Internal Audit of Contract Management

2024/2025

Final Internal Audit Report

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Contents

Executive summary

	Partial Assurance
Partial	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.

Key findings

The executive summary assesses SBC's contract management governance, concluding with a **Partial Assurance** rating due to significant weaknesses that may impact effectiveness. While advancements such as the establishment of a Contract Management Support Team, the launch of a Contract Management Strategy, and the creation of a Central Contract Register have improved oversight and transparency, critical deficiencies persist.

The Central Contract Register is incomplete and lacks essential data capture, including key performance indicators, due to the lack of contract management data required to populate it. Additionally, Inconsistencies in performance information gathering across departments undermine accountability, and the absence of a standardised reporting framework to senior leadership limits their visibility and decision-making capabilities.

Despite progress, it is crucial for SBC to address these weaknesses in data management, performance monitoring, and reporting protocols. Failure to do so risks compromising contract management effectiveness and service delivery. Immediate action is needed to fully implement the Contract Management Strategy, to optimize contract governance and ensure alignment with the Council's strategic goals, safeguarding its interests and achieving compliance with the Procurement Act 2023. The Strategy, if implemented, should also provide the data needed for the register. The contracts register cannot exist without effective contract management practices across the Council.

The successful implementation of the audit's recommendations is currently dependent on formal endorsement and active support from the Senior Leadership Team (SLT). While the necessary strategy and tools are in place, SLT has not yet committed to supporting their implementation. This presents a significant risk, as key actions—such as the mandatory use of the Contract Management Toolkit, the establishment of the Contract Management Monitoring Board (CMMB), and the standardisation of training and reporting—require top-down enforcement to ensure consistency and effectiveness. It is therefore essential that the action plan acknowledges this dependency and positions SLT endorsement as a prerequisite for successful delivery.

	High	Medium	Low
Recommendation(s)	5	5	0

Assessed risk 1

The absence of governance processes, including the provision of management information, to support management of contracts.

Opinion on management of risk

Partial

Partial Assurance

There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.

Findings and implications

Summary of findings and implications.

The audit report identifies notable achievements in SBC's contract management processes, particularly the establishment of a Contract Management Support Team, the launch of a Contract Management Hub which has been set up on Insite and contains the Contract Management Strategy complete with the toolkit and template documents, and compilation of a Central Contract Register, marking a significant step towards improved oversight and transparency. This strategy establishes a standardised and structured approach to contract management across all directorates and ensuring compliance with the Procurement Act 2023. The centralised contract register enhances visibility into contractual obligations and aids in decision-making. Additionally, many departments have initiated regular contract performance review meetings, demonstrating a commitment to monitoring service delivery and addressing issues effectively.

Despite these advancements, notable deficiencies persist. The Central Contract Register remains incomplete and lacks crucial functionalities for capturing essential data, including key performance indicators and contract documentation. Additionally, while some contracts have designated owners, not all consistently gather or document performance information, resulting in oversight gaps. The inconsistency of performance review meetings across departments, coupled with inadequate documentation, further undermines accountability. Furthermore, the lack of a standardized reporting framework in key service areas impedes senior leadership's capacity to make informed decisions regarding contract performance.

In conclusion, while SBC has made strides in enhancing contract management governance, addressing the identified shortcomings—particularly in data completeness, performance monitoring, and reporting protocols—will be crucial for optimizing contract management effectiveness and ensuring alignment with the Council's strategic goals.

Detailed findings and implications.

There is an absence of structured governance processes, including the provision of management information to support contract management. Governance gaps can lead to inefficiencies, lack of oversight, and potential financial and operational risks. While several controls have been implemented to address this risk, the audit found room for improvement.

1.   Central Contract Register

An accurate and reliable Central Contract Register is crucial in contract management as it serves as the authoritative repository for all contractual agreements, enabling effective oversight and administration. It facilitates transparency by providing a high-level overview of contractual obligations, terms, and performance metrics, which is essential for monitoring compliance and managing risks. When we identify issues using these metrics, we should be able to hold the contractor accountable. Additionally, a well-maintained contract register aids in decision-making by offering quick access to key information, supporting timely renewals, amendments, and performance evaluations. Ultimately, it enhances accountability and ensures that both the organization and its suppliers adhere to agreed-upon terms, thereby safeguarding the Council's interests and optimizing resource allocation.

Prior to January 2024, SBC lacked a centralised contracts register, with each directorate maintaining independent and often inconsistent contract records. These records were frequently incomplete, lacked version control, and, in some cases, were not based on actual contractual documentation. This fragmentation made it difficult to establish a single source of truth.

Recognising the need for improvement, the Contract Management Support Team compiled a Central Contract Register in February 2024, which is now maintained on the Agresso system. Extracts of the register are regularly shared with nominated contract officers through a designated SharePoint portal for their onward review and updates.

Despite this progress, the audit identified key shortcomings. The Agresso system lacks the capability to capture essential contract management data, such as key performance indicators (KPIs), contract categorisation, variations and ownership details. Furthermore, while Agresso is not a dedicated contract management system, it does allow for the collection and storage of contractual documentation, but the issue remains the lack of contractual documents to back up the available data submitted by directorates

The Central Contract Register itself was compiled using outdated departmental records and remains incomplete and inaccurate due to the lack of contract management data required to populate it. The Contract Management Strategy if implemented should provide the data needed for the register. There was little evidence that contract officers consistently access the portal to review the extracted registers or provide information to the contract management support team to update the central register. The contracts register cannot exist without effective contract management practices across the Council.

