

Final Report

23rd December 2010

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Directorate / Service Area	Recipient(s) of Report	Action Required
Resources Directorate/Financial Services	Assistant Director (Resources) - for information Financial Services Manager – for action. Development & Support Manager – for action.	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan which is attached as Appendix A.
Governance Economic Development Community Engagement Local Environment Chief Executive Team	Assistant Director (Governance) Assistant Director (Economic Development) Assistant Director (Community Engagement) Assistant Director (Local Environment). Policy and Performance Team Manager. Communications Manager	- For Action

Please note: The Audit Committee will be presented with a full copy of this final report at the meeting to be held on 14th January 2011.

1. Reason for the Audit

- 1.1. In 2005, a review was requested by the then members of the Corporate Resources Overview and Scrutiny Committee, as some concern had been expressed regarding the apparent increasing use of consultants appointed by the Authority at that time.
- 1.2. The purpose of the review was to focus on what the Authority was receiving in the way of services from consultants, how much was being paid to consultants and how consultants could be used in an appropriate way.
- 1.3. The original review was undertaken in 2005, by the then Head of Audit Services, however, the report was not endorsed at that time and not formally issued. In April 2010, the Resources Overview and Scrutiny Panel received a report of the Use of Consultants task and finish group which was subsequently referred to the Executive. In line with an undertaking given by the Assistant Director (Resources) to the Executive. This report seeks to review and update the testing and findings of the original audit review and to make appropriate recommendations regarding the system in place for the engagement of consultants.

2. Background Information / Summary of the Audit Area

- 2.1. It was considered that in carrying out the review, the first step should be to agree a definition of what actually is meant by the term "consultant". There is often confusion between the following:-
 - "genuine" consultants i.e. those whose purpose is to provide independent specialist advice
 - staffing agencies (which may term themselves "staff consultants" or similar)
 - specialist contractors (who may or may not incorporate "consultant" into their title)
 - training providers (which again may term themselves "training consultants" or similar)
 - others
- 2.2. Guidance was sought originally in 2005 from the then Head of Legal Services and the advice given then has been re-iterated more recently by the Assistant Director (Governance). This advice was that the circumstances where the use of consultants may be appropriate as follows: -

Where the Council lacks the necessary expertise in-house either: -

- *"Because the work is of a specialised nature".*
 - *"Because of a temporary unavailability of in-house qualified staff".*
 - *"Because of some temporary or long term inability to recruit appropriate staff"*
 - *"Because our own staff are fully engaged on other initiatives"*
 - *"To free up the Council's in-house staff for higher priority work".*
- 2.3. For the purposes of this audit review, it is considered that only the first of these definitions is applicable to the employment of consultants, in the context of this audit report, as this covers the scenario that the required work is of such a specialised nature that we would not normally expect to employ our own staff to undertake it.

N.B. - Even in the first case noted above, it is important to note that simply to say that the work is of a *specialised nature* does not always imply any element of consultancy. For example, maintenance of the lifts in the Civic Centre is clearly of a highly specialised nature which our own staff would not undertake, but this is simply a contractual arrangement with no element of consultation involved.

2.4. In each of the other four cases, the implication is that this is the sort of work which our own staff would normally be expected to and capable of undertaking, but for the reasons stated they are (temporarily) not available to do it. In these cases, no genuine consultancy is involved – this is simply the temporary staffing of posts.

2.5. It was agreed that for the purposes of this review, the following (dictionary) definitions could be used: -

- To consult = to seek information or advice from
- Consultant = a specialist consulted for professional advice

2.6. In carrying out the review, the main risks identified were the potential for inadequate systems being in place to authorise and record the use of consultants and the absence of a robust and considered system for commissioning consultants.

3. Scope of the Audit

3.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Review of Expenditure Codes
2.	Review of Creditor Suppliers
3.	Information from Directorates
4.	Review of Tender Opening Register

4. Overall Conclusion of the Audit Review

4.1. A number of opportunities to further enhance controls have been identified which are shown in appendix A. The recommendations made have been brought to the attention of the relevant Assistant Directors. In summary the key issues arising from this review are:-

4.1.1. There is no standard definition of what does or does not constitute “consultancy”

4.1.2. There is no central record of the use of consultants.

4.1.3. There is no single reliable method of identifying the amount spent on consultants.

- 4.1.4. A number of organisations title themselves as consultants, but in effect they are simply agencies which supply staff;
- 4.1.5. A number of organisations do not title themselves as consultants but in effect are consultants;
- 4.1.6. Payments have been identified to organisations which are for a mixture of genuine consultancy and provision of staff and/or other goods/services;
- 4.1.7. Payments have been made to consultants which were not coded to one of the correct expenditure codes;
- 4.1.8. Payments have been made which are coded to one of the consultancy codes but which do not in fact relate to consultancy services.
- 4.1.9. It should be emphasised however that when analysing the expenditure it became apparent through discussions with officers that the 'genuine' consultancy was, in the main, to provide a service that could not at the time be provided in house, and therefore was essential to the provision of the service.

