



INTERNAL AUDIT

Final Assurance Report 2017/18

Contract Management

15th January 2018

Overall IA Assurance Opinion:

LIMITED

Recommendation Overview:

High Risk	0
Medium Risk	2
Low Risk	4
Notable Practice	0

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1. Introduction

- 1.1 This risk based IA assurance review forms part of the 2017/18 IA Plan. The purpose of this review is to provide assurance to the West London Waste Authority (WLWA) Officers Team and the Audit Committee over the key risks in relation to Contract Management.

2. Background

- 2.1 Outsourcing can be an effective cost saving strategy which also delivers a high quality service to end users. Other benefits to outsourcing include greater access to resources, economies of scale, moving service delivery closer to the end service user and freeing up internal resources to focus on the organisations core business. However, there are also significant risks attached to outsourcing services such as reduced control of service delivery and quality, particularly when contracting out front line services which are difficult to measure and assess, or when a complex contract is required. The materialisation of such risks is normally compounded into financial losses and reputational damage for the contracting organisation.
- 2.2 Contract management is the process which facilitates the monitoring of contract delivery to ensure both parties to a contract meet their contractual objectives and obligations. It is a key control to ensure that risks to outsourcing agreements are effectively mitigated. However, effective contract management extends beyond contract monitoring and involves building good working relationships with the providers, anticipating future needs, dispute resolution and driving continuous improvements in performance and service delivery.
- 2.3 During a discussion with the Senior Contracts Manager, we have selected the following three contracts for testing:

Contracted Party	Annual Value	Contract Start Date	Contract End Date
Viridor Waste Management Ltd (VWML)	£10,400,000	2009	2034
Countrystyle Recycling Ltd (CRL)	£750,000	2014	2018
West London Composting Ltd (WLCL)	£950,000	2014	2018

- 2.4 This review will specifically focus on the management of contract delivery for contracts that are currently operational. Pre-contract and post contract activities will be excluded from the scope of this review and thus wider procurement processes such as contract tendering, contract strategy, contract terms, value for money or contract renewal/extensions will not be examined.

3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **LIMITED** assurance over the key risks to the achievement of objectives for Contract Management. Definitions of the IA assurance levels and IA risk ratings are included at [Appendix C](#). An assessment for each area of the scope is highlighted below:

Scope Area	IA Assessment
Roles and Responsibilities	Reasonable Assurance: The Authority has documented Contracts & Procurement Rules (CPR), dated July 2016, supporting the delivery of the Annual Procurement Plan. It was established that there is limited guidance within the CPR, in addition to an absence of operational guidance providing a

Scope Area	IA Assessment
	<p>clear outline of how contract management is practiced within the organisation post contract award.</p> <p>We reviewed each of the three contracts sampled to confirm that roles and responsibilities for contract management and administration are suitably documented. It was noted that the VWML contract provided a concise overview of the "authorised representative" role but the other two sample contracts sampled failed to define the Contract Manager duties.</p>
Contract Administration	<p>Limited Assurance: As part of our testing, we sought to review the contracts and verify the inclusion of key clauses. All three contracts sampled contained a "Force Majeure" clause, permitting alternative providers to be sourced if the supplier could not deliver the contracted service due to unforeseen circumstances. However, it is our opinion that the Authority would benefit from documenting the supplier's duty to mitigate their risk exposure by maintaining up to date, frequently reviewed and tested Business Continuity Plans (BCPs) and Business Disaster Recovery Plans (BDRPs), as per the Authority's CPR (Rule 7.3.10).</p> <p>Unfortunately, we could not locate a Service Level Agreement (SLA) in any of the 3 contracts sampled. We appreciate that the contract and the service specification defines the service expected but it is our opinion that the current Key Performance Indicators (KPIs) to administer each contract were not sufficient mechanisms to enable WLWA to undertake effective contract management activities.</p> <p>Examination of each of the three contract documents confirmed the inclusion of a contract clause for liquidated damages, however we were surprised to see that, within the contracts for both WLCL and CRL, the contract clause (24) titled "Liquidated Damages" was stated as "Clause not used". This is despite Clause 24 being referenced as a tool to use under "Clause 4- Failure of Contractor to Carry Out Services". Further, it is our opinion that the VWML contract also fails to include measures for redress should the supplier underperform.</p>
Contract Management	<p>Limited Assurance: Our ability to test contract management activities was limited by the aforementioned lack of guidance and absence of contractual clauses and requirements surrounding SLAs, KPIs, contract meetings and performance reporting.</p> <p>It was established that one contract stipulated a meeting to take place quarterly and we are pleased to report that meetings take place on this frequency. Both of the remaining contracts sampled fail to capture the requirement of contract management meetings however, due to good relations established with these suppliers, annual meetings were found to take place. We are also pleased to report that appropriate meeting governance was evidenced with all meetings having documented agendas, minutes taken and attendees recorded. However, it is our opinion that controls surrounding the robustness of recording, tracking and monitoring of action points could be considerably enhanced.</p> <p>The VMWL contract, despite being the largest contract in our sample, does not require the supplier to produce any</p>

