



Regularity audit of contract variations

Committee Audit and Standards

Date of meeting 22 February 2019

Date of report 29 January 2019

Report by Assistant Chief Executive

1. Object of report

To advise the committee on the findings of a regularity audit of contract variations. This engagement is included in the annual Internal Audit plan for 2018/19.

2. Background

Procurement is the process of acquiring goods, services or works. The process spans the whole life cycle of whatever is being purchased from identification of needs, formation of a sourcing strategy; to options and supplier appraisal; through to the end of the contract or the useful life of an asset.

The Standing Orders relating to Contracts contained within the Governance manual state the following in relation to contract variations:

'Variations which will result in a 'Significant' increase in the value of the contract should be approved in consultation with the Director of Finance & HR. Unless there are mitigating circumstances, variations should not increase the total value of an existing contract (or total annual value for a supply/service contract) by more than 20%. Proposed increases above this threshold should be considered as a possible new contract. For the avoidance of doubt all variations which cannot be contained within approved budgets require to be approved by the relevant committee.'

'Reporting of Variations - For contracts which had an original contract award price of more than £20,000 all such extras or variations will be reported to the Partnership as soon as practicable if the cumulative effect of these is to increase or decrease the value of the contract by 20% of the contract price, or £50,000, whichever is the lesser. All variations irrespective of value will be reported in the annual report.'

The objective of this engagement was to review and evaluate administration and monitoring arrangements in place for contract variations.

This engagement tested elements of the internal controls and mitigation against SPT 22: Governance arrangements, as identified in the Corporate Risk register.

3. Outline of findings

Contract variation records examined as part of engagement sample testing (December 2018) were found to be satisfactory.

The engagement identified a requirement to clarify a definition of variations across services and review committee reporting arrangements. **Note:** reports have previously been presented as amendments to service provision.

There are some areas for improvement, and these areas have been addressed by two audit recommendations. Finance management have agreed to implement these recommendations, which are currently being actioned.

4. Conclusions

The Audit and Assurance team has undertaken a regularity audit of contract variations. Two recommendations have been agreed from this engagement.

Key controls exist and are applied consistently and effectively in the majority of areas tested in this engagement.

Reasonable assurance can be taken from the areas covered in this engagement.

5. Committee action

The committee is asked to note the contents of this report and agree that the Audit and Assurance Manager submits a follow-up report on the implementation of the recommendations to a meeting in approximately six months.

6. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>None.</i>
Financial consequences	<i>None.</i>
Personnel consequences	<i>None.</i>
Social Inclusion consequences	<i>None.</i>
Risk consequences	<i>As detailed in the report.</i>

Name Valerie Davidson

Name Gordon Maclennan

Title Assistant Chief Executive

Title Chief Executive

For further information, please contact Iain McNicol, Audit and Assurance Manager on 0141 333 3195.

Agreed action plan: Regularity audit of contract variations

No.	Recommendation	Priority	Action Proposed	Lead Officer	Due date
1.	<p><u>Contract variation definition</u></p> <p>A consistent contract variation definition, criteria and terminology should be applied across services.</p> <p>Contract administrators should ensure all relevant stakeholders are informed in order to mitigate any potential risk.</p>	Medium	Additional procurement guidance will be reviewed and issued to all contract administrators and relevant stakeholders.	Director of Finance & HR	March 2019
2.	<p><u>Reporting</u></p> <p>Partnership/committee reporting arrangements should be reviewed for adequacy.</p> <p>The review should include the protocol and reporting frequency.</p>	Medium	<p>Partnership/committee reporting arrangements will be reviewed and enhanced, where appropriate.</p> <p>Reports will be presented on the website.</p>	Director of Finance & HR	March 2019

High: A fundamental control that should be addressed as soon as possible;

Medium: An important control that should be addressed within three months;

Low: An issue which is not fundamental but should be addressed within six months to improve the overall control environment.