

Audit Update – Supplier Resilience

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Summary	<p>As part of the 2019-20 internal audit plan an audit of Supplier Resilience was undertaken for Somerset County Council to review the processes in place to mitigate against supplier chain failure and to identify the high-risk contracts in place.</p> <p>All contracts require adequate management and monitoring of the supplier, to ensure continuity and satisfactory performance of the services provided, including financial standing, insurance, performance and business continuity. To ensure this, Somerset County Council has a Contract Management Planner, Contract Management Toolkit and undertakes Contract Management training. However, work to complete the strategic context for the approach to this work, the Contract Management Framework, is currently work in progress and this audit has identified areas for improvement.</p>
Context	<p>As part of the 2019-20 internal audit plan an audit of Supplier Resilience was undertaken for Somerset County Council by SWAP and completed in October 2019. The audit's purpose was to review the processes in place to mitigate against supplier chain failure and to identify the high-risk contracts. The audit links to one of the four strategic outcomes outlined in the SCC Business Plan ('Better Infrastructure') which aims to drive productivity and support economic prosperity and sustainable public services.</p> <p>Somerset County Council provides a wide variety of services, many of which are delivered by contracted suppliers. There is the need to establish a supplier's ability to deliver not only at the initial stages, but throughout the life of the contract and the nature of this due diligence and level of investigation should match that of the contract. Due diligence is the process of independently verifying a supplier's capability to deliver fully against their contract and ensuring that the risks associated with their failure are mitigated. High-risk, high-value, complex or unique</p>

	<p>procurement activities will require a comprehensive due diligence, while some basic checks may be enough for simple, routine procurement activities.</p> <p>As such, all contracts require adequate management and monitoring of the supplier, to ensure continuity and satisfactory performance of the services provided.</p> <p>Somerset County Council has implemented a Contract Management Planner and Contract Management Toolkit which aim to make operational contract management standardised across the Authority. The toolkit is a practical guide for contract managers, with template documents for key contractual activities. The standards draw on best practice, with one of the key objectives being to improve supplier performance and maximise resources through proactive contract management. Part of that process includes monitoring supplier resilience to help ensure we have continued supplier resilience during the lifetime of our contract with them.</p> <p>The worst-case scenario is that a supplier fails. Having proactive supplier relationships and conversations about financial health and business continuity can help minimise the risks to the Council of a supplier failing.</p>
<p>Review activity</p>	<p>Issue:</p> <p>1. The Council is unable to secure ongoing provision of key services, potentially impacting on more vulnerable customers, the Council's finances and its reputation.</p> <p>Overall Priority: Medium</p> <p>Finding and Action:</p> <p>1.1 Service Business Continuity Plans do not always identify key suppliers or set out how services would respond to supplier failure.</p> <p>Priority 2</p> <p>Recommendation</p> <p>That service areas enhance their Business Continuity Plans to identify their significant suppliers and outline how they would address failure of any such suppliers. This should be proportionate to the criticality of the supplier and the service they provide.</p> <p>Agreed Action</p> <p>The Commercial and Procurement service will include guidance regarding significant suppliers in the forthcoming Contract Management Framework. Several</p>

	<p>actions will be completed with the Civil Contingencies Unit (CCU) to ensure there is a clear Business Continuity Policy for suppliers (see action for 1.5 below).</p> <p>Timescale To be completed by 31 March 2020</p> <p>1.2 Though the requirement to conduct supplier resilience checks on an ongoing basis has been documented within the procurement process checklist, there is no separate strategy or supporting guidance in place. Some contract managers we interviewed were not aware of all their responsibilities. Priority 2</p> <p>Recommendation That the Commercial and Procurement service introduces clear guidance which confirms the resilience checks that contract managers must undertake, provides guidance to assist with these checks, outlines how often they should be conducted and confirms what evidence of checks should be retained. The guidance could form part of the Contract Management Framework and should outline specific requirements for each contract tier.</p> <p>Agreed Action This recommendation will be implemented as part of the Contract Management Framework.</p> <p>Timescale To be completed by 31 March 2020</p>
	<p>1.3 Thorough financial checks are completed prior to award, these do not consider the wider supply chain and credit checks are not conducted for all suppliers. Priority 2</p> <p>Recommendation That going forward the supply chain is considered during the initial financial assessment and that credit checks are conducted at the point of procurement. Credit checks should also be conducted as standard throughout the life of a contract, though this should be proportionate to the contract value and criticality to the council. The council should also investigate setting up a system through which they can be notified of any significant adverse changes to the credit scores of their</p>

