



Contract Management

Internal Audit Report
City of Adelaide

August 2024



Acknowledgement of Country

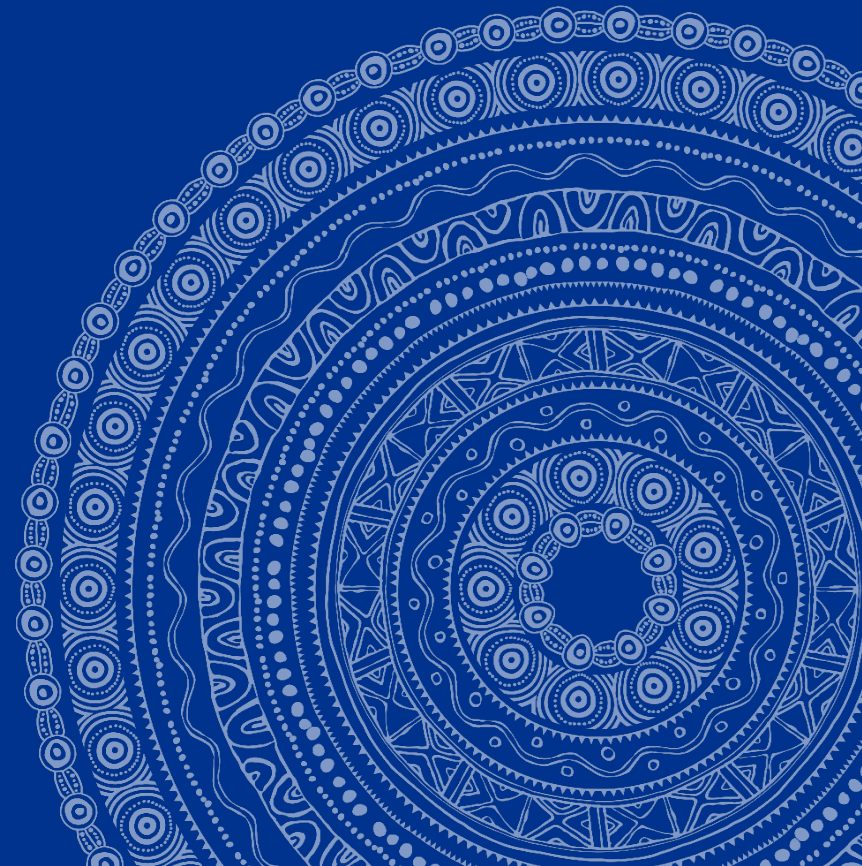
KPMG acknowledges Aboriginal and Torres Strait Islander peoples as the First Peoples of Australia. We pay our respects to Elders past, present, and future as the Traditional Custodians of the land, water and skies of where we work.

At KPMG, our future is one where all Australians are united by a shared, honest, and complete understanding of our past, present, and future. We are committed to making this future a reality. Our story celebrates and acknowledges that the cultures, histories, rights, and voices of Aboriginal and Torres Strait Islander People are heard, understood, respected, and celebrated.

Australia's First Peoples continue to hold distinctive cultural, spiritual, physical and economical relationships with their land, water and skies. We take our obligations to the land and environments in which we operate seriously.

Guided by our purpose to 'Inspire Confidence. Empower Change', we are committed to placing truth-telling, self-determination and cultural safety at the centre of our approach. Driven by our commitment to achieving this, KPMG has implemented mandatory cultural awareness training for all staff as well as our Indigenous Peoples Policy. This sincere and sustained commitment has led to our 2021-2025 Reconciliation Action Plan being acknowledged by Reconciliation Australia as 'Elevate' – our third RAP to receive this highest level of recognition. We continually push ourselves to be more courageous in our actions particularly in advocating for the Uluru Statement from the Heart.

We look forward to making our contribution towards a new future for Aboriginal and Torres Strait Islander peoples so that they can chart a strong future for themselves, their families and communities. We believe we can achieve much more together than we can apart.



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Executive Summary

In accordance with the 2023/24 Internal Audit Plan for the City of Adelaide (CoA), an internal audit focussing on the policies, processes, risks and controls relating to contract management was performed.

Objective

The objective of this internal audit was to review the CoA's overarching contract management framework with a specific focus on contract management in relation to the post-contract award process.

Scope

The scope of this internal audit considered the following areas:

- Governance, resources, and clarity of roles and responsibilities in relation to contract management.
- Systems and processes in place to support contract management, including robustness of records management.
- Risk management processes to ensure key contract risks are identified and monitored.
- Financial management and oversight, including verification of contract expenditure, and financial monitoring and reporting.
- Documentation and authorisation requirements of contract variations and extensions.
- Compliance monitoring of contract obligations, commitments, and service requirements.
- Relationship management, including escalation and resolution management over non-compliance and disputes.
- Management of contract performance, including management of contract variations, achievements of Key Performance Indicators (KPIs) and the ability of the contractor to meet the terms of the contractual arrangements.

