

**AGENDA ITEM: 6**

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Meeting	Audit Committee
Date	16 June 2011
<b>Subject</b>	<b>MetPro Rapid Response Internal Audit Report</b>
Report of	Assistant Director of Finance - Audit and Risk Management
Summary	Members are asked to note the Report and agree recommendations.

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Officer Contributors	Maryellen Salter, Assistant Director of Finance - Audit and Risk Management
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A: MetPro Rapid Response Internal Audit Report
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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Contact for further information: Maryellen Salter, Assistant Director of Finance - Audit and Risk Management 020 8359 3167

## **1. RECOMMENDATIONS**

- 1.1 That the Committee note the contents of the Report and the actions being taken to address the deficiencies.**
- 1.2 That the Committee determine what further report(s), if any, the Committee wishes to be presented to its future meetings in order to provide Members with assurance that the, identified, action are taking place.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 There are no previous decisions relating to this subject.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 All internal audit planned activity is aligned with the Council's objectives, particularly the "Better Services with Less Money" priority, and, thus, supports the delivery of those objectives by giving an auditor judgement on the effectiveness of the management of the risks associated with delivery of the service.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 All Internal Audit activity is directed toward giving assurance about risk management within the areas examined. By so doing the aim is to help maximise the achievement of the Council's objectives. Internal Audit does this by identifying areas for improvement and agreeing actions to address the weaknesses.
- 4.2 Internal Audit work contributes to increasing awareness and understanding of risk and controls amongst managers and thus, leads to improving management processes for securing more effective risk management.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 Effective systems of audit, internal control and corporate governance provide assurance on the effective allocation of resources and quality of service provision for the benefit of the entire community. Individual audits assess as appropriate the differential aspects on different groups of individuals.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)**

- 6.1 The Contract Procedure Rules (CPR) provide that the contract framework has three general aims:
  - 1.3.1 Ensure value for money and propriety in the spending of public money;
  - 1.3.2 To enable services to be delivered effectively and efficiently without compromising the Council's ability to influence strategic decisions; and
  - 1.3.3 To ensure that the Council is not exposed to unnecessary risk and likelihood of challenge arising from non compliant tendering activity.

- 6.2 This report highlights that without an effective procurement capability across the Council the Council will fail to achieve value for money through those arrangements.

## **7. LEGAL ISSUES**

- 7.1 Contract Procedure Rules ( CPRs) incorporate provisions of EU Procurement Rules. Failure to comply with CPRs are likely to result in breach of EU Procurement Rules and Treaty Rules of fairness, non-discrimination and transparency.
- 7.2 Actions proposed to be taken, in accordance with the Recommendations, do not trigger any, specific, legal issues.

## **8. CONSTITUTIONAL POWERS**

- 8.1 The Constitution Part 2 Paragraph 3.3 recognises that the annual audit opinion plays an essential part in advising the Council that risk management procedures and processes are in place and operating effectively.

## **9. BACKGROUND INFORMATION**

- 9.1 This report provides details of the internal audit findings from review of the arrangements surrounding security company MetPro Rapid Response and related companies.
- 9.2 This report highlights that there are some serious deficiencies in current procurement arrangements that require immediate attention from management. Thorough investigations and enquiries have been made but have not resulted in the identification of, either, a service-based or a corporate contract, suggesting that controls have been ineffective in ensuring that a contract was put in place to record the relationship between the council and, initially, MetPro Rapid Response. More importantly, Officers cannot, on the basis of, existing, procedures, give assurance that this will not happen again, due to the lack of an accurate and complete corporate contract register and effective monitoring arrangements for contracts during their, respective, terms.
- 9.3 Management have given responses to the report and the Committee is asked to comment on the adequacy of these responses and the timing.

## **10. LIST OF BACKGROUND PAPERS**

- 10.1 Any person wishing to view any of the background papers should telephone 020 8359 3167.

Legal: MAM

Finance: JH/ MC

## **London Borough of Barnet**

### **Draft Internal Audit Report**

#### **MetPro Rapid Response Ltd (MetPro) May 2011**

<b>Timetable</b>	
Terms of reference	4 May 2011
Fieldwork completed	25 May 2011
Draft report issued	27 May 2011
Management responses received	2 June 2011
Final Report Issued	6 June 2011

**Internal Audit Service, Finance Directorate**

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### Appendices:

- A: Statement of Responsibilities
- B: Guide to Priority
- C: Action Plan
- D: Terms of Reference
- E: Interview Schedule

## 1. Executive Summary

<b>Introduction</b>	Internal Audit has reviewed the adequacy and effectiveness of the management controls and procedures for the procurement and contract management arrangements of MetPro Rapid Response Limited (MetPro). MetPro had been providing security services to the Council.
<b>Background</b>	<p>The Council's Financial Regulations, Contract Procedure Rules (CPR) and the Procurement Code of Practice govern the way day to day procurement activity and financial administration is conducted and exercised.</p> <p>The CPR, last updated April 2010, provide the framework within which the Council may procure works, supplies and services. These rules aim to:</p> <ul style="list-style-type: none"> <li>1.3.1 Ensure value for money and propriety in the spending of public money;</li> <li>1.3.2 To enable services to be delivered effectively and efficiently without compromising the Council's ability to influence strategic decisions; and</li> <li>1.3.3 To ensure that the Council is not exposed to unnecessary risk and likelihood of challenge arising from non compliant tendering activity.</li> </ul> <p>The Council's Corporate Procurement Team (CPT) maintain, renew and manage all corporate contracts and provide best practice advice to service areas on all aspects of procurement.</p> <p>Directors and Heads of Service are responsible for all contracts tendered and let by their service areas. They should ensure effective contract management, contract reviews and monitoring during the lifetime of all contracts in their areas in accordance with CPR items 4.1 to 4.1.16.</p> <p>At the time in which services were first rendered by MetPro in 2006 the arrangements were considered a devolved responsibility, with Barnet House being monitored by Facilities Management and Barbara Langstone House being monitored by Housing Services.</p> <p>From the limited records made available, the need for a corporate contract was recognised by the Strategic Procurement Team (SPT) in late 2006. Services areas across the Council were contacted by SPT to confirm their current security arrangements with a view of putting together a tender for a corporate contract in 2007. A business case was prepared recommending a Framework Agreement (where there are range of suppliers offering different types of security services from which managers are able to utilise at the agreed negotiated rates) to represent all of the main Council Buildings rather than to continue procuring individual suppliers for individual Service Areas. CPT have confirmed that this procurement exercise did not progress. The reasons for this exercise not progressing were not known.</p> <p>In June 2009, the then Head of Property Services through an officer DPR, commissioned Samwell Associates to review the Council's security arrangements, including the number of contractors performing security services under different contracts and arrangements. The outcome of this review has resulted in the production of a security specification for all of the Council's requirements and CPT were in the process of procuring a corporate contract. However, to date this procurement exercise has not progressed.</p>

