



Internal Audit: Management of Technical Support Contractors being used on GDA work

Status: Final

Issue Date: September 2010

Background

The audit was carried out in response to a request from the Director of Generic Design Assessment (GDA) of the Nuclear Directorate (ND). The audit was undertaken concurrently with another audit (Management of Conflicts of Interest of Technical Support Contractors being used on GDA work) for which a separate audit report and assurance has been provided.

In January 2008 the Government announced its support for the building of a new generation of nuclear power stations in the UK. HSE and the Environment Agency have a key role in the nuclear power programme; by ensuring that any new nuclear power station meets the highest standards of safety, security, environmental protection and waste management. The GDA initiative has a remit to be an open and transparent process and this is achieved by frequent public updates on progress, consultations and reports being posted on the GDA website.

Design assessments are being carried out by HSE and Environment Agency regulators and elements of the design safety cases are being issued to Technical Support Contractors (TSCs) for technical and scientific advice as discrete packages of work (as part of a framework agreement) but the responsibility for that work remains with the regulators. TSCs provide regular updates on the progress of their work.

Poor contract management of TSCs may lead to:

- Failure to ensure activities remain within their defined scope and boundary;
- Failure to identify and prevent self-tasking by TSCs; and
- Failure to deliver specific activities to time, quality and cost.

Key Risks

We identified the following risks to the business objective:

- Procedures and policies in place to support effective management of TSC contracts are insufficient, inaccurate, not communicated or not understood; leading to an inconsistent approach to the management of contracts, loss of time and money and ultimately HSE's reputation as a professional body.
- ND technical assessors and contract managers do not follow agreed and documented procedures and processes in relation to the management of contracts with TSCs, including the delivery within the boundary and scope of the work and to cost, time and quality required; leading to loss of time and money, and reputation for HSE.
- Governance (leadership, monitoring, review and control) of the GDA processes in relation to the management of TSCs is insufficient or inadequate allowing poor decisions to be made and time and money to be lost leading to reputational damage to HSE.

Business Objective

HSE's objective for ND GDA Contract Management is that TSCs:

- are managed in line with HSE procedures;
- deliver to specified requirements (including time, quality and cost);
- that any variation to the scope of the contract is agreed and authorised at an appropriate level by HSE.

Audit Objective and Scope

The objective of the audit was to:

- deliver reasonable assurance to the Accounting Officer and the Director of GDA that the key risks to the achievement of the business objectives are being effectively managed; and
- to make practical recommendations for improvement in the management of business risk, control and governance where appropriate with due regard to value for money.

The audit looked at;

How the management of TSC contractors is set up, including:

- Framework agreements;
- Procedures, Policies and Processes (including contract management, project management, audit trails, risk management and transparency);
- Governance; and
- Controls and mitigations are effective.

Is the management of TSC contracts operating as it should do, including:

- Compliance with procedures and policies;
- Governance operating as intended and is adequate;
- Controls and mitigations operating effectively and not being bypassed; and
- Transparent audit trails.

Is there sufficient monitoring and review built into the process to ensure that management have assurance over the TSC contracts.

The audit did not look at the work of the Environment Agency or technical aspects of any assessments.



Executive Summary

Audit Opinion	Commentary
<p>Due to the strengths identified we can provide substantial assurance that the risks to the achievement of the business objectives are being adequately managed.</p>	<p>Overall, we found effective controls in place and operating to ensure that Technical Support Contractors (TSCs) are being properly managed. Strong governance arrangements and active management by technical assessors, supported by additional input from Line Management, Contract Managers, finance and requirements for Head of Division approval contribute to the control framework. Our opinion has been informed by interviews with relevant staff and management in GDA, review of documentation and files and a sample check of 15 TSC work packages (at a value of £3.6m). This provided evidence of effective control. Areas of particular strength are identified below as well as some areas where improvements could be made or lessons learned for future activities. None of the areas identified for improvement give us cause for concern or have any significant effect on our assurance opinion. At the time of the audit approximately 120 individual work packages had been issued at a combined value of £13m.</p> <p><u>Areas of Particular Strength/Good Practice</u></p> <ul style="list-style-type: none"> • Framework Agreement – Set up correctly, with due regard to propriety (involvement of HSE’s Procurement Unit). Transparent and well documented process. • Governance arrangements – Strong and effective. • Active Management – Evidence of close monitoring of TSC performance/deliverables by technical assessors, with appropriate support provided by Contracts Manager, Line and Senior Management and finance staff. • Transparent audit trails – We found full audit trails for all work packages selected for the audit sample. <p><u>Areas for potential improvement</u></p> <ul style="list-style-type: none"> • Decision to select a particular TSC from the Framework – Clear explanation in all cases sampled, however, some inconsistency in how decisions are documented. Transparency would be improved if decisions were recorded in one place. • Although the auditors were able to locate documents required to confirm audit trails there was some inconsistency in how documents/files were stored.