Refer to Appendix 1 for detailed Scope and Approach.

Positive Observations

A number of positive observations were identified during the course of this internal audit and are summarised below:



Performance Monitoring | For the five (5) contracts sampled, it was observed that there was a consistent practice of performance monitoring. KPIs were established during the pre-award phase in Procurement Plans and were included in the finalised contracts. These KPIs were then regularly evaluated and monitored in monthly or bi-monthly meetings by the Contract Managers in collaboration with the contractors.



Relationship Management | Strong relationships were observed with the contractors selected for sample testing, including regular and clear communication with contractors with a focus on continual performance improvement.



Knowledge and Expertise | Contract Managers interviewed demonstrated strong knowledge and expertise on the nature of the contracts they are responsible for managing.



Regular Service Monitoring | Through sample testing of the cleaning contract, it was evidenced there is a robust service quality monitoring process established, including weekly spot checks at cleaning sites, photo evidence and monthly meetings with the contractor to assess and monitor KPIs.



Performance Reporting | For a high-risk security management contract it was noted a bi-monthly report is provided to the Emergency Management team, who then provides a synthesised report to the SRIA. Additionally, for a waste management contract, a monthly Performance Management Committee Action Plan report is prepared, including the roles and responsibilities of future actions to improve contract performance.

Key Findings and Recommendations

The CoA currently does not have a formalised contract governance structure in place to consistently manage contracts (risk-based) and relevant practices across the CoA. As a result, there is inconsistency in the administration and management of contracts.

The findings and performance improvement opportunities (PIO) identified during this internal audit are illustrated in the summary below. The findings and recommendations were discussed with CoA Management.

The detailed Classification of Internal Audit Findings is included in Appendix 3.



Background

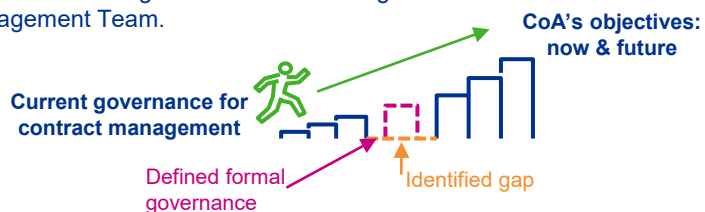
2.1 Contract Management at the CoA

The CoA currently manages over 368 active contracts, including infrastructure, construction operating services, technology and professional services, with each business area managing contracts independently. Each contract has an assigned Contract Manager, who is responsible for the administration of the contract, including regular performance management and the overall relationship management with the contractor.

Contract Management is governed by the CoA's Procurement and Contract Management Guidelines, which provides a high-level guidance to the Contract Managers of their roles, responsibilities and accountabilities associated with the management of contracts.

2.2 Roles and Responsibilities

The Procurement and Contract Management Team oversees the management and recording of key contract information, including renewal and monitoring of insurance certificates and budget and variation management. The Contract Owner is responsible for the overall management of the contract, including the Contract Manager who is responsible for the ongoing performance management, relationship management, compliance management and addressing incidents in collaboration with the Emergency Management Team.



Contract management tasks are currently decentralised throughout the CoA, with the majority of tasks performed by the relevant Contract Managers. This has resulted in a significant degree of variability in the contract management process across the CoA.

2.3 Performance Management

Monitoring of contracts is required to ensure strong contract management principles and value for money. The CoA has a formal approach to manage and monitor contract performance, including clearly defining and effectively utilising Key Performance Indicators (KPIs). Each contract has clearly defined and strategically aligned KPIs with organisational objectives. In accordance with the contract management guidelines, Contract Managers are responsible for tracking progress and identifying areas of improvement through regular monitoring and evaluation of contract performance.

2.4 Data and Systems

The CoA utilises the following systems for the administration of contract management:

Procurement and Contract Management System (PCMS)	A procurement and contract records management system, used by the procurement team as the central repository for all procurement and contract information.
TechOne	A financial management system, used to record all financial activities in relation to the contracts, including total budget and variations.
Content Manager	A records management system, used by Contract Managers to store records relating to contracts across the CoA.
SkyTrust	A safety/incident management system, used to record and monitor incidents for all contracts across the CoA.

It was advised an upgrade of the Procurement Contract Management System (PCMS) is scheduled to be performed. The CoA is currently aiming to have a more holistic oversight of the contract management process in the updated solution.