MetPro started rendering security services for the Council at the Barnet House in April 2006. Terms and services were specified in the draft document *Barnet House – Security Requirements* and *Barnet House On-site security specification* (cost centre: Commercial services).

In December 2007 MetPro also started operating at Barbara Langstone House. Services were specified in *Barbara Langstone House: Security and Health and Safety Provision*, drafted in December 2007 (cost centre: Housing)

Whilst most services were rendered at Barnet House and Barbara Langstone House, MetPro also undertook minor services in Graham Park Library, Chipping Barnet Library, Osidge Library, Hendon Library, Hendon Town Hall (recent) and Fenella House. Barnet House recharged the expenditure to the relevant cost centres.

Over the course of their involvement with the Council, three different MetPro have been involved and operating under the following names:

1. MetPro Rapid Response Ltd: from 1/7/2005 to 14/3/2011
2. MetPro Group(2007-2008) and MetPro Group Ltd: came into effect 5/12/2008 to 13/7/2010
3. MetPro Emergency Response Ltd: created 13/1/2011

The total spend net of VAT on MetPro for the period April 2006 until March 2011 amounted to £1,361K. Spend was as follows:

<b>Services</b>	<b>2006-7 (‘000)</b>	<b>2007-8 (‘000)</b>	<b>2008-9 (‘000)</b>	<b>2009-10 (‘000)</b>	<b>2010-11 (‘000)</b>	<b>Total (‘000)</b>
<b>Barnet House</b>	90	122	174	170	172	728
- Hendon Town Hall			7	15	22	44
- Fenella	7	23				30
- Libraries					3	3
- Education		13	20			33
<b>Total</b>	<b>97</b>	<b>158</b>	<b>201</b>	<b>185</b>	<b>197</b>	<b>838</b>
<b>Barbara Langstone</b>	0	34	173	172	144	523
<b>Total</b>	<b>97</b>	<b>192</b>	<b>374</b>	<b>357</b>	<b>341</b>	<b>1,361</b>

<p><b>Scope and Method</b></p>	<p>The audit work assessed and evaluated the controls in the following areas (see Appendix D for full Terms of Reference):</p> <ul style="list-style-type: none"> <li>• Award of contract</li> <li>• Review of the Contract Service Specification</li> <li>• Roles and Responsibilities of key officers in the procurement and contract management arrangements</li> <li>• Vendor Set-up</li> <li>• Authorisation for contract extension and variations</li> <li>• Raising of Orders, Goods Receipting and Payment of Invoices</li> <li>• Contract Monitoring Arrangements and Management Information</li> </ul> <p>Our method of review included:</p> <ul style="list-style-type: none"> <li>• interviews with key officers (Appendix E) who had knowledge or working arrangements with MetPro;</li> <li>• examining relevant documentation pertaining to MetPro;</li> <li>• assessing compliance with the CPR and Financial Regulations, which form part of the Council's Constitution.</li> </ul>
<p><b>Overall message</b></p>	<ul style="list-style-type: none"> <li>• The Council has failed to comply with its CPR and Financial Regulations, exposing the Council to significant reputational and financial risks.</li> <li>• Internal Audit cannot give assurance that this non-compliance is an isolated incident, due to a lack of an accurate and complete centrally held contracts register and effective monitoring arrangements.</li> <li>• We recommend that all spend over the stated threshold in the CPR be reviewed and matched to a central contracts register (in development) in a timely basis.</li> </ul>



## Key Findings

Our work has concluded the following:

### **Award of contract and review of contract service specification**

No procurement exercise had been undertaken to appoint MetPro, in accordance with the Council's CPR.

No written contract between the Council and MetPro could be found.

There is no record of an approval and authorisation for the use of MetPro for providing security services.

In the absence of a formal procurement exercise, we could not locate the following documents/confirmation for MetPro, which the CPR require:

- Financial viability of the company
- Equal Opportunities Assessment
- Criminal Records Bureau checks
- Confirmation of company's Public Liability Insurance arrangements
- Confirmation of the company's Health and Safety registration
- Confirmation on the SIA licence status of the Company Officers
- An agreed specification which outlined the service to be provided
- An agreed schedule of rates for payment of invoices
- A process for monitoring performance of service delivery to establish if the Council was receiving value for money

There has been a failure to comply with the Council's Policies and Procedures with regards to roles and responsibilities. Officers interviewed had assumed a corporate contract was in place and relevant checks on MetPro had therefore been undertaken. Recently, from September 2010, assurance was given to officers we interviewed that a corporate contract was being procured by the CPT as they were aware at that time that no contract was in place with MetPro. At the time of writing this report this procurement exercise had not started, however a detailed specification existed.

