

# SAINT HELENA **AUDIT SERVICE**

## **COMPLIANCE WITH CONTRACT REGULATIONS**



## **FINAL VALUE FOR MONEY REPORT**

V26 – August 2011

Value for Money audits are conducted by the Audit Service on behalf of the Legislative Council, in order to determine whether St Helena Government resources have been used with proper regard to economy, efficiency and effectiveness.

# CONTENTS

<b>Executive Summary</b>	<b>3</b>
<b>1. Findings and Conclusions</b>	<b>4</b>
Introduction	4
Review of Contract Registers	4
Contracts awarded by the Tender Board	4
Contract Payments greater than £20,000	6
Contract Payments between £2,500 and £20,000	6
<b>2. Management Response and Action Plan</b>	<b>8</b>
<b>Appendices:</b>	
<b>A</b> Audit Opinion Definitions	11
<b>B</b> Scoping and Resources	11
<b>C</b> List of Persons Consulted	12

**Report Distribution:** Directors, Chief Secretary, Financial Secretary, Legislative Council, Public Accounts Committee and Audit Committee.  
It is available to the public through our website ([www.audit.gov.sh](http://www.audit.gov.sh)), in the Public Library and at the Audit Service Office.

## EXECUTIVE SUMMARY

This review forms part of the Value for Money Audit Plan for 2011/12. The objective of this audit was to determine compliance with Contracts Regulations by all directorates across St Helena Government (SHG).

Contracts Regulations aim to promote good purchasing practise, public accountability and deter corruption. Following the rules is the best defence against allegations that a purchase has been made incorrectly or fraudulently.

Total contract payments made by SHG for the period 2009/10 amounted to £3,947,520. In 2010/11 contract payments doubled in total value to the amount of £7,674,415.

Contracts payments ranged from agricultural contracts for works and services to projects such as the wharf development, Jamestown Rockfall Protection scheme and the laundry contract.

Based upon the work undertaken and the findings detailed in the body of this report, the overall opinion is given below. The range of possible audit opinions given for Value for Money are good, adequate and inadequate. Definitions of the audit opinions can be found in Appendix A of the main report.

### CONTRACTS

#### ADEQUATE

Management arrangements are generally conducive to achieving Value For Money – but further important enhancements could be made.

Through the work that was undertaken we found that the awarding of contracts across SHG requires improvement and we have made four recommendations with regards to compliance with Contracts Regulations and to improve the controls over the procurement process.

Contracts Regulations Section 20.4 regarding the maintenance of contracts registers by all directorates for the accurate and prompt recording of details of all contract payments is not fully complied with and we have made a recommendation in this regard.

Contracts awarded for the procurement of goods are not supported by a written contract between the agency and the directorate involved. In addition, Contracts Regulations does not specify the form of contract for procurement of goods and the Tender Board approval letter could imply that a written contract needs to be signed.

A number of contract payments made by the Health and Social Welfare and the Police Service Directorates were not supported by a contract and no quotations were sought during the procurement process.

The assistance given by all SHG staff and third parties is acknowledged with appreciation and a list of those involved is included in Appendix C.

## Introduction

- 1.1 The main findings and conclusions are presented here and are based upon the work undertaken and evidence gathered.
- 1.2 Contracts are awarded across SHG for various works and services and the procurement of goods and materials. Payments were made from the Development Fund as well as the Consolidated Fund for the periods 2009/10 and 2010/11.
- 1.3 This Value for Money Audit reviewed two of the categories as outlined in Contracts Regulations; which were purchases of items between £2,500 and £20,000 and these over £20,000 (Invitation to Tender).
- 1.4 Orders or contracts for the purchase of any goods, services or materials which are estimated to exceed £2,500 but less than £20,000 in value or amount must only be made after obtaining three quotations. Where the estimated value or amount of the proposed contract exceeds £20,000 tenders shall be invited and will be considered by the Tender Board.

## Review of Contract Registers

- 2.1 Contracts Regulations Section 20.4 requires that each accounting officer must keep a contract register, which must record accurately and promptly details of all contract payments.
- 2.2 Contract registers were requested and obtained from SHG Directorates. It was evident that contract registers are not maintained for all directorates, especially for those who manage contracts within their directorate. There are directorates who do not maintain a contracts register on the basis that they do not manage contracts, which is acceptable.
- 2.3 Directorates who awarded contracts in the period 2009/10 and 2010/11 but did not

have a register included the Police Service, Finance, Education and Infrastructure and Utilities Directorates.

- 2.4 The Police Service Directorate awarded two contracts during the period 2009/10 and 2010/11; namely the rescue and recovery boat and outsourcing of the vehicle inspection centre. They do not maintain a contracts register.