	<p>suppliers, depending on the investment required to set up such a system.</p> <p>Agreed Action</p> <p>The supply chain is currently assessed in some, but not all, procurements. The current activity to review our facility for credit checks will continue and take account of this recommendation.</p> <p>Timescale</p> <p>To be completed by 31 March 2020</p>
	<p>1.4 Contract managers do not consistently monitor the financial standing of suppliers. Priority 2</p> <p>Recommendation</p> <p>That all contract managers are reminded of the need to conduct a review of supplier financial standing on at least an annual basis. Significant suppliers should be checked more frequently. Clauses which allow contract managers to perform such reviews should be present in all contracts.</p> <p>Agreed Action</p> <p>Commercial and Procurement are considering training options for contract managers as part of the forthcoming Contract Management Framework. The Framework will include enhanced guidance for contract managers. The Government has recently released some contract management training modules which we are investigating and may recommend contract managers complete. The Government Commercial Function has also released updated guidance which will be used to update the Contract Manager’s Toolkit. Following the update, internal communications will take place to ensure officers are aware of and adhere to the guidance.</p> <p>Timescale</p> <p>To be completed by 31 March 2020</p>
	<p>1.5 Contracts do not consistently include clauses which require suppliers to implement and regularly test their business continuity plans. Priority 2</p> <p>Contracts do not consistently include clauses which require suppliers to implement and regularly test their business continuity plans.</p>

	<p>Recommendation</p> <p>That the Contract Procedure Rules are updated to include business and disaster recovery planning as a mandatory clause for all council contracts; this should include the ability of the council to request tests are conducted. Evidence of an organisation continuity plan or a plan specific to the contract should be requested from all significant suppliers and retained, whether this is prior to procurement or a requirement of the contract itself. Any Business Continuity Plan that is provided should demonstrate how the company will respond to disasters and emergency situations to include IT failure, cyber-attack and supply chain issues. Evidence of review and testing of suppliers BCPs should be received regularly.</p> <p>Agreed Action</p> <p>Commercial & Procurement and the Civil Contingencies Unit (CCU) have agreed a series of actions that will be completed to ensure:</p> <ol style="list-style-type: none"> 1) That there is a clear Business Continuity Policy for suppliers 2) That the Civil Contingencies Unit support consideration and assessment of supplier business continuity arrangements 3) Appropriate SCC staff are trained and supported in the business continuity aspects of contract management. <p>Timescale</p> <p>To be completed by 31 March 2020</p>
	<p>1.6 Insurance clauses included within contracts are not consistently acted on. There is not always evidence to show insurances held were deemed suitable prior to procurement. Priority 3</p> <p>Recommendation</p> <p>That all contract managers are reminded of the need to request evidence that insurances required by contracts are held by suppliers every year. Insurance documentation should be received prior to award and appropriate records retained.</p> <p>Agreed Action</p> <p>The forthcoming Contract Management Framework will include enhanced guidance for contract managers in ongoing due diligence. The Contract Manager’s Toolkit</p>

	<p>will also include updated guidance in these matters.</p> <p>Timescale To be completed by 31 March 2020</p>
	<p>1.7 A Tiering Tool assessment, used to rank the significance of contracts to the council, was not completed for one contract in our sample. Priority 3</p> <p>Recommendation That all service areas are contacted to inform them of the mandatory requirement to conduct Tiering Tool assessments for new and existing contracts. Completed assessments should be provided to and retained by Commercial & Procurement whenever an assessment is completed. Consideration should also be given to updating the Tiering Tool to incorporate more specific scoring criteria or guidance for contract criticality assessment; and to confirm specific checks that contract managers should conduct as part of the financial and business standing review.</p> <p>Agreed Action The tiering requirement is to be re-communicated to all services and contract managers. Commercial and Procurement will consider expanding the Tiering Tool to include clear references to the Contract Management Planner, which includes how often resilience checks should be undertaken.</p> <p>Timescale To be completed by 31 March 2020</p>
	<p>1.8 Records of meetings held with suppliers are not always sufficiently clear. Priority 3</p> <p>Recommendation That all contract managers are advised the use the meeting minutes template in the Contract Manager's Toolkit; and to clearly record all key discussions held at these meetings.</p> <p>Agreed Action Training provision for contract managers as part of the forthcoming Contract Management Framework is being reviewed. The Framework will include enhanced guidance for contract managers in supplier relationship management.</p> <p>Timescale To be completed by 31 March 2020</p>

Progress and Recommendations

The outcomes identified above will now be re-visited as part of programmed work to produce a Contract Management Framework and review the existing Planner and Tiering Toolkit.

Commercial and Procurement have already actively engaged with the Civil Contingencies Unit (CCU) to take forward the business continuity actions, and work is taking place to ensure;

- a) service areas enhance their Business Continuity Plans to identify their significant suppliers and outline how they would address failure of any such suppliers
- b) there is a clear Business Continuity Policy for suppliers
- c) the Civil Contingencies Unit support consideration and assessment of supplier business continuity arrangements
- d) appropriate SCC staff are trained and supported in the business continuity aspects of contract management.

Progress in other areas is limited as the audit has only recently been complete. Commercial and Procurement will complete the following by 32 March 2020;

1. Publish internally a Contract Management Framework
2. Review and update the Contract Management Planner and Contract Management Toolkit in light of the audit recommendations
3. Subsequently re-communicate the Contract Management Planner, which includes how often resilience checks should be undertaken, including checking of key suppliers financial standing, insurances and business continuity plans and the current activity to review our facility for credit checks will continue and take account of this requirement
4. Ensure Tiering for all current contracts is complete and is ongoing for all new contracts at their commencement, this work commenced in December 2019
5. Deliver a programme of ongoing contract management training and support, to commence from April 2020, reflecting national Government guidance and standards

