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This report is prepared solely for the use of the Board and senior management of the National Audit Office and presented to the Public Accounts Commission (TPAC). We accept no responsibility for any reliance that any additional third parties may place upon the report. Where this report refers to matters of law, it should not be taken as expressing any formal opinion whatsoever.
Summary

1. The National Audit Office (NAO) supports Parliament in holding government to account for spending public money. In so doing the NAO helps to improve the way public services are delivered. The NAO audits the financial statements of all central government departments, agencies and other public bodies and reports the results to Parliament. Its value for money reports conclude on the effectiveness, efficiency and economy of government spending.

2. As part of its own external scrutiny, the Board of the National Audit Office commission its external auditors, Crowe U.K. LLP (hereafter referred to as “Crowe”), to undertake an annual Value for Money (“VFM”) study to assess the extent to which the organisation is achieving VFM in its use of resources. This year the review focused on the NAO’s Contract Management.

3. For the year end 31 March 2017, the NAO had a total operating expenditure of £84.2m, with purchase of goods and services amounting to £22.9m in the same period. Goods and services included: professional services (£10.1m), facilities management (£4.9m), travel (£2.1m), office supplies (£3m) and recruitment and training (£1.5m).

4. On 15 February 2018, Crowe met with the Director of Finance and other key NAO employees to agree the sample selection for the contracts to be included within the review. In selecting contracts for review we applied a definition of “strategic importance”, representing those contracts of significant financial value or contracts we deemed could have an operational impact on the NAO should they not be managed effectively. Key factors considered in the sample selection included the criticality of service, level of expenditure, complexity of service, whether the service was changing in its use of technology.

5. In nine of ten cases sampled the contract met both criteria, with only one contract, relating to the travel portal, being of lower financial value but considered to have an operational impact given its volume of use. This resulted in a sample with a total spend per annum of £4.2m.

6. Framework contracts for the use of partner audit firms to assist with the delivery of financial audits were outside of the scope of this review. These are managed under an internal framework set up by the NAO with quality being overseen by the NAO’s central financial audit quality practice. In addition, we did not consider the contract for payroll services as this had been subject to a separate review by Internal Audit.

7. As part of the review, we evaluated whether the NAO is getting value for money from its contract management process, focusing on the following key questions:
   - Has the NAO established a clear and co-ordinated approach to the management of its key commercial contracts in order to drive value for the goods/services procured?
   - Is there a clear and proportionate evidence base to support the decision making process as to what is contracted?
   - Are good practice and lessons learned recommendations from contract management processes disseminated and applied by key responsible officers?
   - Has the NAO considered emerging risks to its key contracts, including assessment of changes to the contractual relationship and nature of the goods/services provided?
   - How do the contract management practices in operation benchmark against best practice standards and the NAO’s own recommended good practice?

We have set out our audit approach at Appendix 1 and our evidence base at Appendix 2. As part of this review, we have not considered the broader ‘pre-contract award’ procurement processes which did not form part of the terms of reference.
8. We recognise that there is no ‘one size fits all’ solution for contract management. As well as best practice guidance and comparison against other organisations, any findings and recommendations should be tailored to the NAO and be proportionate to the size, strategic importance and risk posed by particular contracts. We have given consideration to these matters in our findings particularly as much of the best practice guidance tends to apply to organisations of a much larger scale of operations to the NAO.

Key findings

9. Overall, from the work undertaken, contract management is working effectively in the NAO given the scale and size of activities, and has achieved its purpose with no major recent contract management failures. There was one example of a significant supplier failure which was managed proactively by management. This was where the supplier experienced financial difficulties following a change in ownership post contract award. NAO’s management identified the issues early and established alternative arrangements whereby an interim solution was put in place prior to a full reappointment process. In addition, lessons were learnt and applied to future contracts to facilitate escalation and to allow early intervention in the event of a key contractor not paying their own staff.

10. The NAO is currently in the process of reviewing and updating procurement policies and procedures following a change in the composition of the team. In addition, the NAO is currently implementing a new contracts database to help provide improved central oversight of its contracts. The database will be applied initially for the procurement process but has the potential to assist contract managers with ongoing contract management. These ongoing changes will help to address some of the recommendations outlined in this report, and the findings outlined below should be used to help further improve both procurement and contract management.