To address these issues, the contract management support team commenced data validation within the central register, but progress is slow due to non-availability of contracting documentation as well as lack of portal updates. A structured and formalized review process has been outlined in the contract management toolkit to help speed up the process by ensuring nominated contract officers validate and update contract records at defined intervals

via the portal and improve governance through clearer accountability for maintaining the register. The audit recommends that the validation exercise is accelerated in order to bring the register up to date. **(Recommendation 1)**

2. Contract Performance information gathering and initial reviews.

Effective gathering of performance information is crucial for ensuring that contracts meet their service objectives and comply with contractual obligations. The UK National Audit Office (NAO) Good Practice Contract Management Framework requires contract managers to regularly monitor contract performance in a data-driven approach, against agreed objectives and key performance indicators (KPIs). This ensures accountability and early identification of issues. The audit found that while all contracts sampled (except Temporary Accommodation), had designated owners responsible for contract oversight, not all of them obtained performance information from contractors. Our testing however verified that where provided, this information was relevant, timely and in a pre-agreed format. We confirmed that reviews on performance data were conducted.

The audit then tested how robustly the performance information was initially reviewed. It noted the lack of a consistent structured approach for reviewing, documenting of performance issues that were noted and the subsequent corrective actions taken. The audit noted that some teams (for example Public Health, Adult Social Care) documented detailed reviews, while other contract teams did not maintain any evidence of reviews. Furthermore, even within teams which demonstrated strong performance gathering and reviews, there were lapses. For instance, the Leisure Centre Contracts within the Public Health team did not collect performance information. When questioned, the team cited contract handover issues as justification for this shortfall, yet no explanation was given for the lack of progress six months after the new team took over. In other cases, contractual documentation we requested was difficult to locate and provide, raising concerns about record management and the criteria used to measure performance.

This lack of consistent structured oversight poses a risk to effective contract management and accountability. To address these issues, the council should promote/raise staff awareness of the standardised framework for contract performance monitoring as outlined in the strategy (stage 4), ensuring that all contracts have clearly defined review procedures and scheduled meetings with documented outcomes. **(Recommendation 2)**

3. Contract Performance review meetings.

Regular meetings are a critical component of effective contract management for the Council, providing teams within departments an opportunity to review the performance of services under their relevant contracts. These meetings help ensure that performance issues are addressed, decisions are made promptly, and action points are followed through. Our audit found that contract managers acknowledged this and scheduled regular meetings across various departments to discuss contract performance, aligning with Stage 3 toolkit requirements.

We examined meeting records from eleven contracts, where they existed, and confirmed that appropriate agendas were used to discuss contract performance and correct participants

attended the meetings. The minutes confirmed that follow-up actions were noted, ownership assigned and implemented with any unresolved issues flagged in subsequent meetings. The audit was unable to observe contract performance meetings, due to timetabling, which would have offered valuable insights into the quality of discussions, stakeholder participation, and the effective resolution of performance issues. However, interviews were conducted with meeting participants and confirmed our findings from examining meeting documentation.

The interviews also provided a deeper understanding of the challenges departments face in such meetings, documenting and executing meeting outcomes. They highlighted poor meeting facilitation, lack of clear guidelines, undefined responsibilities and over-reliance on verbal communication as additional factors contributing to the inconsistent meeting and documentation practices. Our further follow ups confirmed this feedback and revealed several gaps.

First, there was a notable lack of consistency on how review meetings were conducted. From our sample, Temporary Accommodation reviews were conducted via ad-hoc meetings only, with no meeting facilitation or documentation of matters discussed. While eleven contracts had comprehensive and structured meeting records as mentioned above, an additional five contract's records were incomplete which severely limited the ability to effectively track any follow ups.

In summary, the audit revealed deficiencies in the documentation and follow-up of contract performance review meetings. Without accurate and complete meeting records, there is no clear trail of accountability, and critical performance issues may be overlooked.

4. Management Reporting and Escalation Mechanisms

Effective management reporting is essential for ensuring that senior leadership is equipped with relevant and timely information regarding contract performance, risks, and issues. The provision of summarised reports to Senior Leadership Teams (SLT) is a critical control for escalating contract management issues to the strategic level, where they can be appropriately addressed.

The audit confirmed from our sampled contracts that half had summarised reports provided to SLT to support contract management. We further reviewed the reports provided and observed that they were directed to the appropriate recipients and adhered to pre agreed structured formats. We also checked for evidence and confirmed that feedback from senior leadership was received and actioned accordingly from subsequent periods documentation.

However, this is not universally applied and several key service areas, including Public Transport, Highway Management, Waste Management and Temporary Accommodation, failed to provide evidence that they generate or submit regular management information reports to SLT. Without these reports, senior leadership is deprived of critical data needed to make informed decisions and ensure that contract performance aligns with SBC's strategic goals.

Furthermore, the audit revealed that 12 out of 20 contracts examined lacked a scheduled reporting timetable. A lack of standardised reporting schedules contributes to inconsistent oversight, making it difficult to assess whether contracts are being managed effectively over time. Without clear reporting timelines, it is possible that important contract performance

issues are not brought to the attention of senior leadership on a regular basis, resulting in delays or missed opportunities for intervention.

The audit recommends that the council implements standardised reporting protocols and a scheduled timetable for all key service areas to ensure regular submission of management information reports to senior leadership, enhancing oversight and informed decision-making on contract performance. The contract management toolkit includes an escalation protocol, and a categorisation tool. The categorisation tool will allow the Council to identify the risk level and relevance of each agreement and escalated accordingly. **(Recommendation 3)**

Recommendations

1. The Contract Management Support Team will ensure the Central Contract Register is fully validated, updated regularly, and includes essential contract data such as key performance indicators (KPIs), variations, and supporting documentation.

2. Directorate Contract leads, and contract owners will standardise performance monitoring frameworks across all departments, ensuring that all contracts have documented performance reviews and structured meetings, in line with Toolkit Stage 4.

3.   The Senior Leadership Team (SLT) & Contract Owners will implement a structured reporting timetable, standardised reporting templates, and escalation protocols to improve visibility of contract performance at senior levels. As per the Strategy toolkit, a Contract Management Monitoring Board (CMMB) will also be formed, comprising contract managers/officers from each directorate and be responsible for managing Very High and High-risk contracts and report back to the SLT.

Assessed risk 2.

Contracts fail to deliver the intended benefits to the Council and its stakeholders.