### **Roles and Responsibilities of key officers in the procurement and contract management arrangements – vendor spend analysis**

Council spend with MetPro between 2007 and 2011 exceeded the relevant thresholds for which a term or annual contract should have been established. Monitoring arrangements centrally, as documented within the CPR, were not designed effectively to identify all vendors that exceed tender limits. The control implemented within the CPT monitored the top 10 spend of vendors per service. However, this was not sufficient to identify the MetPro spend, which was above the relevant threshold during 2007-2011. This resulted in a failure to comply with the CPR.

### **Vendor Set-up and VAT compliance**

There was no record of standard approval checks being undertaken by Corporate Procurement, and of the standard Vendor Request Form, to confirm the adequacy of the approval process required for accepting the vendor and to confirm the set up information on SAP Financial System.

Our sample testing of invoices highlighted there had been payments of invoices in the names of MetPro Group and MetPro Emergency Response Ltd where a valid VAT number had not been quoted. However a full review of all payments of invoices should be completed to identify all instances where a valid VAT number had not been quoted and the implications discussed with HMRC.

There were inappropriate changes to bank account details on SAP Financial System resulting in payments to an unauthorised vendor - MetPro Emergency Response.

#### **Raising of Orders, Goods Receipting and Payment of Invoices**

There was a failure by service officers responsible for authorising Purchase Orders to comply with the Financial Regulations requirement for Purchase Orders to be raised before the service is executed and delivered.

Within our sample testing there was a lack of documentary evidence retained by Officers approving invoices for payment.

#### **Contract Monitoring Arrangements and Management Information**

Contract monitoring arrangements were ineffective to monitor all aspects of service delivery, including compliance with the required licence arrangements.

#### **General**

Inadequate controls, monitoring and record keeping were in place by officers responsible for procuring services from MetPro at a local level.

Although we cannot rule out fraud, there have been no allegations of fraud and there is no evidence to suggest that there should be a fraud investigation.

Our review of the Register of Members' Interest forms (which Members and Co-opted Members are required by law to declare if they have any beneficial, financial or other interest which may constitute a potential conflict of interest with Council business) from 2002 to the latest update in 2010 found that MetPro was not declared during this period as a party in which any of the Members and Co-opted Members had an interest.

We have set out a number of recommendations for strengthening the procurement and contract procedures.

<b>Acknowledgement</b>	We would like to thank the management and staff for their time and co-operation during the course of the internal audit.
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## Findings and Conclusions

### 2.1 Procurement and Contract Award

P	Detailed finding	Risk	Recommendation
1	<p>MetPro Rapid Response (MetPro) was not commissioned in line with the relevant Contract Procedure Rules (CPR). Our analysis covered those two areas whereby security services were employed (costs were then re-charged to other services):</p> <p><b><u>Barnet House</u></b></p> <p>Corporate Procurement could not identify evidence of a formal procurement tender (and evaluation process) for commissioning the services of MetPro and the required approval since April 2006. Contract procedure rules state that contract values above £150,000 require a tendering process. Spend levels with MetPro during this period should have triggered a procurement exercise (in 2007/8) as they exceeded the relevant CPR threshold for tender of £150,000.</p> <p>A site instruction (informal specification), issued in April 2006 by the Facilities Manager stating work to be undertaken, hours of work and hourly rate for Barnet House, stipulated an initial term of 3 months. The related vendor set-up request only estimated an annual value for the contract of £32,760. Although this amounted to £98,280 for a typical 3 year contract period (less than the tender threshold) the Contract Procedure Rules in place in March 2006 would have required quotations to be obtained for evaluation prior to selection. We could not find evidence of this exercise being undertaken.</p> <p>We confirmed that towards the end of 2005 and in early 2006 a need was identified for more effective security and better protection for Council staff at Barnet House, particularly in</p>	<p>The council could be exposed to unnecessary risk, financial loss and likelihood of challenge arising from non compliant tendering activity.</p> <p>Non-approved or vetted contractors/suppliers could expose the Council to financial loss and reputation damage.</p>	<p><b>Recommendation 1</b></p> <p>Contract Procedure rules should be followed by all services to procure works, supplies and services.</p> <p>A SAP solution should be explored by Corporate Procurement team to enter vendor limits in accordance with contract procedure rules annual thresholds.</p>

Housing. There was evidence that a process to commission security services, involving Strategic Procurement, Housing, Children's Service and Facilities Management, (services located at Barnet House) had started. However, there was no evidence that this was concluded to reach a decision on the selection of MetPro in April 2006.

#### **Barbara Langstone House**

In December 2007, the then Head of Housing authorised entering into an interim agreement with MetPro Rapid Response for security services at Barbara Langstone House (BLH) over the Christmas period. It was evident from legal documentation advising on the termination of the Magenta contract at BLH that it was expected that related emergency services would be provided there from December 2007 to May 2008.

We could not identify evidence of a formal tender (and evaluation process) for commissioning the services of MetPro and the required approval. According to the Contract Procedure Rules in place at that time (January 2007) spend levels with MetPro should have triggered a procurement exercise (in 2008/9) as they exceeded the £144,000 threshold. MetPro supplied services to BLH until January 2011 amounting to £523K.

#### **General**

A proper tender process requires an evaluation of how applicants comply with Health and Safety regulations.

