All shifts to have a full complement of appropriately trained security staff on duty'. This is verified by a monthly audit, which we confirmed was included in the monthly in KPI reports.
- Discussion with the contract owner established that there had not been many performance related issues with the contract. It was further explained that if performance issues arise, there are PAVs in place to mitigate any potential financial impact. If escalation is required, this would initially be raised informally and then formally through monthly meetings. Review of contract meeting minutes for all meetings taking place in 2020 and in 2021 (to September 2021) confirmed that where performance matters were raised, mitigating actions had been agreed with the contractor and appropriately documented.
- Opportunities for service development were explored through the Privacy Impact Assessment work commissioned in August 2020 to examine how the Council could improve their CCTV monitoring system over future years and to identify where infrastructure requires upgrading.

- **Bromley Market Assembly**

- This contract relates to the set up and take-down of market stalls at Bromley Market. The arrangement with the provider has been in place for several years, initially as an informal arrangement. We were informed by the contract owner that since assuming management of the contract, he has sought to create a more formal arrangement with a short-term contract being put in place for one year from the beginning of 2020, which was subsequently extended by a year to 31 December 2021.
- The contract was due for re-tender in December 2021. The intended purpose of this tender process will be to determine whether the current arrangement continues to offer value for money, with the intention of awarding this as a contract in line with Bromley's contract management and monitoring principles. Our audit fieldwork concluded in November 2021, so we have not considered contract activities that followed this date as part of this audit.
- The contract is activity-based, in the respect that each week the Council specify how many stalls are required to be set up and whether any additional attendance is required. The provider is notified of the specification for the week and undertakes work as instructed. The Council is then subsequently invoiced by the provider and invoices are paid in arrears by the Council.
- Through sample testing of five Market sessions taking place between 9 September 2021 and 7 October 2021, we confirmed that invoices were reconciled to the Council's records for stalls that have been set up and taken down. There is a rate of £35 per stall, as specified in the contract. We were advised by the contract manager that any discrepancies were followed up to ensure that value for money is achieved. Our review of invoice checks completed from April 2020 to November 2021 confirmed that there was no discrepancy identified.
- The contract monitoring and management arrangements were informal. There are no weekly or monthly catch up meetings with minutes or an agenda. Communication around contract management or invoicing takes place through phone-calls or emails on an as-required basis. In addition, there are no KPIs for this contract – the performance element is to ensure that all stalls are set up per the requested arrangement (see issue 1 in detailed findings).
- There is a need to ensure that the contract arrangements are formalised and follow the Council's guidance in contract management, however it is equally important to put in place controls that are proportional to the value and nature of the contract.

- **Supply of Leased Cars**

- This contract is a framework agreement for the supply of leased cars. The framework is accessed by an online portal through which vehicles can be leased. Leases are between the Council and an individual leasing company, rather than with the framework provider. This arrangement is a call-off contract.
- The contract owner for this contract had produced a framework procedure manual, which details key information, around areas such as contract background, contract purpose, monitoring, governance, orders, renewal, and payments.
- We confirmed there was communication with individual leasing companies, but there were no formal meetings with providers. Some monitoring activities took place, such as monitoring of orders, inspection of vehicles upon delivery, servicing and return of vehicles.
- According to the framework procedure manual, there should be quarterly monitoring. We were provided with evidence of performance monitoring of Q1 and Q2 2021/22. We were informed by the contract owner that there were no KPIs for this contract. However, owing to the nature of this contract, this appeared to be appropriate. It was explained that issues with performance are escalated to individual leasing companies and subsequently to the framework provider, where necessary, with issues raised informally by phone or email. We were provided with an email example.
- Value for money was achieved through this arrangement due to the high volume of public sector purchasing through the framework resulting in manufacturer discounts on vehicles and the simplification of leasing activities requiring fewer resources to manage the process.
- Per Framework procedures manual, the lease vehicles are supplied on the basis of an annual payment-in-advance. An I-Proc order is raised for each vehicle to cover the whole lease term. The annual invoice is received by the Fleet Co-ordinator and checked against the order, receipted on I-Proc and passed for payment. We confirmed that a copy is kept for record purposes. If a contract is ended early (typically 36-month contracts) there is a penalty and the remainder of the amount paid is credited to LBB, which we confirmed to have been done for one contract selected for walkthrough.
- In terms of payments, these are administered by HR/Payroll. A 'company vehicle' is a P11D benefit in kind, therefore needs to be processed as such. We have viewed evidence of payroll checks being performed over lease costs passed onto the employee.

- **Central Depot Security**

- Central Depot is the main base for the Council's front-line services such as waste/recycling collection, waste disposal, street cleansing, passenger transport and highways winter service.
- For this contract, the Transport Operations Manager had produced a contract procedures document detailing key information, around areas such as background, meetings, monitoring, governance, payments, renewal, and other areas. In addition to this, the Transport Operations Manager had produced an annual contract management plan for 2020-2023, with key milestones detailed monthly, i.e. bi-monthly contract meetings and quarterly KPI reporting.
- KPIs were detailed in the appendix of the Contract Procedures guide. These detailed areas such as operating issues, officer related issues, management support, site specific and information KPIs. These all included relevant metrics- e.g. 100% of security staff should be licensed. Issues around poor performance would be raised informally in the first instance, thereafter formally in the bi-monthly contract meetings.
- Formal contract meetings were held by the Transport Operations Manager on a bi-monthly basis, which we confirmed to occur according to the agreed schedule between October 2020 to May 2021. There is a standing monthly agenda for these meetings, with various topics covered under the three headings of (i) service, (ii) standards and (iii) contract. Bi-monthly scheduled meetings typically would involve the Contract Manager and Contract Supervisor and for the Council, the Transport Operations Manager and Depot Co-ordinator, as well as a representative from the contractor.
- As a result of the Covid-19 pandemic, changes to working arrangements were required as the Depot was operating under reduced capacity. New working arrangements were introduced as of 25 March 2020. We viewed evidence confirming that these changes were communicated to relevant staff.
- The depot is a multi-user site. Therefore, costs were allocated between the Waste Services provider (75%) and the Council (25%) based on the usage of area at the depot. Invoices for security services are allocated on this basis. We confirmed this by reviewing the allocation of the July 2021 invoice.
- The quarterly contract monitoring spreadsheet contains a KPI relating to value for money "Did you get Value for Money this month". Our review of the Q2 21/22 spreadsheet confirmed that this is scored "5", meaning that value for money has either been met or exceeded. This is measured by the contractor meeting quality standards. Examination of the Q2 2021/22 KPI Quarterly Monitoring spreadsheet confirmed this to be in place.

