



National Audit Office

---

## **Report**

by the Comptroller  
and Auditor General

---

**Home Office and Ministry of Justice**

# Transforming contract management

---

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 820 employees. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.1 billion in 2013.

---



National Audit Office

---

Home Office and Ministry of Justice

# Transforming contract management

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 4 September 2014

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

29 August 2014

This report examines the contract management arrangements in the Ministry of Justice and Home Office in order to provide a comparative assessment on value for money in both departments.

---

© National Audit Office 2014

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact [copyright@nao.gsi.gov.uk](mailto:copyright@nao.gsi.gov.uk). Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

---

# Contents

**Key facts** 4

**Report**

Contract management – Ministry of Justice and the Home Office 5

**Appendix One**

Contract management – Ministry of Justice 26

**Appendix Two**

Contract management – Home Office 43

**Appendix Three**

Our audit approach 61

**Appendix Four**

Our evidence base 63

**Endnotes** 65

The National Audit Office study team consisted of:  
Neil Carey, Henry Midgley and Alex Quick, under the direction of Jeremy Lonsdale with additional assistance provided by Christopher Barrett, Michael Dickson and Janani Pragasam.

This report can be found on the National Audit Office website at [www.nao.org.uk](http://www.nao.org.uk)

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157–197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Enquiries: [www.nao.org.uk/contact-us](http://www.nao.org.uk/contact-us)

Website: [www.nao.org.uk](http://www.nao.org.uk)

Twitter: @NAOorguk

---

## Key facts

**£2.5bn**

Home Office third-party supplier spend, 2013-14

**£2.6bn**

Ministry of Justice third-party supplier spend, 2013-14, excluding £1.8bn on legal aid

**£179.4m**

amount the Ministry of Justice have been paid by Serco and G4S

<b>Est. £617 million</b>	contractor spend with G4S and Serco (both Departments)
<b>Est. £0.3 million</b>	amount Moore Stephens detected the Home Office have been overcharged
<b>37</b>	Ministry of Justice contracts, which the Ministry and PwC reviewed – including 27 forensic audits of contract billing and 15 contracts reviewed in the Breedon Review. The selected contracts for these reviews overlapped
<b>13</b>	Home Office contracts reviewed by Moore Stephens in secondary review conducted upon request of the Department
<b>182.7</b>	full-time equivalent staff in post within Home Office commercial directorate. There are also, as of August 2014, 13 vacancies and 9 staff on secondment or career breaks
<b>201</b>	full-time equivalent staff in post within the Ministry of Justice commercial directorate. There are, as of August 2014, 25 vacancies
<b>3%</b>	of commercial directorate staff at senior civil servant level, in the Home Office
<b>4%</b>	of commercial directorate staff at senior civil servant level, in the Ministry of Justice
<b>2.5%</b>	estimated lifetime cost of contract management as a proportion of lifetime contract value under Ministry of Justice's Transforming Rehabilitation programme
<b>Unknown</b>	the total annual cost of managing contracts in the Departments. Unknown due to incomplete capture of costs including the time of various staff involved

# Report

## Contract management – Ministry of Justice and the Home Office

### Background

**1** For several decades, governments have increased how much they use contracts to get services from the private sector. The range of services is broad, from facilities management to specialised services unique to government such as managing prisons. The trend has produced successes,<sup>1</sup> but also examples of challenges and failings. In 2008, we reported that central government needed to manage contracts consistently, and use good practice.<sup>2</sup> We also published guidance on contract management with the then Office of Government Commerce.<sup>3</sup>

**2** In July 2013, the Justice Secretary told Parliament about significant anomalies in billing practices under the Ministry of Justice's electronic monitoring contracts with Serco and G4S.<sup>4</sup> These companies are major suppliers to government and particularly to the Ministry of Justice and the Home Office. Our reports on contracts for these departments also suggested difficulties.<sup>5</sup> We reported on the challenges for government in managing its suppliers' performance, leading to what we described as a crisis of confidence caused by contractors not appearing to treat the public sector fairly, and of departments themselves not being on top of the issues.<sup>6</sup>

**3** In July 2013, Cabinet Office ministers initiated the *Cross Government Review of Major Contracts*<sup>7</sup> – led by the Cabinet Office and supported by PriceWaterhouseCoopers (PwC) and Moore Stephens – which examined 28 of Serco and G4S's largest contracts, worth in excess of £5.9 billion in total.<sup>8</sup> The Ministry of Justice asked PwC to perform forensic audits of all of its contracts with Serco and G4S to identify any further over-billing, and its lead non-executive director, Tim Breedon, also led a contract management review (the Breedon Review) supported by PwC. The Home Office commissioned its internal auditors and Moore Stephens to carry out an additional review to provide further assurance. The reviews carried out across government are summarised at **Figure 1** overleaf.

**Figure 1**

Number of contracts reviewed across government during 2013-14

Methodology of review	Review	Ministry of Justice	Home Office	Rest of government	Total reviewed
Reviews of contract management using NAO 2008 Framework	Cross Government Review of Major Contracts (published December 2013)		9	19	28
	Ministry's Breedon Review (published December 2013)	15			15
	Electronic Monitoring Contracts (also considered by the Breedon Review)	2			2
	Moore Stephens Review (unpublished March 2014)		13		13
	DWP Reviews of contracts			15	
<b>Total contracts reviewed using NAO framework</b>		<b>17</b>	<b>22</b>	<b>34</b>	<b>73</b>
Reviews of contract billing	PwC Forensic Review of Ministry of Justice contracts with G4S and Serco	27			27
	Moore Stephens review of transactions as part of their unpublished March 2014 review		5		5
	Other Reviews		9	19	28
<b>Total contracts reviewed for billing</b>		<b>27</b>	<b>14</b>	<b>19</b>	<b>60</b>

**Notes**

- 1 Some contracts were examined as part of more than one review. For example, seven Ministry of Justice contracts (including two for electronic monitoring) were considered by both the Breedon review and the PwC forensic audit.
- 2 The total number of contracts examined: Ministry of Justice 37, Home Office 22, rest of government 34.
- 3 PwC's forensic audits were more detailed than the transaction testing performed by other reviews of billing.

Source: National Audit Office



4 The Breedon and cross-government reviews, published in December 2013, gave clear evidence that contract management across government needed major improvements. The *Cross Government Review of Major Contracts* found no evidence of deliberate acts or omissions by either firm leading to errors or irregularities in charging on the 28 contracts it investigated.<sup>9</sup> The Ministry of Justice found errors, including some under- and over-billing, in 3 further contracts beyond electronic monitoring; for prisoner escorting and facilities management. The Home Office found smaller billing issues primarily within the immigrant escorting contract. Most contracts reviewed across government, including the Home Office and the Ministry, revealed weaknesses in contract management.

5 From late 2013, the Ministry of Justice and the Home Office responded with improvement plans, closely overseen and supported by their senior management.

### **Scope of this comparative report**

6 This report gives a snapshot of reforms within both Departments. We are reporting now because both Departments are in the process of implementing changes and still face challenges in embedding positive contract management behaviours amongst their workforces. The Ministry and the Home Office, along with other government departments, also face constraints to their ability to recruit and retain experienced commercial staff. Improving contract management is currently high in both departments' priorities, but each must maintain this commitment once the immediate problems are addressed.

