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**Final Internal Audit Report**  
**Contract Cleaning**  
**February 2008**

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# **Executive Summary**

## **Introduction & Background**

1. This audit forms part of the 2007/08 Internal Audit Plan, which has been approved by the Mayor and the Audit Panel. The plan entails a review of the systems and controls established over the Authority's management of the procurement and administration of the Office Cleaning contract.
2. The provision of cleaning services for the GLA was awarded to Office Cleaning Services (OCS) on 1<sup>st</sup> July 2002 for a period of three years until 30 June 2005. At the end of the period the contract was extended to two 12 month periods which extended the contract for a period of 24 months to 30 June 2007.
3. The Amenities Manager led the procurement process with advice and guidance provided by the Procurement and Legal Services sections and this process commenced in October 2006. The procurement and evaluation process followed the Authority's Contract Code and the EU procurement rules.
4. Following an extensive process of evaluation of bids, the contract for the provision of office cleaning services was awarded to OCS Limited for a period of three years, with an option for the Authority to extend the contract for a further two years. The service will cost the Authority £985,275 over the contract period which equates to £328,425 per annum and will be met from the City Hall Amenities Budget. Financial management of the contract has been delegated to the Facilities Manager with financial support provided by the Financial Services team.
5. Management and monitoring of OC performance is conducted by officers from the Facilities Management section. OCS maintains an on-site Contract Manager who is the first point of contact for issues arising from the daily provision of the service. The Amenities Manager also has direct contact with the OCS Regional Manager if this is required.

## **Selection of Contractors**

6. In accordance with Section 10.8 of the Authority's Contracts Code of Practice, authorisation to proceed with the procurement process was obtained via a Mayoral Approval Form (MAF). European Union Procurement Regulations requires service contracts with a pre-tender value of £144,371 or above to be advertised in the Official Journal of the European Union (OJEU). As the pre-tender estimate for the cleaning service was estimated at £330,000 (based on historic costs), an advertisement was placed in the OJEU by the Procurement Team and assigned a procurement number, which enables the project to be tracked through the procurement process.
7. The restricted procedure was used as the basis on which the firms would be invited to provide a bid. The process enabled the Authority to restrict the number of contractors to those, which passed the pre-selection process. In this case the advert specified that a minimum of five and a maximum of

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seven firms would be invited to tender. The final appointment however, would be based on the firm that provided the most economically advantageous tender.

8. Audit confirmed that the Authority received 103 Expressions of Interest following the OJEU advertisement. Each firm was sent a Pre Qualification Questionnaire (PQQ). The PQQ is a set of standard questions, which asks each supplier for a variety of information about their business, their policies and their broad approach to the work along with technical information.
9. A total of 47 PQQ's were returned which were assessed by a panel of officers comprising the Facilities Officer, the Building Amenities Manager and the Head of Facilities. Audit confirmed that the three officers scored each firm independently and in compliance with section 10.30 of the Contract Code of Practice and maintained a record of all requests for the questionnaire, identity of company and contact name, address and telephone details. The record also included the date the PQQ was dispatched to each company and the date the completed PQQ was returned. Audit also confirmed that an evaluation of the financial standing of the applicants was conducted to ascertain whether they met the minimum requirements of the Authority.
10. Audit confirmed that in accordance with good practice, the original hand written scores produced during the evaluation of the PQQ were retained for each officer. Consequently, Audit was able to confirm that each of the hand written scores produced by the evaluators was transferred accurately to the PQQ evaluation schedule. A final select list of nine firms that scored the highest average PQQ score was drawn up and invited to tender following the contractor selection process.

No recommendations have been raised following our review of this area.

