

Final Internal Audit Report

Contract Management Mechanical Works (Heating)

April 2019

Distribution: Executive Director of Place (Final Only)
Director of Council Homes, Districts and Regeneration
Head of Capital Delivery, Homes and Schools

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	1
	Priority 2	1
	Priority 3	2

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

- 1.1 A contract for the provision of domestic central heating system installations was awarded to Clairglow on 30 September 2013, with an estimated value of £28,000,000. The tender submissions were evaluated with a 90% price and 10% quality weighting with the supplier providing a bid with the highest overall percentage being awarded the works.
- 1.2 The contract has a 60 month contract life with 5 extensions available bringing the total contract life to 84 months. The works included within the contract are:
 - The refurbishment of existing central heating installations and associated works within housing properties;
 - The installation of new gas central heating including the design, installation and commissioning of new/first installation domestic central heating systems and associated works with housing properties; and
 - Design, installation and commissioning replacements of existing central heating installations to new central heating systems and associated works within housing properties.
- 1.3 The final contract extension was agreed to be exercised at Cabinet on 18 February 2017 and will bring the contract to expiry in January 2021.
- 1.4 This audit was undertaken as part of the agreed Internal Audit Plan for 2017/18.

2. Key Issues

- 2.1 It should be noted that the Priority 1 issue detailed below is a procurement issue and therefore has not limited the assurance of this audit report, which is for the contact management of the mechanical Works (Heating).

Priority 1 Issue

We could not be provided with the PQQ and tender evaluations. We could not therefore verify the accuracy and completeness of the PQQ and tender evaluations and that any collation and/or moderations of scores was undertaken independently of scorers and certified as correct and checked by management. Furthermore, we could not verify that the tender results had been accurately reported in the 'Recommendation to Award' report. **(Issue 1).**

Priority 2 Issue

We cannot ascertain with certainty as to whether any penalty deductions should have been made to the sums due under the contract. **(Issue 2).**

Priority 3 issues are included under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 1: Procurement (Assessing Value for Money)

Priority		Action Proposed by Management	Detailed Finding/Rationale – Issue 1
1		These issues all relate to the Procurement Function and have been addressed since the procurement of these works.	Retaining all procurement documents in shared procurement folders helps ensure that these are available for future reference. The PQQ and tender evaluations were not provided and we were informed that these had been located in 'personal folders', which were not moved over at the time of a change in the Council's IT service provider, due to 'storage issues' and had therefore become unavailable. It was therefore not possible to verify the accuracy and completeness of the PQQ and tender evaluations and that any collation and/or moderations of scores was undertaken independently of scorers and certified as correct and checked by management. Furthermore, it was not possible to verify that the tender results had been accurately reported in the 'Recommendation to Award' report.
Responsible officer		Deadline	
Construction Programme Manager		N/a	There is a risk that the Council cannot demonstrate that it has acted lawfully in evaluating PQQ (now SQ) and tender submissions.

Control Area 8: Payments		Detailed Finding/Rationale – Issue 2
Priority	Action Proposed by Management	
2	<p>Heating upgrades are carried out as part of the overall work in a void property which is delivered by others. Heating upgrades do not typically impact on the turnaround time which is determined by the other works. We will ensure that in future any delays to Void turnaround as a result of Heating upgrades are recorded in the monthly meeting minutes and the penalty imposed.</p> <p>The minutes recording late Void turnaround times are referring to Voids generally and not the performance of Clairglow specifically.</p> <p>Failure to arrive on time has not been an issue during the time the contract has existed in its current format. Any cancellations will be notified to the residents in advance. This is monitored at our contract meetings and would be minuted in the event of this happening. We will ensure this is specifically included in future minutes.</p> <p>While we are confident that penalty deductions have not been made because they have not been due. We will upgrade the programme spreadsheet with; Survey, Start,&</p>	<p>Collecting performance data that allows key elements of contract performance to be ascertained, helps ensure the contract is operated as intended.</p> <p>The 'MTC 2011 Refurbishment/installation of central heating in council owned properties ...', Section 2 Performance Specification refers to penalties that can be applied to the contract.</p> <p>'VOID PROPERTIES</p> <p>Failure to Complete a VOID property on Time: If the delay is entirely the Contractor's fault and it is not fully complete by the tenth working day, the Supervising Officer reserves the right to impose a penalty of £100.00 per day delay thereafter until completion. This will be recorded by Contract Instruction and will be deducted by the Employer from any money due or to become due to the Contractor under this Contract.</p> <p>PENALTIES</p> <p>Failure to Arrive: Should the Contractor fail to keep an installation appointment, it shall be recorded by Contract Instruction and a sum of £100 will be deducted by the Employer from any money due or to become due to the Contractor under this Contract. Failure to Complete on Time: Should the Contractor fail to complete an installation within the timescales set out in section B.3, Sequence of the Works, effective from start on site date, a penalty of £100.00 per day delay will be recorded by Contract Instruction and deducted by the Employer from any money due or to become due to the Contractor.'</p> <p>In respect of the voids clause, KPI 1.09 listed in the contract, which requires that the, 'Number of void installations carried out within 10 days of instruction' be 100%, evidence of this KIP being monitored in the KPI monitoring records for 2017/2018 was not available. It is noted that between September and November 2011 there were issues with turning round voids noted in the minutes of the performance management meetings held with the service provider.</p>

Install completion dates to cover the KPI's with a separate column for attendant building work & sign off date.