Scope Area	IA Assessment
	<p>performance reports, instead providing regular weighbridge data, assisting with the verification of invoices. We appreciate there is currently a good working relationship in place but the absence of KPIs and significant performance data and reports for such a large contract sum is of concern.</p> <p>The other two contracts tested, WLCL and CRL, also failed to provide regular performance reports. We understand the importance of the tonnage data being supplied by all 3 suppliers, as they help verify the invoice price but we saw no evidence of weighbridge data being spot-checked, using the original receipts. Furthermore, we would expect the contractors to supply annual calibration certificates and performance reports which analyse how efficiently they're operating, identifying bottle-necks or processes which aren't working as effectively.</p>
Management Information and Reporting	<p>Limited Assurance: As mentioned above there is limited management information and reporting from each of the three contracts sampled with recommendations raised accordingly to enhance the oversight role. The oversight role is performed by the Senior Contracts Manager who demonstrated a good knowledge of the suppliers and their employees/ authorised representatives. The Senior Contracts Manager was less familiar with the contractual terms and conditions for WLCL and CRL but this is understandable given that they oversee £44.6 million of spend and that WLCL and CRL represent 2.1% and 1.6% of this spend respectively; by comparison VWML represents 23.2%. There are a total of 22 contracts within the Senior Contracts Manager's remit.</p>

3.2 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

4. Detailed Findings and Conclusions

4.1 Roles and Responsibilities

4.1.1 The Authority has documented Contracts & Procurement Rules (CPR), dated July 2016, supporting the delivery of the Annual Procurement Plan. The CPR provide the governance structure within which the Authority may procure Works, Supplies and services, setting out the rules that are required to be followed when undertaking procurement activity. It was confirmed that the CPR detail the roles and responsibilities of all officers undertaking procurement, in particular the Managing Director and the individual designated as the Responsible Officer.

4.1.2 It was established that there is limited guidance within the CPR, in addition to an absence of operational guidance, providing a clear outline of how contract management is practiced within the organisation post contract award. The only contract management reference within the CPR is rule 7.3.12 requiring the need for "a framework for the management of the Contract [to be] put in place prior to Contract award" but with the absence of supporting guidance there is little detail on what would constitute an effective framework. The risk posed is mitigated somewhat by the dedicated Senior Contracts Manager role and documented Job Description. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).