Contract management processes

11. Our assessment is that contract management processes at the NAO are fit-for-purpose for an organisation of the NAO’s size and for the value and strategic importance of the contracts which were considered as part of the review. In line with best practice, contract managers were involved throughout the procurement cycle as opposed to being brought into the process after the procurement had taken place. Individuals within the NAO all had clearly defined roles, and contract managers held meetings and communicated with suppliers on a regular basis.

12. Consideration has been given as to the requirement for exit strategies and contingency arrangements to manage the risk of supplier failure. For the contracts reviewed, consideration of supplier risk and contract failure was contained either within risk registers or contingency planning documents (where this was an option, as in limited cases, the nature of the contract precludes a backup supplier to be engaged). Examples included consideration of alternate suppliers and measures taken by in-house resources to take over service delivery in the interim period.

13. The Executive Leader for Strategy and Operations has overall ownership of how contracts are managed, with Directors delegated responsibility for ownership of contracts within their individual areas. However, it was observed that the approach to governance of contract management is not applied in the same way across all teams, and that there is also no lead with formal oversight of the contract management processes, including training, support, dissemination of good practice and lessons learned. Whilst it is recognised that individual senior
staff have commercial expertise contracts are currently managed in an ad hoc way. As such, there is an opportunity to standardise the approaches that are in use.

14. **All significant expenditure (applying a value of £150,000 per year annum as a threshold) where appropriate, was subject to an appropriate contract.** We obtained a schedule of the top thirty suppliers at the NAO by expenditure to consider whether there was a decision to not contract where this may have been deemed suitable. In each case there were contracts in place (including framework agreements, specific contracts, G Cloud contracts) for each supplier, or the spend related to business rates and/or property leases. Where non contractual spend is used, the NAO standard terms and conditions are applied.

**Supplier/ Risk Monitoring**

15. **The key assessment points for supplier risk assessment are currently at the outset of the contract, rather than monitoring the supplier over time.** There are standard checks built into the NAO procurement processes. For example, if the NAO procures via a government framework then financial viability is checked at the outset by Crown Commercial Services and is regularly monitored throughout the duration of the framework. If the NAO procures outside of a framework, then financial information is sought as part of the procurement process once it is over EU procurement thresholds. This includes third party credit checks and financial reports if assessed as necessary.

16. **The procurement team check tender submissions for legislative compliance prior to a final contract decision.** All new tenders not through frameworks are subject to the NAO’s standard Terms and Conditions which incorporate the EU General Data Protection Regulation (“GDPR”) and Modern Slavery. The NAO is in the process of varying its existing contracts to ensure supplier compliance with GDPR. Procurement also maintains a memorandum of understanding document which is used prior to a major contract going live. This document is used to go through the obligations of the contract manager highlighting key actions such as the business continuity plan, the setting of KPIs, meeting agenda and highlighting the key terms of the contract.

17. **The new contract database has been set up so that all of the key contract information can be added to the database and the contract manager can set reminders for review points.** In addition, engagement with contract managers and review of records evidenced contract managers at the NAO working closely with suppliers which helps to encourage suppliers to disclose any potential issues prior to them impacting on the NAO and its operations.

18. **There is an opportunity to use the due diligence undertaken at the outset of the supplier selection process to provide a recommended framework for the contract manager to utilise as part of the ongoing supplier monitoring process.** Whilst the contract database is becoming embedded, the NAO relies upon the contract managers own judgement on how regularly they should be monitoring suppliers and the criteria to be applied. From the work undertaken supplier risk was evidenced as being considered as part of the supplier monitoring process.

**Staff Training/ Development**

19. **Contract management skills and training are not currently part of the NAO’s training programme or strategy for central teams.** Procurement brief contract managers at the outset of a new contract. Internal and external training on contract management is available to contract
managers where requested although the majority of individuals were unaware that this training was available to them.

Lessons Learned/ Skill Sharing

20. For an organisation the size and complexity of the NAO, it is not considered economic to resource a dedicated contract management team, although there is an opportunity for contract managers to have a forum to liaise with each other to ensure that learning points are applied to all contracts. In addition, this provides the opportunity to share skills and knowledge, especially where there are different levels of skills and experience. Whilst some lessons and skills are shared informally within teams on an ad-hoc basis, there is no dedicated forum for this purpose.