Key Findings



Audit Objective	Commentary
<p>How the management of the TSC contractors is set up</p>	<p>Framework Agreement</p> <p>TSCs are selected from a Framework Agreement. We examined the process and procedures for setting up the Framework Agreement and found them to be robust, transparent and fully documented. The involvement of HSE’s Procurement Unit (PU) brought independence and expertise to the process, providing a properly constructed Framework Agreement. The Framework Agreement included statement of service requirements, terms and conditions and a template agreement for individual work packages.</p> <p>Procedures, Policies, Processes</p> <p>A flow-chart of processes for commissioning TSC support was produced at the start of the project. There is also a ND ‘BMS’ procedure for commissioning research contracts, though no specific administrative procedure covering the management of TSC support for GDA. We did find some variance from the prescribed flowchart procedure but consider this is largely due to an over-complicated document. A procedure has evolved, largely dictated by the Framework Agreement requirements and individual work package contracts, which provides an effective system of control. ND may wish to consider if there is benefit in updating the flow-chart to reflect current working practice. The use of the ‘Upside’ contract management system provides appropriate management and financial support and control.</p> <p>Governance</p> <p>Governance arrangements for setting up individual work packages are robust. Initial approval is provided (and documented on ‘Upside’) by either Line Management or Head of Division, depending on value. A further control recently introduced is that all expenditure above a certain limit has to be approved by HSE’s Central Efficiency Board¹. PU place the contract via a ‘Commissioning Letter’ which is signed by both HSE and the TSC. All Variation Orders (contract amendments) are now approved by the Head of Division and issued formally through PU. Contractor performance is reported to Line Manager and Head of Division via monthly progress reports which provide a ‘big picture’ of overall progress on GDA.</p> <p>Controls and mitigations</p>

¹ This arrangement is required by UK Government to place controls over departmental spending.



Audit Objective	Commentary
	<p>Governance arrangements mentioned above provide effective overall control. In addition, there are control measures in place from initial commissioning of work to delivery of requirements to time, cost and quality. The Framework Agreement provides a mechanism for ensuring that work packages are allocated to the most appropriate TSCs and arrangements are in place for deciding which TSC will be allocated the work when there is more than one contractor on the Framework identified as being able to support that particular topic. Technical Assessors play a key role in ensuring that TSCs deliver work packages to time, cost and quality. Separate contract management provides additional support in this area and the involvement of the finance function provides control over contract payments and limits of liability. Finance will not pay invoices unless progress reports are attached and until Technical Assessors confirm satisfactory delivery of the service.</p>
<p>Is the management of TSC contracts operating as it should do?</p>	<p>Compliance with procedures and policies</p> <p>The initial technical assessment plans and subsequent individual work packages are the key documents in setting the scene for effective control. All work packages in our audit sample were correctly commissioned via PU. The Framework Agreement identifies the TSCs who can be contracted to undertake a particular topic. For all cases in our audit sample there was rationale and logic behind the decision on which particular TSC was selected for the work. In some cases there was documentation of the selection process/decision, however this was not always the case and we have recommended that the decision is clearly documented in all cases. This could be achieved by entering details in the appropriate place on the NSS1 form (Recommendation 1)</p> <p>Governance operating as intended and is adequate</p> <p>Audit testing confirmed that identified controls for management oversight/approval of work packages and variation orders are operating in practice. Likewise, all work packages (including invoices) in our audit sample were recorded on the Upside system, thus providing transparency and evidence of control being applied by the finance function. We saw evidence of regular reports on progress being provided to senior management.</p> <p>Controls and mitigations operating effectively and not being bypassed</p> <p>A key strength of the system is the active management and oversight provided by Technical Assessors with support</p>