2.5 Contracts selected for sample testing

A selection of contracts across the **2022-2023** Financial Year were considered for testing. The selected contracts are listed below:

Contract Number	Contractor Name	Budget
T2022 0006 00	Wilson Security	\$1,717,081
G2019 0127 00	Cleanaway Pty Ltd	\$4,709,873
G2018 0062 00	Zippy Cleaning & Maintenance Services	\$773,478
T2023 0004 00	SKG Commercial Cleaning	\$2,175,243
T2022 0072 00	Health and Immunisation Services	\$500,000

High-Level Findings Identified

Below are the key contract management functions required for effective contract management, which we have aligned to the agreed scope of the internal audit. A column listing the finding references has been included, to highlight the functions with opportunities for improvement against better practice contract management principles.

Contract Management Functions	Scope	Finding Reference
 Framework	<ul style="list-style-type: none"> Governance, resources and roles and responsibilities in relation to contract management (including skills, experience and training). 	F2 F4
 Administration	<ul style="list-style-type: none"> Systems and processes in place to support contract management, including records management and notification of contract milestones and renewals. Compliance monitoring of contract obligations, commitments and service requirements. 	F5 PIO1
 Financial Management	<ul style="list-style-type: none"> Financial management and oversight, including verification of contract expenditure and financial monitoring and reporting. Documentation and authorisation requirements of contract variations and extensions. 	F6
 Performance Management	<ul style="list-style-type: none"> Management of contract performance, including management of contract variations, achievements of KPIs and the ability of the contractor to meet the terms of the contractual arrangements. Relationship management, including escalation and resolution management over non-compliances and disputes. 	F6
 Risk Management	<ul style="list-style-type: none"> Risk management processes to ensure key contract risks are identified, monitored and mitigated. Management of work, health and safety (WHS) in accordance with contract requirements including contractor induction processes. 	F1
 Training, Performance and Professional Development	<ul style="list-style-type: none"> Consideration of lessons learned processes to help inform continuous improvement in relation to contract management. 	F3



Internal Audit Findings

Internal Audit identified four (4) moderate risk-rated findings, two (2) low risk-rated findings and one (1) performance improvement opportunity (PIO). The details of the findings are provided in the 'Detailed Findings' section of this report. These findings have been individually rated as following:



Rating	Ref #	Description
Moderate	F1	Limited contract risk management and profile consideration
Moderate	F2	Clarity of contract management roles and responsibilities across the CoA
Moderate	F3	Gaps in training provided to Contract Managers
Moderate	F4	Gaps in contract management guidelines and governance
Low	F5	Inconsistencies identified in the records management of contracts
Low	F6	Inconsistent oversight and monitoring of contracts
PIO	PIO1	Opportunity for uplift of utilisation of supporting system

Finding 1 – Limited contract risk management and profile consideration**Moderate****Finding(s):**

There is an inconsistent approach to risk management across the contract lifecycle at the CoA.

Pre-award phase

The contract risk assessment process is a key component of the pre-award phase (to inform post-award), including contract risk profiling. Better practice for profiling is to use a tool for consistent scoring across defined criteria (e.g. operational, scale, complexity, customer, strategy, reputation).

The outcome of the contract profiling assessment should determine the contract management tiering (e.g. priority, routine) and associated management and governance requirements. Tier requirements should be clearly defined, such as strategic contracts should mandate the use of contract management plans, steering/governance committee and reporting requirements.

Related to this process, Internal Audit identified the following gaps:

- The CoA does not have a robust contract profiling process in place, with a clearly defined methodology, criteria and contract management tier requirements, to help inform contract governance requirements.
- The Procurement function is required to develop Contract Management Plans (CMP) for high risk contracts, as per the CoA's Procurement and Contract Management Guidelines. Our review noted that a standard CMP template has not been developed to define the tasks, roles, responsibilities and accountabilities to effectively manage and administer the contract. This tool is a key part of the contract governance framework as it contains critical contract specific information, which should be regularly reviewed and updated.
- For all five (5) contracts reviewed within our sample testing, the CoA Contract Managers had not conducted a relevant contract risk assessment.

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Recommendation(s):

Internal Audit recommends the CoA consider the following:

1. As part of the contract management guidance, define a methodology to monitor high risks and strategic/priority contracts. *Refer to Finding 4 for additional details.*
2. Consistently utilise the Contract Management Plan template and mandate the use for all priority/higher risk contracts as defined in the contract management guidance, which should be drafted in the pre-award phase and maintained throughout execution. For low-risk contracts, the CoA has an opportunity to implement a contract management checklist.
3. Consider the opportunity for the Procurement team to support Contract Managers, on a risk-based approach, with ongoing risk management and governance oversight across the contract lifecycle for high risk contracts.

Agreed Management Actions

1. A risk assessment is always required and is used to assess the level of risk associated with a Procurement activity and to determine further process requirements, mitigation strategies and actions.

