



## **Cumbria Shared Internal Audit Service**

**Internal Audit report for**

**Cumbria Constabulary**

**Audit of Contract Management**

**Draft Report Issued: 12<sup>th</sup> May 2021**

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## Audit Resources

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## Audit Report Distribution

For Action:	Barry Leighton (Head of Commercial Solutions)
For Information:	Stephen Kirkpatrick (Director of Corporate Support)
Audit Committee:	The Joint Audit Committee which is due to be held on 23rd June 2021 will receive the report.

*Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.*

# Executive Summary

## Background

This report summarises the findings from the audit of **Contract Management**. This was a planned audit assignment which was undertaken in accordance with the 2020/21 Audit Plan.

Contract management is important to Cumbria Constabulary because it contributes to the efficient use of resources to support operational policing needs and the delivery of the objectives in the Police and Crime Plan for Cumbria 2016-20 and Vision 2025. Contract management covers all business processes involved in managing the creation, implementation and evaluation of contracts and is crucial to the delivery of benefits, objectives and value for money. Poor contract management can result in a failure to meet contractual obligations, reduced performance, financial losses, broken relationships and disputes. A separate report has been prepared for the OPCC's arrangements.

Cumbria Constabulary spends around £34 million per year. There are over 200 suppliers receiving more than £10k per year, the majority of which is through formal contracts. 99% of annual supplier spend above £100k is covered by 48 separate contracts or agreements.

## Audit Approach

### Audit Objectives and Methodology

Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk-based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are set out within the Management Action Plan.

### Audit Scope and Limitations

The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Stephen Kirkpatrick (Director of Corporate Support). The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas: -

- Governance

- Managing contract performance
- Supplier relationship management
- People - Acting with Professionalism

The review includes detailed testing of one of the Constabulary's significant contracts.

There were no instances whereby the audit work undertaken was impaired by the availability of information.

## Assurance Opinion

Each audit review is given an assurance opinion, and this provides Joint Audit Committee and Officers with an independent assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

From the areas examined and tested as part of this audit review, we consider the current controls operating around Contract Management provide **Reasonable Assurance**.

*Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

## Summary of Audit Findings and Recommendations

### Controls were operating effectively in the following areas:

- Governance structures provide for reporting on contract management issues and performance, with appropriate escalation routes. Examples include the Custody Medical Contract being escalated to the Constabulary's strategic risk register for senior management attention and chief officers being briefed on issues with the Control Room Futures Contract.
- The Commercial Team provides contract management support and guidance to colleagues across the force and within the OPCC. Staff in the OPCC have commented positively on the level and quality of support they receive from the Commercial Team.

- A number of staff in the Commercial Team are undertaking procurement apprenticeships which includes formal contract management training from the Chartered Institute of Procurement and Supply (CIPS). Constabulary staff (Commercial and Finance) also received contract management training and supporting documentation from CIPFA in 2020.
- Internal Audit noted clear developments in the attitudes and behaviours of Commercial Team staff during the review, displaying professionalism throughout.
- Arrangements are in place to ensure staff involved in contract management are aware of and understand expectations regarding standards of professional behaviour and integrity.
- There is a clear and demonstrable commitment to collaborative working with suppliers. The level of work undertaken with the Custody Medical supplier to generate service improvements reflects this approach. Clear progress is being made towards the development of a supplier status system based on behaviours that encourages professional, collaborative working.
- Arrangements are in place for risks around contract management to be captured, managed, addressed and reported. There are a number of examples of contract management risks featuring in the strategic risk registers.
- There are some good examples of contract performance management across the organisation. This includes service levels and performance measures being developed and incorporated into contracts to ensure there is clarity around objectives and service standards, contractors providing timely information on contract operations for performance to be assessed and, regular contract review meetings with suppliers to discuss contract operation and performance levels.

The recommendations arising from this review can be summarised as follows:

High	Medium	Advisory	Total
0	3	1	4

The three levels of audit recommendation are defined in **Appendix A**.

**Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

High Priority Issues: None identified.

Medium Priority Issues:

- A standardised documented approach to contract management is not in place across the organisation.
- Contract management roles, responsibilities and accountabilities are not clearly defined and documented.
- Arrangements are not in place to determine what contract management training is required, by whom and to ensure that it is delivered.

Advisory issues:

- Arrangements are not in place to document and share lessons learned.