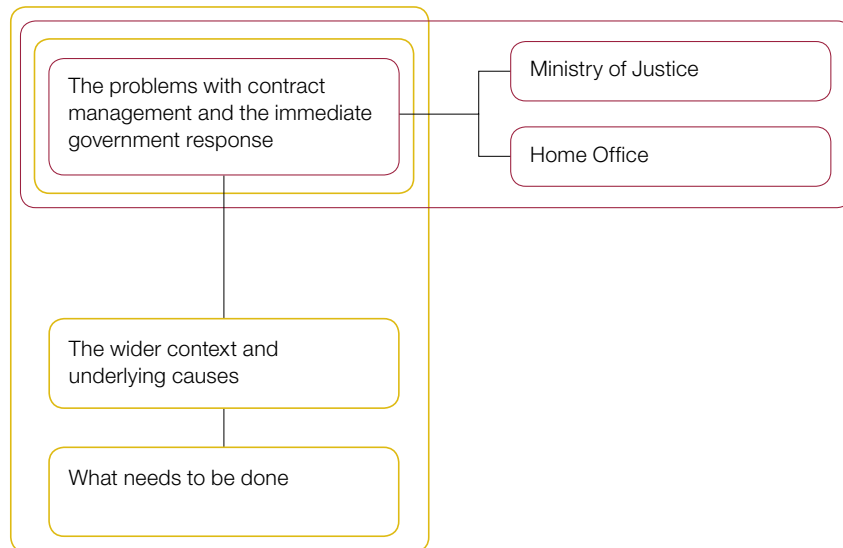
7 Our unique cross government perspective enables us to compare and contrast approaches to contract management across government, as a basis for improvement. We accept the different contexts of the Home Office and the Ministry. However, they face similar challenges and can learn from each other. Many lessons also apply to other departments. One such lesson is that neither Department recognised the extent of their issues with contract management until 2013. The challenge facing all departments is to be sufficiently self-aware of their capabilities, and to understand the demands and obligations that contracting out continues to place upon them in terms of maintaining proportionate oversight of services.

8 Our findings also raise issues for the centre of government. These include ensuring that the contract management specialism is taken seriously across government. This would require consistently understood roles and responsibilities, and appropriate training and career progression for contract managers, whether commercial specialists or operations managers. This would be a natural extension to existing initiatives, such as the work of the Major Projects Authority, to improve project management. Common information technology to support contract management is another area for development. Cabinet Office is best placed to lead such work, in cooperation with departments. Our companion to this report, *Transforming government's contract management*,<sup>10</sup> assesses central government more broadly, (**Figure 2** overleaf).

---

## Figure 2

### Our two reports on contract management



- Cross-government report: High-level findings across government
- Home Office and Ministry of Justice report: What this means for Home Office and Ministry of Justice

Source: National Audit Office

---

**9** The criteria for our examination come from our 2008 analytical framework, which departments are now using to define good practice.<sup>11</sup> The report addresses practice in 4 main sections:

- **Governance**  
Whether there is clear accountability for contracted services' performance, and systems to identify and resolve issues and opportunities quickly, at proper levels.
- **Integration**  
Whether the departments consider contract management enough during contract negotiation, and departmental and contractor staff understand their respective responsibilities.
- **Capability**  
Whether the departments have enough skilled people to appropriately manage their contracts.
- **Visibility**  
Whether the departments have enough reliable information on the costs, performance and risks of contracts, and use this effectively.

## Comparative assessment

**10** The Home Office is the lead government Department for immigration and passports, drugs policy, crime, counterterrorism and police. It works with 27 agencies and public bodies and has 3 priorities: to cut crime, reduce immigration and prevent terrorism. The Ministry of Justice (the Ministry) works to protect the public, reduce reoffending, and provide a more effective, transparent and responsive justice system. It is supported by 5 executive agencies and 34 other public bodies.

**11** **Figure 3** overleaf summarises the National Audit Office's judgement of the Departments' starting points, progress and further plans, based on the evidence contained in this report and its appendices. The key differences between the Departments to date are:

- The Ministry started its improvement initiative from a weaker position than the Home Office. Its detected over-billing was more severe and weaknesses in contract ownership clustered in some areas such as Her Majesty's Courts and Tribunals Service. The review undertaken in the Ministry found similar weaknesses to those identified in the Home Office but in a greater number of contracts (Figure 5). Although both Departments needed to make significant and wide-ranging improvements, different circumstances dictated these should take a different scale and sequence. So after an initial 8 month's progress each Department's response is more advanced in some areas than that of the other one.
- Owing to the greater scale of identified weaknesses, the Ministry quickly responded with a more comprehensive improvement plan which has the potential to achieve fundamental change. It has designed a multi-disciplinary team structure incorporating both commercial and operations managers. The Home Office has so far focused its efforts through its commercial directorate, and intends to do more to engage wider participants such as operations managers (Figures 7 to 10).
- The Home Office has advanced more in addressing its skills gaps in its commercial teams, through a skills strategy and training offer. Both Departments have more to do to extend contract management skills to operations managers, with the Ministry's response now being more advanced for these participants.
- The Home Office already had stronger relationship management in place than the Ministry for its major contractors. It has also now reviewed its supplier relationship management approach to 'middle-tier' contractors.
- The Ministry has made more progress to date on improving contract data than the Home Office, including data scorecards which, when implemented, should disclose performance as well as commercial information.

**Figure 3** Contract management: National Audit Office assessment of Departments' progress



**Notes**

- 1 This figure shows relative progress by the two Departments towards effective contract management arrangements. The length of the bars indicates the NAO's judgement of the relative progress achieved and planned by each Department as at the end of August 2014.
- 2 The Ministry of Justice began its journey behind the Home Office, reflecting its wider areas of weak governance and integration, its issues with capability on more contracts and the severity of its difficulties with contract management information, particularly in electronic monitoring. Our judgement is that the Ministry has already made effective progress across each of these areas.

Source: National Audit Office analysis

**12** The Home Office can learn from parts of the Ministry's plan to mitigate the risk of undiscovered problems. For example, it can increase its capability to analyse contract data, and establish a challenge function with sufficiently senior membership (from across the organisation) to routinely scrutinise existing contracts and to oversee contract management standards.

**13** The context for contract management in each Department is different (**Figure 4** overleaf). As a result, both are developing different improvement plans to reflect their circumstances and analyses. Neither plan is complete, nor fully implemented, and their effectiveness will only emerge in the next 2 years. Detailed coverage of each Department's challenges and responses are at Appendices One and Two.

**14** The problems found in the Departments' 2013 reviews are summarised below (**Figure 5** on page 13). Our own work (**Figure 6** on page 14) found similarities between the issues in each Department, as well as some differences of emphasis and priority. The Home Office concerns are about capacity, capability and skills, which the Department is focusing on by developing a more comprehensive commercial skills plan. The Ministry's concerns relate to governance problems. Therefore, the Ministry has worked to fundamentally change its contract management governance structure. It is too early to judge the final impact of this work but initial progress is positive.

**15** A general risk factor is the extent of public sector experience in the contracted-out service. For example, we understand that there are fewer problems in prisons, where government has operated facilities itself or outsourced for many years, than in electronic monitoring which has not been supplied from within the public sector.