As stated within the CoA's Procurement and Contract Management Operating Guideline, the responsibility of the risk assessment is held by the business initiating the procurement. The business area will need to ensure all high risk procurements under \$150K are reported to the Procurement team to ensure appropriate mitigation.

The Procurement team will ensure risk assessments are conducted for all procurement activities over \$150k. The Procurement & Contract Management Team will review the Risk Assessment Tool to ensure it accurately identifies high risk and strategic/priority contracts.

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**Finding 1 – Limited contract risk management and profile consideration****Finding(s):***(continued from previous page)*Post-award phase

Contract risk profiles should be regularly reviewed throughout the contract lifecycle. Further, contracts which have multiple sites or materially different portions of work should have focused risk assessments where required (e.g. different roads, buildings or ovals, etc.) as different risk environments may need to be managed in isolation of each other.

All categories of risks (e.g. operational, safety, environmental, reputation, financial, etc.) should be considered and each identified risk should be treated with controls and actions to mitigate to an acceptable level. Priority contracts should have regular risk management and performance reporting to a steering/governance committee.

Internal Audit identified the following gaps related to the post-award process:

1. As part of the CoA's contract management guidance, high risk contracts are required to have a Contract Management Plan (CMP). No CMPs were in place for the five (5) contracts sampled during this review. This control is a key part of contract governance and managing key personnel reliance risk, as they contain a wealth of critical contract specific information which should be regularly reviewed and updated as a management tool.
2. For three (3) out of five (5) contracts sampled, a procurement plan was provided, however the procurement plans captured risks specific to procurement and not the contract. Furthermore, the risk assessments included in the procurement plans were not sufficient for conducting contract risk assessment.
3. Through sample testing of five (5) contracts, it is noted that contract risk profiles were not dynamically managed throughout the post-award phase, and risk management is not effectively used as a tool for decision making.

Risk(s):

- Ineffective and inconsistent approach applied to contract risk management can result in unnecessary risk exposure for the Council.
- Risk is not used as tool for decision making.

Recommendation(s):**Moderate****Agreed Management Actions***(continued from previous page)*

2. The CoA currently has a Contract Management Plan template, which will be reviewed and updated to incorporate the recommendations from the internal audit. A Contract Management Checklist will be developed and implemented through the Procurement & Contract Management System Upgrade.
3. The Strategic Procurement & Contract advisors within the Procurement & Contract Management team will partner with the Contract Managers for high risk and/or strategic/priority contracts to ensure the Contract Management Plan is adhered to, and regular reporting is provided to relevant stakeholders within Council.

Responsibility: Manager, Finance & Procurement**Target Date:** 31 December 2024

**Finding 2 – Clarity of contract management roles and responsibilities across the CoA****Moderate****Finding(s):**

Internal Audit identified gaps and lack of clarity of roles, responsibilities and accountabilities across the CoA, including Contract Managers, to ensure effective contract management. The Contract Owner performs a critical role and is accountable for the overall management of the contract. This individual will have a significant influence on the nature of the relationship between the Councils and the contractor.

Internal Audit observed the following:

1. Different views were expressed by Contract Managers on how they manage contract documentation, such as insurances and the agreed executed contract. Currently, automated emails are sent from the procurement system, PCMS, to notify the contractors of insurance nearing expiration. However, Contract Managers were noted as also independently requesting insurance certificates, resulting in duplication of activities.
2. It was advised four (4) out of five (5) contracts sampled were legacy contracts for which a handover was not performed when the Procurement Team departed from the CoA in 2022. Therefore, there is an absence of assigned responsibility within the Procurement Team for maintaining and updating legacy contract information in PCMS. This included the CoA Contract Register (extracted from PCMS) reviewed during this audit not aligning with the contract information provided, including Contract Manager names not updated where a new Contract Manager had been appointed.
3. For three (3) of the five (5) contracts sampled, the CoA personnel assigned as the Contract Manager had been recently appointed to their role. Based on stakeholder consultations, it was advised that no handover process had been performed and very limited guidance was provided to the new Contract Managers of their relevant roles, responsibilities and accountabilities associated with the contract.

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Recommendation(s):

Internal Audit recommends the CoA consider the following:

1. Creation of a more comprehensive contract management and procurement group structure diagram that includes names, roles and responsibilities, and circulate to all Contract Managers and the Procurement Team. This should include a clear distinction between Contract Managers, Contract Owners and Project Managers.
2. Consider creating a formalised and documented handover process for Contract Managers. File this document in a location that all Contract Managers can access.
3. Organise contract management training sessions on a regular basis for Contract Managers and the Procurement Team, this should include refresher training and clearer communications on key changes to the CoA Policy & Procedures.
4. Develop a formalised process for the Strategic Insights Team to document when CoA policies and procedures have been reviewed and/or modified. A delegate responsible for this task should also be assigned.