The Council's Health and Safety Consultant confirmed that MetPro was not registered with CHAS (Contractors Health and Safety Assessment Scheme). A CHAS compliant supplier meets acceptable standards of health and safety and relevant H&S regulations. The lack of compliance would have been

	<p>addressed had MetPro been commissioned as part of an effective tender evaluation process.</p> <p>The risks to the council from employing a non competent contractor could leave the council exposed to prosecution or civil claims.</p>		
Management Response		Responsible Officer	Deadline
This recommendation is accepted. A process of training and familiarisation of the Contract Procedure Rules (CPR) is to be put in place to address these deficiencies.		Directors & Heads of Service as set out in CPRs	June 2011
A process will be put in place and limits imposed and monitored.		AD Commercial Assurance	1/9/11

## 2.2. Contract Award (Contract Formalities)

P	Detailed finding	Risk	Recommendation
1	<p>A formal written contract for services rendered at Barnet House from April 2006 and Barbara Langstone House from December 2007 in line with CPR and Legal requirements could not be located.</p> <p>The Council's CPR are revised regularly, and as such three different versions were in place during the period of the MetPro arrangements. The Council's CPR covering the entire period of review required that:</p> <ol style="list-style-type: none"> <li>1. all contracts should be in writing</li> <li>2. all contracts above £25,000 should have stipulated clauses, including defective performance, breach and cancellation.</li> <li>3. all contracts specify various delivery terms, including services and price.</li> </ol> <p>Draft service specifications for Barnet House and Barbara Langstone House stipulated aspects of service delivery but no clauses covering defective performance, breach or cancellation as required for contracts above £25,000, for instance.</p>	<p>There is a risk that the Council may not receive the service required or will be unable to recover damages for works not carried out or for breach in the event of the dispute if terms are not formally agreed and clearly defined contracts are not in place</p> <p>The absence of a written contract results in more resource intensive efforts to understand contract arrangements in place.</p> <p>The lack of a contract means that there is no contractual obligation for the Contractor to comply with legislative requirements, including Health and Safety and Equal Opportunities. If council is found liable to third party, Council may not be able to seek redress from Contractor on the basis that the liability to the council arose as a result of an act or omission by the Contractor.</p> <p>The lack of a contract and defined termination date hampers appropriate planning for new contract/provision of service.</p>	<p><b>Recommendation 2</b></p> <p>Formal written contracts should be established for all services commissioned by the Council as required by the Contract Procedure Rules.</p>

Management Response	Responsible Officer	Deadline
Accepted. A review of the CPR will evaluate the appropriate thresholds for contracts, this will be formalised in a Vendor Management Strategy.	Directors & Heads of Service as set out in CPRs	Ongoing

## 2.3 Contract Register

P	Detailed finding	Risk	Recommendation
1	<p>The Council's Contract Procedure Rules (CPR) required Directors to keep a register of contracts over £5,000 (April 2010). The Council's CPR in place in March 2006 and January 2007 required all individual Directors to keep a register of contracts over £25,000 for their service area.</p> <p>Housing was not in full compliance with the CPR requirements relating to maintaining contract registers. As part of the budget preparation process Corporate Procurement initiate a process for the completion of contracts registers by Services. The register completed and provided by Housing for 2011-2015 as part of this process did not refer to MetPro and was therefore incomplete notwithstanding that it had been sent to their Housing managers for them to confirm and update. As an earlier Housing register completed in 2008 did identify MetPro, the process in Housing for ensuring the accuracy and completeness of contracts registers is not robust and consistent.</p> <p>We could not locate Housing contract registers for 2006, 2007 and 2009.</p> <p>Corporate Procurement Team (CPT) confirmed that there is no complete Corporate Contract Register which captures all contracts across the Council. Work is underway to have a complete Contracts Register in place.</p>	<p>There is a risk that failures to with comply CPR may not be identified, that the Council may not be able to work collaboratively with other local authorities on procurement initiatives and ineffective budget planning.</p>	<p><b>Recommendation 3</b></p> <p>All directors should maintain a complete register of contracts as required by the current Contract Procedure Rules (CPR). This should assist with the completion of a Corporate contract register, which should be placed on the Council's internet to meet the transparency agenda.</p> <p>Corporate Procurement should undertake an oversight function to ensure that contracts are in place where expenditure in Services exceeds the stipulated CPR thresholds. Complete and accurate Directorate contract registers should enable this monitoring to take place.</p>



Management Response	Responsible Officer	Deadline
Accepted. Directors will be asked to routinely monitor contract activities and report progress.	Directors & Heads of Service as set out in CPRs	June 2011
Accepted. This work is underway. A process of monitoring compliance will be established.	AD Commercial Assurance	1 September 2011

## 2.4. Contract specification

P	Detailed finding	Risk	Recommendation	
1	<p>Owing to the lack of formal procurement exercise and a formal contract, a formal contract service specification for MetPro was not available. There was no evidence of an effective process for the development of a robust specification against which tenders could be evaluated and service delivery monitored.</p> <p>An informal draft service specification (site instruction) was provided for Barnet House dated 18 April 2006. The contents of this document referred to hours of work, rates and responsibilities and did stipulate regulatory requirements e.g. licensing requirements.</p> <p>An informal draft service specification was provided for Barbara Langstone House. This set out responsibilities but did not stipulate any regulatory requirements e.g. licensing requirements.</p>	The lack of comprehensive contract specification increases the risk of ineffective contract management as responsible officers may not be aware of all relevant monitoring requirements e.g. licences.	<p><b>Recommendation 4</b></p> <p>A fit for purpose contract service specification should be developed for tender evaluation purposes and monitoring service delivery.</p>	
Management Response			Responsible Officer	Deadline
Accepted. This work is underway. A review has been conducted of the Council's security requirements. A specification has been prepared and a tender exercise will be carried out.			AD Commercial Assurance	31 July 2011

## 2.5. Roles and Responsibilities (vendor spend analysis)

P	Detailed finding	Risk	Recommendation
1	<p>The Contract Procedure Rules (CPR) stated that if the aggregate cost across all Council services in a financial year for either works, supplies or services of a similar type or contracts with a single supplier is expected to exceed tender limits, then an annual or term contract must be established following the appropriate contractor selection procedures detailed in the Procurement Code of Practice. The tender limits were:</p> <ul style="list-style-type: none"> <li>• CPR March 2006 -£150,000</li> <li>• CPR January 2007 -£144.000</li> <li>• CPR April 2010 -£156,442</li> </ul> <p>The CPR requires expenditure to be monitored by category by service across the Council to ensure these levels are not exceeded. Responsibility for monitoring was as follows:</p> <ul style="list-style-type: none"> <li>• CPR March 2006 - The Assistant Chief Executive</li> <li>• CPR January 2007 - The Executive Director for Resources</li> <li>• CPR April 2010 - The Commercial Director</li> </ul> <p>There was evidence that analysis of vendor spend is undertaken by Corporate Procurement Team to identify top 10 spend by vendors per service. However this process does not identify all vendors that exceed tender limits as required by CPR and therefore does not ensure compliance with CPR.</p>	<p>In the absence of an effective monitoring and analysis process there is a risk of non compliance with the Council's procurement policies which may then prevent the Council from achieving value for money.</p>	<p><b>Recommendation 5</b> The Corporate Procurement Team should establish a process for identifying and monitoring expenditure by category by service across the Council to ensure that current levels do not exceed Contract Procedure Rule limits.</p>