Conclusion on value for money

21. Based on the work undertaken, we consider that contract management at the NAO is generally fit for purpose and provides value for money considering the size and nature of contracts currently managed.

22. By implementing defined processes and improvements in the areas of staff training/development, lessons learned/skill sharing and supplier/risk monitoring, the NAO has an opportunity to further enhance the effectiveness of its contract management.

23. The NAO has a number of individuals who are highly skilled in contract management managing its high value/strategically important contracts, and there are no issues which warrant immediate attention.

24. It has been noted during our work that the NAO is already undergoing a process of improvement, with changes that will have a positive impact on contract management having been noted throughout the course of the review, including but not limited to:
   - Development and implementation of a new contracts database
   - Improved processes to ensure that all contracts are captured and known to the procurement team
   - Procurement encouraging individuals to utilise their knowledge and experience via an ‘open-door’ policy.

Recommendations

- Lead for Internal Contract Management Process
  A co-ordinating lead for contract management processes within the organisation should be allocated to ensure that there is co-ordination of contract management operations throughout the NAO.

- Implementation of contract management processes
  Contract management processes and guidance should be provided centrally and include the following:
  - Details of the governance process, outlining roles and responsibilities of senior individuals.
  - Details of the roles and responsibilities of contract managers and the procurement team, to ensure that their roles are clearly defined and their skills utilised appropriately.
• Processes including guidance and requirements pertaining to the value/ importance of the contract being managed e.g. processes for high, medium, and low risk contracts as defined, with guidance tailored accordingly.
• Integration of the new contract database into the processes.

• Supplier/ Risk Monitoring
  The requirement for supplier/ risk monitoring processes should be clearly defined within any contract management processes and guidance developed to ensure that roles and responsibilities are clearly set out, monitoring is commensurate to the contract being managed, and the process is easily understood and applied by the relevant individual.

• Staff development and training
  The training strategy for the central teams should include a component that all contract managers should be required to undertake.
  
  Contract management should be built into contract manager’s job descriptions and assessed as part of the ongoing performance management process.

• Lessons learned/ skill sharing
  The NAO should look to ensure that contract managers have a forum to meet on a regular basis, and also to discuss items outside of meetings (e.g. through a shared workspace), in order to allow contract managers to discuss any lessons learned, contractual issues, solve problems/ queries encountered and share experiences and leverage skills.

  In addition, contract managers should be made aware of skill sets among other contract managers and in the procurement team so that those individuals skills are utilised to the maximum possible extent. This should utilise the examples of recent supplier challenges, including how the supplier issues were identified, mitigated and lessons applied.

Acknowledgement

The Crowe team would like to acknowledge the support and co-operation of staff that provided assistance during this assignment.

Crowe U.K. LLP

October 2018
Detailed Findings

Contract Management Processes

1.1 For the purposes of this review we have termed contract management as the process of managing and monitoring all aspects of a contract to maximise the value received and ensure the goods/services are delivered at the agreed time and cost to the required standard, with key contract risk being identified and actively mitigated.

1.2 As part of our work we have compared the NAO contract management processes against best practice, including:

   - The NAO’s ‘Good Practice Contract Management Framework’.
   - The Chartered Institute of Procurement and Supply’s ‘Contract Management Guide’.

In addition to the above, where possible we have compared the NAO against peer organisations operating in similar industries.

1.3 In the majority of instances, it was considered that the contract management currently in place at the NAO is fit for purpose. Further, in our view it is not deemed necessary by the NAO to have a dedicated contract management team considering the size of the organisation and the nature of the contracts managed. This is consistent with the approach in peer organisations.

1.4 Overall contract oversight, and commercial management is the responsibility of Executive Leader for Strategy and Operations, with individual Directors accountable for contracts within their remit. However, there is no individual responsible for contract management processes within the NAO, including dissemination of guidance for contract managers. As such, the approach taken to contract management varies across the organisation.

1.5 Through the interviews conducted with contract owners, as well as departmental directors, it was ascertained that whilst there are governance processes and specific examples of best practice in place there are potential areas for improvement in their consistent application.