Agreed Management Actions

1. The Procurement & Contract Management Team will place a diagram on its SharePoint site that addresses the names, roles and responsibilities in the team.
2. The Procurement & Contract Management team will update the existing information into a formalised document for Contract Managers.
3. The Procurement & Contract Management team is already working with the Learn and Perform team to develop internal training for relevant stakeholders. This training will incorporate the structure, roles and responsibilities of the CoA's contract management process.
4. Once approval from the Chief Operating Officer to review policies and procedures is granted, the Procurement & Contract Management team will engage with stakeholders in developing updated documents that reflect the recommendations of this audit.

**Finding 2 – Lack of clarity of contract management roles and responsibilities across the CoA****Moderate****Finding(s):***(continued from previous page)*

4. Three procurement documents were identified as being out of date, including the negotiation policy, evaluation work instructions and financial viability check. Additionally, the Procurement Contract and Approvals Guideline and the Procurement Policy was scheduled for an update in December 2023. It is acknowledged that although the mentioned documents appear to be out of date, it was confirmed that the documents are 'live' and have continually been worked on, however the dates in the policy documents were not updated.
5. Through stakeholder discussion it was noted there is a lack of clarity in the roles and responsibilities of a Contract Manager and a Project Manager. *This is further discussed in Finding 4.*

Recommendation(s):**Agreed Management Actions****Responsibility:** Manager, Finance & Procurement**Target Date:**

1. 30 September 2024
2. 31 December 2024
3. 31 December 2024
4. 31 December 2024

Risk(s):

- Lack of clarity of roles and responsibilities may result in inconsistent contract management performance, resulting in non-performance and contract obligations not being managed consistently.
- Duplication of tasks can result in inefficient use of resources.



Finding 3 – Gaps in training provided to Contract Managers

Finding(s):

Training requirements for the CoA Contract Managers have not been formally documented.

While a Procurement and Contract Management Guidelines learning session was rolled out in late 2022 for all Team Leaders, Managers and Associate Directors, post the implementation of updated guidelines, the training session was not mandatory for all Contract Managers.

Internal Audit noted the following:

- For three (3) out of five (5) contracts sampled, relevant Contract Managers advised of no formal training provided prior to commencement in their roles. This included a lack of training during the induction training, provided to the new Contract Managers.
- Currently, there is limited formal training provided to key CoA personnel involved in contract management roles including any form of refresher training. During our review it was observed that Contract Managers utilise their own methodology and tools to perform contract management tasks. This has also contributed to inconsistent contract management practices across the CoA.
- Our review noted there was lack of evidence to support that training had been undertaken or provided to personnel involved in contract management roles.

Better practices include effective training as an important aspect of maintaining continuity of current and future employees, to ensure contracts are managed in an efficient manner and in line with CoA's processes.

Risk(s):

- Lack of efficiency in contract management processes.
- Inconsistencies in the management of contracts across the CoA.

Recommendation(s):

Internal Audit recommends the CoA consider the following:

1. As part of the contract management guidelines, ensure relevant training is provided to the Contract Managers and other stakeholders within the wider CoA Contract Management Team where necessary.
2. An annual refresher course should be considered to ensure Contract Managers are regularly informed and trained in governance and industry best practice.
3. A register to be implemented to ensure all periodic and one-off trainings are provided to and completed by relevant CoA personnel. This register should be equipped to flag periodic refresher or upgrade requirements of trainings.

Moderate

Agreed Management Actions

1. As per Agreed Management Action (AMA) 3 from Finding 2.
2. Once the training assets have been developed, an annual series of training will be scheduled for relevant users by the Learn and Perform Team.
3. As per the previous AMA, the Learn and Perform Team manage all training.

Responsibility: Manager, Finance & Procurement

Target Date: 31 December 2024

Finding 4 – Gaps in contract management guidelines and governance

Finding(s):

Internal Audit identified gaps in the CoA's current contract management guidelines and overall governance, including:

Guidelines

- **Limited controls and guidance for Contract Managers:** Currently, the Procurement and Contract Management Guidelines outline at a high-level the requirement for the different controls to manage contracts. However, these controls are not sufficient for Contract Managers to efficiently manage contracts, including performance and relationship management, risk and records management. Furthermore, there are inconsistencies in practices to manage contracts across the CoA, due to a lack of overarching guidelines.
- **Insufficient categorisation and assessment of contracts based on the monetary value of contracts:** Internal Audit observed a lack of sufficient oversight over contracts relative to their monetary value and the risks associated with those contracts. This includes the absence of a formalised process in place to assess the risk of contracts based on monetary value and other key risk factors.
- **Document retentions:** Centralised storage of contract documentation was observed as being inconsistent (*Refer to Finding 5 for additional details*).
- **Definition of Contract Managers:** Through stakeholder consultation, a clear definition of Contract Manager, Contract Owner and Project Manager, was not consistently understood across the CoA, leading to miscommunication and confusion across the CoA.

