

Governance, Risk and Best Value Committee

10.00am, Thursday, 17 November 2016

Emergency Repairs: Processes to approve and pay framework contractor invoices

Item number 7.3
Report number
Executive/routine
Wards

Executive summary

Internal Audit completed a review of the Edinburgh Shared Repairs Service (ESRS) Emergency Repairs service in March 2016. This review made four 'medium' and three 'low' rated recommendations. One of the medium recommendations related to the non-use by contractors, when submitting invoices for payment, of rates schedules contained in the framework contracts.

In September 2016, the Governance, Risk and Best Value Committee requested that Internal Audit re-visit this recommendation to see whether any progress had been made on this matter.

This report sets out the design of the control framework in place surrounding the approval and payment of invoices at the ESRS Emergency Repairs Service, and the results of Internal Audit's review of a sample of 15 invoices from August and September 2016 to determine its current operational effectiveness.

Links

Coalition pledges [P40, P41](#)
Council outcomes [CO19](#)
Single Outcome Agreement [SO4](#)

Emergency Repairs: Processes to approve and pay framework contractor invoices

1. Recommendations

- 1.1 The Committee is requested to note this report.

2. Background

- 2.1 Internal Audit completed a review of the ESRS Emergency Repairs service in March 2016. This review made four 'medium' and three 'low' rated recommendations. One of the medium recommendations related to the non-use by contractors, when submitting invoices for payment, of rates schedules contained in the framework contracts.
- 2.2 The Governance, Risk and Best Value Committee requested in September 2016 that Internal Audit re-visit this recommendation to see whether any progress had been made on this matter.

3. Main report

- 3.1 The Governance, Risk and Best Value Committee expressed an interest in one of Internal Audit's medium recommendations related to the non-use by contractors, when submitting invoices for payment, of rates schedules contained in the framework contracts. In particular, concern was raised over the charging for scaffolding by a contractor.

Original Internal Audit finding

- 3.2 The original finding made by Internal Audit in connection with this matter was:

A Schedule of Rates has been agreed with each contractor used by ESRS [Edinburgh Shared Repairs Service] Emergency Service. This is in place to control and monitor the costs charged by the contractors on the framework.

We reviewed contractor invoices relating to 15 cases. We were unable to confirm that charges on any of the invoices inspected were all as agreed on the Schedule of Rates. Difficulties and discrepancies identified were as follows:

- *ESRS did not have access to the Schedule of Rates agreed with one contractor, as it is part of a separate Council Framework;*
- *One contractor's Schedule of Rates was coded; however, their invoices consistently included non-coded services;*

- *One contractor charged rates for scaffolding between £150 and £690. There was no explanation for the rate charged on the invoices; and*
- *One Schedule of Rates indicated labour cost was at most £24 per hour; however, the contractor charged labour at £25 per hour.*

Scaffolding

- 3.3 Three cases reviewed by Internal Audit were noted as having no explanation for scaffolding rates. All of the cases related to emergency drainage issues, where the framework contractor was instructed to repair cracked and leaking soil pipes at height. Scaffold towers were erected and dismantled in each of these cases. The scaffold contractor is on a Council framework.
- 3.4 Scaffolding is not included within the drainage framework schedule of rates. This is due to the nature of works in the emergency service where scaffolding is only occasionally employed in order to remedy a drainage issue.
- 3.5 In each of these cases the prices charged for scaffolding provided was re-reviewed when this matter was brought to the attention of ESRS management by Internal Audit during the audit process. In all three cases, the charges for the amount of scaffolding provided, were found to be in line with other Council framework rates schedules for scaffolding, and were found to be reasonable. When considered pro-rata with the other rates schedules, the charges for all three cases were all lower than expected.
- 3.6 The scaffold costs for the three projects differed due to varied height of scaffold provided and varied hire periods required:

Project	Value	Comments
1	£150	In this project a moveable aluminium tower scaffold was provided to access high level area to renew pipe work. Scaffold was erected and dismantled on the same day. No hire charges applied.
2	£600	In this project a Tower Scaffold at 6.5m high, with an additional 3 x 2m stages were provided to access high level area to renew pipe work, with a seven day hire rate.
3	£450	In this project a Tower Scaffold at 6.5m high and an additional 2m stage was provided to access high level to renew pipework, with a seven day hire rate.

- 3.7 The drainage contractor procured the scaffolding provision by sub-contracting the work. The sub-contractor that the drainage contractor utilised is on the Councils contract register and used Council framework rates on invoices submitted to the drainage contractor. These invoices were verified as part of the