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- 4.1.3 In accordance with CPR 8.4, all contracts over £25,000 in value over the life of the Contract must be recorded on the Authority's Contracts Register. The contracts register was found to be up to date for each of the three contracts sampled within this review.
- 4.1.4 Upon receipt of all three contracts selected for testing, we reviewed the contract document for appropriate authorisation confirming, in each case sampled, authorisation in accordance with the Authority's Scheme of Delegation. However, it was noted that two of the contracts (CRL and WLCL) had Deeds of Extension which were unsigned. The Senior Contracts Manager explained that a recent office move had made it difficult to locate the signed copies. From discussion with the Senior Contracts Manager and review of the tonnage reports and contract meeting minutes, we are assured that under Contract Law this deed of extension would still be enforceable as all parties have continued to abide by the contract's terms and conditions, beyond the original end date.
- 4.1.5 We reviewed each of the three contracts sampled to confirm that roles and responsibilities for contract management and administration are suitably documented. It was noted that the VWML contract provided a brief, concise overview of the "authorised representative" role but the other two sample contracts sampled (CRL and WLCL) failed to define the Contract Manager duties. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).
- 4.1.6 We are pleased to report that upon escalating this finding to WLWA management, they have devised new contract terms and conditions which include more detail around the contract manager responsibilities. These contracts are currently being tendered as the CRL and WLCL contract extensions expire in March 2018 however this risk is still pertinent to the remainder of Authority contracts.
- 4.1.7 We are pleased to report that WLWA's Contract Manager was confirmed, via review of the organisation's structure chart and Scheme of Delegations, as having the appropriate level of authority within the organisation. In addition, we contacted all three of the supplier's Contract Managers and were able to confirm they each possessed the appropriate level of authority within their own organisation to perform their duties as the assigned Contract Manager.

4.2 Contract Administration

- 4.2.1 As part of our testing, we sought to review the contracts and verify the inclusion of key clauses, including:
- Insurance indemnity;
 - Business Disaster Recovery Plan (BDRP)/ Business Continuity Plan (BCP);
 - Service Level Agreement (SLA);
 - Key Performance Indicators (KPIs);
 - Performance reporting requirements;
 - Contract meeting requirements;
 - Dispute resolution process;
 - Redress and compensation clauses; and
 - Contract variations process.
- 4.2.2 For insurance indemnity, we are pleased to report that all contracts stipulated the requirement for the supplier to have in place valid insurance policies which covered Public Liability (PL) and Employers' Liability (EL). When comparing the three sample contracts, we found the VWML contract stipulated minimum coverage at £5m for EL but the other two contracts listed a requirement on the supplier for £10m cover. We discussed this with the Senior Contracts Manager who explained that a minimum £5m was a sufficient level of cover and the draft version of the new contract's terms and conditions has revised this to a £5m threshold.

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- 4.2.3 All three contracts sampled contained a "Force Majeure" clause, permitting alternative providers to be sourced if the supplier could not deliver the contracted service due to unforeseen circumstances. However, sourcing an alternative supplier is more costly than ensuring the supplier is aware of and monitoring all environmental risks and likelihoods. Furthermore, 7.3.10 of the Authority's CPR outlines the requirement to "ensure that a business continuity plan is in place".
- 4.2.4 It is our opinion that the Authority would benefit from documenting the supplier's duty to mitigate their risk exposure by maintaining up to date, frequently reviewed and tested Business Continuity Plans (BCPs) and Business Disaster Recovery Plans (BDRPs). The Authority should also seek assurance regarding this, including a provision that copies of these documents are supplied annually (at a minimum) with the opportunity to observe annual tests of the plan. We are pleased to report that the draft version of the new contracts tendered for the services performed by WLCL and CRL has been updated to include a BDRP/ BCP clause. However, whilst management action has reduced the risk exposure moving forward, this risk is still pertinent to existing contract arrangements and we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).
- 4.2.5 An SLA is used to define the level of service expected from the service provider. SLAs are output-based in that their purpose is specifically to define what the customer will receive. SLAs are typically appended to contracts capturing key performance indicators (KPIs) to assist the contracting organisation in ensuring the supplier delivers the required service. Unfortunately, we could not locate a SLA in any of the 3 sample contracts tested.
- 4.2.6 We appreciate that the contract and the service specification defines the service expected but it is our opinion that the current KPIs within each contract were not sufficient mechanisms to enable WLWA to undertake effective contract management activities. Two of the three sample contracts tested (WLCL and CRL) had only four KPIs listed, which we found to be worded in a confusing manner, setting minimum levels of service expected. For example *"Response time exceeds 4 working hours when requested to provide vehicles to collect waste"*.
- 4.2.7 The other contract sampled (VWML) had no clear KPIs documented but made vague references to targets within large bodies of text, i.e. a clause titled "Waste Delivery" referenced a "20 minute turnaround of truck arriving, off-loading and leaving facility". However, we were unable to evidence within testing under Performance Reporting, below, that this minimum requirement was being monitored, measured or reported upon. We advocate the adoption of KPIs which drive performance in target areas, providing transparency over performance thus increasing the likelihood that contracting benefits are realised. We have raised a recommendation to enhance control and mitigate risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.2.8 In order for KPIs to be useful, they must be specific, measurable, realistic and timely (SMART). In addition they must be monitored and reported on. Our testing found two contracts (WLCL and CRL) had brief requirements documented in the contract around the supplier's duty to provide reports. Although, the reports referenced related to weighbridge ticket data, needed to verify invoice amounts, these do not monitor performance.
- 4.2.9 The VWML contract, which is worth approximately £10.4 million per annum (according to the contracts register), does not document any requirements for the supplier to produce reports for WLWA. We understand that currently, there is a good working relationship with all suppliers and therefore, the Senior Contracts Manager has no concerns over VWML failing to produce data reports. However, the contract has a life span of 25 years, in this time there will likely be a turnover of key personnel for both parties and therefore, it is important that the contract equips WLWA with the necessary contract management tools in the event that enforcement be necessary,. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