5. Grading of Audit Recommendations

- 5.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

* A *fundamental* weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).

- 5.2. There are **3** recommendations arising from this review. All at Grade **B**.

6. Statement of Assurance

- 6.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **Reasonable** level of assurance can be given in relation to the systems of control (see definition overleaf).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

Resources, Financial Services

APPENDIX A

1. REVIEW OF EXPENDITURE CODES

Method of Review:

- Scrutiny of the nominal expenditure codes used for consultancy. 4017 – Payment of Consultants Fees and 9024 – Capital Payments to External Consultants.
- Discussion with officers responsible for procuring consultants.
- Discussion with the Development & Support Manager.

Summary of Findings:

1.1. As all invoices show the expenditure code to which the payment has been charged, it was considered reasonable to assume that it would be possible, by obtaining appropriate reports from the Ledger, to identify all payments made to consultants.
In the event, this proved not to be possible. This was due to two reasons, firstly the confusion surrounding the interpretation of what exactly a 'Consultant' is, which this review, and the work of the Task and Finish Group referred to in the introduction of this report hopes to address. Secondly the issue of general miscoding of expenditure was also prevalent.

1.2. Currently, there are 2 defined expenditure codes which relate to payments to consultants. These codes were analysed for 2009/10 to identify exactly what costs had been charged to them.

The relevant codes are:-

- 4017 – “consultants fees” (Agency and contracted services)
- 9024 – “external consultants fees” (Capital)

9024 - There was one capital transaction of £34,543.00 for consultancy during 2009/10. This was to Cumbria County Council for a Management Fee.

According to the guidance used to define consultancy for the purposes of this review, services provided by Cumbria County Council by way of their obligation as a Highways Authority do not fit the criteria for 'Consultancy' therefore the costs will not be included in the overall consultancy cost total. This methodology was also applied when analysing the costs in the table below.

4017 - An exercise was undertaken by request of the Use of Consultants Task and Finish Group whereby all invoices relating to the 2008/09 'consultants fees' budget (4017) were thoroughly scrutinised and analysed in order to determine the actual use of consultants in that financial year.

A similar exercise was undertaken as part of this update review whereby the costs attributed to the financial code (4017) were again scrutinised, however, on this occasion a different method of analysis was used where the transaction narrative entered into the general ledger was used as opposed to examining all invoices.

	Consultancy	Non-Consultancy	Total cost (4017)
Carlisle Renaissance			
Total 2008/09	£520,459.86	£3,114.50	£523,574.36
Total 2009/10	£353,840.73	£243,247.45	£597,088.18
% increase/(decrease)	(32.01%)		
Other CCC Services			
Total 2008/09	£199,197.42	£227,414.19	£426,611.61
Total 2009/10	£590,621.81	£105,025.11	£695,646.92
% increase/(decrease)	196.50%		
Total cost (4017)			
Total 2008/09	£719,657.28	£230,528.69	£950,185.97
Total 2009/10	£944,462.54	£348,272.56	£1,292,735.10
% increase on cost	31.23%		

NB Although all efforts have been made to identify the true consultancy cost in the context of the definitions identified, it must be appreciated that due to limited information available on some payments some assumptions have been made.

This table depicts the following outcomes:-

- The actual use of consultancy services is not as much as first believed as high level of mis-codings were apparent. The above table reflects that there was a sum of £230,528.69 (i.e. 24.26%) of miscoded consultancy costs in 2008/09 and £348,272.56 (i.e.26.94%) in 2009/10.

The issue of miscoding of expenditure has been highlighted repeatedly in previous Audit Reviews. Financial Services staff have provided training on the importance of coding expenditure correctly, and additionally they now also try to analyse the 4017 codes each month in an attempt to minimise miscoding errors. The above analysis clearly highlights the urgent necessity to adequately define the term 'consultancy' and ensure that the definition is explained to all budget holders whose ultimate responsibility it is to ensure that the expenditure is coded correctly. – **Refer to Recommendation A1 & A2.**

- Carlisle Renaissance was the single largest user of consultancy services. The figures depict that although the average spend on expenditure code 4017 was fairly consistent between 2008/09 and 2009/10 (14% increase) the cost of true consultancy after analysis actually fell by 32% once the miscodings were identified.
- The Carlisle City Council spend on true consultancy rose by 196.50% between 2008/09 and 2009/10. There were however a number of schemes initiated in that financial year that greatly contributed to the additional spend. The main reason for the increased expenditure was costs associated with the Roman Gateway/Tullie House, the Sands Centre Development and Transformation.