## Director of Corporate Support Comments

I am pleased that the recent internal audit review of Contract Management that has provided Reasonable Assurance and recognises the continued positive progress being made across a wide range of commercial activities for both the Constabulary and OPCC.

The review has identified many areas of good practice where controls are working effectively, including governance and oversight for both the overall process and for specific major contracts such as Custody Medical, together with recognition of the continued professionalisation of the Commercial Solutions staffing, clear collaborative working with partners, and evidence of effective performance and risk management.

Understandably, there is still more to do with the report noting three medium and one advisory recommendation that are all accepted and will be addressed within the timescales agreed.

The strengths and progress identified within this report are due to the collective efforts of all involved in commercial activities.

Stephen Kirkpatrick, Director of Corporate Support

# Management Action Plan

## Medium Priority

Audit finding	Management response
<p><b>Contract Management Approach</b></p> <p>A Contract Management Strategy or Policy is not in place to establish a clear direction and plan of action to achieve long term objectives. The Commercial Strategy 2019-22 mentions contract management on a few occasions throughout the document, but not in any detail. It highlights contract management as one of six areas requiring action that will be addressed through planned improvement initiatives.</p> <p>Similarly, contract management guidance material has not been developed to steer contract management activity and support practitioners in different situations. There is limited clarity regarding the activities expected of staff and the tools that might assist them. Joint Procurement Regulations and a Procurement Guidance Handbook are available to staff during the procurement phase to guide them down the most appropriate route and clarify the rules in place. However, this guidance material does not extend into the contract management phase of the procurement process.</p> <p>The Head of Commercial has developed a ‘scorecard’ approach to plan and guide contract management activity on an individual contract basis. It is a spreadsheet that captures the key elements of the contract (e.g. risks, KPIs, service levels, quality, commercial assurances) for ongoing monitoring and RAG rating. The scorecard is currently being piloted with a business-critical contract before being finalised and rolled out to other key contracts.</p> <p>The Head of Commercial has also developed a supplier status system that links into the supplier scorecard and is based on expected behaviours, as outlined in a Collaboration Schedule. It is designed to foster a more collaborative approach based on leadership and</p>	<p><b>Agreed management action:</b></p> <p>Within the current Commercial reorganisation all Business Partners will be “owners” of a Professional activity. As such there will be a lead for Contract Management. Training will be provided and an assessment for suitability is underway of the Government Commercial Function Contract Management Training Program.</p> <p>Implementing the actions described (Scorecard and Supplier Status) are to be progressed commencing with critical suppliers.</p> <p>A Contract Management Handbook (practitioner guidance) to complement the Procurement Guidance Handbook will be developed.</p>

<p>mutual trust. The approach has been presented to a number of critical suppliers and a new contract schedule has been drafted for Chief Officer Group approval.</p> <p>The audit review highlighted many examples of good practice in respect of contract management. These included the use of performance measures, scrutiny of performance data, regular contract review meetings with suppliers and the use of penalties / service credits. However, without formal documentation establishing clear expectations, a plan of action, and supporting guidance, senior management cannot be assured that contract management activity across the organisation is proportionate, consistent, efficient and contributing to overall aims and objectives.</p>	
<p><b>Recommendation 1:</b></p> <p>A standardised documented approach to contract management is required to establish a clear direction, clarify expectations and provide guidance and support to practitioners so that there is a consistent approach across the organisation which contributes to long term objectives.</p>	
<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>• Failure to achieve strategic policing priorities because of inadequate supporting contract management arrangements</li> <li>• Critical contract failure impacting on the delivery of safe policing.</li> <li>• Poor quality goods and services because of a failure to monitor supplier performance and address issues arising.</li> <li>• Wasted resources arising from unnecessary or disproportionate contract management activity.</li> </ul>	<p><b>Responsible manager for implementing:</b> Head of Commercial</p> <p><b>Date to be implemented:</b> 09/2021</p>