**16** Both Departments must access their contractors' data more. Open-book accounting is sharing and managing information in a structured way – including data that could be commercially sensitive. It is part of a collaborative customer–supplier relationship.<sup>12</sup> In November 2013, major contractors told Parliament they were willing to share total open-book information.<sup>13</sup>

**Figure 4**

## Comparison of contract management in the Home Office and Ministry of Justice

Key parameters	Home Office	Ministry of Justice
Scale of contracted services	£2.5 billion in 2013-14.	£2.6 billion in 2013-14. This excludes £1.8 billion spend on legal aid.
Range of principal contracted services	Critical national services such as providing emergency services' communication systems and the detection of radio-nuclear materials. Other services include facilities management, provision of asylum accommodation, ICT projects, immigration detainee transport and some national police services such as the Police National Database.	The Ministry has a more diverse range than the Home Office. It contracts for critical national services such as secure centres for youth offenders and operating prisons, and with individual solicitors' firms for legal aid. Other services vital to the justice system include facilities management and prisoner escorting for courts, building prisons, and ICT services.
Responsibility for contract management	The Home Office centralised its commercial management of contracts in a single department in April 2014, mainly to concentrate expertise and raise standards. But commercial contract management staff remain physically co-located with the operations staff that they support.	The Ministry began to centralise its procurement services from 2008, starting in the prison service, followed by other corporate services from 2010. It is working to close a consequent gap in responsibility that emerged between commercial managers and operations managers in other parts of the Ministry who remain the 'customers' for the contracted services. There are different organisational structures for contract management in different agencies.
Scale of contract management capacity	Capacity comprises commercial specialists and operations managers. Some 182.7 commercial staff are deployed within the new centralised structure, with 74.1 FTEs deployed on contract management explicitly and 29.8 FTEs on procurement (Figure 26). The Department currently has 13 vacancies in its commercial directorate and it is considering the size and skills mix of the directorate, including a change in its staff mix towards fewer, more senior specialists. Numbers of operational staff involved in contract management are unclear.  Work to define the roles and responsibilities for contract management must be completed before the full staff requirement is known.	The Ministry has 201 commercial staff (with an additional 25 vacancies) with 44.7 FTEs working in contract management (Figure 18). There are currently 74.6 FTE equivalents working in operational contract management roles for the highest risk (gold) contracts within the Ministry. However, the number of operational staff managing other contracts is unknown.  Work to define the roles and responsibilities for contract management is being undertaken on a programme and contract basis. It must be completed before the full staff requirement is known.
Extent of scrutiny of contract management	An internal audit review with Moore Stephens covered 14 contracts costing some £520 million, accounting for 20% of third party spend in 2012-13. The assessment of these will be updated quarterly by internal audit whose assurance will support the wider oversight and governance structures.	The Breedon review covered 15 contracts with a 2012-13 spend of approximately £425 million (16% of contracted spend in 2012-13). PWC conducted forensic audits in respect of 27 contracts.

Source: National Audit Office analysis

**Figure 5**

## Synopsis of main findings from contract management reviews

Theme	Home Office (by internal audit and Moore Stephens)	Ministry of Justice (Breedon Review)
Coverage	High-level review of 14 contracts. Transaction testing on 5 out of the 14 contracts.	Review of 15 contracts. Forensic work by PwC on 27 contracts including transaction testing.
Governance	Issues identified in 4 out of 14 contracts reviewed.  In some cases ownership of contract management not fully clear.  No clear specification within Department for a contract manager role. Some managers concerned about overlaps.  Unclear how continuous improvement is reviewed and managed.  Best practice examples rare.	Issues identified in all 15 contracts.  Established governance processes, for example for escalation, not common.  Instances where contractual changes have not followed appropriate procedures.  Unclear roles and responsibilities.  Lack of appetite or flexibility for continuous improvement or innovation shown in some contracts.
Integration	Some issues relating to handover from procurement teams to contract management.	Issues identified in 14 out of 15 contracts.  Insufficient communication between contract and operations teams affected collective contractor management.
Capability	'People' issues noted on 5 of 14 contracts, relating mainly to lack of continuity.	Issues identified in 10 out of 15 contracts, including insufficient contract management resources.  High number of vacancies.  Some staff perceive need for better skills, experience and training.
Visibility of information	Inadequate information to manage either risk, performance or payments on 13 out of 14 contracts, including: <ul style="list-style-type: none"> <li>● Reliance on contractor data.</li> <li>● Inefficient performance incentives poorly linked to service objectives.</li> <li>● Variability in effectiveness of open-book accounting.</li> <li>● No formal joint risk registers with contractors.</li> </ul>	Issues identified in all 15 contracts.  Ministry relies on accuracy of contractor reporting with insufficient challenge.  Uncertainties over interpretation and intent of key performance indicators.  Insufficient scrutiny of invoiced services.  Insufficient timely management information.  Inadequate access to contractor data.

**Note**

1 The 14 contracts reviewed does not reconcile with Figure 1 (13) as Moore Stephen's unpublished March 2014 review of the Home Office major contracts did not include immigration removal centres. Moore Stephens did, however, follow-up on progress on these contracts, reported on as part of the *Cross Government Review of Major Contracts*, and they are included in the Department's heat map.

Sources: Ministry of Justice, Contract Management Review, December 2013 and Moore Stephens, The Home Office Review of Major Contracts: Contract Management & Transaction Testing, March 2014

**Figure 6**  
Contract management issues identified by our interviewees

Home Office	Ministry of Justice	Major contractors
<b>Prevalence ranking</b>		
1 Training, learning and development	1 Leadership of contract management	1 Use of contract management resources
2 (Building) contract management capability	2 General control environment and assurance	2 Leadership of contract management
3 (Use of) contract management resources	3 (Use of) contract management resources	3 Culture of joint working between contractors and Departments
4 Clear responsibility for contracts	4 Clear responsibility for contracts	4 Supplier relationship management
5 Skills	5 Senior managers' visibility of contract management and performance	5 Senior management engagement with contractors

**Note**

1 Appendix Four lists the contractors interviewed.

Source: National Audit Office analysis of interviews

## Detailed assessment

### Introduction

**17** In this section we compare the Departments' contract management challenges and plans. We assess them across the 4 areas of our analytical framework: governance, visibility, integration and capability. Appendices One and Two contains detailed evidence from each Department.

### Governance

**18** Good contract management governance requires:

- sufficient leadership focus;
- escalation processes if contract issues occur;
- adequate assurance and oversight to check good practice, and
- forums for managing the supplier relationship, to encourage continuous improvement.

**19** **Figure 7** shows progress and further action needed.

**20** Both Departments have had difficulties with the governance of contract management, most notably in identifying and escalating problems to senior management within the Departments, and with overall assurance and oversight regimes of the Department. The Ministry's problems were greater, in that there were more contracts where responsibilities for management of the contract were unclear.



**Figure 7**  
Governance



Source: National Audit Office analysis

**21** The Ministry started extensive action in December 2013. Its new contract governance board activated in July 2014 scrutinises contract management standards on new and existing contracts, and strengthens internal audit coverage. The Home Office has focused on disseminating contract management good practice in governance through a reorganised commercial directorate. The Home Office also has more developed strategic relationship management meetings to oversee its top 17 suppliers. The Ministry has lacked such forums in the past. Initial meetings have now been held with some contractors. These would help it focus on cross-cutting issues, such as improving relationships, contractors' use of small and medium companies, overall performance and risk.

**22** Both departments need to create a culture of continuous improvement with contractors. The Home Office has started this through its strategic relationship management forums, and has shared its experience of these forums with the Ministry.