Governance

While there are some governance bodies in place such as the Strategic Risk and Internal Audit Committee, an overarching Committee or Leadership Group is not in place that monitors strategic and contract performance, including proposed contract strategies for future contracts of similar nature.

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Recommendation(s):

Internal Audit recommends the CoA consider the following:

1. Modify the Contract Management Guideline to include contract management plan, checklist and procurement plan guidelines that are consistent with the CoA's contract management practices.
2. Consider creating thresholds and classifications for contracts based on a contracts' monetary value to adequately assess the risks associated.
3. It is recommended the CoA clearly defines the role descriptions of Contract Managers and Projects Managers in the contract management guidelines.
4. Consider implementing, on a risk-based approach as part of the contract profiling process (*Finding 1*), a governing body or committee for operational and strategic contracts where there is a significant risk profile to the Council (focus on oversight, not as a decision making body). Furthermore, ensure regular key contract activity reporting (contract value, number and cost of variations, spend, claims/disputes, etc.) is conducted as required (*Further discussed in Finding 6*).

Moderate

Agreed Management Actions

1. These recommendations will be undertaken as part of the review of the Procurement Policies and Guidelines.
2. These recommendations will be undertaken as part of the review of the Procurement Policies and Guidelines.
3. In addition to AMAs 1 and 3 from Finding 2, this will be undertaken as part of the review of the Procurement Policies and Guidelines.
4. The Senior Leadership Team (SLT) is made up of Associate Directors and Corporate Service Managers. The primary purpose of SLT is to ensure effective planning and prioritisation with an enterprise-wide view, to support the effective delivery of Council's Strategies, Services, Programs and Projects. SLT meet on a fortnightly basis, it is recommended that this group is the initial oversight body, to discuss on a bi-monthly basis. Minutes and actions arising are then to be provided to Strategic Risk and Internal Audit Group (SRIA).

**Finding 4 – Gaps in contract management guidelines and governance****Moderate****Finding(s):***(continued from previous page)*

There is a requirement to improve the governance monitoring over effectiveness of contract management at the CoA for non-construction high risk contracts. This governance monitoring would form a key control to cover the following associated contract management areas:

- Escalating non-compliance and assurance related issues over unnecessary risk and commercial exposure (e.g. contractor incidents and claims).
- Contract spend profile vs commitment, including oversight of the overall contract spend vs contracted amount.
- Escalation mechanism to deal with contractual high risk issues and potential commercial conflict of interest issues.
- Performance monitoring and dashboard reporting of key contract metadata (e.g. risk management, contracts due for renewal, contracts exceeded procurement delegation etc.), to assist data driven informed management decision making. It is acknowledged the PCMS upgrade will assist with performance monitoring and reporting.
- Consider various improvement initiatives to improve the respective contract management framework approach to be more effective, dynamic and fit for purpose.
- Lessons learned into the CoA's repository to benefit future contracts.

Risk(s):

- Inadequate governance oversight in place over high risk/strategic, can lead to risk exposure and/or excessive contract spend.
- Contract management activities across the CoA may be undertaken inconsistently and at varying levels of effort.

Recommendation(s):**Agreed Management Actions**

Responsibility: Manager, Finance & Procurement

Target Date:

31 December 2024

Finding 5 – Inconsistencies identified in the records management of contracts**Finding(s):**

Currently, the CoA does not have a single source of truth for Contract Managers to consistently monitor and record contract management activities.

Through sample testing of five (5) contracts a large variability in data captured and record management was identified across each area of the CoA, including inconsistencies in the systems utilised for record keeping and integration of systems as outlined below:

- Currently, there are four (4) systems in place across the CoA for contract management, including Content Manager, PCMS, SkyTrust and TechOne, with a lack of integration among the different systems.
- The Contract Managers utilise Content Manager to record all contract documents. Additionally, PCMS captures hyperlinks to documents stored in Content Manager and monitor key contract information, however the Contract Managers lack access to PCMS, resulting in gaps to update the links in the system.
- Due to the lack of access to PCMS, it was observed that four (4) out of five (5) Contract Managers, were unaware of the automated emails sent from PCMS, to notify the contractors of insurances nearing expiration, leading to duplicate independent requests sent out to the contractor by Contract Managers.
- It was advised that the Procurement Team creates contract containers/folders in Content Manager for the Contract Managers to record and manage documentations. However, it was observed that for one (1) of the five (5) contracts sampled, there was no record of a container created in Content Manager by the Procurement Team. Instead, the Contract Manager created the container. Additionally, it was evidenced the CoA staff has unrestricted access to the contract folders in Content Manager.