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- 4.2.10 The VWML contract was however the only document capturing the requirement for a regular contract management meeting, specifying a "3 monthly meeting" to take place to "discuss operational and contractual issues, agree minor variations and discuss changes to the waste deliver detailed arrangements". The exclusion of this requirement within the remaining two contracts sampled has been incorporated within **Recommendation 2** in the Management Action Plan at **Appendix A**.
- 4.2.11 It should be noted that upon feeding back interim findings to the Senior Contracts Manager, the authority have been quick to implement corrective action, amending the template for new contracts to be tendered to include the enhancements suggested, strengthening the authority's position in addition to reducing risk exposure. This has included placing a duty on the supplier to identify cost-saving initiatives, increase efficiency and customer satisfaction. We discussed the potential for offering a percentage of the cost-saving to the supplier as an incentive, strengthening the idea of collaborative working. We also discussed the need for an annual service review meeting which compares budgeted spend with actual spend, investigations of any variance and outcomes, benchmarking performance with competitors or other customers of the supplier.
- 4.2.12 Our testing found all 3 contracts sampled contained procedures for dispute resolution. However, upon review it was noted that the VWML contract does not include escalation mechanisms. The dispute resolution process within the VMWL contract was two-tiered, "in the event that any dispute cannot be resolved amicable between the Parties, then the matter may be referred to arbitration by either Party". By comparison, the WLCL and CRL offered a multi-tiered dispute resolution process, setting out clear timeframes for escalation. We have raised a low risk recommendation to ensure consistency (refer to **Recommendation 5** in the Management Action Plan at **Appendix B**).
- 4.2.13 Examination of each of the three contract documents confirmed the inclusion of a contract clause for liquidated damages, however we were surprised to see that, within the contracts for both WLCL and CRL, the contract clause (24) titled "Liquidated Damages" was stated as "Clause not used". This is despite Clause 24 being referenced as a tool to use under "Clause 4- Failure of Contractor to Carry Out Services". Further, it is our opinion that the VWML contract also fails to include measures for redress should the supplier underperform.
- 4.2.14 This is compounded by the absence of sufficient KPIs and performance reports provided by suppliers impacting the ability for liquidated damages to be used effectively if required. Upon discussing this with the Senior Contracts Manager, we understand there are strong working relationships in place with the supplier and so the service has ran smoothly. However, it is difficult for an independent third party to verify this in the absence of performance data. We have therefore incorporated this within **Recommendation 1** within the Management Action Plan at **Appendix A**.
- 4.2.15 Whilst all three contracts tested had comprehensive procedures detailed for price variations, only one contract (VWML) had a clear contract variation process. As discussed above under section 4.1.3, the two sample contracts which had not defined the Contract Manager role, also note the requirement of "authorised representatives" signatures for variations, although it is unclear who these individuals are. In addition, there was no detail captured around time frames for instigating/ introducing a variation, response time, disputed variations, implementing changes, exceptions, etc. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 6** in the Management Action Plan at **Appendix A**).