Opinion on management of risk

	Partial Assurance
Partial	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.

Findings and implications

Summary of findings and implications.

The audit of the legal review process for contracts exceeding £100,000 reveals both notable achievements and significant deficiencies in the Council's contract management practices. The establishment of a control mandating legal reviews by HBLaw is a commendable step toward ensuring compliance and mitigating associated risks for high value contracts. However, our audit findings indicate that out of a sample of 20 contracts with contract values above this value, only 9 contracts contained documented evidence of these reviews, highlighting gaps in adherence to Council policy.

While the Council has made progress in developing compliance frameworks, a large number of contracts we examined lacked explicit requirements, nor was it pursued by contract managers, for contractors to submit and keep up to date essential compliance documentation, thereby increasing the risk of regulatory breaches. Additionally, although the Council has implemented a requirement for HBLaw-approved templates for contract variations, only 8 contracts adhered to a formal variation process, and none were recorded in a centralised contract register, undermining transparency and accountability.

Moreover, contract managers reported insufficient training on variation procedures, resulting in knowledge gaps that could lead to unauthorised changes. In summary, while the Council has made significant strides in enhancing its legal and compliance frameworks, addressing the identified deficiencies is imperative for strengthening governance, minimising risks, and ensuring that contracts effectively deliver their intended benefits to the Council and its stakeholders.

Detailed findings and implications.

1. Review of Legal Review Process for Contracts Over £100,000.

As part of the contract management audit, an assessment was conducted to evaluate the effectiveness of the legal review process for contracts exceeding £100,000. The Council has successfully established a control mechanism requiring all such contracts to undergo a review by the legal service provider, HBLaw. This process is pivotal in ensuring compliance with legal requirements and mitigating potential risks, thereby safeguarding the Council against legal disputes, financial liabilities, and regulatory non-compliance.

However, the audit revealed some deficiencies in the execution of this process. Testing on a sample of 20 contracts valued above £100,000 indicated that only 9 contracts had documentation confirming they were reviewed by HBLaw, with legal advice applied. The remaining 11 contracts presented minimal supporting documentation. While follow-up interviews with contract owners indicated that legal advice had been sought, the lack of comprehensive records makes it challenging to verify adherence to legal standards and the effective management of associated risks.

Furthermore, the audit identified a gap in the documentation of key contractual risks and contentious issues that may have been flagged during the procurement stage but required ongoing attention during implementation. This absence limits the Council's ability to track compliance and manage risks effectively throughout the implementation phase, including the retention of important compliance documentation from contractors.

This report recommends enhanced documentation practices and risk tracking to fully support the integrity of the legal review process. **(Recommendation 4)**

2. Compliance documentation retention

The Council has made significant strides in recognising the importance of compliance documentation for contractors, understanding its critical role in mitigating legal, financial, and operational risks. The initiative to integrate compliance documentation into contracts reflects a proactive approach to safeguarding the organisation.

However, the audit revealed several deficiencies in the management of compliance documentation. A review of a sample of 43 contracts indicated that only 3 contracts required contractors to submit documentation to evidence compliance, even for standardised requirements such as GDPR compliance, insurance, and health & safety certifications. This inconsistency highlights a lack of standardised contract terms, potentially exposing the Council to compliance risks.

In addition, there was insufficient evidence provided to confirm that the documentation was periodically updated, and reviews conducted throughout contract lifetime. This absence of a structured review process raises concerns about the accuracy and validity of the compliance documents provided by contractors. The audit found that the Council lacks a documented retention policy for contractor compliance documentation. As a result, staff were unaware of any formal requirements for record-keeping, and compliance documents were not

systematically stored in a central repository. This fragmented approach increases the risk of lost or inaccessible records, especially when key personnel leave their roles.

In summary, while the Council has made commendable efforts in integrating compliance documentation into its contracts, there remains a critical need to standardize requirements and implement a formal retention policy to strengthen compliance oversight. **(Recommendation 5)**

3. Management of Contract Variations

The Council has established a structured, pre-approved process for managing contract variations, emphasising transparency, legal compliance, and financial control. By requiring the use of HBLaw-approved templates and formal recording in the contract register, the Council aims to maintain an auditable record of contractual changes. This oversight is crucial for preventing unauthorised amendments, reducing financial risk, and ensuring compliance with legal and regulatory obligations.

However, the audit revealed significant weaknesses in the management of contract variations. Only 8 out of the sampled contracts adhered to a formal variation process, suggesting that many variations are handled informally or inconsistently. Furthermore, HBLaw was not consistently consulted for variations exceeding £100,000, where legal oversight is essential to mitigate risks. The lack of legal review raises the potential for contractual disputes and non-compliance with statutory requirements.

The examination also found that none of the contract variations were recorded in a Central Contract Register, undermining transparency and creating several operational risks:

- **Inability to Track Changes**: Without a clear record, contract managers may struggle to fully understand contractual obligations after modifications.
- **Financial Risk Exposure**: Untracked variations can lead to increased costs that are not reflected in financial planning or budget allocations.
- **Compliance Concerns**: Failure to document variations risks breaches of procurement regulations and internal governance requirements.

Interviews with contract managers further highlighted the need for improvement. Many reported a lack of formal training on variation procedures, resulting in knowledge gaps about procurement thresholds for re-tendering and permissible changes before requiring a new procurement process. This lack of training increases the risk of unauthorised variations, exposing the Council to potential legal and financial liabilities.

Additionally, there was no consistent assessment or documentation of the financial implications of contract variations prior to approval. Opportunities for cost savings, such as renegotiations or contract extensions, were often overlooked, complicating efforts to ensure that variations deliver value for money.

A review of the Council's FY 2023/24 spending report raised further concerns, revealing that 61% of the total contract values recorded in the contract register were spent (£212M against a total value of £346M). This discrepancy raises questions about the accuracy of recorded contract values and whether significant unrecorded variations have occurred, underscoring the need for improved monitoring of financial commitments.