- 2.5 The Finance Directorate awarded a contract for the procurement of IT equipment in the period 2009. They also do not maintain a contracts register.
- 2.6 Education Directorate awarded the school bus contract in the period 2009 but no contracts register is maintained.
- 2.7 Infrastructure and Utilities Directorate awarded various contracts in the periods 2009/10 and 2010/11. They only maintain a contracts register for contracts awarded within their Technical Services Section, not for contracts awarded through the Tender Board.

- 2.8 A comparison of contract payments for the periods 2009/10 and 2010/11 against those contract registers received, revealed that there were contract registers that were not complete in that they did not include all contract payments relevant to their directorate.
- 2.9 We recommend that, in accordance with Contracts Regulations all directorates who award contracts should maintain a contracts register to ensure that all contract payments can be monitored and for compliance with the regulations (**recommendation one**).

### Contracts awarded by the Tender Board

2.10 Where the estimated value or amount of the proposed contract exceeds £20,000, tenders must be invited in accordance with Contracts Regulations and put forward for consideration and approval by the Tender Board.

2.11 For the period 2009/10 and 2010/11 there were thirty seven tenders awarded through the Tender Board with a total value of £8,309,571.05. Of these tenders awarded there were two contracts awarded by the Health & Social Welfare Directorate for food supplied by the local market to which no set amount was tendered for. The tender awarded for the outsourcing of the vehicle inspection centre did not include a cost. This was a tendering of the service therefore no tender amount was awarded.

2.12 Most contracts awarded were by the Infrastructure and Utilities Directorate with twenty one contracts. Six were awarded by the Health & Social Welfare Directorate, four by Corporate Procurement, three by Access Office and one each for Police, Finance and Education Directorates.

2.13 The largest contracts awarded were marine works – Jamestown Improvements Programme in the region of £3.8 million awarded by Corporate Procurement and consultancy under the W1 project for £1 million awarded by Infrastructure and Utilities Directorate.

2.14 All contracts awarded by the Tender Board for this period were tested to ensure compliance with Contracts Regulations. Compliance with the Regulations included;



- invitation to tenders (CR section 5);
- expressions of interest (CR section 6. 7 and 8);

- quotations received and details of quotes;
- Tender Board approval; and
- conditions of contract approved and signed (CR section 16).

2.15 Expressions of interest were mostly between the selective tendering process by a standing list and ad-hoc list where contracts were limited to some or all of those persons who had replied to a public notice.



2.16 Contracts for works and services were awarded in accordance with the ICE Contracts for Works and Services. Contracts such as the Marine Works Jamestown Improvements, Rockfall Protection Project Consultancy and the Solid Waste Management Project to name a few. The conditions of these contracts were approved by the Attorney Generals Chambers.

2.17 Testing revealed that there were a number of contracts awarded for the procurement of goods. For those contracts awarded no contract was signed between the agency and the directorate involved. An example of this is the procurement of tyres and tubes by the Infrastructure and Utilities Directorate; where once the quotation information and recommendation by the directorate is forwarded to the Tender Board, the Tender Board letter which approved the awarding of the contract stated ‘...to arrange signing of contract documents’. Once approved by the Tender Board, the directorate completes an indent which is an order, and procures the goods with the supplier. A signed contract does not exist.

2.18 Contracts Regulations does not specify the form of contract for procurement of goods and the Tender Board approval letter could imply that a written contract needs to be signed. We recommend that a review of

Contracts Regulations be performed to include the form of contract for procurement of goods (**recommendation two**).

2.19 There were two contracts awarded whereby a copy of the signed contract between the contractor and SHG was not kept on file. One was for the Health and Social Welfare Directorate for the laundry contract between SHG and C Watson. Regarding the contract awarded to Redbay Boats Limited for the new rescue and recovery boat, only a draft contract could be found on file (**recommendation four**).

#### Contract payments greater than £20,000

2.20 There were thirty contract payments with a value more than £20,000 each with a total value of £4,524,309.87. These payments were traced to their supporting documentation to ensure that they were payments in relation to a contract that had been awarded previously.

2.21 The majority of these payments were made by Corporate Procurement which were in relation to the development fund projects such as the Environmental Impact Assessment for the St Helena Wharf Improvement Project and the Jamestown Wharf Improvements Project. The remainder of the contract payments in this category were payments made for medical supplies by the Health and Social Welfare Directorate.



2.22 Testing revealed that all payments under this category made by the Corporate Procurement were supported by a contract. All contract payments made by the Health and Social Welfare Directorate which were in respect of drugs for the Dispensary were supported by an invoice and bank transfer for the payment side, however they were not supported by a contract and no quotations

were sought during the procurement process.