1.6 Examples of best practice in place across the NAO included the majority of contract owners being involved in the tender process, contract management plans being in place and regular review of budgets and contract spend. In addition, there were clear processes applied for dispute resolution, escalation, remedies, invoicing and payment.

1.7 Regular meetings and communications between the contract owner, finance, project manager and/or operations to review ongoing work, progress and risk are taking place. This was evidenced through records of contract risk registers and records of supplier meetings, although these were not consistently documented in format and detail.

1.8 In some instances, where contracts were deemed to be of a similar strategic importance/value, differing approaches to contract management were in operation.

1.9 In two instances, individuals noted that they were aware of contracts that had rolled over beyond their expiry due to lack of oversight. These contracts were of low value (and not any of the contracts in scope for this review). This issue is being addressed through the use of the data held within the contract database, (as referenced at 1.11-1.13). For the contracts selected for review all were current, with the contract lifecycle known and actions in place to address any contract renewal/tender process.

1.10 In recent years, the NAO has invested in cloud based solution to replace legacy project planning, resource allocation, people management and finance systems. This has allowed the NAO to better optimise and integrate IT solutions and platforms. One benefit of this integrated platform is to centralise and link up information across different teams.
1.11 The NAO has used its new IT platforms to build a central online contract database which is available across the organisation and ensure all purchase requisitions and budgets must be supported by appropriate contract document. This replaces local records on spreadsheets that were maintained under legacy systems. This database was operational from 1 April 2018.

1.12 Once fully embedded, this will provide the procurement team with a complete picture of expenditure and will facilitate the central team in identifying and monitoring contracts of high value or strategic importance. The database also holds contract record and performance management information. This helps the contract manager to manage the contract and the procurement team to review where required. There are standard formats in which this information is recorded and presented, which means contract managers will follow the same approach and method.

1.13 Within the database, each contract has record fields that require the contract manager to enter the business continuity provisions, insurance liabilities or indemnities into the database, in addition to the steps taken to ensure legislative obligations around Modern Slavery and GDPR.

1.14 The contracts database will be a tool to support individual contract managers and facilitate the central procurement team in monitoring compliance, as well as to consider ways of better managing contracts. It will help the procurement team plan work efficiently by giving the forward view of when contracts are due to expire.

1.15 We sought to identify if there were any areas of significant spend for which a contract had not been established in order to test the decision “when to contract”. To undertake this we obtained a schedule of the top 30 expenditure supplier/ organisational for the period 2017/18, with the lowest spend in this category of £159,000. Of the 30 organisations of highest spend, all were under contract or were for utilities/ business rates with seven related to the audit framework contracts. For those in the top 30 with a specific non-framework contract in place, these were included in our sample, or had been considered as part of our scoping exercise.

1.16 An analysis of contractual transactions, mapping the ratio of invoices to credit notes, did not indicate any issues of poor contract performance and billing for further follow up (see ‘Figure 1’ and ‘Table 1’ below).

Table 1 – Number of invoices vs. credit notes per contract

<table>
<thead>
<tr>
<th>Supplier</th>
<th>No. of Invoices</th>
<th>No. of Credit Notes</th>
<th>% Credit Notes to Invoices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>43</td>
<td>2</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>1</td>
<td>100%¹</td>
</tr>
<tr>
<td>3</td>
<td>61</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>4</td>
<td>42</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>5</td>
<td>18</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>6</td>
<td>25</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>7</td>
<td>24</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>8</td>
<td>147</td>
<td>17</td>
<td>12%</td>
</tr>
<tr>
<td>9</td>
<td>143</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>10</td>
<td>45</td>
<td>1</td>
<td>2%</td>
</tr>
</tbody>
</table>

Figure 1 – Number of invoices vs. credit notes per contract (please note supplier names have been withheld for commercial purposes)

¹ Supplier 2 and Supplier 3 are the same organisation. The use of the credit note at supplier 2 reflects the record being set up for the specific purpose of creating the credit note.
Figure 2 – Value of invoices vs. credit notes per contract (please note supplier names have been withheld for commercial purposes)
1.17 It is recommended that the NAO looks to implement contract management and governance processes, which should include:

- The governance process, including clarification of a lead for contract management to ensure that it is given sufficient oversight and to improve transparency and accountability, as well as a point of escalation within the NAO.