In summary, while the Council has made strides in establishing a structured approach to contract variations, there remains a critical need to enhance formal processes, training, and documentation practices to ensure effective management and oversight.

Recommendations

4. The Council will mandate legal reviews for all contracts above £100,000 and enforce formal procedures for contract variations, ensuring adherence to toolkit stage 5 guidelines.

5. **The** Procurement Team in conjunction with Contract Owners will implement a standardised approach for obtaining and updating compliance documentation from contractors, with a formal retention policy and periodic audits as well as provide staff training to enhance compliance oversight.

Assessed risk 3

Contracts fail to protect the Council's interests;

Opinion on management of risk

<div style="background:#ddeeff;padding:1em;">
Reasonable

Reasonable Assurance

Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
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Findings and implications

Summary of findings and implications.

The audit assessed whether contract management processes effectively protect the Council's interests. Key areas reviewed included penalty and incentive clauses, enforcement mechanisms, financial controls, cost monitoring, contract renewals, and performance validation. While some good practices were identified, significant weaknesses expose the Council to financial, operational, and compliance risks.

Key Findings:

- **Penalty and Incentive Clauses** were not consistently applied, with only 40% of contracts reviewed including enforceable penalty clauses. The absence of standardised clauses weakens accountability and limits the Council's ability to address supplier underperformance.
- **Enforcement of Clauses** was effective where criteria met, with penalties and incentives correctly applied. However, the lack of contractual consistency means not all suppliers are held to the same performance standards.
- **Purchase Orders (POs)** were used in some cases to control spending, but only half of the sampled contracts demonstrated consistent application. The absence of a mandatory PO requirement increases financial risk and reduces budgetary oversight.
- **Cost Monitoring and Oversight** was inconsistent, with the majority of contracts reviewed lacking structured cost-tracking mechanisms. Reliance on the Finance team rather than proactive monitoring by contract managers limits financial control and increases the risk of budgetary overruns.
- **Contract Renewal Processes** lacked governance controls, with some renewals occurring informally without appropriate approvals or updates to the contract register. The absence of early warning mechanisms led to unmonitored contract extensions, increasing compliance risks.
- **Performance Monitoring** varied across departments, with weaknesses in data validation and benchmarking. Limited follow-up on performance issues further weakened contract oversight.

Detailed findings and implications.

1.   Penalty and Incentive Clauses in Contracts

Ensuring the Council's interests are protected in contract management requires robust mechanisms to drive supplier performance and uphold service quality. One of the most effective ways to achieve this is through the inclusion of penalty and incentive clauses linked to key performance indicators (KPIs). These clauses serve a dual purpose: they enforce financial consequences for underperformance while also rewarding exceptional service, thereby aligning supplier incentives with the Council's strategic objectives.

A comprehensive audit review was conducted to assess the extent to which penalty and incentive clauses were incorporated into existing contracts. A sample of 20 contracts was reviewed, revealing that only 8 contracts (40%) included explicit penalty and incentive clauses tied to performance KPIs. These clauses clearly defined triggers, timelines, and required actions, ensuring enforceability. However, the remaining 12 contracts (60%) lacked such provisions, meaning there were no enforceable financial consequences for suppliers failing to meet agreed performance levels, nor incentives for exceeding expectations. The absence of these clauses creates a risk where underperformance could go unpenalised, reducing the Council's ability to ensure service quality and value for money.

In addition to document review, contract managers were interviewed to gauge their understanding of penalty and incentive mechanisms. While contract managers recognised the importance of these clauses in driving supplier performance, they confirmed that their inclusion was inconsistent and often dependent on individual contract negotiations rather than a standardised Council-wide policy. This ad hoc approach reduces the Council's ability to uniformly enforce service standards and creates disparities in how supplier performance is managed.

The findings highlight a critical opportunity for improvement. To enhance contract management and better protect the Council's interests, penalty and incentive clauses should be mandated as a standard component in all contracts, particularly those related to critical services. Establishing clear guidelines and templates for contract drafting would ensure consistency and fairness in contractual obligations. Additionally, periodic reviews of contract terms should be implemented to assess the effectiveness of these clauses and make necessary adjustments to strengthen enforcement mechanisms.

By institutionalising penalty and incentive clauses across all contracts, the Council can significantly mitigate the risks associated with supplier underperformance. This approach will not only enhance service quality but also ensure that financial resources are used efficiently, ultimately benefiting both the Council and the community it serves. **(Recommendation 6)**

2. Enforcement of Penalty and Incentive Clauses

Effective enforcement of penalty and incentive clauses is essential in ensuring that suppliers comply with contractual performance standards, thereby safeguarding the Council's financial interests and service delivery objectives. These clauses serve as a mechanism to deter underperformance while incentivising suppliers to achieve or exceed agreed key performance indicators (KPIs). Their proper implementation enhances accountability, mitigates risks, and ensures value for money in contractual engagements.

As part of this audit, a review of contractor performance data was conducted to assess whether penalty and incentive clauses were effectively enforced. The audit examined instances where supplier performance exceeded or failed to meet contractual thresholds, evaluating whether the corresponding penalties or incentives were applied as stipulated. In addition, interviews were conducted with contract managers to assess their understanding of enforcement procedures and their alignment with contractual obligations.

The audit findings indicate that, where penalty and incentive clauses were incorporated into contracts, they were enforced appropriately when triggered. Penalties were applied in a timely manner for instances of non-compliance, as evidenced by invoiced amounts, thereby protecting the Council from financial losses due to underperformance. Similarly, performance incentives were allocated correctly in cases where suppliers exceeded required service levels, reinforcing performance-driven outcomes. Furthermore, no errors were identified in the application of penalties or incentives, indicating that enforcement mechanisms were functioning as intended.

While the enforcement of these clauses was found to be effective in applicable contracts, a broader concern remains regarding the inconsistency in their inclusion across all contractual agreements. The absence of standardised penalty and incentive clauses in a significant proportion of contracts limits the Council's ability to hold suppliers accountable and optimise service delivery outcomes.