Management Response	Responsible Officer	Deadline
Accepted. This work is underway. A proposal as defined in recommendation 3 will be established.	AD Commercial Assurance	September 2011

## 2.6. Vendor Set-up

P	Detailed finding	Risk	Recommendation
1	<p><b>Vendor set up</b></p> <p>1. MetPro Rapid Response (MetPro) was set up as a new Vendor in March 2006. The relevant Vendor set-up form could not be found by the Accounts Payable Team, although it was noted that this had been logged as received by the Corporate Procurement Team (CPT) prior to being submitted to the Accounts Payable Team for entering to SAP.</p> <p>2. No evidence was found to confirm that the standard approval checks were undertaken by CPT to confirm the adequacy of the approval process implemented for accepting the vendor (MetPro); this normally includes verification of the company's incorporation, bank details, and VAT.</p> <p>3. In March 2011, the Accounts Payable Team received a change request directly from the Vendor, this requested factoring be taken off the MetPro Rapid Response bank account and payments being made to the account of MetPro Emergency Response Ltd. The standard practice is for such requests to be obtained directly from the factoring organisation. This effectively resulted in the payment of invoices in the name of MetPro Emergency Response Ltd – a new company not recorded as an approved Vendor on the Council's records.</p> <p>4. The Council then received a further two invoices in March 2011 the name of MetPro Rapid Response however the payment went to the bank account of MetPro Emergency Response Ltd.</p> <p>5. The names changes were not noted by service officers who had responsibility of ordering and receipting delivery.</p>	<p>Without evidencing the checks necessary for setting up new Vendors, and without following the standard practices for verifying change requests, there is a significant risk of inappropriate payments to an invalid vendor resulting in financial losses to the council.</p>	<p><b>Recommendation 6</b></p> <p>Independent checks of amendments to key Vendor Master Data records, such as bank data, should be undertaken routinely for an appropriate number of records.</p> <p>Checks should ensure that appropriate checks are made to confirm details and validity of the requested changes from related parties.</p> <p>Management should retain all supporting data for vendor set-up and amendment checks. In particular, necessary records to confirm the checks undertaken for amendments for key data fields, such as Bank details, should be retained.</p>

Management Response	Responsible Officer	Deadline
Vendor changes will be validated by Corporate Procurement Team as received.	AD Commercial Assurance	Immediately
As above		
This action is accepted and will be implemented through a Vendor Management Strategy.	AD Commercial Assurance	Strategy in place 31 March 2012

P	Detailed finding	Risk	Recommendation	
2	<p>We sampled 50 paid invoices out of 156 invoices paid for MetPro Rapid Response, including those for the changed names, for the period since Vendor set-up in April 2006 to current. On the basis of advice from the VAT officer, it was established that invoices should incorporate a valid VAT number for the VAT claimed on the invoices, however, where there is a valid VAT number on the invoices, it relates to MetPro Rapid Response for the sampled invoices in the name of MetPro Group and invoices for MetPro Emergency Response.</p> <p>The Council is currently seeking HMRC advice on the implications of these invoices.</p>	Non-compliance with the Financial Regulations requirement to pay valid VAT invoices can result in the Council facing penalties for the over-recovery of output VAT.	<p><b>Recommendation 7</b></p> <p>There should be a review carried out to calculate the exact figure the Council has overpaid VAT on this vendor, and immediately contact HMRC.</p> <p>Officers should, as standard, refer all name changes on supplier's invoices to the Central Procurement Team who should obtain the advice of the VAT officer for confirming compliance with the VAT regulations before a change can be processed.</p> <p>Training provided to officers should focus on the implications of name and company changes on supplier's invoices and how those should be addressed for the purpose of compliance with the HMRC's VAT requirements.</p>	
Management Response			Responsible Officer	Deadline
This action is accepted, work is underway with the assistance of Finance.			AD Commercial Assurance	Immediately





## 2.7. Authorisation for contract extension and variations

P	Detailed finding	Risk	Recommendation	
1	<p>The Contract Procedure Rules (CPR) sets out clear requirements for extending and varying contracts. There was no evidence that CPR was followed.</p> <p>The absence of a formal contract with a clear termination date and the lack of effective monitoring arrangements, meant that the security arrangement simply continued until March 2011 when the agreement with MetPro was terminated.</p> <p>A review of invoices for services charged to Facilities Management confirmed service delivery on terms different to those referred to in the initial service specification. Changes to conditions of service and rate have been agreed between the Facilities Manager (Barnet House) and the service provider but these were not accessible to all parties who may be required to certify payment.</p>	<p>In the absence of formal extensions to contracts, value for money opportunities may be lost.</p> <p>The lack of formal records of variation to terms increases the risk that incorrect charging may not be identified and addressed.</p>	<p><b>Recommendation 8</b></p> <p>Contract extensions and variations should be undertaken in line with Contract Procedure Rules (CPR) requirements.</p> <p>Changes to conditions of service should be formally documented for referral by all parties who may be required to certify delivery and payment.</p>	
Management Response			Responsible Officer	Deadline
Accepted. Extensions should only be permitted when this delivers value for money.			Directors & Heads of Service as set out in CPRs	September 2011
Accepted. The Council will establish a single Contracts Repository where all amendments to contracts are to be placed.			Directors & Heads of Service as set out in CPRs	June 2011

