

Final Internal Audit Report

Facilities Management – Cleaning Contract

May 2017

Distribution:

- Executive Director, Resources (Final Only)
- Director Customer and Corporate Services
- Director of Finance, Investment and Risk
- Director of Commissioning, Commercialism and Improvement
- Head of Facilities Management
- Head of Finance Service Centre
- Principal Facilities Manager
- Procurement Officer

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

Status of Our Reports

This report ('Report') was prepared by Mazars Public Sector Internal Audit Limited at the request of the 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 work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, we 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 set out in appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

The previous Interservefm 'total facilities management' contract came to an end in July 2016 and was replaced by an alternative model; this being a 'bundled' facilities management (fm) contract arrangement, including cleaning, hard fm, security, catering and logistics.

The Cleaning Services contract was awarded to Churchill Contract Services Ltd in November 2015, initially for three years with an option to extend for a further two. The total value of the contract for the three years is approximately £7.9m.

This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. Key Issues

Priority 1 Issues
The Cleaning Services delivery commenced in July 2016, but the contract has not yet been executed. (Rec 1)
Priority 2 Issues
Some invoices have been posted against a blanket 'cleaning services' purchase order which is not compliant with the ad-hoc service instruction process documented in the Cleaning Specification. It was identified that three purchase orders in respect of ad-hoc service instructions were not raised by the Principal Facilities Manager. Some costs in respect of cleaning do not match the variable pricing schedule, and in other cases management do not have a schedule against which to check the consistency of confidential waste sack collection prices. (Rec 2)
Rebates and/or the margins applied to invoices set up by the Council's 'early payment solutions' partner Oxygen Finance are not currently subject to a Council-side spot-check process to ensure these match the terms of the Premier Supplier Payment Programme. (Rec 3)
The wages paid by the contractor are not currently independently verified to confirm that the London Living Wage Rate is paid. (Rec 4)

The Priority 3 recommendations are detailed under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 2: Contract and Variations to Contract		Detailed Finding/Rationale
Priority	Recommendation 1	
1	<p>Advice should be sought from the Council Solicitor, Monitoring Officer and Director of Commissioning, Commercialism and Improvement in respect of the unsigned Facilities Management Cleaning contract.</p> <p>In particular, it should be ascertained whether purchase orders raised prior to formal execution of the contract are subject to the tender and contract terms and conditions, and if not, what mitigating actions are required.</p>	<p>Regulation 28 of the Tenders and Contracts Regulations states, 'A Director, or their delegated consultant, must not authorise or permit a... to proceed with the Contract... until a written order to proceed with the Contract has been issued and the following actions are completed... the contractor has completed and returned to the Council the contract documents unless the Director can satisfy the Council Solicitor and Council Monitoring Officer and the Director of SCC that the Council's position is otherwise adequately secured...'</p> <p>Cleaning services commenced in July 2016 and a contract in respect of these has not yet been executed. Correspondence provided indicates that the cleaning contractor and legal services provider both had outstanding actions that had not been progressed satisfactorily. The Consultant Project Manager overseeing this process has since left the Council and as a result the delay in contract execution had not been identified until our audit request.</p> <p>In addition, purchase orders in respect of core services and ad-hoc instructions have been raised and placed with the supplier, these do not expressly refer to the Invitation to Tender or the contractor's submission. The purchase orders do, however, make reference to the Council's generic purchasing terms and conditions, which would not include any terms and conditions specific to the procurement. Management is in the process of confirming whether Legal Services or Procurement were formally notified that services had been instructed prior to the contract being signed.</p> <p>It is acknowledged that since identifying this issue, management has chased the legal services provider to give a timescale on execution and is actively monitoring the situation.</p> <p>There is a risk that the contract may have been varied by the actions/inactions of the Council and economic operator.</p>

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>The cleaning contract has been sent to Churchill's by Pinsent Mason requesting their signature. Churchill's have confirmed that this will be completed and sent back to Pinsent Mason week commencing 3rd April 2017. Pinsent Mason will then forward to the Councils legal team for execution. It is anticipated that this will then be completed by the end of week commencing 3rd April 2017.</p> <p>Due to the staff changes within Legal Services and the FM Procurement team this matter was with Pinsent Masons who did not actively pursue this resulting in the current position. The recognition of its important has resulted in this matter being actioned.</p> <p>The formal PO raised refers to the new contract and all works are being undertaken in accordance with the Contract specification. Both parties are working within the scope of the Contract including its monitoring and formal reporting requirements, payment terms and CCN procedures.</p> <p>Initial Legal advice has been obtained and due to the working partnership, contract monitoring, invoice and payment for services, this matter i.e. no signed contract, this is not a P1 or high risk. It would be extremely difficult for Churchill's to dispute any contractual matter due to these working practice, which are in place and have been since the start of the contract.</p>	<p>Disagree – advice from Legal services that this is not a P1. It is a lower priority.</p>	<p>Head of Facilities Management</p>	<p>May 2017</p>
<p>Audit Comment</p>			
<p>While the above comments are noted, this is a breach of the Councils Tender and Contract Regulations, part of the constitution of the Council, and for this reason remains a P1 recommendation.</p>			