- The roles of the procurement team, directors and the contract managers themselves should also be clearly outlined to ensure that their expertise is fully utilised.

- Clearly defined contract management processes, including guidance and requirements pertaining to the size/strategic importance of the contract being managed e.g. high/medium/low risk criteria, with any guidance/requirements tailored accordingly. All guidance/requirements should include process ‘overviews’ and high-level requirements, as well as more detailed underlying processes for the high risk/strategic contracts.

- Alignment with the new contract database being implemented at the NAO.
Supplier/ Risk Monitoring

2.1 In line with best practice guidance suppliers providing high-value/ strategically important contracts should be monitored on a regular basis. This is to ensure that third party risk is adequately mitigated and that any issues, or risks posed by the supplier are adequately foreseen and prepared for. Monitoring activities should include but not be limited to:

- The supplier’s financial health.
- The suppliers’ business performance.
- Contract specific due diligence (e.g. data protection where a supplier is processing the data controllers data).
- Any current news stories which may damage the suppliers (and subsequently the purchasers) reputation.
- The above for any relevant sub-contractors used by the supplier to deliver the work.

2.2 The key controls regarding due diligence are undertaken as part of the contractor appointment process with standard checks built into the NAO procurement processes. If the NAO procures via a government framework then financial viability is checked at the outset by Crown Commercial Services and is regularly monitored throughout the duration of the framework. If the NAO procures outside of a framework, then financial information is sought as part of the procurement process once it is over EU procurement thresholds. This includes third party credit checks and financial reports if assessed as necessary.

2.3 The procurement team check tender submissions for legislative compliance prior to a final contract decision and all new tenders not through frameworks will be subject to the NAO’s new Terms and Conditions which incorporate GDPR and Modern Slavery. At the time of our fieldwork the NAO was in the process of varying its contracts to ensure supplier compliance with GDPR.

2.4 The procurement team maintains a memorandum of understanding document which is used prior to a major contract going live. This document is used to go through the obligations of the contract manager during the set up process, highlighting key actions to undertake, such as establishing the business continuity plan, setting of KPIs and detailing the key terms of the contract. The new contract database has also been set up so that all of the key contract information can be added to the database and that the contract manager can set reminders at key points for follow up.

2.5 The procurement team do not perform routine monitoring after the procurement phase. Additional checks have been introduced so that the procurement team have oversight of all Purchase Orders being raised and processed so as to facilitate supplier monitoring.

2.6 Interviews identified that two-thirds of contract owners managing high value/ strategically important contracts did not actively monitor suppliers against the types of indicators referenced at 2.1. The approach to the capture of supplier and contract risks is also inconsistent in format and approach, from there being a formal risk register in place to risk driven discussions with the supplier as part of routine monitoring activity.

2.7 For the contracts included in our sample, we met with the relevant Director and contract manager to review the supplier contingency arrangements in place. In each case there had been consideration of the risks to services and remedial actions, with the level of documentation proportionate to the nature of the contract. We applied a number of scenario tests with each Director/ contract manager, with the scenarios and mitigating actions either documented in the contract risk register or contingency plan, or where this was not the case, the immediate actions with regards to an alternative supplier were clearly known.

2.8 Across all contracts reviewed, there did not appear to be any instances whereby a contractor failure or lack of contract management would result in the operations of the NAO being significantly
impacted and where plans could not be implemented in the short to medium term to address the issue.

2.9 The NAO has experienced one major supplier failure where a change in ownership took place either at, or soon after, the point of contract award and post the financial due diligence process being undertaken. The contract manager, through their wider networks, became aware of potential issues with the supplier and undertook remedial actions in consultation with legal and other teams across the NAO. As a result an interim solution was implemented whilst a further tender was undertaken. This avoided any operational impact on the NAO with a further lessons learned exercise undertaken.

2.10 The continued focus on wider supplier networks and industry knowledge is a key mitigating factor in identifying supplier risk. From the work undertaken, there are a limited number of contracts which require this type of supplier risk monitoring, due to other mitigations in place.