### **Tendering process**

11. Audit testing showed that a tender pack was issued by the Procurement Team to each firm on the select list, this was done electronically. The pack contained an official invitation to submit a tender, tender instruction, a specification and web links to the Authority's policies on Equalities and Diversity and the Environment. Audit was unable to confirm however, that each firm acknowledged receipt of the tender packs and therefore, that each firm on the final select list was willing to provide a tender. If in the event that the firms do not provide a tender, there is a risk that there will be an insufficient number of bids to demonstrate Value for Money (VFM).

One recommendation has been raised following our review of this area.

### **Receipt and Opening of Tenders**

12. The tenderers were required to return the tender documents by 12 noon on 27 March 2007. The tenderers were instructed to clearly record on the envelope containing their tender documents "Confidential Tender Documents" to ensure that the post room directed the documents to the

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correct officers and to ensure that they were not opened by the recipient before the deadline date. Unfortunately, the tender envelope in respect of one of the tenderers did not have any marks identifying that it contained a tender. Consequently, the envelope was opened in error by the Officer Manager (Legal) who realising the mistake, signed her name on the back of the envelope indicating that she opened the tender in error and resealed it and included it with the others to be opened.

13. Audit confirmed that tender documents can be received at three locations, the loading dock, the front reception desk and directly by the post room. The time and date each tender is received is recorded on the tender envelope and also in the "Post received schedule". The schedule is stored in the Post Room and the tenders are sent to Legal Services to await opening. Compliance tests of the process confirmed that eight of the nine tenders were received in a timely manner in accordance with the tender process requirements (one tenderer did not provide a bid). The Office Manager (Legal) is responsible for holding the tenders until each is opened. Audit was informed that due to a re-organisation within the section, there is limited space to hold tender documents securely.
14. The tenders were opened three days after the deadline date by a team of three officers, comprising the Building Amenities Manager, the Facilities Officer and an officer from the Procurement Team. The Tender Opening Form was signed by the three officers as evidence of their involvement in the opening process. The value of the bid received from each company that provided a tender was recorded on the form.
15. The envelopes holding the tender documents except in respect of the successful bidder, were destroyed after the tenders were opened with the consequence that Audit were unable to verify that all tender document envelopes had been dated and time stamped.

Two recommendations have been raised following our review of this area.

### **Contractual Letting**

16. Section 10.55 of the Authority's Contract Code of Practice stipulates that the evaluation panel should comprise the same officers as the pre-qualification panel and contain a least three officers. Audit confirmed that the panel members had the necessary knowledge and expertise to evaluate the tenders received and comprised the same officers as the panel that conducted the PQQ evaluation. Furthermore, as the original hand written tender evaluation schedule was kept, Audit confirmed in compliance with section 10.61 of the Contract Code of Practice, each panel member independently scored each bid against the agreed pre-set evaluation criteria weighted to reflect the importance of the specific criteria. Each officer recorded their score in ink on a standard evaluation sheet.
17. Four of the eight firms that scored the highest mark following evaluation of their bid were invited to make a presentation. For this section of the evaluation process, the panel was supplemented by an Events Officer who was independent of the procurement and evaluation process until that point.

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In accordance with section 10.7 of the Contract Code of Practice, the presentation party from each firm were asked the same questions and each member of the interview panel scored each response independently. The process resulted in two firms, OCS Ltd and KGB Ltd being further assessed by a visit to a site currently cleaned by each respective firm. Audit testing showed an absence of documentary evidence to confirm the scores from the Events and Amenities Manager and the Facilities Officer in respect of the visit to the KGB site and it was not possible to verify the score provided by the head of Facilities in respect of the visit to OCS.

18. Following the evaluation process, a formal report was produced on the outcome of the procurement exercise dated 21 May 2007 by the Facilities Officer. The report formally recommended the award of the contract to OCS Ltd for the sum of £328,425 which includes a provision for the increase in the London Living Wage to £7.05 per hour. This was formally approved via Mayor Approval Form (MAF) on 5 June 2007.
19. A contract signed on 10 July 2007 by the Managing Director of OCS and witnessed by the Company Secretary on behalf of the contractor and signed by the Mayor for the Authority on 20 July 2007 were exchanged thereby formalising the agreement.