Control Area 6: Payments	
Priority	Recommendation 2
2	<p>A review of purchase orders raised since the start of the contract should be undertaken.</p> <p>Staff raising purchase orders outside of the Facilities Management service request process should be reminded that the contractor should be instructed by the Principal Facilities Manager (and other officers with delegated authority) only.</p> <p>Consideration should be given to closing any purchase orders in respect of 'cleaning services' and reminders issued to staff that ad-hoc service instructions should be issued only via new specific purchase orders clearly stating the particular scope and quantities of services to be provided and the cost of doing so.</p> <p>Invoices in respect of purchase orders raised at the start of the contract should be reviewed.</p> <p>Where the contractor has not quoted and charged in accordance with the variable pricing schedule, the Principal Facilities Manager should consider negotiating a refund.</p> <p>A schedule of costs should be requested from the contractor in respect of confidential waste sack provision and collection, and future quotes confirmed against this.</p>
	<p>Detailed Finding/Rationale</p> <p>Paragraph 18.17 of the Cleaning Services specification states, 'Any additional one off ad-hoc work (as listed in section 17) will not form part of this process and will be covered by a separate order.'</p> <p>The Variable Pricing Schedule forming part of the contractor's tender submission states that the cost of 'defrosting and clean[ing] fridge and freezers' is £7.17. A price for ad-hoc confidential waste collection was not requested during the procurement process.</p> <p>Testing of payments identified:</p> <ul style="list-style-type: none"> In one case, an invoice in respect of an ad-hoc work instruction did not have a specific purchase order previously raised in respect of it, against which to subsequently post it and it was therefore posted against the generic purchase order in respect of 'cleaning services' (Cleaning of Fridges and Freezers). This is not in accordance with the process documented in the cleaning specification that requires single specific purchase orders to be raised in respect of ad-hoc work instructions in order that subsequent corresponding invoices can be posted against these; In another case, an invoice was again posted against the generic purchase order in respect of 'cleaning services' even though a specific purchase order had in this instance been raised for that purpose (Cleaning at Malling Children's Centre) As this invoice has been mis-posted against the generic purchase order instead, this P/O is still open. If another invoice is posted to the purchase order it will get paid automatically as the full value of the P/O has been goods receipted; Another invoice relates to cleaning of 37 fridges and freezers, priced at the equivalent of £21.89 per item, which represents a 205% increase on the agreed price of £7.17 stated in the variable pricing schedule. The cleaning specification does not indicate whether 'cleaning' involves only cleaning an empty fridge or freezer, and whether employing of them to allow cleaning incurs an additional cost of £14.72; A number of service instructions in respect of confidential waste sack provision and collection were raised. The prices per confidential sack varied in a seemingly

	<p>logical manner, in so much that these decreased when larger quantities of sacks were ordered. However, there is currently no method through which to check that the rates are being applied consistently; and</p> <ul style="list-style-type: none"> The purchase orders supporting three out of ten invoices were raised by someone other than the contract manager and it is therefore unclear how quotations offered by the contractor were verified against a pricing schedule, one not being in his/her possession. <p>It is acknowledged that the above issues will have arisen due to uncertainty over contract management arrangements whilst the Facilities Management restructure was on-going.</p> <p>There is a risk that effective control of cost may not be achieved.</p>			
Management Response	Agreed/Disagreed	Responsible Officer	Deadline	
<p>All Council staff must use the FM Service Request process for all FM Services in line with the process found on the FM Intranet pages. The Contractor has been notified that they are not to accept any direct instructions or supply quotes to any Council department. If this is situation does arise the Contractor will signpost the department to either the Principal Facilities Manager or the FM Service Request process. Only the Principal Facilities Manager or nominated Building Facilities Managers can formally instruct and authorise and PO to be raised following this process.</p> <p>This process will ensure that any quotes received are checked in accordance with the Contract before issuing to the Council Department or staff.</p> <p>All additional 'pass through' Contract works that follow the above process which are outside the scope of the 'fixed' element of cleaning services will have a separate PO raised for each specific works request. This will link the unique Service Request reference number to the Quote and PO. No Blanket POs for this type of work will be used.</p>	<p>Agree</p>	<p>Head of Facilities Management</p>	<p>Implemented</p>	

All PO's raised at the start of the Contract have been reviewed and cross checked with the Contract variable pricing schedule. There were no errors found.