4.3 Contract Management

- 4.3.1 Our ability to test contract management activities was limited by the aforementioned lack of guidance and absence of contractual clauses and requirements surrounding SLAs, KPIs, contract meetings and performance reporting. We therefore focused our testing on:
- Contract management meetings;

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- Performance reports;
 - Contract variations;
 - Dispute resolution; and
 - Compensation & Redress.

- 4.3.2 It was established that the VWML's contract stipulates a meeting to take place quarterly and we are pleased to report that meetings take place on this frequency. Both the WLCL and CRL contracts fail to capture the requirement of contract management meetings, however, due to good relations established with these suppliers, annual meetings were found to take place. We are also pleased to report that appropriate meeting governance was evidenced with all meetings having documented agendas, minutes taken and attendees recorded. However, it is our opinion that controls surrounding the robustness of recording, tracking and monitoring of action points could be considerably enhanced. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).
- 4.3.3 We reviewed the minutes from the meetings held with WLC and CRL, considering these meetings were undertaken annually, the minutes appeared to contain a generic overview of "Service Updates" and "Operations", failing to depict the meeting as productive or informative or provide a critical analysis of the year's service, reflecting on improvements to be made, strengths identified, etc. VWML's quarterly meeting minutes were of similar quality, capturing an informal discussion of operations whilst omitting clear action points, failing to address performance management or evidence the benefits rendered from the meeting. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).
- 4.3.4 The VMWL contract, despite being the largest contract in our sample (worth £10.4 million per annum), does not require the supplier to produce any performance reports. The VWML contract requires them to provide regular weighbridge data and we were able to evidence tonnage data sheets are disclosed monthly, assisting with the verification of invoices. We appreciate there is currently a good working relationship in place but the absence of KPIs and significant performance data and reports for such a large contract sum is of concern. The findings have been incorporated into the recommendation raised regarding KPIs as in order for KPIs to be useful, they must be measured, monitored, reported on and scrutinised (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.3.5 The other two contracts tested, WLCL and CRL, also failed to provide performance reports. We understand the importance of the tonnage data being supplied by all 3 suppliers, as they help verify the invoice price but we saw no evidence of weighbridge data being spot-checked, using the original receipts. Furthermore, we would expect the contractors to supply annual calibration certificates and performance reports which analyse how efficiently they're operating, identifying bottle-necks or processes which aren't working as effectively. We have raised a recommendation to enhance the monitoring and oversight role of the supplier's performance (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.3.6 We were advised variations to the contracts' terms and conditions had taken place. WLCL and CRL both had their extension clauses enacted to ensure the provision of services up until 2018. However, as noted under 4.1.5 we were unable to locate copies of the signed Deed of Extensions. CRL had a change of service enacted via email and it was difficult to verify that this variation was carried out in accordance with the documented process. It should be noted that this alteration to the service was implemented by the Senior Contracts Manager's predecessor. Due to good relations with the contracted supplier, it appears this alteration of service has been honoured during the contract extension period. As the contract has now been retendered and the service alteration has been included in the specification, we have elected to raise a low risk recommendation (refer to **Recommendation 6** in the Management Action Plan at **Appendix A**).

4.3.7 The Senior Contracts Manager advised there have been no serious disputes between the contracted Parties within our sample and therefore, the dispute resolution process has not been referred to or used. As a result of this, we did not perform any testing on the enactment of the contracted dispute resolution process.

4.4 Management Information & Reporting

4.4.1 The oversight role is performed by the Senior Contracts Manager who demonstrated a good knowledge of the suppliers and their employees/ authorised representatives. The Senior Contracts Manager was less familiar with the contractual terms and conditions for WLCL and CRL but this is understandable given that they oversee £44.6 million of spend and that WLCL and CRL represent 2.1% and 1.6% of this spend respectively. There are a total of 22 contracts within the Senior Contracts Manager's remit, varying in size and complexity, by comparison VWML represents 23.2%.

4.4.2 As discussed above, there is limited management information and reporting from each of the three contracts sampled with recommendations raised accordingly to enhance the oversight role (refer to **Recommendations 1** and **2** in the Management Action Plan at **Appendix A**).