Best practice includes management of risks, performance, milestones, incidents and attach supporting documentation in a central location, creating a single source of truth in relation to contracts and aiding to a consistent approach for contract management.

Risk(s):

- Documents are not kept up to date and integrated between sources.
- Lack of awareness can cause duplication of efforts and inefficient use of resources.

Recommendation(s):

Internal Audit recommends the CoA consider the following:

1. Consider providing Contract Managers access to PCMS and utilise the system as the primary source to manage and record contract details. Additionally, ensure relevant PCMS user training is provided to the Contract Managers.
2. Clearly communicate the system controls in place to the Contract Managers to avoid duplication of works.
3. Consider restricting access to contract containers in Content Manager for staff who are not required to access the documents.

Low**Agreed Management Actions**

1. A review of user access will be performed by the Procurement & Contract Management team and training to be provided if required.
2. This will be undertaken as part of the review of the Procurement Policies and Guidelines.
3. No action required. While there may be some legacy containers with non-optimal restrictions, access to contract containers is managed by the container creator, which for contracts that Procurement manage, is done by the Procurement Team.

Responsibility: Manager, Finance & Procurement

Target Date:

1. 31 December 2024
2. 31 December 2024
3. N/A



Finding 6 – Inconsistent oversight and monitoring of contracts

Finding(s):

There is a lack of rigorous tracking and oversight of contracts across the CoA, with respect to:

- Ongoing contract performance management reporting.
- Monitoring and management of spend against contract value.

Specifically, the following gaps and inconsistencies in contract reporting and monitoring performed across the CoA were observed:

- For four (4) of five (5) contracts sampled, it was noted the contract performance measures in place were effective to manage performance, which has contributed to the contractor consistently improving. However, one (1) of the sampled contracts (contract T2022 0072 00), did not appear to have adequate processes and procedures for managing contract performance.

Additionally, it was evidenced that the results of periodic meetings with the contractor are summarised in a report and retained in Content Manager, by the Contract Manager. The report includes contract performance against the KPIs, incidents occurred during that period and suggestions for improvements. However, it is noted that there is no formal distribution of this report to relevant stakeholders across the organisation.

- It was advised that for one (1) of the five (5) contracts (*Contract T2022 0006 00*) sampled, a bi-monthly report is provided to the Emergency Management team, who then provides a synthesised report to the SRIA. However, this reporting structure is not formalised or required for other contracts across the CoA.
- Currently, there is no dashboard reporting of key contract data, including risk management and contracts due for renewal, to assist data driven informed management decision making.

Risk(s):

- Inadequate governance oversight in place over strategic contracts, leading to risk exposure and/or excessive contract spend.
- Lack of transparency and understanding by the Council of the objectives of contracts.

Recommendation(s):

Internal Audit recommends that the CoA develop a consolidated reporting structure, to keep the Council and the ELT regularly informed of contract activities, including:

1. Implementing dashboard reporting for all contracts, which should include contract performance and the budget spent to date.
2. Defining reporting frequency (based on value risk profile per Finding 1), format and key metrics to be provided to the Elected Members.
3. Consider automating various contract management activities, such as reporting, as part of the PCMS upgrade.

Low

Agreed Management Actions

Following the upgrade of the PCMS system, reporting enhancements will be implemented.

This will include a tool (format and system to be determined) to enable the reporting of contracts. This will include, but not limited to the following:

- Contract Value
- Purchase Orders raised against the contract
- Spend against contract
- Key performance indicators.

Following the development of the tool, the reporting frequency will be determined and approved by the Executive team.

Responsibility: Manager, Finance & Procurement

Target Date: 31 December 2024

**PIO 1 - Opportunity for uplift of utilisation of supporting system****Opportunities:**

It is observed that there is a lack of integration among the different systems, which creates a risk of inefficient utilisation of resources.

While PCMS has the capability to generate automated reports (such as reminders for insurance renewals) and evaluate the contract in terms of financial position and provide overall management reporting, the CoA is currently not utilising this system functionality.

Recommendation(s):

There is an opportunity for the CoA to utilise the current systems to automate financial and management reporting to track the overall performance of the contract.

PIO**Agreed Management Actions**

As part of the PCMS upgrade, a review of current systems will be performed to improve management reporting.

Responsibility: Manager, Finance & Procurement

Target Date: 31 December 2024

Appendices

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Appendix 1 – Scope and Approach

Objective

The objective of this internal audit was to review the CoA's overarching contract management framework with a specific focus on contract management in relation to the post-contact award process.