## 2.8. Raising of orders, goods receipting and payment of invoices

P	Detailed finding	Risk	Recommendation
1	<p><b>Barnet House</b></p> <p>An audit sample of 15 invoices selected over the period from 2006 to current was checked for accuracy, to agreed terms and supporting documentation. The invoices sampled highlighted that invoices specified the service delivery and rate. Discussions with officers highlighted that the officer certifying the invoice confirmed delivery with the appropriate officer through observation on site and weekly/day to day engagement with the contractor and that they checked calculations on the invoice. However there was no supporting documentation evidencing actual delivery, for example we would expect timesheets to be signed off by officers. In addition, there was no formal sign-off on the invoice to confirm delivery and accuracy of calculations, although our checks confirmed the accuracy of calculations on the invoice.</p> <p>Initial terms and conditions were specified on an informal site specification.</p> <p>Invoices reviewed:</p> <ol style="list-style-type: none"> <li>1. referred to a different rate (8 out of 15 had rates different to the £16 per hour specified in the site instruction),</li> <li>2. different numbers of officers were referred to on invoices (the site instruction referred to 2 officers but 8 out of 15 invoices referred to the use of more than 2 officers), and</li> <li>3. referred to service delivery at sites other than Barnet House e.g. Fenella, Graham Park Library (6 out of 15</li> </ol>	<p>There is a risk that invoices may be paid which are not in line with authorised service conditions and that have not been confirmed as being a liability of the Council.</p>	<p><b>Recommendation 9</b></p> <p>Standard practice should be re-enforced through-out the Council, specifically:</p> <ul style="list-style-type: none"> <li>• Changes to contract terms should be formally approved and documented for referral by those involved in certifying delivery per invoice;</li> <li>• Invoices should be initiated as evidence of confirmation of service delivery in line with current terms and calculation check;</li> <li>• Supporting documentation should be provided to evidence service delivery;</li> <li>• Delivery should be confirmed with officers who are able to comment on delivery as part of their respective role; and</li> <li>• Purchase orders should be approved and before delivery of the service to ensure that expenditure is valid and in line with agreed terms.</li> </ul>

invoices referred to sites other than Barnet House)

Some documentation provided, supported changes to conditions of service and rates. However a formal record of all changes was not available for referral where necessary.

Barbara Langstone House

Invoices specified the service delivery and rate. Discussions identified that the officers certifying the invoice did not routinely confirm delivery with the appropriate officer.

There was no formal sign-off on the invoice to confirm delivery and accuracy of calculations. Our checks however confirmed their accuracy. There was no supporting documentation evidencing actual delivery (e.g. timesheets).

Initial terms and conditions were specified on site specification describing hours of work but not the rate. Invoices reviewed indicated that conditions of service had remained essentially the same since the start of the service delivery by MetPro. Delivery times were consistent with the initial informal site specification and rates were similar to those charged at Barnet House. Discussion confirmed that at some stage, terms as specified on the invoice had been confirmed verbally by the relevant officer involved with the engagement of MetPro but there was no evidence that this was done routinely.

General

According to the Accounting Manual procedures, and best practice, pre-authorisation of purchase orders should occur. In respect of the management of the MetPro contractor purchase orders were approved monthly following the receipt of the invoice. Although purchase order approval is controlled automatically in SAP.

Management Response	Responsible Officer	Deadline
Accepted	AD Commercial Assurance	June 2011.

## 2.9. Contract Monitoring

P	Detailed finding	Risk	Recommendation
1	<p>The Contract Procedure Rules (CPR) requires that during the life of the contract Directors/Heads of Service must ensure that systems are in place to manage and monitor contracts.</p> <p>Contract Monitoring arrangements were ineffective to evaluate all aspects of service delivery, including ensuring compliance with the Security Industry Authority (SIA) licensing arrangements.</p> <p>SIA licences certify that security operatives are fit and proper persons correctly trained and qualified to undertake security tasks. Licenses are required for various security tasks (e.g. static security/on site guarding).</p> <p>A check by the Barnet House Facilities Management, following the incident at Full Council in March 2011, of the security licence status of officers working for MetPro, revealed that a number of their employees working at the Council did not have active licences. There was no evidence of routine checks to ensure that officers had valid licenses relevant to security tasks.</p> <p>There was no evidence of expected formal contract monitoring arrangements/ structures for routinely engaging all relevant officers using MetPro security services and with agendas covering all aspects of delivery, including confirming licensing arrangements, undertaking criminal records bureau checks and assessing performance against key performance indicators.</p>	<p>The lack of contract monitoring arrangements generally increases the risk that failures in service delivery may not be identified, that service delivery may not be optimised and failures in regulatory compliance which may expose the council to financial and reputation risk may not be identified.</p>	<p><b>Recommendation 10</b></p> <p>Directors/Heads of Service must ensure that systems are in place to manage and monitor contracts</p>

Although the draft specification for Barnet House did stipulate a requirement for SIA licensed officers, responsible officers at Barnet House and Barbara Langstone House indicated that they had queried the licence position with the contract representative who had confirmed verbally that they were compliant. They had not however confirmed the status independently and there was an admission that one officer did not know how to do so.

Discussion with the relevant officers and review of available documentation confirmed periodic meetings with the contractor with a focus on service delivery (reporting incidents, issues, uniform issues, eviction processes and changes to terms and conditions), with overall performance delivery reflected on monthly invoices being validated through observation on a day to day basis of security officers undertaking operations on site.

Generally, officers interviewed were of the opinion that MetPro's service delivery was satisfactory and met their needs.

A clear issue was that officers responsible for contract monitoring on a devolved basis in Services viewed monitoring compliance with SIA and CRB as a central role as their understanding was that the arrangements had been commissioned Corporately.