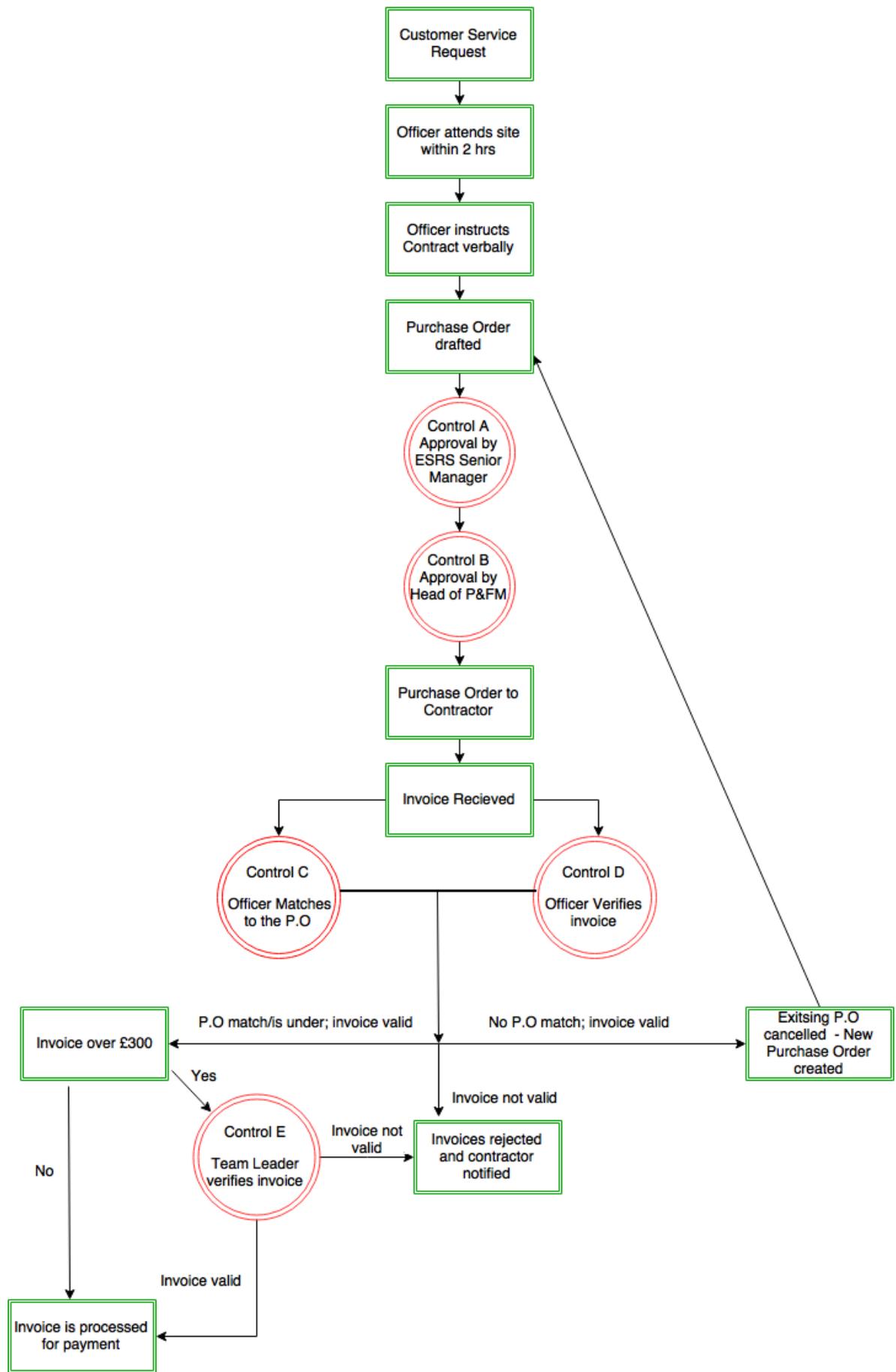
process to approve and pay the framework contractors invoices in the Emergency service of ESRS.

Internal Audit report recommendation and current position of recommendations

- 3.7 The original recommendation by Internal Audit for this finding was:
- Schedules of Rates (SOR's) should be readily available to property officers to enable them to review the accuracy of costs charged by contractors. Any discrepancies identified must be highlighted and challenged with the contractor.*
- ESRS should explore the use of technologies which allow a Schedule of Rates to be programmed into a database. This database could then generate an accurately costed Works [Purchase] Order by selecting the appropriate service as per the inbuilt Schedule of Rates.*
- 3.8 Paper copies of SOR's for all contracts procured by the ESRS are now available for officers to consult when checking invoices. ESRS can now also check rates by utilising SORs on contracts procured by other Council departments that may have items on schedules which are not in the ESRS contracts. ESRS now have the details of the the Domestic/Property Repair and Maintenance SOR's.
- 3.9 In order to address the latter part of the recommendation, a change request has been raised with CGI to provide Shared Repairs with a block of consultancy days from a supplier who will upgrade the UNIFORM system to provide transparency of SOR's on Contractor Works Order's. In the interim, a programme of work has begun to manually import the frequently used SOR's so that the service can utilise them as soon as possible.

Approving and Paying Invoices: The current process in place

- 3.10 The flow chart below sets out the process used to approve and pay invoices raised by Framework Contractors:



- 3.11 The process identifies five key controls that are used to control the payment of contractor invoices:
- A. Purchase Orders raised by Emergency Repairs Officers for works required are subject to review by ESRS Senior Manager;
 - B. Purchase Orders raised by Emergency Repairs Officers for works required are subject to review by the Head of Property and Facilities Management;
 - C. Invoices received are matched to Purchase Orders;
 - D. The Emergency Repairs Officer who commissioned the work is required to approve the invoice prior to payment; and
 - E. Any invoice in excess of £300 is required to be approved by the Emergency Team Leader before payment.