Audit Objective	Commentary
	<p>from the Contracts Manager. In all of the cases in the audit sample we found evidence to confirm that assessors are maintaining a tight control over TSC delivery. Typically, this consists of regular telephone and face-to-face meetings with the TSCs. We also saw evidence of effective challenge by Technical Assessors where the TSC proposal was considered to be in excess of the package specification. Technical Assessors interviewed understood that a clearly defined initial specification was a key element in ensuring effective control over the process. Audit testing confirmed that invoices are only paid when the Technical Assessor confirms satisfactory delivery (or progress) of the work package to the finance function.</p> <p>Transparent audit trails</p> <p>We were able to find and confirm audit trails in all cases (work packages) in the audit sample. Typically, contract information is held in PU files and separate ND files are also held. We found evidence to confirm active management (as mentioned above) in all cases, however not all of the information was held in a central location. For completeness of audit trail, and to aid any future analysis we recommend that all relevant ND documentation (e.g. minutes of meetings, progress reports etc) is held in the one location, in HSE's electronic records management system (TRIM). (Recommendation 2)</p>
<p>Is there sufficient monitoring and review built into the process to ensure that management have assurance over the TSC contracts.</p>	<p>Work package specifications are reviewed by line management and Head of Division approval is required before a contract can be placed. PU provides independent and professional expertise to ensure that contracts (work packages) are set up appropriately and in accordance with the Framework Agreement. Active management by Technical Assessors ensure that TSCs deliver work packages to the required specification, and the involvement of the finance function and contracts manager provides additional support and control to ensure that packages are delivered to time, cost and quality. Further monitoring and review is provided by project managers and the Joint Programme Office (JPO) who co-ordinate much of the GDA work, including production of detailed progress reports for ND management. All of this, in our view, provides an effective monitoring and review process.</p>

Recommendations and Action Plan

Rec	Findings & Risk Impact	Risk Category see Annex A	Recommendation	Management Response	Agreed Implementation Date
1	<p><u>Findings</u> Decisions to select a particular TSC from the Framework Agreement, whilst appearing to have a clear rationale and logic were not recorded/documentated in all cases in the audit sample.</p> <p><u>Risk Impact</u> Transparency of decision making process could be compromised.</p>	B	Decisions on the selection of a particular TSC from the Framework Agreement should be clearly recorded/documentated in all cases. The NSS1 form could be used, with appropriate cross-referencing as necessary, for this purpose.	Introduce requirement for NSS1 form to be used to record/document the rationale for award of work package.	Implement ASAP with NSS1 to be amended by 30/11/2010 for all GDA cases.
2	<p><u>Findings</u> Although full audit trails (documentation etc) were found for all cases in the audit sample there was some inconsistency in how and where ND documentation was filed.</p> <p><u>Risk Impact</u> Potential for loss of key supporting documentation and transparent audit trail.</p>	C	All key ND documentation should be held in a central location/file within HSE's electronic records management system.	TRIM folder(s) to be set up and key documents to be held there.	30/11/2010

Annex A

Audit Assurance

Opinion	Definition
Substantial Assurance	A basically sound system of internal control, but where there are a few minor weaknesses that may put achievement of some system objectives at risk
Adequate Assurance	A sound system of internal control that is satisfactory in the main (design and control)but which contains a number of weaknesses that are likely to undermine specific system objectives and leave it vulnerable to error or non compliance
Unacceptable	An unacceptable system of internal control (design or control) containing fundamental /serious weaknesses creating serious doubts about the achievement of system objectives and leaving open to significant error or abuse

Risk Categories

Risk Category	Definition
A	A weakness where there is a substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve the organisation's objectives. Such a risk could lead to an adverse impact on the business and standing of HSE and expose the Accounting Officer to criticism. Remedial action must be taken urgently
B	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
C	Areas that individually have no major impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency. Potential for undesirable effects at the process level, which combined with other weaknesses could give cause for concern and require specific remedial action.