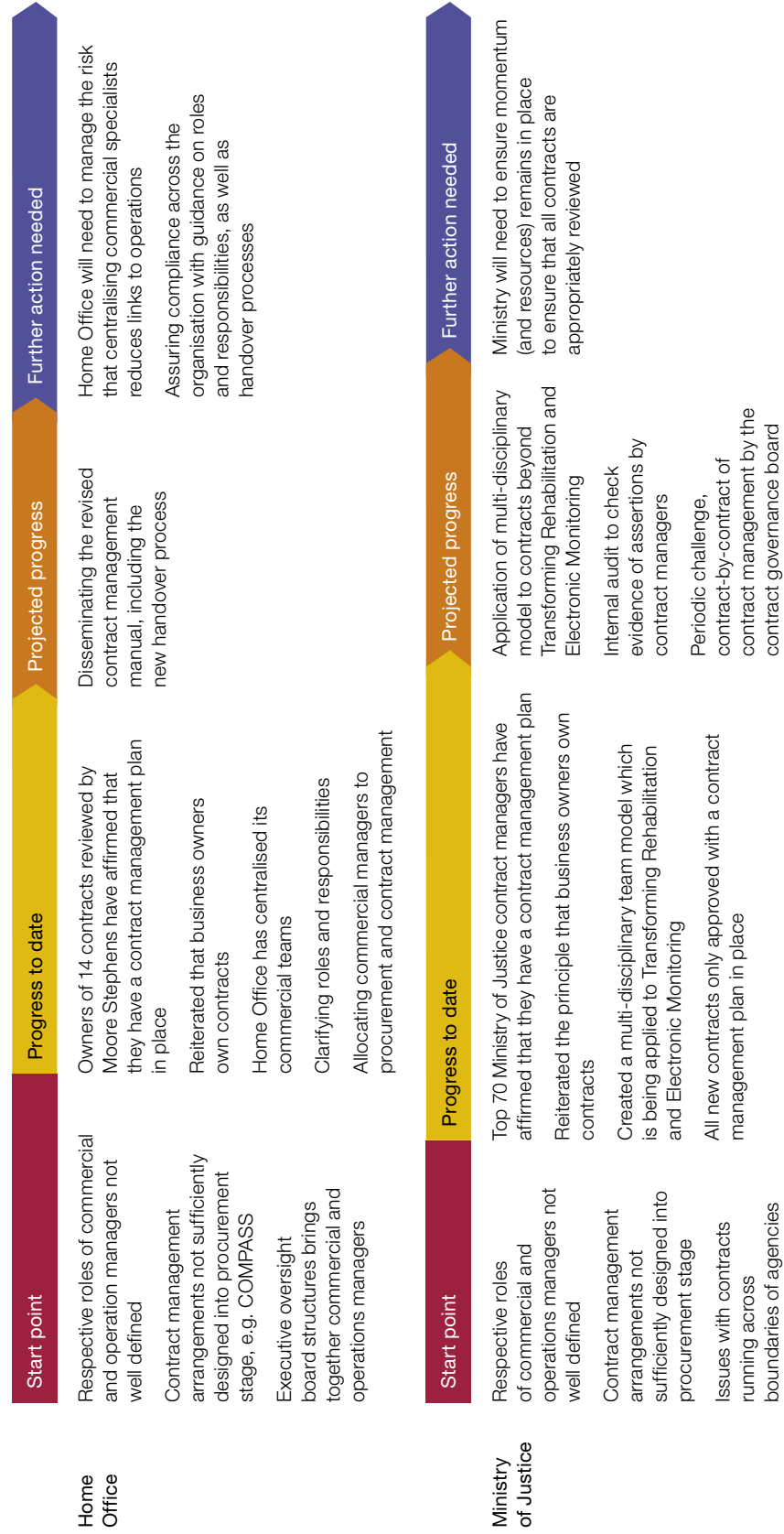
### Integration

**23** Effective contract management requires close cooperation throughout the life cycle of the contract between those procuring contracts, specialists such as commercial experts, accountants and lawyers, and operations managers (such as court or detention centre managers) who run contracts. The Ministry of Justice and the Home Office face similar challenges integrating commercial contract management with their procurement activity, and with the operations they serve. **Figure 8** summarises progress.

**24** The Ministry began to centralise its procurement services from 2008, starting in the prison service, followed by other corporate services from 2010. It then found gaps in responsibility emerging between commercial and operations managers. These occurred particularly in HM Courts & Tribunals Service where operations managers and service users felt unable to influence performance. In response, the Ministry is beginning to implement a multi-disciplinary team model for major contracts. It has reiterated that the Ministry's operations managers, not its commercial specialists, 'own' contracts. The Home Office is developing a centre of contract management expertise within its commercial directorate. That directorate has a role to standardise good practice and has produced guidance reiterating that business owners own their contracts. However, the Home Office has so far done much less work beyond the directorate. Centralising specialist teams can be a sensible way to make the best use of constrained specialist resources, as long as responsibilities are clear.

**25** Both departments have given insufficient attention to managing contracts during the contract procurement stage. The Ministry is now requiring departmental contract managers to develop management plans during contract procurement. This is being done for new procurements, including electronic monitoring, transforming rehabilitation and technology contracts. Its contract governance board will scrutinise existing contracts periodically. This arrangement is further advanced than in the Home Office, where the commercial directorate has documented formal handover processes in a new manual.

**Figure 8**  
Integration



Source: National Audit Office analysis

**26** The Ministry was in a worse starting position than the Home Office. But the breadth of its improvement plan should, if fully implemented, place it in a stronger, integrated position with more robust governance and challenge, alongside a multi-disciplinary team for each major contract.

### Capability

**27** For effective contract management, departments must have enough staff with relevant expertise, arrangements to disseminate good practice, as well as:

- clearly defined roles and skill requirements;
- allocating staff according to contract risk and business needs; and
- using skills data to plan appropriate training.

**28** Departments need to understand their return on the investment they put into contract management so they can continue to appropriately resource it in the future.

**Figure 9** summarises progress.

**29** The Ministry of Justice and Home Office, as with many government departments, are struggling to recruit and retain experienced contract management staff. Commercial staff vacancies at the Home Office are 13 of 182.7 full-time equivalent staff (although the department is currently considering the size and skills mix of its commercial directorate).<sup>14</sup> At the Ministry there are 21 vacancies across 204 staff in the commercial directorate. Home Office's commercial directorate's running costs have reduced 11%, from £12.4 million to £11.0 million, between 2010-11 and 2013-14; however this excludes expenditure the department has stated as one off non-pay costs (see paragraph 2.21 and associated endnote). The Ministry's commercial budget has increased by 7% this year, but it has still struggled to recruit appropriately skilled people. Across government, the civil service has not valued commercial and commissioning skills, with few senior civil servant positions in this area, major contracts often led by grade sixes and sevens, and limited career paths.<sup>15</sup> Contract management has carried low status, compared with procurement, and limited understanding of best practice and professional standards.<sup>16</sup>

**30** In early 2014, the Home Office audited the skills of its commercial staff and quantified skills gaps, particularly for junior staff. It has created a commercial skills plan with associated progress measures. The audit formed part of wider improvement activity, including training and commercial awareness sessions across the department. In comparison, the Ministry is still extending its multi-disciplinary staffing model across its major contracts, so does not yet know its capability gaps or have a comprehensive and quantified skills plan. However, it has provided commercial awareness training for senior civil servants and is now extending this to lower grades. The Ministry has also worked with the International Association for Contract and Commercial Management to develop bespoke contract management training. Thirty-three staff, selected from 7 teams across the Ministry commenced this training in August 2014.

**Figure 9**  
Capability



Source: National Audit Office analysis

**31** Overall, the Ministry started from a worse position, finding problems with capability on 10 of the 15 contracts reviewed (Figure 5). It has applied its multi-disciplinary staffing model first to new procurements, and has more to do to determine the total contract management resources it needs across its contracts portfolio. The Home Office has integrated its approach to commercial skills into its overall skills strategy. In contrast to the Ministry, it has a more developed skills plan for commercial staff but more to do to assess contract management staffing in the wider business.