4.4.3 Upon escalating our preliminary findings around Contract Administration, we have been impressed with the expediency the Senior Contracts Manager implemented corrective action to address the controls gaps identified. Whilst the new contracts being tendered will include these suggested improvements, we would advocate the creation of a minimum set of standards for contract management, elaborating on what the effective framework (referred to in the Authority's CPR) resembles, ensuring that robust and proportional contract management activities are carried out consistently and effectively for contracts of all size and complexity. We have also recommended contractual terms placing the onus on suppliers to produce valuable, purposeful, analytical and critically reflective performance reports so the Senior Contracts Manager can perform their oversight role of 22 contracts more effectively.

5. Acknowledgement

5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular, the Senior Contracts Manager, whose advice and help were gratefully appreciated.

6. Internal Audit Contact Details

This audit was led by: Chloe Moorcroft
Internal Auditor

This audit was reviewed by: Martyn White, CIA CMIIA
Senior Internal Audit Manager

Thank you,



Muir Laurie FCCA, CMIIA
Head of Business Assurance

Management Action Plan

No.	Recommendation	Risk	Risk Rating*	Risk Response*	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	<p>Management should consider reviewing the Key Performance Indicators (KPIs) within the contracts to ensure that they are appropriately defined, managed and reported upon, enabling the Authority to accurately monitor the supplier's performance in relation to the business needs, contractual obligations and competitiveness in the market.</p> <p>Where the Contractor fails to meet the service requirements, the Authority should consider compensation in the form of service credits to ensure service failure does not continue without redress (para refs. 4.1.5, 4.2.7, 4.2.9, 4.2.14, 4.3.4 and 4.3.5)</p>	<p><i>If KPIs are not documented, formally agreed and relevant to business needs, the supplier may not be held liable for poor contractual performance. Furthermore, if KPIs are not regularly measured, monitored or reported, this could lead to poor decision making and potentially impact the efficiency and effectiveness of the outsourced operations. This in turn, may increase the risk of financial loss and reputational damage to the Authority.</i></p>	<p>MEDIUM</p> <p>●</p>	<p>TREAT</p>	<p>This risk relates to historic inherited contracts. Therefore management will review all contracts and seek to introduce KPIs either by:</p> <ul style="list-style-type: none"> • Negotiated introduction/inclusion; or • Inclusion within re-procurement exercises (in the form of updated tender specification and Terms and conditions). <p>This has partially already been actioned for the all the organics contracts (3x contracts) and transport contracts (2x contacts) which are being retendered at present. The specification and terms and conditions have been updated to address the recommendations raised.</p>	<p>Senior Contracts Manager</p> <p>(Ken Lawson)</p> <p>31st March 2019</p>

*Please refer to **Appendix C** for Risk definitions.

Management Action Plan

No.	Recommendation	Risk	Risk Rating*	Risk Response*	Management Action to Mitigate Risk	Risk Owner & Implementation date
2	<p>Management should consider reviewing the arrangements in the contract which mandate for contract management meetings to occur at a specified frequency, covering topics such as cost analysis, performance of supplier, operational issues and contract variations.</p> <p>This should be undertaken on a risk based approach but an annual service review meeting should take place for each contract as a minimum.</p> <p>Management should consider enhancing the method used to note action points, ownership and time frames and improving the monitoring system in place (para refs. 4.2.10, 4.3.2 and 4.3.3)</p>	<p><i>If the requirement of contract management meetings is not captured in the contract, there is a risk that the Authority is not able to effectively performance manage the supplier as there is no formal, regular forum to discuss operational issues. The Authority risks not receiving value for money, therefore increasing the likelihood of financial loss and reputational damage, along with undermining the original goal of the outsourcing arrangement.</i></p>	<p>MEDIUM</p> <p>●</p>	<p>TREAT</p>	<p>This risk relates to historic inherited contracts. Therefore will review all contracts and seek to introduce contract management requirements for regular meetings/annual service reviews and also include Business Continuity requirements either by:</p> <ul style="list-style-type: none"> • Negotiated introduction/inclusion; or • Inclusion within re-procurement exercises (in the form of updated tender specification and Terms and conditions). <p>This has partially already been actioned for the all the organics contracts (3x contracts) and transport contracts (2x contacts) which are being retendered at present. The specification and terms and conditions have been updated to address the recommendations raised.</p>	<p>Senior Contracts Manager</p> <p>(Ken Lawson)</p> <p>31st March 2019</p>

*Please refer to **Appendix C** for Risk definitions.