One recommendation has been raised following our review of this area.

### **Communication**

20. There are regular formal weekly contract meetings with the OCS Contract Manager where specific issues such as portage and cleaning performance are discussed. As OCS Ltd also provides other services to the Authority, such as security, quarterly meetings are also held to support the management of the service and general performance. Audit confirmed that regular weekly meetings have been held with OCS since the start of the contract in July 2007 with the OCS Managing Director and Regional Director also in attendance. It was evident that timely quarterly meetings have been held since the start of the contract. The attendance of OCS senior management at the weekly and quarterly meetings enable decisions on changes to service delivery to be made promptly if required. It also ensures that OCS senior managers are aware of performance. In addition to formal communication, there are daily informal discussions and meetings between officers in the Facilities Management section and the OCS Contract Manager and staff, this is all carried out as part of the daily routine of office cleaning.

No recommendations have been made following our review of this area.

### **Change Control Process**

21. The change control process is detailed in section 31 of the contract which deals with variations. Any variation which must be in writing can include the contractor:
  - Postponing or omitting part of the service;

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- Providing additional services similar to those already provided;
  - Varying the scope of the service; and
  - Changing the service.
22. If the variation changes the cost to OCS in providing the service, OCS is required to deliver an estimate of the breakdown of the increase or decrease of cost. The estimate must be accompanied by suitable supporting evidence and delivered within ten Business Days of the VO being proposed. Audit confirmed that a VO had not been raised as at the time of the audit.

No recommendations have been raised following our review of this area.

### **Payments to the Contractor**

23. OCS is paid one twelfth of the annual contract value each month which is currently £27, 301. The firm also receives payments for additional cleaning services carried out in agreement with the Building Amenities Manager. The value of the additional service is agreed with OCS who provides a quote which is based on the schedule of prices provided as part of the tender. The payments process follows the accepted procedure of raising a Purchase Order, followed by approval of the order, then matching the invoice to the Goods Received Notes thereby allowing payment to be made. Audit testing of a random sample of payments confirmed that this process was sound.
24. We note however, that for the monthly contract payment, a Purchase Order is not raised until the invoice is received from OCS. The Building Amenities Manager explained that the monthly performance statistics are inspected and agreed before the invoice is accepted. The timing of this process means that the Purchase Order for the monthly payment is raised after this process and allows the Authority to inform OCS of any deductions as a result of poor performance.

No recommendations have been raised following our review of this area.

### **Monitoring Performance**

25. Performance monitoring enables the Authority to assess the standard and quality of the service provided by OCS. The performance system consists of two elements; The Building Amenities Manager undertakes weekly physical inspections. This usually reviews high level aspects such as ensuring that COSHE signs are clearly displayed, areas where deep cleaning is needed and areas where dusting has been neglected. Physical inspections are also undertaken by officers from the Help Desk team. Faults are logged onto the FACTS FM system which holds a record of the findings. All complaints are also logged onto the FACT system and then followed up to ensure that OCS has addressed the issues.
26. Where a fault is not rectified in a timely manner, the Building Amenities Manager can issue an "Improvement Notice". The notice is official notification that OCS has ten working days to rectify the problem from the

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date of the notice. If not completed within this time period, OCS can be defaulted in accordance with the section 3.3 of Schedule 4 of the specification "Performance Monitoring & Payment". As at the time of the audit one Improvement Notice had been issued to OCS which related to the implementation of the agreed Living London Wage.

27. OCS provides monthly performance reports showing the results of the self monitoring conducted by OCS across a range of activities. The report uses a "RAG" system to indicate whether performance is satisfactory (Green), requires attention (Amber) or is unsatisfactory (Red). There are six local Key Performance Indicators (KPIs) which are used to judge performance. The monthly performance report for September 2007 showed that OCS is achieving better than the target for the six KPIs.