2.11 The NAO should look to implement a supplier/ risk monitoring process, where it is exposed to the risk of financial failure, which is clearly defined in its contract management processes to ensure that:

- Roles and responsibilities are clearly set out.
- Any monitoring is commensurate to the value and strategic importance of the contract being managed.
- The process is easily understood and applied by the relevant individual (e.g. contract manager, finance or procurement) as necessary.
Staff Training and Development

3.1 Contract managers and teams are briefed on contract management at the outset of the arrangement by the procurement team, although as responsibilities shift as the contract becomes live the contract manager may not be fully up to date on their responsibilities.

3.2 The NAO does not currently provide mandatory training for contract managers. This is available if requested, however; not all contract managers interviewed were aware of the training options.

3.3 50% of the contract owners interviewed had received professional training in relation to contract management and the majority of those consulted during the review felt adequately trained to manage the contracts they were responsible for.

3.4 Interviews with contract managers and Directors indicated that in some cases contract managers view contract management as a ‘bolt-on’ to their day to day role. While in some instances contract management had been built into an individual’s job description and assessed as part of the appraisal process, this was not applied across all contract managers.

3.8 The NAO should look to ensure that:

- Contract managers are adequately trained or upskilled in order to manage contracts effectively to obtain value for money for the NAO.
- Contract managers are aware of the training that is on offer to them and are encouraged to upskill through either internal or external training.
- Contract management is built into contract managers’ job descriptions and is assessed as part of the ongoing appraisal process.
Lessons Learned/ Skill Sharing

4.1 Contract managers should be collaborating to ensure that lessons are learnt across the NAO and that the learning points, both positive and negative are shared. Staff at the NAO who are managing high value or strategically important contracts as part of their roles are not currently part of a specific contract management team or network.

4.2 In addition there is an opportunity to leverage the skill sets of the more experienced contract managers where not all contract managers have the same level of training and experience. This can be done formally and informally and will help to better drive the consistent achievement of value for money in contract management and to manage risks.

4.3 Interviews and the questionnaire responses identified that whilst skills and lessons learned sharing does happen on an ad hoc basis, it is often limited to contract managers within the same team, as opposed to across all contract managers or utilising the procurement teams contract management experience on a set, regular basis.

4.4 Moreover, where skills and lessons learned are currently shared, it is often reactive once an issue has occurred. Consequently, where there are skills or lessons learned being shared, it is often only in regard to negative issues once a problem has arisen, as opposed to capturing any positive benefits obtained for the NAO through contract management.

4.5 It is recommended that the NAO looks to ensure that:

- A forum is established for contract managers meet on a regular basis (either quarterly or six monthly) in order to:
  - Discuss any lessons learned from contracts being managed (both positive and negative)
  - Share skills among each other, to ensure a greater consistency of knowledge among contract managers
  - Discuss any contractual issues that have occurred
  - Solve queries/ problems encountered
  - Consider contracts which are due for review/ renewal and/or retendering in the subsequent periods, in order to inform the processes to be undertaken.
- Contract managers are aware of the skill sets among other contract managers and procurement to ensure that trained individuals are utilised to the fullest possible extent.
- Contract managers have a forum to discuss contract management outside of the regular meetings, to ensure that any lessons learned are shared and learned from in a timely basis.
Appendix 1 – Our Approach

1. The report evaluated whether the NAO is getting value for money from its contract management processes. We examined:
   - Whether there is a structured and co-ordinated approach to contract management in place
   - Whether there was an evidence base to support the decision as to what is contracted
   - Whether good practice and lessons learned are being applied across the NAO
   - Whether emerging risks to contracts have been considered.

2. We used financial information regarding expenditure made in the last 12 months to review the decisions regarding whether to contract to seek to identify any significant areas of spend which has not been contracted. We used a structured interview approach and follow up survey, based on best practice criteria, to assess the contract management in place to assess the methods engaged to manage contracts, with follow up meetings to consider supplier risk.