The main cause of the failure to ensure that all officers were properly licensed was the lack of a formal tender process and the resulting development of a fit for purpose service specification against which any tender could be evaluated and the subsequent contract could be monitored.

Management Response	Responsible Officer	Deadline
Accepted, actions established to address recommendations 1 to 9 in this report will enable effective management and monitoring of contracts.	Directors & Heads of Service as set out in CPRs.	June 2011.

## **Appendix A: Statement of Responsibility**

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

The matters raised in this report are only those which came to our attention during the course of our internal audit 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 internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.



## **Appendix B: Guide to priority**

Priorities assigned to recommendations are based on the following criteria:

**High (1)** – Fundamental issue where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures. Action to be effected within 1 month.

**Medium (2)** – Significant issue where action is considered necessary to avoid exposure to significant risk. Action to be effected within 3 months.

**Low (3)** – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.

## Appendix C: Action plan – to be updated following management response

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline
1	MetPro Rapid Response (MetPro) was not commissioned in line with the relevant CPR.	<p><b>Recommendation 1</b></p> <p>Contract Procedure rules should be followed by all services to procure works, supplies and services.</p> <p>A SAP solution should be explored by Corporate Procurement team to enter vendor limits in accordance with the contract procedure rules thresholds.</p>	<p>This recommendation is accepted. A process of training and familiarisation of contract procedure rules is to be put in place.</p> <p>A process will be put in place and limits imposed and monitored.</p>	<p>Directors &amp; Heads of Service as set out in CPRs</p> <p>AD Commercial Assurance</p>	<p>June 2011</p> <p>1/9/11</p>
1	We could not identify a formal written contract (for services rendered at Barnet House from April 2006 and Barbara Langstone House from December 2007) in line with CPR and Legal requirements.	<p><b>Recommendation 2</b></p> <p>Formal written contracts should be established for all services commissioned by the Council as required by the Contract Procedure Rules.</p>	Accepted. A review of the CPR will evaluate the appropriate thresholds for contracts, this will be formalised in a vendor management strategy.	Directors & Heads of Service as set out in CPRs	Ongoing

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline
1	Council contract registers were not complete in line with CPR.	<p><b>Recommendation 3</b></p> <p>All directors should maintain a complete register of contracts as required by the current Contract Procedure Rules (CPR). This should assist with the completion of a Corporate contract register, which should be placed on the Council's internet to meet the transparency agenda.</p> <p>Corporate Procurement should undertake an oversight function to ensure that contracts are in place where expenditure in Services exceeds the stipulated CPR thresholds. Complete and accurate Directorate contract registers should enable this monitoring to take place.</p>	<p>Accepted. Directors will be asked to routinely monitor contract activities and report progress.</p> <p>Accepted. This work is underway, and a process of monitoring compliance will be established.</p>	<p>Directors &amp; Heads of Service as set out in CPRs</p> <p>AD Commercial Assurance</p>	<p>June 2011</p> <p>1 September 2011</p>
1	Owing to the lack of formal procurement exercise and a formal contract, a formal contract service specification was not available. There was therefore no evidence of an effective process for the development of a robust specification against which tenders could be evaluated.	<p><b>Recommendation 4</b></p> <p>A fit for purpose contract service specification should be developed for tender evaluation purposes and monitoring service delivery.</p>	<p>Accepted. This work is underway. A review has been conducted of the Council's security requirements. A specification has been prepared and a tender exercise will be carried out.</p>	AD Commercial Assurance	31 July 2011

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline
1	There was evidence that analysis of vendor spend is undertaken by Corporate Procurement Team to identify top 10 spend by vendors. However this process does not identify all vendors that exceed tender limits and therefore does not ensure compliance with CPR.	<b>Recommendation 5</b>  The Corporate Procurement Team should establish a process for identifying and monitoring expenditure by category by service across the Council to ensure that current levels do not exceed Contract Procedure Rule limits.	Accepted. This work is underway. A proposal as defined in recommendation 3 will be established.	AD Commercial Assurance	September 2011
1	A lack of checks undertaken to ensure the vendor for MetPro Rapid Response was valid and bank account changes were duly evidenced and approved.	<b>Recommendation 6</b>  Independent checks of amendments to key Vendor Master Data records, such as bank data, should be undertaken routinely for an appropriate number of records.  Checks should ensure that appropriate checks are made to confirm details and validity of the requested changes from related parties.  Management should retain all supporting data for vendor set-up and amendment checks. In particular, necessary records to confirm the checks undertaken for amendments for key data fields, such as Bank details, should be retained.	Vendor changes will be validated by Corporate Procurement Team as received.  As above  This action is accepted and will be implemented through a Vendor Management Strategy.	AD Commercial Assurance   AD Commercial Assurance	June 2011   Strategy in place 31 March 2012

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline
2	Payment of invoices without VAT numbers noted in contravention of Financial Regulations.	<p><b>Recommendation 7</b></p> <p>There should be review carried out to calculate the exact figure the Council has overpaid VAT on this vendor, and immediately contact HMRC.</p> <p>Officers should, as standard, refer all name changes on supplier's invoices to the Central Procurement Team who should obtain the advice of the VAT officer for confirming compliance with the VAT regulations before a change can be processed.</p> <p>Training provided to officers should focus on the implications of name changes on supplier's invoices and how those should be addressed for the purpose of compliance with the HMRC's VAT requirements.</p>	Accepted	AD Commercial Assurance	June 2011