For confidential waste sacks a breakdown of costs per volume has been received from the Contractor and this has been agreed and allows for a discounted rate based on volume. This will be used for reconciliation and quote validation purposes for future Service Requests relating confidential waste sacks. A CCN has been agreed for these rates which can be linked to the Variable Pricing Schedule in accordance with Section 17.

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Control Area 6: Payments							
Priority	Recommendation 3						
2	<p>A spot-check of new rebates added onto the Oxygen Finance rebate engine and/or a spot check of margins applied to invoices should be undertaken at a frequency and sample level determined by management. The spot check should identify instances where the rebate set-up or margin is in excess of the terms and conditions agreed at tender stage.</p> <p>Alternatively, the Council should seek assurance (evidence) that the contractor is applying a quality assurance mechanism to its own work to mitigate the probability of incorrect 'margins' being applied in respect of rebates.</p>						
	<p>Detailed Finding/Rationale</p> <p>Undertaking spot-checks of new rebates (nominal amounts) and/or rebate margins applied to invoices in the system set up by the Council's 'early payment solutions' provider, Oxygen Finance, helps ensure that the Council does not receive monies in excess of what is rightfully owed to it.</p> <p>During payments testing, it was identified that the cleaning contractor's Premier Supplier Payment Programme submission had been inaccurately entered into the Oxygen Finance rebate engine by Oxygen Finance staff. As a result, a rebate in the region of 2.5-3% was clawed back on payments, rather than the 1% rebate agreed during the tender process. The cleaning contractor identified this and since then the incorrect rebates have been refunded to it.</p> <p>However, we were informed that a Council-side check of rebates set-up by Oxygen Finance on their rebate engine is not currently undertaken as there is insufficient resource to check all rebates, and it is expected the contractor will apply quality assurance mechanisms to its own work.</p> <p>The Council receives a monthly spreadsheet of rebates applied to all eligible contractor invoices and this states what margin has been applied to the invoice. As a result, the Council would be able to identify which invoices and contractors have had an incorrect margin applied.</p> <p>There is a risk that invalid amounts will be clawed back from suppliers and this may negatively affect supplier relations. There is also a risk that suppliers may not challenge the clawback as anticipated due to their size and feelings of unequal bargaining strength. This may place their cash flows and profitability at risk and contradict the Council's position of supporting the local SME community.</p>						
	<p>Management Response</p> <p>A random sample will be of discounts applied will be validated against the supplier agreement each month.</p>						
	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Agreed</td> <td style="text-align: center;">Head of Finance Service Centre</td> <td style="text-align: center;">May 2017</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Head of Finance Service Centre	May 2017
Agreed/Disagreed	Responsible Officer	Deadline					
Agreed	Head of Finance Service Centre	May 2017					

Control Area 7: Contract Performance Monitoring; Management Reporting and Performance Reporting (including Social Value)			
Priority	Recommendation 4	Detailed Finding/Rationale	
2	Evidence to verify that the contractor pays its staff the London Living Wage Rate should be requested and reviewed by management.	<p>Paragraph 15.3 of the draft contract terms and conditions included in the tender document states, 'The Provider shall:</p> <ul style="list-style-type: none"> (i) not pay any Contractor Personnel an hourly wage (or equivalent) less than the London Living Wage Rate...; (ii) provide to the Authority such information concerning the London Living Wage Rate as the Authority or its nominees may reasonably require from time to time, such information to be provided as part of the [blank], to include evidence that the Provider is complying with the provisions of this Condition 13.2...; (iii) co-operate with the Authority and provide such assistance in monitoring the effect of the London Living Wage Rate as the Authority may reasonably require.' <p>The wages the cleaning contractor pays its staff are not currently verified as part of the social value monitoring process.</p> <p>It is acknowledged the contractor holds a Living Wage Foundation accreditation. However, the Foundation's Frequently Asked Questions are not clear as to whether wages and salaries are verified as part of the accreditation process, and therefore independent verification is required.</p> <p>There is a risk that the Council's strategic objectives may not be achieved.</p>	
Management Response			
This has been completed. Confirmation has been received from the Contractor through the supply of anonymised payroll data which clearly shows all staff earn the London Living Wage or higher. This review will be carried out annually and will be an agenda item in the formal Annual Contract review meeting.		Agreed/Disagreed	Responsible Officer
		Agree	Head of Facilities Management
		Deadline	Implemented