3. Our audit approach is summarised in Figure 5, and our evidence base described in Appendix 2.
**Figure 5: Our Approach**

<table>
<thead>
<tr>
<th><strong>The objective of the NAO</strong></th>
<th>To ensure value for money is achieved for expenditure on contracts, to support service delivery in the NAO’s objectives.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How this will be achieved</strong></td>
<td>Through effective management of contracts, ensuring that goods and services are being provided in line with the contract. That underperformance is being identified and addressed, and suitable plans are in place to address any risks to service delivery through supplier failure.</td>
</tr>
<tr>
<td><strong>Our review</strong></td>
<td>Our review examines whether the NAO has been applying best practice principles in contract management, including the decision to contract and supplier risk mitigation strategies.</td>
</tr>
<tr>
<td><strong>Our evaluative criteria</strong></td>
<td>The review has sought to address the following key questions:</td>
</tr>
<tr>
<td></td>
<td>• Has the NAO established a clear and co-ordinated approach to the management of its key commercial contracts in order to drive value for the goods/services procured?</td>
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<td></td>
<td>• Is there a clear and proportionate evidence base to support the decision making process as to what is contracted?</td>
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<td></td>
<td>• Are good practice and lessons learned recommendations from contract management processes disseminated and applied by key responsible officers?</td>
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<td></td>
<td>• Has the NAO considered emerging risks to its key contracts, including assessment of changes to the contractual relationship and nature of the goods/services provided?</td>
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<td></td>
<td>• How do the contract management practices in operation benchmark against best practice standards and the NAOs own recommended good practice?</td>
</tr>
<tr>
<td><strong>Our evidence</strong></td>
<td>We assessed the contract management within the NAO through:</td>
</tr>
<tr>
<td></td>
<td>• Review of contract records and logs for key contractual spend</td>
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<tr>
<td></td>
<td>• Expenditure reports for different categories of activity to determine contractual spend/potential areas of contractual/non contractual spend for similar activities</td>
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<td></td>
<td>• Interviews and a follow up questionnaire with a sample of contract owners and Directors, using a structured interview based on best practice guidance and reference material, including (but not limited to):</td>
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<tr>
<td></td>
<td>➢ The Chartered Institute of Purchasing and Supply (CIPS) – Contract Management Guide</td>
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<td></td>
<td>➢ CIPS guidance per contract type (examples include, but are not limited to, Facilities Management, Maintenance, Repair and Operational Supplies, IT and Telecoms)</td>
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<tr>
<td></td>
<td>➢ NAO Guidance – Good practice contract management framework</td>
</tr>
<tr>
<td></td>
<td>➢ NAO Paper – Commercial and contract management – insights and emerging best practices</td>
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<tr>
<td></td>
<td>• Lessons learned exercises and logs from contract activity.</td>
</tr>
<tr>
<td></td>
<td>• Consideration of emerging risks/commercial considerations assessment for the contracts in place.</td>
</tr>
<tr>
<td><strong>Our value for money conclusions</strong></td>
<td>Overall, contract management at the NAO is generally fit for purpose and provides value for money considering the size and nature of contracts currently managed:</td>
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<tr>
<td></td>
<td>• There are a number of additional measures, such as the contract database, which is being embedded and will support effective contract management.</td>
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<td>• Ownership of the strategic contracts is clearly allocated to senior officers within the NAO.</td>
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<td>• Supplier risk and contingency measures have been considered.</td>
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<td>• All significant spend areas are under contract.</td>
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<td>However, there are opportunities to enhance contract management further through building on the contract database and establishing clear frameworks for the sharing of good practice in operation.</td>
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</table>
Appendix 2 – Evidence Gathering

Approach

1. We reached our conclusion on value for money after analysing evidence we collected between March 2018 and August 2018.

2. We reviewed the NAO’s approach to achieving value for money in its contract management processes:

   • We prepared an interview question set and questionnaire based on best practice guidance, including the Chartered Institute of Procurement and Supply Contract Management Guide and the NAO Good Practice Contract Management Framework.
   • We selected a sample of 10 contracts for review, covering circa £4.2m of spend.
   • We held interviews with six contract managers (with some contract managers overseeing more than one contract in the sample), eight Directors, the Head of Finance and the Procurement Team.
   • The questionnaire was completed by nine contract managers, with responses based on the largest contract that they managed.
   • We undertook analysis of the accounts payable data for the contracts selected for review.
   • We held follow up meetings with contract managers and Directors to review contract exit strategies and risk management.
   • We obtained and reviewed supporting documentation, including but not limited to, contracts, contract risk registers and contract contingency plans.
## Appendix 3 – Recommendation Schedule and Management Response