Scope

To address the overall objective above, the scope of this internal audit included a review of the CoA's key contract management policies and procedures post-award, including:

- Governance, resources, and clarity of roles and responsibilities in relation to contract management.
- Systems and processes in place to support contract management, including robustness of records management.
- Risk management processes to ensure key contract risks are identified and monitored.
- Financial management and oversight, including verification of contract expenditure, and financial monitoring and reporting.
- Documentation and authorisation requirements of contract variations and extensions.
- Compliance monitoring of contract obligations, commitments, and service requirements.
- Relationship management, including escalation and resolution management over non-compliance and disputes.
- Management of contract performance, including management of contract variations, achievements of KPI's and the ability of the contractor to meet the terms of the contractual arrangements.

Scope exclusions:

The scope of this review excluded a detailed review of the CoA's contract management process pre-awards and variations.

Approach

This engagement was performed using the following approach:

- Review of the systems, processes, tools and procedures in place to support contract management.
- Consultation with relevant stakeholders to obtain an understanding of the contract management processes and key controls in place for the management of contracts post-award.
- Sample testing of key controls for an agreed sample of 5 contracts.
- Close-out meeting with the internal audit project sponsor and key stakeholders to discuss initial findings and recommendations.
- Drafting and finalisation of an internal audit report outlining internal audit findings, recommendations and any performance improvement opportunities.

Appendix 2 – Stakeholders Consulted

The table below outlines all personnel who were involved in discussions and contributed to the outputs of this engagement.



Personnel	Role
Jason Barnden	Security and Emergency Management Coordinator
Aaron Brewer	Technical Officer, Facilities Maintenance
Silvana Ciappina	Operation Support Officer
Simon Cope	Team Leader, Procurement and Contract Management
Janet Crook	Team Leader, Corporate Governance & Legal
Lauren Jones	Technical Officer, Waste & Cleansing
Lisa Loveday	Manager, City Safety
Shane Moeller	Work Group Leader, Facilities Maintenance
Annette Pianezzola	Risk and Audit Analyst
Anthony Spartalis	Manager, Finance and Procurement
Georgia Stoilov	Regulatory Services Project Officer
Nicole van Berkel	Team Leader, Finance Planning & Reporting
Tania Wingham	Team Leader, Waste & Cleaning



Appendix 3 – Classification of Internal Audit Findings

The following framework for internal audit ratings has been developed and agreed with the CoA’s Management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in reports will be discussed and rated with the CoA’s Management.

Rating	Definition	Examples of business impact	Action(s) required
Extreme/Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> • Detrimental impact on operations or functions. • Sustained, serious loss in reputation. • Going concern of the business becomes an issue. • Decrease in the public’s confidence in the CoA. • Serious decline in service/product delivery, value and/or quality recognised by stakeholders. • Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. • Life threatening. 	<ul style="list-style-type: none"> • Requires immediate notification to the CoA Audit Committee via the Presiding Member. • Requires immediate notification to CoA’s Chief Executive Officer. • Requires immediate action planning/remediation actions.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> • Major impact on operations or functions. • Serious diminution in reputation. • Probable decrease in the public’s confidence in the CoA. • Major decline in service/product delivery, value and/or quality recognised by stakeholders. • Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. • Extensive injuries. 	<ul style="list-style-type: none"> • Requires immediate CoA Director notification. • Requires prompt management action planning/remediation actions.



Appendix 3 – Classification of Internal Audit Findings (Continued)

<p>Moderate</p>	<p>Issue represents a control weakness, which could have or is having a moderate adverse effect on the ability to achieve process objectives.</p>	<ul style="list-style-type: none"> • Moderate impact on operations or functions. • Reputation will be affected in the short-term. • Possible decrease in the public's confidence in the CoA. • Moderate decline in service/product delivery, value and/or quality recognised by stakeholders. • Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. • Medical treatment required. 	<ul style="list-style-type: none"> • Requires CoA Director and/or Associate Director attention. • Requires short-term management action.
<p>Low</p>	<p>Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.</p>	<ul style="list-style-type: none"> • Minor impact on internal business only. • Minor potential impact on reputation. • Should not decrease the public's confidence in the Council. • Minimal decline in service/product delivery, value and/or quality recognised by stakeholders. • Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. • First aid treatment. 	<ul style="list-style-type: none"> • Timeframe for action is subject to competing priorities and cost/benefit (i.e. 90 days).



Appendix 4- Disclaimers

Inherent Limitations

This report has been prepared as outlined in the Executive Summary of this report. The services provided in connection with the engagement comprise an advisory engagement which is not subject to Australian Auditing Standards or Australian Standards on Review or Assurance Engagements, and consequently no opinions or conclusions intended to convey assurance will be expressed. Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to the procedures we performed operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. The procedures performed were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate. We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, City of Adelaide's management and personnel. We have not sought to independently verify those sources unless otherwise noted within the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with City of Adelaide. The internal audit findings expressed in this report have been formed on the above basis.

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