It should be noted that the above exercise is not *totally* conclusive in establishing an exact spend on consultancy over the two financial years in question as it is possible that some true consultancy costs were allocated to other expenditure codes which can not be easily identified by using the methods of analysis adopted.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officers</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	There is no clearly defined standard definition of what constitutes consultancy.	Development & Support Manager	That the Authority should agree a standard definition of what it considers being "Appointment of Consultants".	B	31/3/11
A.2	There is an unacceptable level of miscoding of expenditure.	All Assistant Directors, Policy & Performance Team Manager, Communications Manager	Budget holders are ultimately responsible for ensuring that expenditure is coded correctly. They should ensure that all expenditure is relevant to the detail codes used in all cases.	B	With immediate effect

2. REVIEW OF SUPPLIERS.

Method of Review:

- Obtain and examine current report from Creditors system that highlights all suppliers identified as being 'consultants'.
- Perform phonetic search of system.

Summary of Findings:

- 2.1. As it was not possible to accurately identify all payments made to consultants by only examining the codes as shown above, a second approach was adopted.
- 2.2. There is a facility in the Creditors system where suppliers can be 'marked' as being suppliers of Consultancy Services. A report was requested to identify such suppliers, then a sample check of invoice activity for 2009/10.
- 2.3. As this method of identifying suppliers as being consultants relies on the Finance Assistant being made aware of the supplier a search was of the system was also undertaken to identify all suppliers who had, as part of their title, any of the following words:-

“Consultancy”; “Consulting”; “Consult”; “Consultant”.

- 2.4. These combined searches identified 273 such suppliers. This number is deemed to be excessive. Admittedly, a number of these suppliers had not been used for a long period of time, however, they are still on the system and are eligible to be paid if the services are used. – **Refer to recommendation A3.**

A brief analysis of some of the expenditure to these suppliers again identified:

- Genuine Consultancy coded correctly to 4017 - Consultancy.
 - Genuine Consultancy coded incorrectly to other codes, i.e. 3430 – General Expenses and in one instance Members Allowances.
 - Suppliers entitled 'Consultants' which were actually training providers/employment agencies.
- 2.5. The ability to search the system in this way depends on how organisations' names are held in the system. For example there is an organisation entitled “Sue Young Consultancy” which actually supplies training services – but even if this organisation supplied genuine consultancy, this search could not have identified them as the name held on the system is simply “Sue Young”.
- 2.6. As detailed above, this approach was also inconclusive. It is clear that although these organisations all define themselves in one form or another as “Consultants”, payments made to them include a mixture of “consultancy”, “non-consultancy” and “mixed” payments.

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Agreed Action Plan

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.3	The Creditors system reports that there are currently 273 suppliers of 'consultancy' to the Authority. There is no defined control over who classifies a supplier as a consultant, or what supply is coded to the consultancy expenditure code. The report that can be obtained from the Creditors system is unreliable due to the limited information supplied to the officer responsible for classifying the supply.	Development & Support Manager.	<p>That a register of both the employment and payment of consultants be developed and maintained.</p> <p>All payments for consultancy services (all 4017 payments) should be passed through the Procurement & Efficiency Section prior to registration on the Creditors system. These can then be entered onto a register listing the consultant name, cost code, date of consultancy, nature of consultancy and cost (NB this is not an exhaustive list).</p> <p>This will assist to ensure that:-</p> <ul style="list-style-type: none"> a) Services that are being charged to consultancy are indeed consultancy (as defined by SMT/Task & Finish Group), b) A register of all the true employment of consultants used by the Authority can be established, maintained and controlled centrally, c) A central point of 'expertise' and advice on what is and what isn't consultancy would be available to officers of the Authority and' d) Contract Procedure Rules regarding tendering for services will not be contravened by failing to recognise that the same consultant as been appointed a number of times during a specified period, taking them over the tendering threshold limits. 	B	

3. INFORMATION FROM DIRECTORATES

Method of Review:

- Scrutiny and confirmation of findings made in the 2005 Efficiency Review of Consultants.

Summary of Findings:

- 3.1. It was not considered productive to repeat the exercise taken during the 2005 review as the management structure has considerably changed recently due to transformation and information may not be available. Therefore, for information and illustrative purposes, the findings from the 2005 review, which still apply, were included in this report.
- 3.2. During the 2005 review, an e-mail was sent to the then Heads of Business Units asking them to identify all instances where consultants had been used over the past two years. Where there was some degree of uncertainty whether a particular person or organisation was a consultant or a contractor, they were asked to be included on the list.

The responses from the Heads of Business Units identified organisations from which they considered that “consultancy” services had been received.

A number of these organisations, however, turned out on closer investigation not to be consultants as defined earlier in this report.