In respect of the penalties clause, we have been unable to locate clause B.3. Setting out installation timescales which is referred to.

It is noted that in the KPI monitoring records for 2017/2018, it was stated that a 'New Target time agreed at Core Group Target 95% of Mechanical Installs within 2 days'. Whilst the target KPI was being achieved, it was not reaching 100%. However, there is no monitoring of whether installs are being completed within the requirements of clause B.3. and it cannot therefore be ascertained whether those installs beyond the KPI target are in breach of any B.3. indicator, at which penalties should be levied. There is a further statistics document produced by Clairglow that notes turnarounds averages against a 2 day target and a 5 day target for each month of the contract period. The inputs for these figures are taken from another worksheet that describes these respectively as 'DaysToElectrician' and 'DaysToKamco'. Analysis of these columns shows numerous instructions that have missed the targets by a considerable margin without any further explanations as to why and whether this is acceptable.

It is therefore not possible to ascertain with certainty as to whether any penalty deductions should have been made. It is also noted that corresponding compensation monies due to the service provider are being invoiced and paid.

We were informed that the service intends to 'to upgrade [the] programme spreadsheet with; Survey, Start, & Install completion dates to cover the KPI's with a separate column for attendant building work & sign off date.'

There is a risk of paying for unsatisfactory service provider performance.

Responsible officer	Deadline
Contracts Manager	From April 2019

4. Priority 3 Issues

Action Proposed by Management	Findings
<p>a) The Tender Specification and award criteria would have been signed off by the HOS who has now retired. We understand that Procurement are putting in place procedures to ensure this action is recorded in future</p>	<p>Signing off the tender specification and award criteria helps ensure that the service is satisfied that the procurement will elicit the best bid from the market that meets the business need.</p> <p>We were informed that operational management did not have a formal sign off procedure in place and that all tender documents were fully agreed and approved by procurement ahead of being posted onto the London Tenders Portal.' This does not evidence that operational management is satisfied that the award criteria when scored at tender evaluation will identify the best bidder most able to meet the Council's needs.'</p> <p>There is a risk that the procurement will not meet the business need.</p>
<p>b) Noted. Future extensions to Contracts are being pro-actively managed to ensure they are not extended before final agreement of terms</p>	<p>Entering into contracts prior to commencement of service provision helps ensure that the Council can protect its legal position.</p> <p>A Contract Extension Letter was sent to the service provider on 12 February 2016 noting, 'I am pleased to inform you that on the 7 January 2016 our CCB Board agreed to the full contract extension term of 5 years with Clairglow Heating Ltd from 13 January 2016 to 12 January 2021.' (Noting the 'date from' should have been 6 January 2016 and that the decision was taken two days after the expiry of the first term). The letter also noted, 'This extension will be subject to a variation of the contract incorporating Croydon's emerging social value requirements, confirmation of the London Living Wage, ICT and business continuity requirements (Annex 4 Clairglow Proposal). ... the enhancements, which will be included in the deeds of variation.' The Deed of Variation exercising the Council's option to extend the contract from 6 January 2106 for five years to 5 January 2021, and incorporating these additional provisions into the contract relating to Business Continuity Planning, Social Value Proposals and ICT Requirements, was entered into on 6 September 2016, some eight months later.</p> <p>There is a risk that the contracting authority may be deemed not to have entered into a fresh contract or that the exact terms and conditions of the contract are not known. Should things go wrong, it would not therefore be able to seek specific performance, damages or other suitable remedies at the discretion of the Courts.</p>

TERMS OF REFERENCE

Contract Management Mechanical Works (Heating)

1. INTRODUCTION

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- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE

- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Procurement (Assessing Value for Money);	1	0	1
Formation of Contract, Compliance with the Contracting Authority's Legal Requirements, Retention and Security of Deeds;	0	0	1





Contract Management Mechanical Works (Heating) 2017/18

Variations to Contract;	0	0	0
Planned Maintenance instructions/orders and variations;	0	0	0
Responsive repairs instructions/orders and variations;	0	0	0
Quality Control (including receipting of works provided);	0	0	0
Complaints, Deficiencies in Provision, Rectification and Default;	0	0	0
Payments;	0	1	0
Contract Performance Monitoring; Management Reporting and Performance Reporting;	0	0	0
Budgetary Control;	0	0	0
Total	1	1	2

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

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