Internal Audit's view of the process design

- 3.12 The process design is unchanged from when it was reviewed by Internal Audit in Q4 of 2015/16. Internal Audit continues to believe that the inherent design of the process used to approve and pay Emergency Repairs invoices is suitable.
- 3.13 Internal Audit would observe that the dual sign off of Purchase Order by both the ESRS Senior Manager and the Head of Property and Facilities Management seems draconian given the relatively small value of the Purchase Orders (generally < £500), but understand the rationale given the history of the organisation. Internal Audit would observe that this is something that could be re-visited as the service becomes more established and gains increased confidence with its users. In due course, a delegated authority approach may be appropriate.
- 3.14 Internal Audit also observed that the ICT applications supporting the process of raising Purchase Orders are cumbersome, and that there is potential for clerical efficiency gains by modernising the supporting IT infrastructure. This does not however have any impact on the overall effectiveness of the control environment in place.

Results of Internal Audit testing

- 3.15 Emergency repairs handled a total of 62 cases in August and September 2016. Of these, 59 were undertaken by the drainage framework contractor, and related to drainage issues (usually in connection with communal waste pipes).
- 3.16 The remaining three cases related to spalling masonry, and were undertaken by the framework roofing contractor. Internal Audit picked a sample of 15 invoices that included all the roofing contractor invoices and a further 12 haphazardly selected drainage contractor invoices.
- 3.17 The testing performed by Internal Audit on these invoices established that prior to payment:

- All 15 invoices had been matched to Purchase Orders;
- All the related Purchase Orders had been approved in line with the process noted above;
- All 15 invoices had been approved by the Emergency Repairs officer responsible for the case;
- Seven invoices had a value > £300 and required secondary approval. In all cases, this was obtained;
- The 12 invoices submitted by the drainage contractor clearly detailed items using the agreed schedule of rates and the appropriate coding. We identified two items, disinfectant and “Aquavac” (large scale drainage equipment), where coding was not provided due to these items not being on the framework agreement. The prices quoted for these items did not appear unreasonable.
- The three invoices submitted by the roofing contractor did not detail items using the schedule of rates. These invoices did however provide a clearly articulated breakdown of the works undertaken and the prices quoted for each item did not appear unreasonable.

Internal Audit’s recommendations for improvement

- 3.18 The contractor education process, which ensures that detailed invoices are submitted using the agreed schedule of rates, remains incomplete. Emergency Repairs should continue to educate their contractor base on the necessity for this requirement. Tougher action may have to be considered if the message is not getting through to some contractors.
- 3.19 The Purchase Orders are created by the Officer responsible for each case, using a best estimate of the likely cost of the works. We observed 12 cases where the Purchase Order did not match the invoice and had to be revised. In all but one of these cases, the Purchase Order value was higher than the actual invoice amount, and we understand from the Emergency Repairs team that this is a common theme across all Purchase Orders.
- 3.20 Using the schedule of rates to build up the value of each Purchase Order would reduce the instances of non-matching Purchase Orders, resulting in stronger control and a reduced administrative burden. This was an agreed management action within the original Internal Audit report, and as has been articulated earlier in this report, this action will be enabled by the planned IT improvements to the Uniform system.

Internal Audit’s overall conclusion

- 3.21 While there are areas for improvement in the operation of this process, the design is not unsuitable, and the testing performed on how it currently operates does not give rise to any immediate cause for concern.

4. Measures of success

- 4.1 Once implemented, the recommendations contained within these reports will strengthen the Council's control framework.

5. Financial impact

- 5.1 None.

6. Risk, policy, compliance and governance impact

- 6.1 If Internal Audit recommendations are not implemented, the Council will remain exposed to the risks that the recommendation was seeking to address.

7. Equalities impact

- 7.1 No full ERIA is required.

8. Sustainability impact

- 8.1 None.

9. Consultation and engagement

- 9.1 None.

10. Background reading/external references

- 10.1 None.

Hugh Dunn

Acting Executive Director of Resources

Contact: Magnus Aitken, Chief Internal Auditor

E-mail: magnus.aitken@edinburgh.gov.uk | Tel: 0131 469 3143

Andrew Field, Edinburgh Shared Repairs Senior Manager

E-mail: Andrew.Field@edinburgh.gov.uk | Tel: 0131 529 7354

Links

Coalition Pledges	P40 – Work with Edinburgh World Heritage Trust and other stakeholders to conserve the city’s built heritage P41 – Take firm action to resolve issues surrounding the Council’s Property Services
Council Priorities	CO19 – Attractive Places and Well Maintained – Edinburgh remains an attractive city through the development of high quality buildings and places and the delivery of high standards and maintenance of infrastructure and public realm
Single Outcome Agreement	SO4 – Edinburgh’s communities are safer and have improved physical and social fabric