Good Practice Suggestions & Notable Practices Identified

No.	Observation / Suggestion	Risk / Rationale	Risk Rating*
3	<p>Management should consider either updating the Contracts & Procurement Rules or provide supplementary guidance defining the expected governance arrangements for the Authority's contracts. This should reflect expectations regarding contract management activities and the contract manager role in overseeing the supplier's performance.</p> <p>The contract manager role should also be clearly defined in one consolidated section of the contract which provides clarity over responsibilities and contains contact details (para refs 4.1.2 and 4.1.5).</p>	<p><i>Where roles and responsibilities are not clearly defined or formally agreed between both parties, there is an increased potential for insufficient administration, oversight and scrutiny to occur. In turn, this could hinder the effectiveness of the contract through the non-delivery of contractual arrangements and obligations.</i></p>	<p>LOW ●</p>
4	<p>Management should consider including a contractual clause to ensure the supplier is aware of and monitoring all risks they're exposed to, along with the supplier's duty to mitigate their risk exposure by maintaining frequently reviewed and tested Disaster Recovery/Business Continuity Plans (para ref 4.2.4).</p>	<p><i>Where the Authority does not obtain appropriate assurance that sufficient and robust business continuity arrangements are in place, there is an increased likelihood that in the event of an untoward incident or business interruption, significant financial costs are endured by the Authority to ensure continuity of service.</i></p>	<p>LOW ●</p>
5	<p>Management should ensure all dispute resolution processes captured in contracts are multi-tiered, with appropriate escalation mechanisms in place (para ref 4.2.12).</p>	<p><i>If adequate escalation mechanisms are not in place, issues of minute significance may be inappropriately escalated to arbitration, in the absence of multi-tiered dispute resolution processes. This would impact the Authority's reputation and inefficient use of the Authority's resources.</i></p>	<p>LOW ●</p>
6	<p>Management should ensure contract variation clauses provide a clear process with the appropriate safeguards in place.</p> <p>Management should ensure any significant changes made to the procedures, methods or management of the contracts and their service provisions are processed in accordance with the documented contract variation process and scheme of delegation (para refs 4.2.15 and 4.3.6).</p>	<p><i>Where there is an ambiguous process for contract variations, inappropriate changes to the contracted service could occur which may undermine the original purpose of the outsourced arrangement or impact the delivery of value for money.</i></p>	<p>LOW ●</p>

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
SUBSTANTIAL	There is a good level of assurance over the management of the key risks to the Authority's objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
REASONABLE	There is a reasonable level of assurance over the management of the key risks to the Authority's objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
LIMITED	There is a limited level of assurance over the management of the key risks to the Authority's objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
NO	There is no assurance to be derived from the management of key risks to the Authority's objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the Authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the Authority and the reporting of financial management; and
 - the performance management of the Authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Authority is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX C (cont'd)

RISK RESPONSE DEFINITIONS

Risk Response	Definition
TREAT	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
TOLERATE	The risk is accepted by management and no further action is proposed.
TRANSFER	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
TERMINATE	The activity / project from which the risk originates from are no longer undertaken.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
HIGH ●	The recommendation relates to a significant threat or opportunity that impacts the Authority's corporate objectives. The action required is to mitigate a substantial risk to the Authority. In particular it has an impact on the Authority's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM ●	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Authority. In particular an adverse impact on the Department's reputation, adherence to Authority policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW ●	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Authority as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE ●	The activity reflects current best management practice or is an innovative response to the management of risk within the Authority. The practice should be shared with others.

STATEMENT OF RESPONSIBILITY

We take responsibility for this report which is prepared on the basis of the limitations set out below. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material.

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