To strengthen contract management controls, it is recommended that the Council establish a standardised framework for the inclusion and enforcement of penalty and incentive clauses across all relevant contracts. Additionally, enhanced monitoring mechanisms should be implemented to ensure consistent and transparent enforcement. Providing training to contract managers on the effective application of these clauses will further support robust contract oversight and mitigate risks associated with supplier non-performance.

The implementation of these measures will enhance the Council's ability to enforce contractual obligations effectively, ensuring service quality, financial accountability, and long-term value for money.

3. Use of Purchase Orders in contract invoicing

The Purchase Order (PO) system plays a critical role in ensuring financial control, accountability, and transparency in contract management. By requiring the issuance of POs before payment processing, the Council can effectively match invoices to contracts, ensuring that payments align with approved budgets, contractual terms, and service expectations. This mechanism enhances financial oversight, mitigates the risk of unauthorised payments, and strengthens expenditure monitoring.

The audit reviewed the application of the PO system in contract invoicing to assess its effectiveness in supporting financial controls. The analysis identified instances where POs were correctly generated and linked to invoices, ensuring alignment with agreed contract terms and values. In cases where the PO system was applied, contract owners demonstrated active review processes, verifying charges before invoice approval. This approach facilitated early resolution of discrepancies and reinforced financial accountability.

Further examination revealed that 50% of the contract teams in the audit sample consistently utilised POs when processing invoices, reflecting adherence to best practices. Notably, teams managing Housing Repairs and Highway Maintenance contracts demonstrated robust invoice validation processes, including the review of monthly work schedules and the resolution of discrepancies before issuing payment certificates. These practices highlight the effectiveness of the PO system in maintaining financial discipline when properly implemented.

However, the audit also identified inconsistencies in the use of POs across contracts. In 50% of the sampled contracts, there was no evidence that invoices were matched to POs, indicating a lack of standardisation in procurement and payment processes. The absence of a mandatory PO requirement for all contract-related invoices has resulted in inconsistencies in invoice matching, financial tracking, and budget monitoring. Additionally, contract managers could not provide any further explanations due to reliance on the Finance team for support on payment processing, demonstrating a lack of direct accountability within departments. This gap increases the risk of financial mismanagement, errors, and potential overspending.

The findings suggest that while the PO system is effective where applied, its inconsistent use undermines the Council's financial controls and risk management framework. To address this issue, it is recommended that the Council implement a mandatory requirement for the use of POs in all contract-related invoicing. Establishing clear guidelines, providing training for contract managers, and enhancing monitoring mechanisms will strengthen financial oversight and improve compliance with procurement best practices.

Implementing these measures will enhance financial control, accountability, and transparency in contract management, ultimately protecting the Council's financial interests and ensuring value for money. **(recommendation 7)**

4. Monitoring of Contract Costs Against Budget

Robust oversight of contract costs is essential to ensuring that expenditures remain within approved budgets, preventing financial mismanagement, and maintaining transparency. Regular monitoring enables the Council to make informed decisions, implement timely corrective actions, and uphold fiscal responsibility. This audit assessed the extent to which contract costs are systematically tracked and managed against budgeted figures.

The audit identified several positive practices in contract cost monitoring. All sampled contracts had annual budgets, either embedded within contractual agreements or approved by the Cabinet as part of the Council's annual expenditure planning process. This information was readily available upon request, demonstrating a fundamental awareness of financial commitments among contract managers. Additionally, 14 out of 20 contract owners actively monitored expenditures, conducting periodic checks for discrepancies such as duplicate charges or unsupported cost claims, reinforcing financial accountability.

Further, five contracts were found to regularly share cost-monitoring reports with the Senior Leadership Team, ensuring high-level financial oversight. The finance team also provided evidence of instances where incorrect invoice charges had been identified and refunded, demonstrating that certain financial control measures were effectively in place. These practices illustrate the benefits of structured financial monitoring in preventing cost overruns and ensuring proper expenditure tracking.

Despite these strengths, the audit highlighted several areas requiring improvement to enhance contract cost monitoring and financial governance. A key issue observed was the inconsistent application of cost-monitoring practices across contracts. While all reviewed contracts had budgeted figures, many lacked detailed cost-versus-expenditure schedules to track actual spending. Without structured financial oversight, contract managers face challenges in monitoring cumulative expenditures, increasing the risk of financial mismanagement.

Another concern identified was the heavy reliance on the finance team for financial reporting. Many contract managers depend on finance staff to manage invoicing and financial tracking, but there was limited evidence that spending reports were being generated and regularly reviewed by contract managers themselves. This dependency limits their ability to proactively manage expenditures and respond swiftly to budgetary concerns, thereby reducing operational efficiency. Additionally, the audit found that contract managers did not consistently perform spending trend analyses. The absence of such analyses reduces the ability to detect financial anomalies, such as overspending or underutilisation of funds, which could otherwise inform corrective actions by senior leadership.

Furthermore, the Central Contract Register was found to be inconsistently updated to reflect budget adjustments and contract variations. This inconsistency results in an incomplete and, at times, outdated view of financial commitments, making it difficult for contract managers to make well-informed decisions regarding expenditure control. Without an accurate and regularly updated contract register, financial planning and forecasting become unreliable, potentially leading to budgetary inefficiencies.

To address these deficiencies, the Council should implement structured financial oversight mechanisms, improve real-time monitoring, and standardise cost-tracking practices across all departments. Establishing clear guidelines for contract managers, ensuring routine expenditure analysis, and maintaining an up-to-date contract register will strengthen financial transparency and enable contract managers to exercise greater control over contract expenditures. These improvements will enhance the Council's ability to manage financial risks effectively while ensuring value for money in contractual engagements. **(Recommendation 8)**

5. Contract Renewal Process

A well-structured contract renewal process is essential for maintaining service continuity, ensuring compliance with procurement regulations, and upholding financial oversight. Properly managed renewals help prevent service disruptions, reinforce governance procedures, and enhance transparency in financial commitments. This audit evaluated the Council's approach to contract renewals, focusing on the effectiveness of early warning mechanisms, the use of approved renewal templates, adherence to governance frameworks, and the accuracy of record-keeping within the Central Contract Register.

