

From: Clare Maynard, Head of Commercial and Procurement
To: Governance and Audit Cabinet Committee
Date: 25th October 2023
Subject: Progress Update against Internal Audit Reports CA07-2023 (Procurement) and RB21-2023 (Contract Extensions)

Classification: Unrestricted

Summary:

This report seeks to update the Governance and Audit Cabinet Committee on the progress made against the Management Action Plans that have been developed and are being implemented in response to the published Internal Audit Reports CA07-2023 (Procurement) and RB21-2023 (Contract Extensions).

Recommendation(s):

Governance and Audit Cabinet Committee is asked to **consider** and **note** this report and the progress made following the initial presentation of the findings of these two audits and the planned actions shared and agreed with Internal Audit in August 2023.

1. Introduction

- 1.1 Between early and mid-2023, Internal Audit undertook two audits, which respectively considered the adequacy and effectiveness of the procurement arrangements in place to form a judgement on cross-Council adherence to KCC procedures (CA07-2023 – Procurement), and the compliance of contract extensions with the Council’s procedures (RB21-2023 – Contract Extensions).
- 1.2 The Internal Audit reports subsequently produced were only able to provide Limited assurance on the above matters, although **Good** and **Very Good** prospects for improvements were provided following consideration of the Management Action Plans submitted in August 2023 by the Management Team of the newly formed Commercial and Procurement Division.

2. Action being taken in response to CA07-2023 (Procurement)

- 2.1 Audit CA07-2023 (Procurement) identified four issues, which essentially related to the inconsistent use of KCC’s contract management system, different approaches to the retention of procurement documentation, the absence of key performance indicators to measure compliance with procurement procedures, and the ability for the Council to monitor spend against specific contracts.
- 2.2 Having considered the Management Action Plan submitted in August 2023, which acknowledged the small sample size for the audit but recognised the

positive actions proposed, Internal Audit provided an opinion of **Good** in terms of the prospects for improvement against the issues that were identified.

- 2.3 Since the above assessment was delivered, the Council's new Commercial and Procurement Division, which was formally launched on 1 September 2023, has made good progress to begin addressing the issues identified. Critically, as a part of launching the new Division, senior Officers in the Division have completed an extensive series of briefings to Directorate Management Teams across the Council in addition to a presentation to the T200 Group (KCC's middle management group), outlining the key provisions in KCC's mandatory spending rules contained in the Constitution and Spending the Council's Money.
- 2.4 These presentations have included an emphasis on the requirement for Directorates to ensure that key procurement documentation and records of contracts at or above the value of £25,000 are captured in the Council's contract management system, while being clear that the new Commercial and Procurement Division will support on the initial creation of those contract records. It has also been outlined that, as business partners to Directorates, the new Division will be positioned to scrutinise and work collaboratively across the Council to ensure the completeness and accuracy of those contract records.
- 2.5 Additionally, the formation of the Sourcing Support Team as a part of the new Division has allowed the Council to develop an increased focus on the controls governing compliance with Spending the Council's Money. The team are responsible for the creation of purchase orders and therefore offer a significant opportunity for challenge to practice before an order is created. To this end, the Division is currently undertaking an array of important activity, including:
 - (i) The creation of new 'smart forms' to ensure that mandated practices are followed, and evidence provided, depending on what is being bought.
 - (ii) Configuring all existing Knet How to Buy pages to reflect the mandatory category processes that must be followed,
 - (iii) The development of the requisition form to include contract number so that we can monitor spend by contract and impact on thresholds,
 - (iv) The introduction of a new buyer hierarchy to restrict purchase order creation to a logical total value-based approval structure, and
 - (v) The introduction of Power Automate flows to support the supplier set up process, which will give an increased level of assurance.
- 2.6 Alongside the above, the new Commercial and Procurement Division is taking forward the development of performance measures to assess compliance with KCC's mandatory procedures relating to commercial and procurement activity. This will include ongoing monitoring of the level of engagement with KCC's contract management system, the accuracy of records contained therein, and appropriately early engagement from Directorates with the Division's commercial specialists to map and resource new procurement requirements. Additionally, there will be a logging of requested waivers to the spending rules and more regular reporting on identified non-compliance with the procedures.
- 2.7 Finally, as a part of supporting KCC's implementation of its new Enterprise Business Capabilities (EBC) system, the Commercial and Procurement Division will be exploring with the Council's chosen provider the possibility of more easily