- **Park Management and Grounds Maintenance**

- This contract was let following a competitive tender process in 2019 and covers all Parks Management and Ground Maintenance functions.
- The contractor is monitored against set 12 KPIs (referred to as KSOs), which were agreed by both parties at the beginning of the contract. Appropriate KPIs and deliverables include service response times to customer inquiries, customer satisfaction, delivery of action plan targets and delivery against key milestones/actions.
- Performance of the KPIs are scrutinised in line with contract procedure rules in the monthly Service Operations Board meeting. These include areas such as cleanliness/litter, grass verges, playgrounds, etc.
- A Service Operations report was produced by the contractor detailing performance against KSOs and other performance indicators on a monthly basis and an actions log was maintained monthly by the Council detailing actions, the due dates and progress. We obtained the September 2021 report and confirmed that it covered all relevant information relating to performance against KSOs. In addition, we obtained the minutes of the September and October 2021 Service Operations Board meeting and confirmed that discussion on contract performance was held.
- Where performance was not achieved, there was a PAV applied. This is the estimate of costs incurred by the Council of implementing and managing the service in order to return contract performance to the expected level. This assists the Council in ensuring value for money is achieved from the contract and mitigates the financial impact of poor contractor performance. For example, in September 2021, we obtained correspondence relating to PAV deductions that had been made on the basis of performance not meeting standards set out in KSOs (drainage assets/gullies).
- In addition to the monthly Service Operations Board meeting, there is a quarterly Strategic Partnership Board who review the overall performance of the contract.
- An annual contract performance report was produced, which was presented to the Environment and Community Service Policy Development and Scrutiny Committee. A copy of this report for 2020/21 was provided to us. Our review of the report confirmed that it was detailed and included sufficient information on the performance of the contract in the year.
- Ensuring staff were qualified or had an appropriate vetting was the responsibility of the contractor rather than the Council. As mitigation against this, any issues around quality of contractor staff would likely be picked up by monitoring of works performed as these would be of sub-standard quality, which would lead to remedial action. There is a KSO

(KSO 11- FPA 11) to 'ensure that where appropriate all Service Provider Staff have the required Disclosure and Barring Security checks (DBS) and ensure these are renewed every three (3) years'. This was monitored on an annual basis and the Council obtains assurance over this KSO via the quarterly performance review at the Strategic Partnership Board meetings.

- Where service failures are identified, the contractor review their scheduled work programming following officer input and refresh the respective service level agreements amongst their front-line operatives to improve performance moving forwards.
- Issues with performance would initially be identified and raised through performance reporting and PAVs, then formally through monthly (Service Operations Board) and quarterly meetings (Strategic Partnership Board). We obtained the Service Operations Reports from September to November 2021 and confirmed that performance issues were discussed and resolved.
- Our review of monthly performance monitoring correspondence between the contract owner and the contractor between September – November 2021 confirmed that PAV deductions were applied in September and November 2021. The rationale for deductions was specified and explained in email correspondence, as well as in the Service Operations Report. Invoices for September and November were therefore amended accordingly, and our review of the invoices and the PAV deductions confirmed that they reconciled. In addition, our review of the payment to the contractor from September to November 2021 confirmed that payments were made correctly and had received appropriate authorisation.
- Due to the increased use of public spaces at the beginning of the Covid-19 pandemic, resources were reallocated to ensure public spaces were maintained to the required standard to ensure continuity of service delivery.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

11. 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 prioritised in line with the criteria set within Appendix B.

No.	Finding	Risk	Recommendation and Priority	Management Response	Agreed Timescale and Responsible Manager
1	<p><u>Bromley Market Assembly</u></p> <p>The contract management arrangements are not formalised for this contract. There are not weekly or monthly performance meetings. Communication around contract management or invoicing takes place through phone calls or emails on an as-required basis, which we cannot confirm to have had occurred due to lack of documentation.</p> <p>We noted that the contract was due for re-tender in December 2021.</p>	<p>Lack of adequate contract monitoring may result in unclear expectations of services provided, and value for money not being obtained by the Council.</p>	<p>The contract manager should ensure there are sufficient contract monitoring arrangements, proportionate to the size and value of contract. Regular performance review meetings should be held and documented.</p> <p>Priority 3</p>	<p>A tender exercise took place at the end of 2021, resulting in the Direct Award of the Market Assembly contract to the incumbent provider.</p> <p>The Contract Manager is progressing the action to organise quarterly contract management meetings and ensure documented records are kept on key decisions. As part of the contract management meetings, performance will be reviewed against KPI's that will be agreed with the Service Provider at the first formal contract management meeting.</p>	<p>30 April 2022</p> <p>Head of Environmental Strategy, Technical Support and Commissioning</p>

OPINION DEFINITIONS

APPENDIX B

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.