Findings from the audit revealed that where contract renewals were implemented, they were generally integrated into routine business processes and monitored effectively. This ensured that services continued without disruption once contracts were extended. Additionally, six out of twenty contract managers interviewed had established early warning systems to track contract expiration dates, allowing for timely renewal actions. In these instances, contract managers demonstrated awareness of their contractual obligations and followed renewal

procedures to maintain operational continuity. However, these practices were not consistently applied across all departments, exposing weaknesses in the overall contract renewal process.

Significant inconsistencies were observed in the approach to contract renewals. The audit found that while some departments utilised the approved renewal templates provided by HBLaw, others did not, leading to variations in documentation and procedural compliance. Furthermore, several contract renewals were authorised solely through email correspondence from contract managers without clear evidence of adherence to the Council's Contract Procedure Rules. These inconsistencies raise concerns about the validity of renewals and increase the risk of governance breaches. Notably, automatic renewals pose a risk of failing to secure the best value by not testing the market for competitive alternatives. The absence of a standardised approach to contract variations further complicated the renewal process, with some contracts being extended outside of the established governance framework.

A further issue identified was the lack of a uniform early warning system for expiring contracts. Only six contracts reviewed had a formal mechanism in place to notify managers of upcoming expirations. The absence of such a system resulted in cases where services continued under expired contracts or where contracts were renewed informally without appropriate scrutiny. This reactive approach increases the risk of operational, financial, and legal challenges, and fails to deliver demonstrable best value.

Record-keeping deficiencies were also noted, particularly regarding contract renewals in the Central Contract Register. None of the reviewed renewals had been formally recorded, raising concerns about transparency and accountability. Without comprehensive documentation, the risk of unauthorised or unmonitored contract extensions increases, potentially leading to financial mismanagement and non-compliance with procurement regulations.

The audit concluded that contract renewals across the Council are not consistently managed in a structured and controlled manner. While some contract managers demonstrated effective monitoring and integration of renewals into ongoing operations, the lack of a standardised approach undermines overall governance. The absence of a formal early warning system, inconsistent use of approved renewal templates, non-compliance with procurement guidelines, and failure to update the contract register highlight the need for significant process improvements.

To mitigate these risks, the Council should establish a standardised contract renewal framework that enforces early warning mechanisms, mandates the use of HBLaw-approved templates, ensures strict compliance with procurement regulations, and requires all renewals to be accurately recorded in the contract register. Implementing these measures will enhance transparency, improve accountability, and strengthen governance in the contract renewal process. **(Recommendation 9)**

6. Contract Performance Monitoring and Validation

Robust contract performance monitoring and validation are essential to ensuring that contractors meet their obligations and deliver the expected outcomes. Effective oversight protects the Council's interests by mitigating risks associated with underperformance, financial inefficiencies, and reputational damage. This audit assessed whether the Council has a structured and reliable process for gathering, validating, and acting on contract performance data.

Findings from the audit indicate that contract managers generally understand the importance of performance data in managing contracts, reflecting a positive commitment to effective contract oversight. However, significant inconsistencies were identified across departments, potentially weakening the Council's ability to detect and address performance issues. While the majority of contract managers acknowledged the need for ongoing performance monitoring, only 13 out of 20 were able to demonstrate the use of consistent and systematic processes for collecting and reviewing performance data. These inconsistencies pose a risk to service delivery, as gaps in oversight may result in undetected underperformance and unaddressed financial inefficiencies.

The audit also examined the quality and reliability of performance data submitted by contractors. While the data provided was generally relevant, timely, and formatted as required, concerns were raised regarding its accuracy and verification. In several cases, performance data lacked sufficient physical validation (for example limited physical inspections for completed services like repairs and maintenance), creating a risk that the Council may rely on inaccurate or misleading information when assessing contractor performance. Without a robust verification process (such as photographic evidence), there is an increased likelihood of overpayments for services not delivered to the agreed standard or delayed corrective actions, ultimately impacting the overall effectiveness and value of the contract. Strengthening data validation mechanisms is crucial to ensuring the integrity of performance assessments and safeguarding financial accountability.

Additionally, the audit highlighted weaknesses in follow-up actions on identified performance issues. Only 8 out of 20 contracts reviewed in our sample demonstrated evidence of timely and systematic follow-through on performance concerns. Failure to address underperformance promptly exposes the Council to ongoing risks, including service failures, financial loss, and reputational damage. A structured approach to issue resolution, including documented follow-up actions and escalation procedures, is necessary to ensure that performance concerns are effectively managed and corrective measures are implemented in a timely manner.

Overall, the audit concluded that while contract managers recognise the importance of performance monitoring, inconsistent practices across departments weakens the Council's ability to enforce service standards and financial accountability. Strengthening contract performance monitoring requires the implementation of standardised data validation processes, greater use of benchmarking, and a more rigorous approach to addressing identified performance issues. By enhancing these areas, the Council can improve contract oversight, drive better service outcomes, and mitigate financial and operational risks.

Recommendations

6. The Procurement Team and Contract Owners will introduce mandatory penalty and incentive clauses in all contracts, particularly high-value and high-risk ones, to include enforceable penalty and incentive clauses linked to KPIs, with clear enforcement mechanisms.

7. The Procurement Team will mandate the use of Purchase Orders (POs) for contract invoicing and Finance team will ensure all contract-related invoices are matched to approved POs to improve financial control, tracking, and oversight before payment processing.

8. The Procurement Team and Contract Owners will strengthen contract renewal governance by implementing a standard renewal framework, including early warning mechanisms, using approved templates for renewals, conduct compliance checks, and update the contract register.

9. Contract owners with support of Finance team will implement a standardised monitoring framework to monitor and report on contract expenditures against contract budgets.