linking spend recorded in KCC's future financial systems with specific contracts to allow for the better monitoring of adherence/variance from projected budgets. However, it should be noted that this is a technically complex piece of work that will run alongside the longer-term implementation of the new EBC system.

3. Action being taken in response to RB21-2023 (Contract Extensions)

- 3.1 Audit RB21-2023 (Contract Extensions) identified six issues, which predominantly related to extensions to contracts not always having been approved in line with KCC's Scheme of Delegation, an inconsistent approach to the completion of contract change notices and consideration of relevant risks ahead of contract extensions, and an insufficient amount of time sometimes being allocated to properly consider an extension option versus re-procurement. It was also raised that there was no monitoring or reporting of which staff have completed and not completed contract management training across KCC.
- 3.2 Having considered the Management Action Plan submitted in August 2023, which again appreciated the small size for the audit but acknowledged the promising action proposed, Internal Audit provided an opinion of **Very Good** in terms of the prospects for improvement against the issues that were identified.
- 3.3 Since the above verdict was delivered, the Council's new Commercial and Procurement Division, which was officially launched on 1 September 2023, has made good progress to start tackling the identified issues. As a part of launching the new Division, and the series of briefings that senior Officers in the Division have delivered to Directorate Management Teams and the T200 Group on the Council's mandatory spending rules, it has been emphasised what the expectations are in contract management and prior to any contract extension.
- 3.4 These presentations have included an emphasis on the necessity for Officers to ensure that contract changes are undertaken in line with internal procedures, including the Scheme of Delegation, public procurement regulations, and represent best value to the Council and residents. It has been highlighted that the new Division will play a key role as commercial business partners to the Council's Directorates in helping to ensure that any such changes are completed in line with such requirements, particularly on KCC's key contracts.
- 3.5 Additionally, the new Division is taking forward the re-launch of one of KCC's key informal governance boards – the Contract Management Review Group – to help ensure that the issues highlighted in this audit report are addressed. This group's terms of reference are being updated to ensure that there is a clearer definition of its authority to focus on reviewing the Council's key contracts, specifically at two key points in the life of the contract (mid-life and prior to any proposed extension). This will provide for strengthened checks and balances and opportunity to scrutinise practice prior to contract extensions.
- 3.6 Finally, there will be a renewed focus on extending valued contract management training for Officers and recording participants on such training. This is planned for the Commercial and Procurement Division, which will provide commercial contract management advice and support to Directorates and in Directorates where named contract responsibility will typically reside. This will include extending accredited Government Commercial Function (GCF)

contract management training across the Council in addition to supporting the opportunity for commercial and procurement professionals within KCC to secure professional qualifications with the Chartered Institute for Procurement and Supply (CIPS), which includes a focus on contract management best practice.

4. Conclusion

- 4.1 Good progress has already been made since the initial presentation of the findings of these two audits and the planned action to the 14 September 2023 meeting of the Governance and Audit Cabinet Committee. As the new Commercial and Procurement Division is fully established and embedded, the identified actions will continue to be progressed at pace. Further update reports will be provided to the Committee at regular intervals to ensure that Members are kept fully apprised and retain the necessary oversight and assurance.

5. Recommendation(s)

Governance and Audit Cabinet Committee is asked to **consider** and **note** this report and the progress made following the initial presentation of the findings of these two audits and the planned actions shared and agreed with Internal Audit in August 2023.

6. Contact details

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