2.23 It was confirmed with management that purchasing is with their normal suppliers, whom they have been dealing with for years. Recently management confirmed that quotations are now obtained for the procurement of goods. This exception was also highlighted with management during the Value for Money Audit on Medical Supplies published in May 2011. We reiterate the recommendation made in the Value for Money Report on Medical Supplies (**recommendation three**).

#### Contract payments between £2,500 and £20,000

2.24 Contracts Regulations Section 4 requires that orders or contracts for the purchase of any goods, services or materials which are estimated to exceed £2,500 but less than £20,000 in value must only be made after obtaining three quotations.

2.25 There were two hundred and seventy eight payments in this category for the period April 2009 – March 2011 which totalled £1,733,433. A random sample of these payments was traced to supporting documentation to confirm accordance with the requirements of Contracts Regulations Section 4 – purchases between £2,500 and £20,000.

2.26 This included a review of their procurement process to ensure three quotations were obtained to support the decision to purchase.

2.27 Testing revealed that payments made by the Police Service were not supported by quotations in accordance with Contracts Regulations Section 4. The nature of the payment was public order equipment to which it was stated that the reason for not obtaining quotes was because the service normally procures goods from this supplier and also because the Police Service needs to deal with Home Office approved suppliers.

2.28 The reason for dealing with Home Office suppliers is because of best practice and export and litigation issues need to be considered. The Service does not have a list of approved suppliers but during the procurement process, the UK Police Service is contacted for advice on the best source for the equipment.

2.29 This is not in accordance with requirements of Contracts Regulations Section 9 which covers articles for which no competitive tenders can be obtained. This section is specifically for products or services made by a firm with exclusive rights of manufacture for which no competitive tenders can be obtained. However the items procured by the Police Service do not fall within this category and therefore Contracts Regulations section 4 should apply.

2.30 A payment made by the Public Health and Social Services Directorate in relation to drugs purchased from Knox was not supported by the relevant quotations, as quotations were not sought during the procurement process. This constitutes a failure to comply with Contracts Regulations **(see recommendation three)**.

## CONCLUSION

3.1 The awarding of contracts across SHG requires improvement. We have made three recommendations with regards to compliance with Contracts Regulations and to improve the controls over the procurement process.

3.2 Contracts Regulations Section 20.4 regarding the maintenance of contract registers by all directorates for the accurate and prompt recording of details of all contract payments is not fully complied with. Contract registers do not exist for all directorates and those in existence are not complete. We have made a recommendation in this regard.

3.3 Contracts awarded for the procurement of goods are not supported by a written contract between the agency and the directorate involved. In addition, Contracts Regulations does not specify the form of contract for procurement of goods, and the Tender Board approval letter could imply that a written contract needs to be signed.

3.4 There were contract payments made by the Health and Social Welfare Directorate which were in respect of drugs for the Dispensary which were not supported by the relevant quotation documentation. Payments made by the Police Service Directorate were also not supported by a contract and no quotations were sought during the procurement process. We have made subsequent recommendations for implementation by management.

	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
1	<p>Contracts Regulations section 20.4 requires each Accounting Officers to maintain a contracts register in which must be recorded accurately and promptly details of all contract payments.</p> <p><b>Contract registers were not maintained by all SHG Directorates, namely Finance, Police, Infrastructure and Utilities and Education. We recommend that Section 20.4 of Contracts Regulations be adhered to.</b></p>	<p>Finance – Head of Accounting Services</p> <p>Director of Infrastructure and Utilities</p> <p>Police</p> <p>Education</p>	High	<p>1 November 2011</p> <p>1 September 2011</p> <p>With immediate effect</p>	<p>Agreed.</p> <p>Agreed on the basis that separate Contract Registers be maintained for each section within the Directorate.</p> <p>Agreed</p> <p>Agreed</p>
2	<p>Contracts awarded for the procurement of goods are not supported by a signed contract. The Tender Board approval letter specifies the signing of contract documents which implies that a written contract should exist. However Contracts Regulations does not specify the form of contract for the procurement of goods which could be misleading.</p> <p><b>We recommend that a review of Contracts Regulations be performed to ensure clear instructions for the form of contract for the procurement of goods exists.</b></p>	Director of Corporate Procurement	High	It is anticipated that a review of Contracts Regulations will be completed within six months of the Corporate Procurement Section of my Directorate being staffed.	Agreed.
3	Contract payments in the category of £2,500 and £20,000 must be supported by at least three quotations in accordance	Director of Corporate Procurement	High	Meeting to be held by end September 2011.	Agreed, Director of Corporate Procurement to meet with Public Health to establish whether it would be more