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
<th>Agreed/partially agreed/rejected</th>
<th>Management Response</th>
<th>Implementation date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lead for Internal Contract Management Process</td>
<td>Agreed</td>
<td>The Head of Finance and Procurement, who has obtained a Contract and Commercial Practitioner qualification from the International Association for Contract &amp; Commercial Management and is involved in the NAO’s Commercial and Contracting Community of Practice (an NAO specialist internal network) will take this role.</td>
<td>Implemented</td>
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<td></td>
<td>A co-ordinating lead for contract management processes within the organisation should be allocated to ensure that there is co-ordination of contract management operations throughout the NAO.</td>
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<td>2</td>
<td>Implementation of contract management processes</td>
<td>Agreed</td>
<td>We have incorporated some of these principles into the contract management process in our system, which now includes the contract management database. Our procurement policy has also been updated.</td>
<td>By 30 June 2019</td>
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<td>Contract management processes and guidance should be provided centrally and include the following:</td>
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<td>• Details of the governance process, outlining roles and responsibilities of senior individuals</td>
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<td>• Details of the roles and responsibilities of contract managers and the procurement team, to ensure that their roles are clearly defined and their skills utilised appropriately</td>
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<td>• Processes including guidance and requirements pertaining to the value/importance of the contract being managed e.g. processes for high,</td>
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<td>The co-ordinating lead for contract management will distil the key points into a short training session which will be targeted at contract managers in the office. This will also help show people how to make best use of the contract database (see response to recommendation 4)</td>
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<tr>
<td>No.</td>
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<td>Management Response</td>
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|     | medium, and low risk contracts as defined, with guidance tailored accordingly  

- Integration of the new contract database into the processes. | Agreed | Our system will include validation rules (key steps that need to be done) and alert reminders for contract managers to ensure compliance.  

1. Any contract which is flagged as critical service (a mandatory field that needs to be selected) will require a supplier / contract review date to be entered when set up.  

2. The system will create blank contingency plan and performance agreement template / schedule which contract managers are expected to complete.  

3. The system will send out reminder emails about a month to the contract review date asking the contract manager to undertake some review tasks such:  

- Ensure that the contract performance details are up to date;  
- Any meetings with Contract stakeholders have been arranged and recorded;  
- Risks are updated;  
- Contingency plans are reviewed and updated; this includes financial review of the supplier. | 31 March 2019 |
<table>
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<tr>
<th>No.</th>
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<tbody>
<tr>
<td>4</td>
<td><strong>Staff development and training</strong>&lt;br&gt;The training strategy for the central teams should include a component that all contract managers should be required to undertake.&lt;br&gt;Contract management should be built into contract manager’s job descriptions and assessed as part of the ongoing performance management process.</td>
<td>Agreed</td>
<td>4. The annual reviews have to be signed off by the contract director.&lt;br&gt;5. Finance &amp; Procurement team will run exception report for non compliant contracts and use this ensure compliance.</td>
<td>30 June 2019</td>
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<td>5</td>
<td><strong>Lessons learned/ skill sharing</strong>&lt;br&gt;The NAO should look to ensure that contract managers have a forum to meet on a regular basis, and also to discuss items outside of meetings (e.g. through a shared workspace), in order to allow contract managers to discuss any lessons learned, contractual issues, solve problems/queries encountered and share experiences and leverage skills.&lt;br&gt;In addition, contract managers should be made aware of skill sets among other contract managers and in the procurement team so that</td>
<td>Agreed</td>
<td>A contract managers group can be formed or a quarterly meeting of contract managers can be scheduled. This will be coordinated by the lead for contract management</td>
<td>30 June 2019</td>
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<tr>
<td>No.</td>
<td>Recommendation</td>
<td>Agreed/partially agreed/rejected</td>
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<td>those individuals skills are utilised to the maximum possible extent. This</td>
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<td>should utilise the examples of recent supplier challenges, including how the</td>
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<td>supplier issues were identified, mitigated and lessons applied.</td>
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Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein.

About us

Crowe UK is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

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