

Introduction

- 6.001 A large number of local authorities use contractors to maintain key assets and community facilities – such as roads, wastewater and stormwater systems, parks and reserves, and water reticulation networks. In June 1997 we published a report *Contracting for Maintenance Services in Local Government*,¹ based on the results of audits in five local authorities.
- 6.002 That report recommended that local authorities implement programmes for monitoring the performance of their maintenance contractors. Given that monitoring and supervision are a vital aspect of managing any maintenance contract, we asked our auditors to find out the extent to which all local authorities were meeting our expectations of good practice.
- 6.003 The objectives of this follow-up work were:
- to make local authorities generally aware of the importance of monitoring and supervising the performance of their maintenance contractors; and
 - to give each local authority feedback on the extent to which its processes and practices met our expectations of good practice.
- 6.004 We asked our auditors to assess whether each local authority met our expectations in three key areas of contract supervision:
- auditing work quality and quality assurance;
 - risk-based auditing; and
 - auditing of contractor attributes and quality systems.
- 6.005 Our auditors made their enquiries as part of the annual audit for 1997–98. They reported their findings and conclusions to each local authority in their management letters over the second half of 1998.

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General Conclusions

- 6.006** We were encouraged that a majority of local authorities had recognised the importance of carrying out some form of auditing as a key aspect of contract supervision. Most local authorities were checking the work of their maintenance contractors in some way. In addition, a significant number were using audit findings to prepare a formal record of contractor performance. This record can provide an important control measure for contract payments, and form the basis for a clearly understood relationship between the local authority and the contractor over the term of the contract.
- 6.007** However, we found some areas in which contract monitoring practices were weak:
- the failure by some authorities to obtain independent assurance about the performance of their maintenance contractors, either directly or through a consultant;
 - a largely informal approach to contract monitoring in many authorities;
 - a failure to document contracting issues as the foundation for a clearly understood relationship with the contractor, and as an objective basis to assess contractor performance; and
 - the absence of any clear relationship between the timing and scope of audit programmes and the risk of service failure, deterioration of key infrastructure, or contractor non-performance.
- 6.008** These weaknesses point to a need for many local authorities to take a more structured approach to the management of their maintenance contracts – both to provide assurance about the performance of the contractor in meeting their expectations, and to promote effective ongoing administration of the contract.

Auditing Work Quality and Quality Assurance

- 6.009** Systematic auditing can provide the local authority with assurance about the quality of the services for which it is paying, and about the quality of the contractor's systems

and procedures. Our auditors asked each authority whether it:

- had a programme of audits;
- had assigned staff to carry out such audits; and
- formally recorded the results of audits.

Having a Programme of Audits

6.010 The majority of local authorities were checking the work of their maintenance contractors in some way – whether through random audits, periodically, or over a proportion of the work performed. It is encouraging that those authorities have recognised the importance of auditing work quality and contractor performance as a key aspect of contract supervision.

6.011 We are concerned, however, that most local authorities had no formal audit programme, and performed only informal checks or relied on reviews by their contractors. Without their own programmes for ensuring the quality of work done, authorities cannot obtain the necessary independent assurance about their contractors' performance.

Assigning Responsibility for Undertaking Audits

6.012 To ensure that auditing is given the necessary priority, local authorities should assign staff to checking completed work and the quality of the contractor's systems and procedures. Most of those authorities that were checking the work and other aspects of contractor performance used their own staff to do so, with the remainder assigning this responsibility to consultants. Where consultants are used for this purpose, authorities should be clear about the nature and extent of the quality control function performed by those agents on their behalf.

Using the Results of Audits

6.013 Local authorities used the results of audits in quite different ways.

6.014 A significant number prepared a formal record of all issues relating to the performance of the contractor, which might be

incorporated in regular reports to the council. This approach provides an important measure of control over payments made to contractors. Other local authorities did not formally record audit findings, or prepared reports only if problems were found.

- 6.015 Some local authorities preferred to record contract performance informally in order to avoid jeopardising the relationship between themselves and their contractors. We do not share this view. Documenting the results of audits helps the parties avoid possible misunderstandings, and provides a valuable record of contractor performance for future reference. As such, audit programmes and formal recording of audit results help to place the relationship between the authority and the contractor on a clear footing. They also create the basis for a clearly understood long-term relationship between the parties.

Risk-based Auditing

- 6.016 We believe that audits of contractor performance should be based on the risks to achievement of the local authority's service and asset management objectives. We would expect resources to be directed at monitoring the condition of critical infrastructure items, and to take account of situations where particular contracting risks exist or are likely to arise. Our auditors asked whether the timing and scope of audits was based on an explicit assessment of risk by the authority.
- 6.017 The minority of local authorities which did take a risk-based approach to monitoring contractor performance also had a formal audit programme. Those authorities clearly recognised the value of targeting scarce resources to the supervision of those maintenance activities critical to the ability of the authority to deliver essential services or maintain key infrastructure items.

- 6.018 Many local authorities carried out spot checks of work completed by their maintenance contractors, or examined a sample of jobs. However, these spot checks were not based on an assessment of risk. Those authorities should consider whether this is the most effective and efficient way to check work quality and other aspects of contractor performance where their resources may be limited.

Auditing of Contractor Attributes and Quality Systems

- 6.019 Being able to rely on the quality assurance systems of the contractor is a key feature of any long-term partnership between a local authority and its maintenance contractor. It can also save the authority time and effort in supervising the contract. Therefore, authorities should seek periodic assurance that the contractor is implementing the necessary quality assurance systems and practices.
- 6.020 Our auditors asked each local authority whether it conducted periodic reviews of the contractor's quality assurance systems – including, for example, compliance with statutory obligations, safety practices and ongoing staff training. In many instances these requirements will be incorporated in the contract documentation agreed between the authority and the contractor.
- 6.021 Some local authorities took steps to ensure that their maintenance contractors were meeting their stated commitments to quality assurance. Quality assurance tended to be assessed:
- only when a contract was put out to tender; or
 - in some cases, by the contractor; and
 - informally, if at all.
- 6.022 Weak auditing of contractor attributes and quality systems exposes local authorities to the risk that their contractors are not following the necessary quality assurance practices and procedures – thereby putting the authority's interests at risk.

Monitoring Progress

- 6.023 Where, as a result of their findings, our auditors had concerns about a local authority's contract monitoring practices, they raised those concerns with the authority. As part of this year's audit, our auditors will monitor the extent to which authorities have addressed those concerns, and will raise outstanding issues with authorities as required.