	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
	<p>with Contracts Regulations Section 4. A recommendation was made in the Value for Money report on Medical Supplies regarding the revision of Contracts Regulations which was agreed with by Management.</p> <p>This recommendation is therefore repeated for the procurement of goods by the Health and Social Welfare Officer.</p> <p><b>We reiterate the recommendation made in the Value for Money Audit on Medical Supplies that that consultation with Health &amp; Social Welfare Directorate management should be carried out in order to revise the Contract Regulations, owing to the differing purchasing arrangements for medical supplies.</b></p>				<p>appropriate to revise Contract Regulations now in respect of insertion of a special clause relating to medical supplies, or to address this point within the entire revision process.</p>
4	<p>Two contracts were awarded during the review period whereby a copy of the signed contract between the Contractor and SHG was not kept on file. These contracts were in respect of the Health &amp; Social Welfare Directorate for the laundry contract between SHG and C Watson and the contract awarded to Redbay Boats Limited for the new rescue and recovery boat awarded by the Police Service Directorate. Only a draft contract could be found on file.</p> <p><b>We recommend that directorates</b></p>	<p>Director of Health and Social Welfare</p> <p>Director of Police</p>	High	<p>With immediate effect</p> <p>With immediate effect</p>	<p>Agreed</p> <p>Agreed</p>

	RECOMMENDATION	Officer responsible for implementation	Priority	Implementation expected to be complete by: (Month, Year)	Management Comments
	<p><b>ensure that all relevant contract documentation supporting the awarding of contracts such as the actual contract is retained on file. This is essential information which needs to be retained to support the contract between the contractor and SHG and a clear audit trail needs to exist.</b></p>				

**APPENDIX A****AUDIT OPINION DEFINITIONS**

Every Value for Money audit concludes with an overall opinion based upon individual opinions that are applied to each of the review areas identified in the scope of the audit. The range of opinions, together with an explanation of their meanings, is as follows:

<b><i>Value For Money Opinions</i></b>	
<b>GOOD</b>	Management arrangements are conducive to achieving Value For Money and only minor enhancements, if any, can be identified.
<b>ADEQUATE</b>	Management arrangements are generally conducive to achieving Value For Money – but further important enhancements could be made.
<b>INADEQUATE</b>	Management arrangements are not considered to be adequately conducive to achieving maximum Value For Money.

**APPENDIX B****SCOPING AND RESOURCING**

To examine whether the objectives were achieved with regard to efficiency and effectiveness, the Audit Service assessed the following:

- all purchases and works and services sampled are in accordance with Contracts Regulations for:
  - (a) Purchases between £2,500 and £20,000 (in accordance with CR Section 4);
  - (b) Invitation to tender – Over £20,000 (in accordance with CR Section 5);
- to ensure that all contracts entered into by SHG are included in a Contracts Register that is held by the responsible officer (in compliance with section 20.4 of CR);
- that contracts are adequately supported by appropriate decision and approval documentation supporting the process; and
- review a large sample of contracts across all Directorates, including large Contracts awarded such as the Wharf Development.

This was done by:

- obtaining a list of all Contracts awarded by the Tender Board for the periods 2009/10 and 2010/11 and tracing to all tender documentation;
- review of Contract Registers maintained by Directorates;
- review of a list of all contract payments made from 2009/10 to 2010/11 between £2,500 and £20,000; and
- ensuring a sample of payments made within £2,500 and £20,000 were supported by the relevant quotation documentation.

## APPENDIX C

## LIST OF PERSONS CONSULTED

The assistance given to the Audit Service by all those listed below during the course of the audit is acknowledged with appreciation.

Names	Title	Directorate
Dr Corinda Essex	Director of Corporate Procurement	Corporate Procurement
Alfreda Yon	Development Officer	Corporate Procurement
Zoey George	Development Project Facilitator	Corporate Procurement
Peta Henry	PA to Director of I&U	Utilities and Infrastructure
Cherry Walters	Executive Officer	Utilities and Infrastructure
Mark Plato	Project Manager Technical Services	Utilities and Infrastructure
Lila Oliver	Director of Education & Employment	Education and Employment
Jeffrey Ellick	Deputy Chief of Police	Police Service
Elaine Hopkins	PA to Chief of Police	Police Service
Gerry Thomas	Senior Clerk	Police Service
Lily Andrews	Senior Executive Officer Admin	Health and Social Welfare
Clare Harris	Executive Assistant	Access
Christine Scipio Odean	Planning and Housing Secretary	Secretariat
Karen Isaac	Secretary Tender Board	Secretariat
Sandra Sim	Assistant Secretary Admin	Secretariat
Enid Joshua	Head of Systems and Executive Support	Finance
Jerry Roberts	IT Manager	Finance
Thelma Sim	Senior Executive Officer	Agriculture and Natural Resources
Christina Stroud	Product Development and Administrative Executive	Tourism
Meliza Knipe	Senior Human Resources Officer – Contracts	Human Resources