**32** The departments are each working with different professional institutes to develop specialist contract management training.<sup>17</sup> The work of the Cabinet Office on skills and training needs to coordinate such approaches to specialist training across government. This would help to create a critical mass of trainees and promote consistent contract management practice across public services.<sup>18</sup>

### Visibility and use of management information

**33** For good contract management, departments need accessible and reliable information on contract requirements, costs, performance and risks, ideally shared between customer and contractor. They should have a single management information system to 'push' regular reports and 'pull' responses to ad hoc queries in a consistent format on all contracts, for management scrutiny. Contracts should provide sufficient financial incentives on contractors to ensure that timely performance and cost data are accurately reported. **Figure 10** summarises progress.

**34** The Ministry faced greater challenges in developing its plan than the Home Office, as it found more severe billing issues on electronic monitoring in 2013 (see paragraph 11). In HM Courts & Tribunals Service, users of contracted services reported that their experience was less favourable than the department's assessments of contractor performance. Such concerns were not evident within the Home Office. Both departments relied on unaudited contractor data and neither fully used 'open-book' access rights to data, to understand contractor costs and performance.

**35** Both departments have made useful improvements, although taking different approaches. The Ministry has started to redesign the information it collates and analyses, developing better information on all contracts. In comparison, the Home Office made immediate changes to produce a 'heat map'. This gives an overall picture of performance and risks on the 14 important and high-risk contracts selected for the Moore Stephens review. Trends in these contracts may not be representative of trends in the department's wider portfolio.

**Figure 10**  
Visibility

	Start point	Progress to date	Projected progress	Further action needed
<b>Home Office</b>	<p>The Moore Stephens review of 14 contracts has not identified deliberate over-billing but the Department remains vulnerable – primarily owing to reliance on supplier data</p> <p>Only partial use of open-book accounting rights</p>	<p>Some redirection of internal audit effort to improve coverage of contracts (e.g. heat map)</p> <p>Developed central electronic contract repository</p> <p>Dedicated team who feed into supplier relationship management</p> <p>Including open-book access in all new contracts</p>	<p>Introduction of standard processes for contract information and developing ICT systems to provide visibility</p> <p>Evaluating ICT systems to hold central data on all contracts</p> <p>Beginning discussions to utilise SID4GOV – a cross-government tool that could store and monitor a range of contract and performance information</p>	<p>Require more specific plans and skills to make routine use of open-book accounting</p> <p>Place more emphasis on customer feedback</p> <p>Assuring compliance with guidance on performance reporting</p> <p>More (corporate) visibility of middle and lower tier suppliers, building upon the findings of the Deloitte supplier management strategy work</p>
<b>Ministry of Justice</b>	<p>Severe cases of over-billing</p> <p>User perceptions of service not reflected</p> <p>Unclear use of open-book</p> <p>Reliance on supplier data</p>	<p>Commissioned forensic audits on 27 contracts</p> <p>Developed a model 'balanced scorecard' for all contracts</p> <p>Deep dives into performance and cost data by Ministry analytical services on some contracts</p> <p>Strong plan for enhanced internal audit testing from 2014-15 onwards</p>	<p>Specific plan to enhance contract data analysis</p> <p>Implementing balanced scorecard for all contracts covering operational, finance, policy/regulatory and customer metrics</p> <p>Investigating ways to enable service users to feedback on contract performance (e.g. through use of social media)</p> <p>Implementing open-book for all new contracts</p>	<p>Verify the extent of access to contractor data through open-book rights and culture</p> <p>Negotiate such access where benefits outweigh the cost</p>

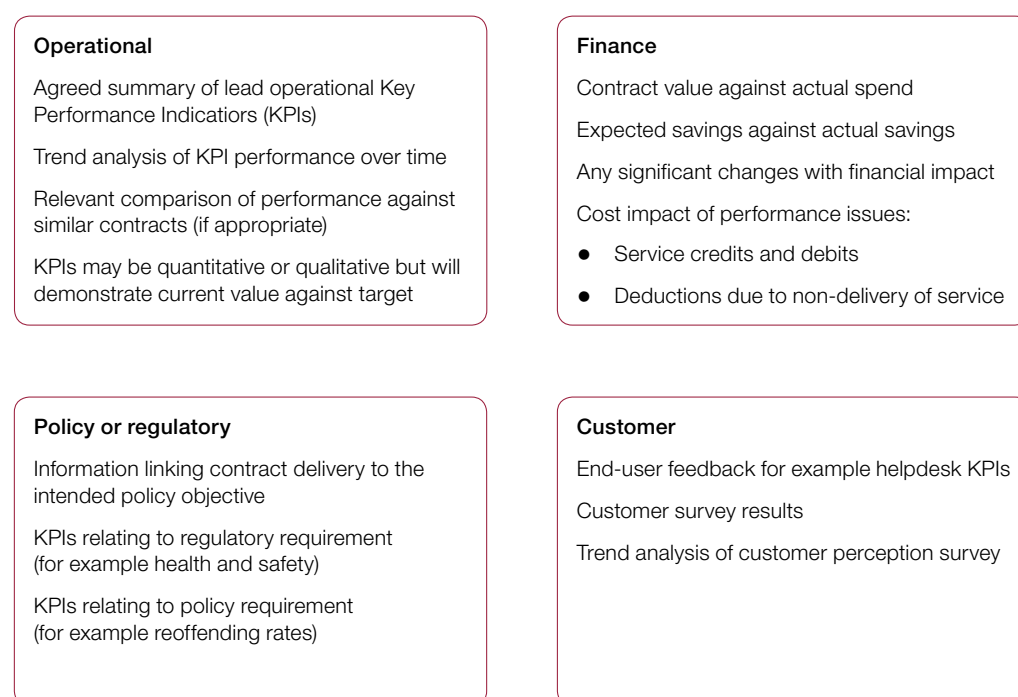
Source: National Audit Office analysis

**36** The Ministry is expanding its internal audit coverage of contract management and started work on ‘data scorecards’ for each contract (**Figure 11**). The Ministry has re-examined the data it collects through robust analytical reviews, in order to understand what information is needed to measure performance and validate payments. The Ministry envisages that it may be able to reduce the amount of data it collects on some contracts. The Home Office has not done equivalent work, other than to increase its planned internal audit coverage of contract management from 0% to 3%. In addition, some of the department’s 2014-15 audit work is focused on project and programme management, which can include elements of contract management.

**37** During 2014, the Ministry plans to implement its data scorecard approach and to roll out its internal audit programme across major contracts. The scorecards would give data about all dimensions of contract management. The Ministry aims to combine this data into an overall view of its contracts. The Home Office is not yet planning such a systematic approach. Both departments are also reviewing their information technology systems to collate master versions of contractual information centrally. The Home Office has issued standard procedures about contractual information and how it should be stored, for example in its newly-developed electronic contract repository. It has also begun to plan the implementation of SID4GOV – a cross-government tool intended to store and report a range of contract and performance information. The Ministry are also exploring how they might use SID4GOV.

### Figure 11

#### Ministry of Justice balanced scorecard for major contracts



Source: Ministry of Justice



**38** Overall, the Home Office plans for data visibility include less activity than the Ministry's data scorecard, robust analytical reviews and expansion of internal audit coverage. The Ministry is also considering new ways to gather user feedback, possibly via social media, although it is unclear whether this is feasible. The Home Office has focused on particular contracts and strengthening guidance to disseminate good practice in data collection, validation and reporting. If the departments implement both plans, the Ministry would be less exposed than the Home Office to management information risks, such as unidentified misreporting of performance or costs.