**Medium Priority**

Audit finding	Management response
<p><b>Roles, Responsibilities &amp; Accountabilities</b></p> <p>A designated lead for contract management with a clearly defined oversight role within the constabulary hasn't been identified. The Head of Commercial's job profile makes reference to contract management, but in terms of supporting stakeholders. Staff in the Commercial Team have undertaken contract management training and development activity so that they can adequately fulfil this role.</p> <p>Without a contract management framework (strategy, policy or guidance material) there is limited clarity around how individual contract ownership is made clear, the responsibilities of contract managers, expectations around how they manage each contract, outcomes and reporting lines.</p> <p>In practice contract managers appear to be in place for each contract and are supported by the Commercial Team, but they are not formally assigned with clear objectives, obligations and accountabilities. Responsibility for deciding what contract management training is required, by whom, and that it is delivered is also not clearly defined. The current arrangements do not provide senior management with assurance that contract managers (within the relevant business areas) understand their role and have the appropriate contract management skills and commercial awareness to undertake it properly.</p>	<p><b>Agreed management action:</b></p> <p>A Contract Performance dashboard, based on the Central Government model, is to be produced for critical contracts as a pilot. This will be populated by "contract managers" from the business (with designated Commercial Team support) and presented to Business Board each quarter.</p> <p>Training will be provided and an assessment for suitability is underway of the Government Commercial Function Contract Management Training Program. This program provides training at introductory, intermediate and advanced level and could be adapted for Police Forces. The intention is for Commercial Business Partners to receive intermediate level training and then train nominated contract managers within the business.</p>
<p><b>Recommendation 2:</b></p> <p>Contract management roles, responsibilities and accountabilities should be clearly defined and documented.</p> <p><b>Recommendation 3:</b></p> <p>Arrangements should be in place to determine what contract management training is required, by whom and ensure that it is delivered.</p>	

<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>• Failure to deliver aims and objectives because of a lack of clarity around roles and responsibilities.</li> <li>• Inefficiency, contract failure and poor value for money arising from strained relationships with suppliers.</li> <li>• Trust and confidence in Cumbria Constabulary is undermined because of a failure to manage contracts with consistently high standards of integrity and professionalism.</li> </ul>	<p><b>Responsible manager for implementing:</b> Head of Commercial</p> <p><b>Date to be implemented:</b> 09/2021</p>
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**Advisory Issue**

Audit finding	Management response
<p><b>Improvement Activity</b></p> <p>Arrangements are not in place to formally document good practice and areas for improvement that can be taken forward to strengthen and inform future contract management activity. There is some sharing within the Commercial Team and with other forces but not across the constabulary as part of an ongoing improvement activity and training.</p> <p>The recording and communication of lessons learnt (both positive and negative) can prevent mistakes being repeated and allow best practice to be maximised.</p>	<p><b>Agreed management action:</b></p> <p>To extend Business Board meetings on a quarterly basis to discuss the procurement pipeline for the next quarter and raise any lessons learnt for wider sharing across the business (formally to COG or informally via management teams).</p>
<p><b>Recommendation 4:</b></p> <p>Opportunities to identify and share learning from contract management activity should be maximised as part of a commitment to continuous improvement.</p>	

<p><b>Risk exposure if not addressed:</b></p> <ul style="list-style-type: none"> <li>• Opportunities are not taken to learn lessons and improve.</li> <li>• Failure to train and develop staff to provide more efficient and effective contract management.</li> </ul>	<p><b>Responsible manager for implementing:</b> Head of Commercial</p> <p><b>Date to be implemented:</b> 09/2021</p>

## Appendix A

### Audit Assurance Opinions

There are four levels of assurance used, these are defined as follows:

Assurance Level	Definition
<b>Substantial</b>	Sound frameworks of governance, risk management and internal control are in place and are operating effectively. Recommendations, if any, will typically be no greater than advisory.
<b>Reasonable</b>	Frameworks of governance, risk management and internal control are generally sound with some opportunities to further develop the frameworks or compliance with them. Recommendations will typically be no greater than medium priority.
<b>Partial</b>	Weaknesses in the frameworks of governance, risk management and/or internal control have been identified or there are areas of non-compliance with the established control framework which place the achievement of system / service objectives at risk. Recommendations will typically include high and medium priority issues.
<b>Limited</b>	There are significant gaps in the governance, risk management and/or internal control frameworks or there are major lapses in compliance with the control framework that place the achievement of system / service objectives at significant risk. Recommendations will include high priority issues.

### Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below:

Grading	Definition
<b>High</b>	A recommendation to address a significant gap in governance, risk management or internal control frameworks or to address significant non-compliance with controls in place.
<b>Medium</b>	A recommendation to address a gap in governance, risk management or internal control frameworks or to address aspects of non-compliance with controls in place.
<b>Advisory</b>	A recommendation to further strengthen governance, risk management or internal control frameworks or to improve compliance with existing controls.