4. Priority 3 Recommendations

Recommendation	Detailed Finding/Rationale
<p>a) The Principal Facilities Manager should request that the format of the contractor's quarterly monitoring is amended to include a statement on the location of its supply chain.</p>	<p>Agreed Key Performance Indicator 21 states the cleaning contractor has the following target, '25% of supplies provided by Croydon based CONTRACTORS by value by the end of Year 1 of the contract.'</p> <p>Although the contractor's quarterly monitoring report takes account of all other social value KPIs, it does not comment on the contractor's supply chain.</p> <p>There is a risk the contractor may not invest into the local supply chain to the levels envisaged prior to the procurement.</p>
<p>b) The results of the Strand House re-audit should be uploaded to the Facilities Management SharePoint site. Staff should be reminded of the need to upload contract management documents in a timely manner.</p>	<p>Paragraph 18.9 of the Cleaning Specification included with the tender documents states, 'Where a Site audit has resulted in a score below 3 (for clarity, scores 1 or 2 using the above scoring methodology 18.7), it will result in the issue of a Site Remedial Action Plan (SRAP) to rectify the score to 3 or above. This will result in a joint inspection between the Council and Contractor in four weeks from the issue of the SRAP to re-audit and re-score.'</p> <p>A joint cleaning audit of Strand House was undertaken and a rating of 'failed' was achieved. Evidence of the re-audit could not be provided by the Principal Facilities Manager in a timely manner as this had not been filed on the SharePoint site and we could not therefore confirm that it had occurred.</p> <p>It is acknowledged that the results of the initial audit have been formally reported via contract management meetings and the contractor's performance is therefore being monitored.</p> <p>There is a risk that sub-standard performance will not be rectified satisfactorily.</p>
<p>c) Consideration should be given to retaining evidence that final tender evaluations have been expressly agreed as correct by the moderating group on completion of moderation.</p>	<p>We were informed that moderated tender evaluation results were agreed verbally in a meeting, whilst all attendees could see these on a presentation screen. However, express and written evidence of this was not retained.</p> <p>There is a risk that tender evaluations may be incorrect and in worst case scenarios, an uncompetitive tender selected as the best. There is also a risk that score sheets</p>

<p>may be interfered with. There is also a risk that should the tender evaluation and contract award decision be challenged, that the contracting authority may not be able to rebut any allegations of unfairness.</p>					
Management Response	Agreed/Disagreed	Responsible Officer	Deadline		
<p>a) This will be included within the Contractors quarterly monitoring report and will be monitored during the formal end of year 1 Annual Contract review meeting.</p> <p>b) The Strand House re-audit has now been uploaded to SharePoint and the FM Managers have been reminded of the importance to re-audit and upload this information to ensure consistency.</p> <p>c) All paperwork from the Scoring has been retained and is available for review if required. The Moderation exercise and group work is held with the Procurement Team, which will be obtained and kept with the individual scoring data.</p>	<p>Agree</p>	<p>Head of Facilities Management</p>	<p>May 2017</p>		

TERMS OF REFERENCE

Facilities Management – Cleaning Contract

1. INTRODUCTION AND BACKGROUND

- 1.1 The previous Interservefm 'total facilities management' contract came to an end in July 2016 and was replaced by an alternative model. This being a 'bundled' facilities management (fm) contract arrangement, including cleaning, hard fm, security, catering and logistics.
- 1.2 The Cleaning Services contract was awarded to Churchill Contract Services Ltd in November 2015, initially for three years with an option to extend for a further two. The total value of the contract for the three years is approximately £7.9m.
- 1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating specifically to the Facilities Management – Cleaning Contract.
- 2.2 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of key controls / processes.
- 2.3 The audit will for each of the processes being considered:
 - Walkthrough the processes to consider the key risks and controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE





3.1 Recommendations raised include:

Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Procurement (Assessing Value for Money)	0	0	1
Contract and Variations to Contract	1	0	0
Ad-hoc Service Instructions	0	0	0
Quality Control (including receipting of services provided)	0	0	1
Complaints, Deficiencies in Provision, Rectification and Default	0	0	0
Payments	0	2	0
Contract Performance Monitoring, Management Reporting, and Performance Reporting (including Social Value)	0	1	1
Budgetary Control	0	0	0
TOTAL	1	3	3

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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