### **Overall conclusion on value for money**

**39** The root cause of the weaknesses in contract management is failure over many years to establish contract management as a distinct and respected specialism with a strong ethos and well-defined responsibilities. Our accompanying report confirms this to be the position across government.<sup>19</sup> Contract management roles have carried lower status and profile than posts on major policy development or projects, and in procurement teams. We consider this a dangerous position for outsourced services. Good value for money depends on contract managers making the planned savings and efficiencies that project and procurement teams only negotiate and set up. Stronger contract management is a natural and essential extension to existing initiatives to improve project management.

**40** Overall, the Ministry started from a weaker position than the Home Office, finding far greater over-billing and poor contract ownership by some of its executive agencies and business units. The Ministry has responded promptly to these discoveries with a more comprehensive improvement plan which has the potential to be transformative. Other departments, including the Home Office, can learn from elements of it, taking into account their own circumstances and areas of weakness. Both departments have more to do to achieve good value for money from their contracted services. They must capitalise on the desire to improve before the end of 2015 in order to make the most of the current impetus for change.

## Recommendations

**41** Our recommendations to the departments cover each aspect of good contract management, and are consistent with our review of contract management across government. The higher level recommendations apply to both departments, the subsequent bullets highlight where we consider one department can learn from the other.

- a Both departments must maintain their current impetus to improve contract management so that good practice becomes business as usual.** Once the spotlight is off contract management, the departments need governance structures and processes to monitor compliance with good practice. They must make continuous improvement a routine part of contract management.
- **The Ministry of Justice should learn from the Home Office's approach to strategic contractor relationship management.** The Home Office has executive oversight boards with its strategic suppliers to review overall performance, the client-contractor relationship and contractors' 'corporate renewal' programmes.
  - **The Home Office should learn from the Ministry of Justice's arrangements to ensure compliance with good practice.** The Ministry's contract governance board includes representatives from across the Department, including business owners. This board will govern contract management within the Ministry, and will routinely scrutinise the management of supplier relations, performance and the department's management plans for different contracts. The Home Office are considering how best to locate such functions within its governance arrangements.
- b Departments must be able to rely on contractor information on cost and performance against contracts, without wholesale and costly re-performance and checking of data. Departments should therefore specify in contracts the need for accurate reporting, and include stringent penalty clauses for misreporting which are routinely enforced.** Through this recommendation, backed up by selective checking, departments will shift the onus from themselves to contractors to demonstrate that the terms of the contract are being met.
- c Both departments need a balanced scorecard for each major contract, containing performance, cost and risk information.** The senior responsible officer should report this to top management, and use verified, shared contractor information. Senior management should review these scorecards. Departments should hold contract information, including updated contracts and change documentation, on a common central information system.
- **The Home Office should replicate aspects of the Ministry of Justice's increased data analytics capability.** The Ministry has increased its analytical work to develop balanced scorecards for all major contracts, and is creating specific analyst roles within contract management teams.

- d **Both departments need to ensure a joined up approach to contract management between commercial, legal and finance specialists, and operations managers.** The Ministry is rolling out a multi-disciplinary team model and the Home Office is standardising roles and processes through revised guidance. However, both departments must comply with their newly documented approaches to avoid uncoordinated activity and poor transition between procurement and contract management.
- **The Home Office should learn from the Ministry of Justice's multi-disciplinary team model.** The Ministry has recently implemented a multi-disciplinary team model for all contracts, which includes operations staff as well as commercial, finance and legal specialists.
- e **Both departments should carry out periodic skills audits to identify levels of commercial and contract management skills across their organisations.** The departments should use this data to feed into regularly monitored skills plans, fill gaps, and target training. Both departments should also be more flexible in staffing, to flex the mix of experienced and inexperienced contract management staff, and they should place them according to the risk and complexity of each contract.
- **The Home Office should extend its skills audit beyond its commercial directorate to assess training needs for all contract management staff.**
  - **The Ministry of Justice should learn from the Home Office's approach to assessing skills.** It has begun training selected staff before auditing skill levels among contract management staff generally. Though this has enabled a quick start for training staff on high profile contracts the Ministry should assess the needs of all contract management staff, to direct future training to where it is most needed.

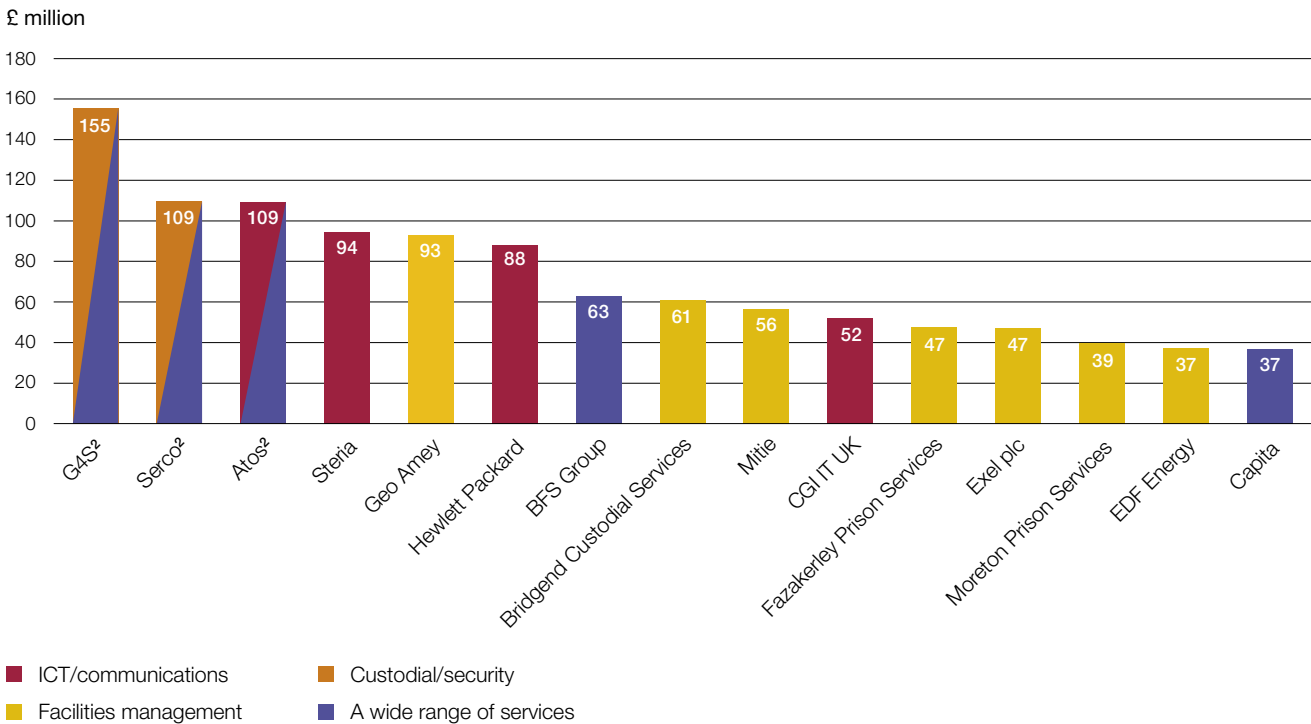
# Appendix One

## Contract management – Ministry of Justice

### Context

**1.1** The Ministry of Justice (the Ministry) contracts for a wide range of services and its contracts vary in size and purpose. It contracts with providers to operate large facilities such as prisons, to maintain and operate court buildings, and to electronically tag offenders. Key contractors include G4S, Serco and ICT companies such as Hewlett Packard. In 2013-14, the Ministry spent £2.6 billion in total with commercial suppliers including £1.3 billion with its largest 15 suppliers (**Figure 12**).