No recommendations have been raised following our review of this area.

### **Financial and Management Information**

28. The Building Amenities Manager receives monthly budget statements from the Project Accountant. The statements show for budget code E99D-E the original budget, amount spent to the year, the variance and the year end forecast. The Building Amenities Manager also obtains a listing showing each transaction making up the budget statement. The transaction listing is used to reconcile the figures on the Building Amenities Manager's spreadsheet to commitments. As the figures in the spreadsheet represent the most up to date information on income and expenditure therefore, it is used to accurately forecast total and future commitment ahead of the next budget statement. The reconciliation also highlights items of expenditure which have been incorrectly matched against the E99 budget, thereby allowing these to be removed.
29. There are also monthly meetings with the Project Accountant where overall financial performance is discussed. The meeting which are minuted enables officers to highlight problem areas which could lead to over-spends, discuss virements if these are needed and draw to the Project Accountant's attention other issues which may affect financial performance.
30. Along with the financial information received, the Building Amenities Manager also receives information on monthly performance as discussed above. In addition to this the minutes from the monthly and quarterly contractors meetings as a formal record of discussion and decisions taken also provides information on the performance of the contractor and service overall.



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### **Audit Opinion – Substantial Assurance**

**Evaluation Opinion:** While there is a basically sound system, there are areas of weakness which put some of the system objectives at risk.

**Testing Opinion:** There is evidence that the level of non-compliance puts the system objectives at risk.

## **Observations and Recommendations**

In order to assist management in using our reports:

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls

<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial Assurance</b>	While there is a basically sound system, there are areas of weakness which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of controls are such as to put the system objectives at risk, and /or the level of non-compliance puts the system objectives at risk.
<b>No Assurance</b>	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

b) We categorise our **recommendations** according to their level of priority.

<b>Priority 1</b>	Major issues for the attention of senior management.
<b>Priority 2</b>	Other recommendations for local management action.
<b>Priority 3</b>	Minor matters.

# Tendering Process

## 1. Receipt of Tender

(Priority 3)

Recommendation	Rationale
<p>It is recommended that for any future tendering exercise, management should ensure that each firm invited to provide a bid formally acknowledges receipt of the tender documents.</p> <p>It is further recommended that where the procurement section sends the tender documents electronically, a written acknowledgement is provided to the respective Facilities Management officer confirming details of the companies to whom a tender pack was sent.</p>	<p>Best practice indicates that a written acknowledgement from the tenderer to confirm that the tender documents have been received and that they will be submitting a tender should be provided to the contracting body.</p> <p>Audit testing showed a lack of documentary evidence confirming that each tenderer had confirmed receipt of the tender information and confirmation that they were submitting a tender.</p> <p>Where tendering companies do not acknowledge receipt of the tender documents, there is a risk that an officer could fail to send details to a contractor in order to affect the result of the tender. This could not be identified if contractors were not required to acknowledge receipt of details. In addition, there would otherwise be no independent check that details had been sent to all contractors.</p>
<p><b>Management response: Procurement Manager</b></p>	
<p>Agreed Implementation Date 30/4/08</p>	

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# **Receipt and Opening of Tenders**

## **2. Secure Storage of Tenders**

**(Priority 2)**

<b>Recommendation</b>	<b>Rationale</b>
<p>It is recommended that management review the availability of secure storage facilities within the GLA to ensure that adequate arrangements are in place to accommodate tender documents received by the Authority.</p>	<p>The security of unopened tenders ensures that the tenders received are not subjected to risk of manipulation or misappropriation.</p> <p>Audit testing and discussion with Legal Services Officer Manager showed that whilst tender documents are held securely, it is becoming increasingly difficult to secure tender documents due to the limited availability of secure storage.</p> <p>There is a risk that tenders could be lost, opened inadvertently or tender figures amended in order to change the result of the tender. Also, if access was not restricted, it would be impossible to establish responsibility in the event of the removal of a tender from the safe.</p>
<b>Management response: Procurement Manager</b>	
<p>Agreed</p> <p>Implementation Date 31/5/08</p> <p>Due to the restrictions on storage availability within City Hall, this matter will need to be addressed with the Facilities Management Team and the Executive Director of Corporate Services.</p>	