Examples of these included :-

- Hunter Johnstone Marketing – this was for payment for the printing of leaflets.
- Whelpton Jones Associates – these payments were for artwork and design work for the Pocket Guide and for the Newsletter.
- N.W.L.A. Employers Organisation – a number of payments had been made for the provision of training courses and related expenses, although some payment had also been made for other work which is seen as consultancy.
- Wright Hassall – these were payments made to this firm of Solicitors which specialises in Stock Transfer conveyancing work. It is arguable, therefore, whether this counts as consultancy for the purpose of this review. Audit’s view is that it does not, but payments to this firm also included those for “employment advice” – which may have some element of consultancy – and the postal ballot of tenants which clearly was not considered to be consultancy.
- Sanderson Townend and Gilbert – payments for staff supplied on secondment – definitely not consultancy – and for carrying out rent reviews which again would appear not to involve any element of consultancy.

3.3. Property Services:-

- In 10 cases, the reason given for the appointment was “insufficient staff” – this was therefore not genuine consultancy.
- In 5 cases, the appointment was for “operational” work – e.g. property valuations for statutory compensation – again this was **not** considered to be consultancy for the purposes of this review.
- The remaining 8 cases appeared to have elements of consultancy, but even then some of the work involved may have been at least partly operational.

The situation outlined above was discussed with the Head of Property Services, who accepted that in many cases the use of “consultants” was considered necessary simply because of insufficient staffing resources – much of the “consultancy” work would otherwise have been undertaken in-house.

3.4. Environmental Protection Services:-

- HACAS Chapman Hendy were appointed to assist in developing the Homelessness Strategy and operational procedures. The reason for appointment was stated to be that *“there was insufficient time to carry out these functions, insufficient staff resource in place or concentrated specialism to carry out the services”*. Again, it is arguable whether this meets the definition of “consultancy” as the reason given implies that this is work which could have been undertaken in-house, if staffing had so permitted.
- The Housing Consultancy were appointed to carry out the Local House Condition Survey. The reason for their appointment was given as *a specialist survey, not available within the Authority. Also, insufficient numbers of staff with the relevant experience*. As above, it is arguable that this does not meet the definition of consultancy work, as it is in effect “doing the job”.

3.5. Culture Leisure and Sport :-

- Capita and Johnston and Wright. These have been noted earlier in this report and it is agreed that these are not consultants as in both cases they are actually providing services.

3.6. Legal & Democratic Services:-

- Wright Hassall for legal work relating to the LSVT – this has been noted earlier in this report and is not considered to be consultancy.

3.7. Strategic and Performance Services identified the following:-

- Marsh Consultants – with reference to the Risk Management Best Value Review
- Vantage Point – with reference to the Regeneration Best Value Review
- Hacas Chapman Hendy – with reference to the Organisational Restructure Review
- NACRO – with reference to the Community Safety Best Value Review.

Further discussion with the Head of Strategic and Performance Services confirmed that the above organisations were employed partly in a “consultancy” capacity to give professional advice, but also to work with the Authority’s staff in each of the above areas. The latter is clearly not classified as consultancy.

3.8. Commercial and Technical Services.

- “Techman Consultancy Services Ltd” for consultancy relating to the traffic and car-park study, but this expenditure was coded to CTS admin - marketing. N.B. This (as noted above) is a example of genuine consultancy which could not have been picked up by scrutiny of the ledger-codes.

These findings only reiterate what was established in sections 1 & 2. – No further recommendations.

4. REVIEW OF TENDER OPENING REGISTER

Method of Review:

- Examination of the current Contract Register to identify any additional Consultants that had not been identified by previous tests.

Summary of Findings:

- 4.1. In order to identify any further instances of the employment of consultants which had not been identified by any of the previous methods, a review of the contract register which is maintained by the Procurement Officer, was undertaken. This lists all contracts that have been through the tendering process and there were 15 instances where consultancy services were involved. There were two consultants that would not have been highlighted in the creditor consultancy identification report (see section 2), however, as they had been coded correctly they would of been included in a nominal ledger expenditure code report.
- 4.2. The Contract Procedure Rules have been amended by the Development and Support Manager in liaison with the Assistant Director (Governance) which serves to strengthen the controls surrounding the use and procurement of consultants via framework agreement arrangements which will assist to establish value for money. The revised rules were passed by the Audit Committee on 24th September 2010 subject to Full Council approval which was given on 9th November 2010. It is worthy of note that the City Council has already signed up to the future use of a range of specialist frameworks via the County Council for various professional services. The City Council's involvement with these frameworks which will be up and running from 1st February 2011 will also deliver significant savings through the collaborative procurement approach.
- 4.3. This test highlighted once more the requirement that the control of the appointment and monitoring of Consultancy should be held centrally. As the Procurement and Efficiency Section are already involved in the procurement of consultancy services above the tender threshold of £10,000, it is the most obvious and sensible option to base control there.

These findings only reiterate what was established in sections 1 & 2. – No further recommendations.