**Figure 12**  
The largest 15 suppliers for the Ministry of Justice, 2013-14



**Notes**

- 1 Figures rounded to the nearest million.
- 2 Diagonal colour split does not represent value of different activity carried out by companies.

## Discovery of over-billing

**1.2** During re-tendering of its electronic monitoring contracts, the Ministry became aware that G4S and Serco had over-billed the Department.<sup>20</sup> In May 2013, it ordered a forensic audit by PwC of those contracts (worth £722 million until 2012-13)<sup>21</sup> and forensic audits of other contracts with those companies were ordered in July 2013.<sup>22</sup> Separately in March 2013, the Ministry found apparent disparities in performance reporting against actual performance in its prisoner escort services contract with Serco. This led the Ministry and Serco to ask the police to investigate potentially fraudulent conduct in August 2013. The Electronic Monitoring contracts, Facilities Management and Manchester Courts contracts have been referred to the Serious Fraud Office.

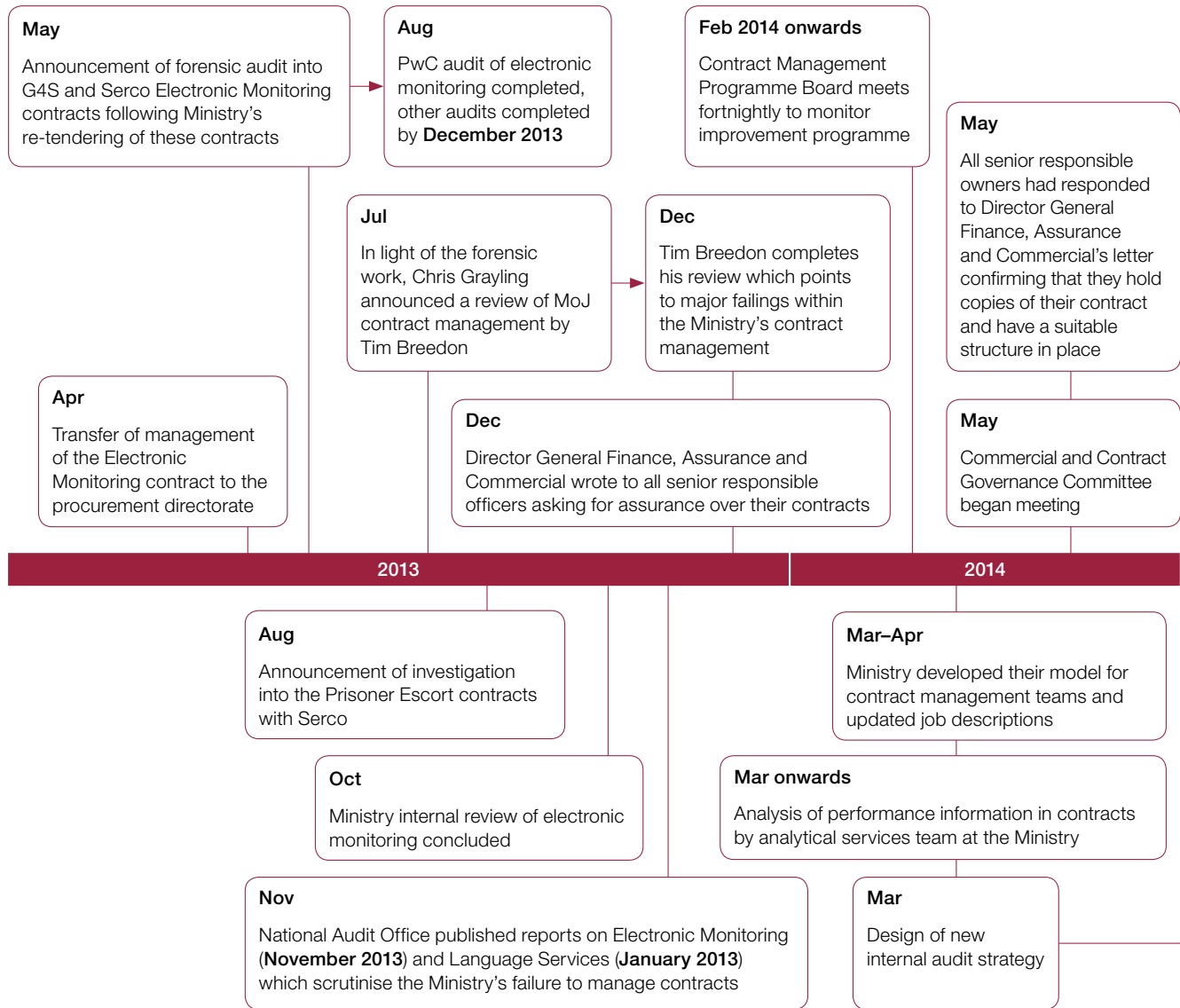
**1.3** In total, PwC reviewed 27 contracts:

- For electronic monitoring, their forensic audit team analysed contractor data to estimate the over-billing. In total, the 2 companies repaid the Ministry £179.4 million in respect of the Electronic Monitoring contract and 3 others (for Prisoner Escorting and 2 facilities management contracts).<sup>23</sup>
- For other contracts with G4S and Serco, the team conducted forensic audits which included investigating controls surrounding billing, recalculating some invoices and estimating any over-billing.