Assessed risk 4

Contracts fail to deliver the intended benefits to the Council and its stakeholders.

Opinion on management of risk

Partial Assurance

Partial

There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.

Findings and implications

Summary of findings and implications.

The audit found that majority, but not all contracts contain well-defined performance clauses, providing a structured framework for measuring success. Of the 20 contracts reviewed, 15 included clear performance expectations, ensuring that key deliverables were outlined. Additionally, in contracts where performance tracking was effectively implemented, contract managers used Key Performance Indicators (KPIs) to monitor progress, facilitating accountability. Some departments also demonstrated good practices in reporting contract performance to senior management, with structured updates that included performance metrics and service delivery outcomes. These examples highlight that when contract management processes are properly followed, they help protect the Council's interests by ensuring services align with strategic objectives and deliver value.

Despite the presence of performance clauses in most contracts, weaknesses in monitoring and reporting limit their effectiveness in ensuring intended benefits are realised. Only 8 of the 15 contracts found to contain performance clauses provided evidence of consistent performance tracking against KPIs, reducing the Council's ability to identify and address issues promptly. Additionally, fewer than half of the contracts had structured reporting to senior management, and reports often lacked essential financial, compliance, and stakeholder insights. This inconsistency weakens contract oversight and increases the risk of underperformance, inefficiencies, and unmonitored financial impacts. Without a standardised approach to performance tracking, reporting, and follow-up actions, the Council remains vulnerable to contracts failing to deliver the expected benefits, ultimately affecting service quality and value for money.

Detailed findings and implications.

Contracts deliver benefits by creating value, measuring performance, and encouraging innovation. Clear performance metrics, robust monitoring mechanisms, and structured reporting processes are essential to track progress, assess outcomes, and address any performance deficiencies.

This section of the audit report evaluates three key controls designed to ensure that contracts deliver the intended benefits:

- The inclusion of performance clauses in contracts;
- The ongoing monitoring of contract performance against these clauses; and
- The reporting of contract benefits and performance to senior leadership.

These have been covered under different risks earlier in this report but have been repeated with an emphasis on how they deliver benefits to the council. A sample of 20 contracts was selected for assessing the presence of performance clauses.

1. Inclusion of Performance Clauses in Contracts

Performance clauses are fundamental to defining contractual expectations and establishing a framework for measuring success. Audit testing of 20 contracts identified that 15 included performance clauses, while 5 contract copies were unavailable for review. Of the 15 contracts with performance clauses, 11 contained specific objectives, measurable KPIs, and provisions outlining the frequency, format, and content of performance reporting. Further examination confirmed that the KPIs embedded in the contracts were specific, measurable, and enforceable, providing a structured basis for monitoring. Correspondence, including performance review meeting minutes, evidenced the use of these KPIs in reporting, evaluation, and the compilation of Management Information (MI).

2. Monitoring of Contract Performance Against KPIs

While the presence of performance clauses establishes a contractual framework, their effectiveness depends on consistent implementation in tracking and monitoring performance. The audit tested whether contract managers actively monitored contract performance against agreed KPIs.

Of the 20 contracts sampled, only 8 demonstrated evidence of structured performance tracking aligned with contractual KPIs. These contracts included regular monitoring, documented instances of non-compliance, and discussions regarding corrective actions. Additionally, KPI data used in performance reviews was traced back to source documentation and verified for accuracy.

However, for 12 of the 20 contracts, there was insufficient evidence of structured monitoring processes. The absence of consistent tracking reduces the Council's ability to identify performance issues in a timely manner and take appropriate corrective action.

3. Reporting on Contract Benefits to Senior Leadership

Effective reporting mechanisms are essential for providing senior leadership with oversight of contract performance and ensuring that contracts deliver the intended benefits.

Audit testing found that only 8 of the 20 contracts sampled had a formal schedule for providing performance updates to senior leadership. While available reports generally covered key performance metrics, contract benefits, and delivery status, they lacked additional insights such as financial performance (budget vs. actual expenditure), compliance status, and stakeholder feedback.

Furthermore, only one department (Health and Wellbeing) used a standardised reporting template that was pre-agreed with senior leadership. Other departments lacked formalised reporting structures, leading to inconsistencies in the completeness and quality of information provided to leadership teams.

Additionally, evidence of follow-up actions taken by senior leadership based on contract performance reports was found in only 6 of the 20 contracts reviewed, indicating that performance insights are not consistently translated into corrective measures.

Finally, the audit also noted that a Contract Management Monitoring Board (CMMB) has been proposed as a forum for contract managers across directorates to oversee high-risk contracts. However, this board has not yet been established. **(See Recommendation 3)**

Assessed risk 5

The Council will fail to comply with the requirements of the Procurement Act 2023.

Narrative removed on the grounds of commercial sensitivity

Recommendations

10. The Council will implement in full the contract management strategy and toolkit across all directorates as discussed in other sections of this report, to ensure compliance with the Procurement Act 2023. This Includes:

    a) **Mandate the Use of the Contract Management Toolkit**: All contracts over £30,000 must follow standardised processes using the Contract Management Toolkit, ensuring access to consistent templates and escalation procedures.

    b) **Standardise Procurement and Contract Management Training**: Mandatory training and certification will be introduced to ensure staff understand key legal, transparency, and performance requirements under the Procurement Act.

    c) **Enhance Contract Register Oversight and Data Integrity**: The Central Contract Register will be regularly updated and validated to maintain accurate, compliant contract records.

    d) **Strengthen Performance and Risk Monitoring Mechanisms**: A structured framework will track contract risks and performance, requiring regular reporting and escalation of underperformance.

    e) **Embed Procurement Act Compliance in Audit and Review Cycles**: Compliance will be reinforced through bi-annual audits, governance reviews, and assigned accountability leads within each directorate.

By positioning this report as a pre-implementation baseline, the Council can use the audit as a reference point for identifying critical risks and prioritising actions as it moves toward full compliance and improved contract governance.