### 3. Time and date of returned Tenders (Priority 3)

Recommendation	Rationale
<p>It is recommended that officers involved in the tender opening exercise should transfer the time and date stamped on the envelope to the Tender Opening Form as a permanent record of this information.</p>	<p>Details of the time and date tenders are received is recorded on the tender envelopes, to ensure that the receipt date of the tender is within the deadline date and therefore should not be included in the evaluation process.</p> <p>Although the GLA's post received schedule supports the receipt of the tenders before the deadline, Audit was unable to confirm the exact time and date for which each tender had been received as the envelopes are destroyed.</p> <p>Where tender envelopes are discarded, there is a risk that no evidence would then exist to confirm when the tenders were received.</p>
<p><b>Management response: Procurement Manager</b></p>	
<p>Agreed Implementation Date 30/4/08</p>	

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# **Contractual Letting**

## **4. Site Visits**

**(Priority 2)**

<b>Recommendation</b>	<b>Rationale</b>
<p>It is recommended that management ensure that all documentation produced as evidence of site visits, is retained with the tender process decision documentation and is clearly recorded as a site visit record.</p>	<p>Site visits are conducted to directly observe the technical capability of the contractor to provide the service. The visits also provide an opportunity for officers to question the contractor's staff and to gauge the level of satisfaction with working conditions and competence of contractor's management.</p> <p>Audit testing showed that the findings from the site visits were recorded on the bottom of the corresponding interview schedules completed by each officer. In addition, it was noted that the site score produced by the Head of Facilities for the visit to the site cleaned by KGB Ltd could not be evidenced. In addition it was not possible to confirm the scores from the Events and Amenities Manager and the Facilities Officer for the visit to the KGB site.</p> <p>In the absence of sufficient documentary evidence to support the result of site visits, there is a risk that the Authority is unable to support any decisions based on this exercise which could flaw the basis of this part of the decision process.</p>
<b>Management response: Procurement Manager</b>	
<p>Agreed Implementation Date 30/4/08</p>	

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# **Appendix 1 – Audit Framework**

## **Audit Objectives**

The audit was designed to ensure that management has implemented adequate and effective controls over the procurement and management of the Office Cleaning Services.

## **Audit Approach and Methodology**

The audit approach was developed with reference to the Internal Audit Charter and by an assessment of risks and management controls operating within each area of the scope.

The following procedures were adopted:

- identification of the role and objectives of each area;
- identification of risks within the systems, and controls in existence to allow the control objectives to be achieved; and
- evaluation and testing of controls within the systems.

From these procedures we have identified weaknesses in the systems of control, produced specific proposals to improve the control environment and have drawn an overall conclusion on the design and operation of the system.

## **Areas Covered**

Audit work was undertaken to cover controls in the following areas:

- Selection of Contractors
- Tendering
- Receipt and Opening of Tenders
- Contract Letting
- Communication Process
- Change Control
- Payments to the Contractor
- Monitoring Performance
- Financial and Management Information.

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## **Appendix 2 - Staff Interviewed**

We would like to extend our thanks to all staff that provided assistance during the course of this audit, and in particular

Head of Facilities Services	-	Facilities Management
Building Amenities Manager	-	Facilities Management
Facilities Officer	-	Facilities Management
Team Leader (Post Room)	-	Facilities Management
Officer Manager (Legal Services)	-	Legal Services



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# **Statement of Responsibility**

We take responsibility for this report, which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those, which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

***Deloitte & Touche Public Sector Internal Audit Limited***

***St Albans***

***February 2008***

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