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline
1	The Contract Procedure Rules (CPR) sets out clear requirements for extending contracts. However, due to a lack of completed contract at the outset there is no evidence that these were followed. The award of contract did not follow CPR and the lack of a written contract with a clear termination date and the lack of effective monitoring arrangements meant that the arrangement simply continued until March 2011 when the agreement with MetPro was terminated.	<p><b>Recommendation 8</b></p> <p>Contract extensions should be undertaken in line with CPR requirements.</p> <p>Changes to conditions of service should be formally documented for referral by all parties who may be required to certify delivery and payment.</p>	<p>Accepted. Extensions should only be permitted when this delivers value for money.</p> <p>Accepted. The Council will establish a single contracts repository where all amendments are to be maintained in this place.</p>	<p>Directors &amp; Heads of Service as set out in CPRs</p> <p>Directors &amp; Heads of Service as set out in CPRs</p>	<p>1 September 2011</p> <p>June 2011</p>

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline
2	<p>There was a failure by service officers responsible for authorising Purchase Orders to comply with the Financial Regulations requirement for Purchase Orders to be raised before the service is executed and delivered.</p> <p>There was scope for improving processes for confirming delivery and the accuracy of calculation as reflected on invoices, including the retention of documentary evidence retained by Officers approving invoices for payment.</p>	<p><b>Recommendation 9</b></p> <p>Standard practice should be re-enforced through-out the Council, specifically:</p> <ul style="list-style-type: none"> <li>• Changes to contract terms should be formally approved and documented for referral by those involved in certifying delivery per invoice.</li> <li>• Invoices should be initialed as evidence of confirmation of service delivery in line with current terms and calculation check.</li> <li>• Supporting documentation should be provided to evidence service delivery.</li> <li>• Delivery should be confirmed with officers who are able to comment on delivery as part of their respective role.</li> <li>• Purchase orders should be approved and before delivery of the service to ensure that expenditure is valid and in line with agreed terms.</li> </ul>	Accepted.	AD Commercial Assurance	June 2011.

Priority	Issue	Recommendation	Management Response	Responsible Officer	Deadline
1	Contract Monitoring arrangements were ineffective to evaluate all aspects of service delivery, including ensuring compliance with the Security Industry Authority (SIA) licensing arrangements.	<b>Recommendation 10</b> Directors/Heads of Service must ensure that systems are in place to manage and monitor contracts	Accepted, actions as set out in recommendations 1 to 9 will enable effective management and monitoring of contracts.	Directors & Heads of Service as set out in CPRs	June 2011



## **Appendix D: Terms of Reference**

### **Procurement and Contract Management arrangements for MetPro Rapid Response**

#### **1. Background**

The review will assess the adequacy and effectiveness of the management controls and procedures in relation to the procurement and contract management arrangements for MetPro Rapid Response for providing security services to the Council.

#### **2. Audit Scope**

The audit work will assess and evaluate the controls in the following areas:

- **Award of contract**

Whether the process for appointing and procuring services from MetPro Rapid Response was in accordance with the Council's Contract Procedure Rules, Financial Regulations and Scheme of Delegation.

Confirm that a procurement process, award and letting of the contract were undertaken in accordance with the Council's Contract Procedures Rules (CPR) and Financial Regulations.

Confirm that approval and authorisation process outlined within the CPR, and recording of Delegated Powers Report, was followed correctly.

Confirm the correct process for evaluation of offers was undertaken and sufficiently evidenced to confirm that the Council had obtained value for money.

Confirm that the contract was awarded correctly, and the correct contractor's details were recorded in the Council's Contracts Register.

Establish whether there is a robust process for identifying and addressing risks, such as financial and non-financial failures and change of name of contractors, and that mitigating actions were undertaken effectively.

- **Review of the Contract Service Specification**

Whether a robust Contract Service Specification was in place to monitor service delivery and how it was:

- confirmed that service standards were in line with the expected industry standards;
- established that the contractor was in compliance with the expected industry standards for example the company had appropriate Security Industry Authority licences.

- **Roles and Responsibilities of key officers in the procurement and contract management arrangements**

Establish the role and responsibilities of procurement and service officers involved in the procurement, setting of the service specification, letting and monitoring of the contract, and how it was:

- confirmed that officer decisions were clearly documented and communicated to all relevant parties.
- confirmed that a named officer had been delegated the responsibility of monitoring the contract.

- **Vendor Set-up**

Establish that the vendor (MetPro Rapid Response) was correctly created and registered on SAP. Confirm that changes to the vendor details during the term of the contract were authorised through the correct procedures.

- **Authorisation for contract extension and variations**

Confirm the procedures in place that ensure that all extensions and variations e.g. price changes, to the contract were recorded and addressed in an approved manner.

Confirm the mechanisms by which management were assured that all extensions and variations were treated consistently and in an approved manner.

- **Raising of Orders, Goods Receipting and Payment of Invoices**

Determine the procedures for raising orders and checking of invoices before these were passed for payment.

Confirm the legality of payments to the contractor.

- **Contract Monitoring Arrangements and Management Information**

Confirm that adequate and effective monitoring processes were in place to ensure that services were being delivered according to the contract specification e.g. monitoring the contractors' compliance with Security Industry Authority, licensing requirements, authorisation for covert filming, staff training, insurance and health and safety.

Confirm that contract monitoring was being undertaken and there was a robust process to trigger prompt action if non-compliance was detected and respective responsibilities assigned for corrective action.

Establish whether performance of the contract was being reported periodically to senior management and there was Member oversight of the contract.

## **Appendix E: Interview Schedule**

### **Initial Scoping:**

Chief Executive  
Chairman of the Audit Committee

### **Audit Review process:**

Head of Corporate Procurement  
Acting Assistant Director (Housing)  
Strategic Facilities Manager  
Procurement Manager  
Major Capital Programmes Deputy Director  
Interim Head of Building Services  
Accommodation Manager  
Deputy Director Children's Service  
Acting Assistant Director – Children's Social Care  
Public Sector Leasing Manager  
Operations Manager, Facilities Management  
Housing Needs Manager  
Homelessness Reduction Co-ordinator  
Director for Commercial Services  
Divisional Manager - Commercial Division  
CAFT – Corporate Investigation Officer  
Manager for Accounts payable  
Senior Management Accountant – VAT  
Tax and Treasury Manager