Annex 1: Management action plan

Recommendation(s)	Priority	Action agreed	Implementation date	Owner
1. The Contract Management Support Team will ensure the Central Contract Register is fully validated, updated regularly, and includes essential contract data such as key performance indicators (KPIs), variations, and supporting documentation.	High	YES	30th November 2025	Carlos Torres - Contract Management Support Team Lead
2. Directorate Contract leads and contract owners will standardise performance monitoring frameworks across all departments, ensuring that all contracts have documented performance reviews and structured meetings, in line with Toolkit Stage 4.	Medium	YES	30th November 2025	Carlos Torres - Contract Management Support Team Lead with support of Directorate Contract Leads & Contract Owners
3. The Senior Leadership Team (SLT) & Contract Owners will implement a structured reporting timetable, standardised reporting templates, and escalation protocols to improve visibility of contract performance at senior levels. As per the Strategy toolkit, a Contract Management Monitoring Board (CMMB) will also be formed, comprising contract managers/officers from each directorate and be	High	YES	31st July 2025	Carlos Torres - Contract Management Support Team Lead with support of SLT & Contract Owners

Recommendation(s)	Priority	Action agreed	Implementation date	Owner
responsible for managing Very High and High-risk contracts and report back to the SLT.				
4. The Council will mandate legal reviews for all contracts above £100,000 and enforce formal procedures for contract variations, ensuring adherence to toolkit stage 5 guidelines.	Medium	YES	30th June 2025	Harjinder Jutle - Procurement Head with support of Carlos Torres - Contract Management Support Team Lead
5. The Procurement Team in conjunction with Contract Owners will implement a standardised approach for obtaining and updating compliance documentation from contractors, with a formal retention policy and periodic audits as well as provide staff training to enhance compliance oversight.	Medium	YES	30th November 2025	Harjinder Jutle - Procurement Head with support of Carlos Torres - Contract Management Support Team Lead
6. The Procurement Team and Contract Owners will introduce mandatory penalty and incentive clauses in all contracts, particularly high-value and high-risk ones, to include enforceable penalty and incentive clauses linked to KPIs, with clear enforcement mechanisms.	Medium	YES	31st July 2025	Harjinder Jutle - Procurement Head with support of Carlos Torres - Contract

				Management Support Team Lead
7.	The Procurement Team will mandate the use of Purchase Orders (POs) for contract invoicing and Finance team will ensure all contract-related invoices are matched to approved POs to improve financial control, tracking, and oversight before payment processing.	High	YES	30th November 2025	Carlos Torres - Contract Management Support Team Lead, with support from Directorate Contract Leads & Contract Owners
8.	The Procurement Team and Contract Owners will strengthen contract renewal governance by implementing a standard renewal framework, including early warning mechanisms, using approved templates for renewals, conduct compliance checks, and update the contract register.	Medium	YES	30th November 2025	Harjinder Jutle - Procurement Head with support of Carlos Torres - Contract Management Support Team Lead
9.	Contract owners with support of Finance team will implement a standardised monitoring framework to monitor and report on contract expenditures against contract budgets.	High	YES	30th November 2025	Carlos Torres - Contract Management Support Team Lead, Directorate

				Contract Leads & Contract Owners
10.	The Council will implement in full the contract management strategy and toolkit across all directorates as discussed in other sections of this report, to ensure compliance with the Procurement Act 2023. This Includes: a) **Mandate the Use of the Contract Management Toolkit**: All contracts over £30,000 must follow standardised processes using the Contract Management Toolkit, ensuring access to consistent templates and escalation procedures. b) **Standardise Procurement and Contract Management Training**: Mandatory training and certification will be introduced to ensure staff understand key legal, transparency, and performance requirements under the Procurement Act. c) **Enhance Contract Register Oversight and Data Integrity**: The Central Contract Register will be regularly updated and validated to maintain accurate, compliant contract records. d) **Strengthen Performance and Risk Monitoring Mechanisms**: A structured framework will track contract risks and	High	YES	30th November 2025	Harjinder Jutle - Procurement Head with support of Carlos Torres - Contract Management Support Team Lead, Directorate Contract Leads & Contract Owners

performance, requiring regular reporting and escalation of underperformance.

e) **Embed Procurement Act Compliance in Audit and Review Cycles**: Compliance will be reinforced through bi-annual audits, governance reviews, and assigned accountability leads within each directorate.

Annex 2: Objective, scope and limitations

Objective

The objective of this review is to provide assurance on the current arrangements in place to ensure that SBC has an effective, adequate and appropriate governance and internal controls for managing contracts. The review will also highlight any gaps, identify best practice and propose improvements.

Scope and limitations

The audit will assess the adequacy of arrangements in place to ensure the Council manages contracts management for the supply of goods and services effectively. Focusing on contracts that are currently operational, the review will be designed to assess the effectiveness of controls in place to ensure that the following risks are mitigated:

a) The absence of governance processes, including the provision of management information, to support management of contracts;

b) Contracts fail to deliver the intended benefits to the Council and its stakeholders;

c) Contracts fail to protect the Council's interests;

d) Contracts are not managed / operated in accordance with internal, legal and regulatory requirements; and

e) The Council will fail to comply with the requirements of the Procurement Act 2023, when it becomes operational in October 2024.

Limitations The scope of this review is limited by the following:

- We will not review third-party systems and processes.
- Testing will be undertaken on a sample basis.
- The scope and range of our testing may be restricted where access to key personnel, data and reporting cannot be achieved/facilitated within agreed timescales; and
- Our review cannot provide absolute assurance that material error, fraud or loss does not exist.

Annex 3: Our classification systems

Substantial Assurance

| Substantial | The framework of governance, risk management and control is adequate and effective. |

Reasonable Assurance

| Reasonable | Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. |

Partial Assurance

| Partial | There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective. |

Minimal Assurance

| Minimal | There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail. |

Recommendation

Priority	Definition	Action required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.