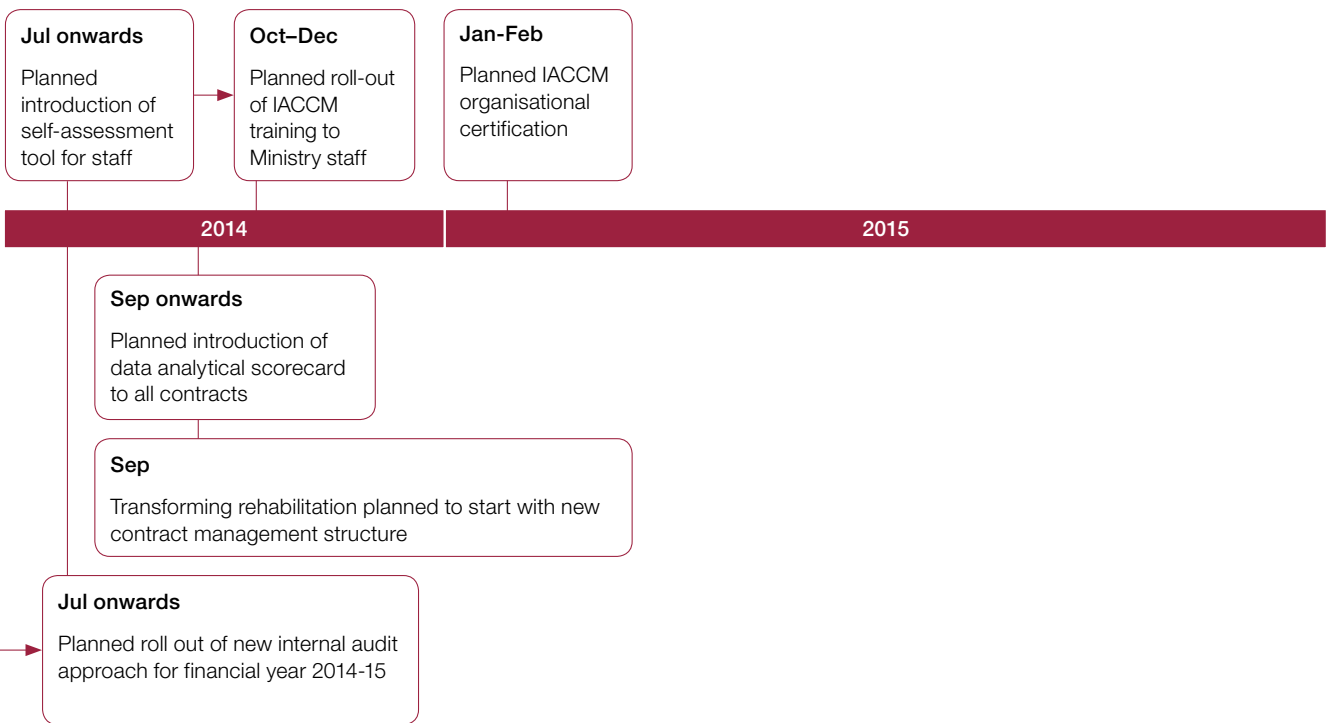
**1.4** In July 2013, the Secretary of State made a Parliamentary statement and announced an inquiry into contract management throughout the Ministry.<sup>24</sup> The Breedon Review sampled 15 contracts, representing approximately 16% of the Ministry's contracts by value (Figure 4). Selection took into account risk of a potentially major impact should contract performance fail, contract value, service type, and known weaknesses, so as to capture major contract management issues.<sup>25</sup> The Review recommendations were accepted by the Ministry and formed the basis of their contract management improvement plan. A timeline of the plan is at **Figure 13** overleaf.

**1.5** The plan covers the entire Department, apart from the Legal Aid Agency which contracts separately for civil and criminal legal services from solicitors, barristers and non-profit providers (Appendix Three). The Agency's improved management of billing has ensured that while the accounts of the Agency's predecessor were qualified until 2012, they have subsequently been clear.<sup>26</sup> The Ministry and the Agency share good practice about contract management.

**Figure 13**  
Ministry of Justice timeline for improving contract management



Source: National Audit Office analysis



## Governance

### Context

**1.6** The absence of adequate governance structures, and of clearly defined roles and responsibilities for ongoing contracts, contributed to the problems on electronic monitoring. The Ministry had discovered billing issues in 2008, but nothing substantive was done at that time to address the issues.<sup>27</sup> Within the Ministry, there was a culture in which managers did not hold themselves or teams accountable for contract management. Problems extended beyond electronic monitoring: the Breedon Review found issues with governance processes on each contract it examined.<sup>28</sup>

The Ministry are developing new contract management structures

**1.7** **Figure 14** summarises the findings of various reviews and the Ministry's response.

### Creating new corporate governance structures

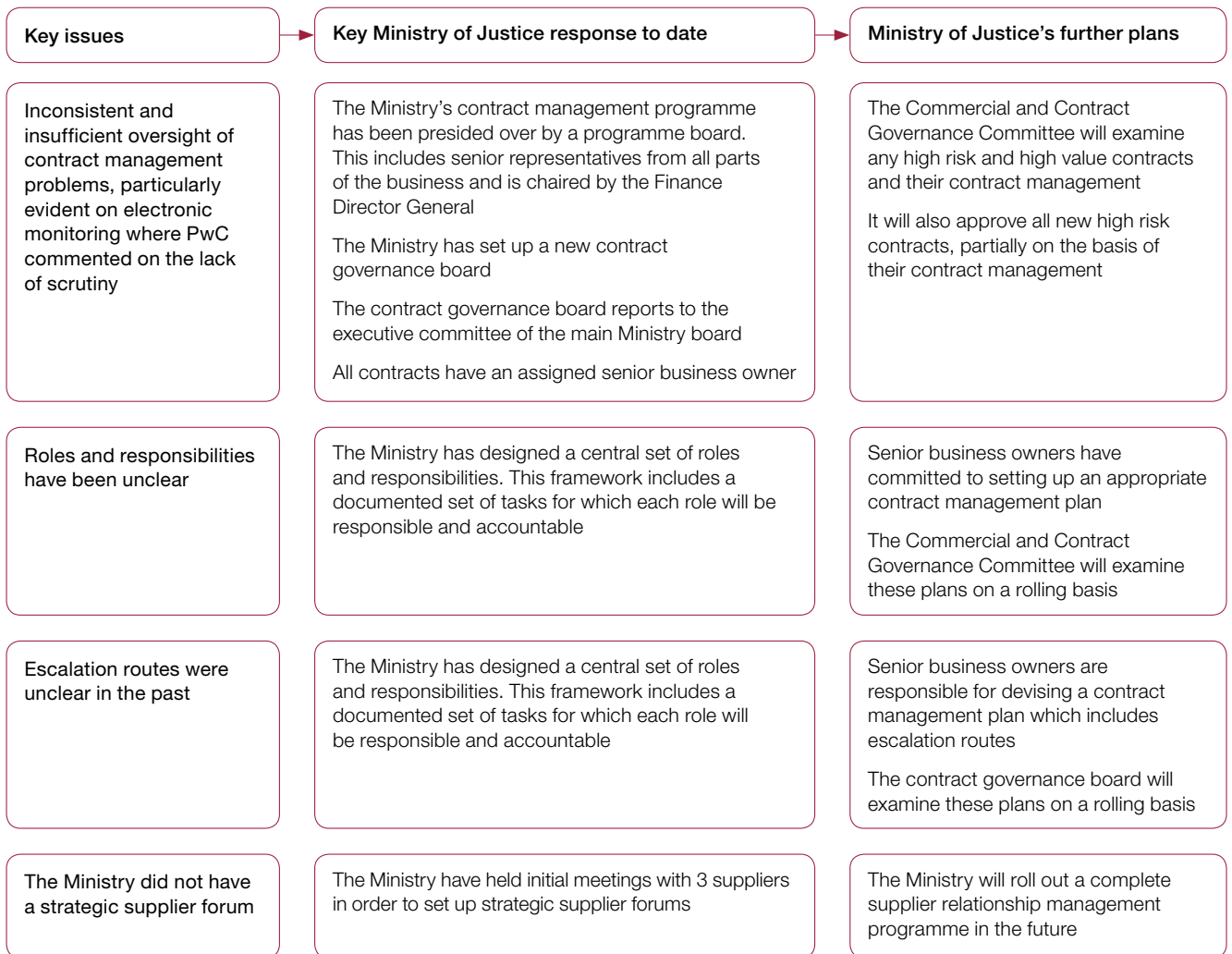
**1.8** Before 2014, the Ministry operated no senior boards or committees that focused on contract management. PwC concluded that, for electronic monitoring, inconsistent and insufficient oversight of the contract management team by senior management, and a decline in resources available to the contract management team, had been significant factors in the failure of contract management on those Electronic Monitoring contracts. In response, the Ministry has created new structures (**Figure 15** on page 32) to guide the contract management reforms and ensure consistent senior oversight in the future. In January 2014, the Ministry created a programme board to administer a contract management improvement plan. The Director General (Finance, Assurance and Commercial) chaired the board, which included senior representatives from across the Ministry and its agencies.

**1.9** From May 2014, the previous procurement committee was replaced by a commercial and contract governance committee. This includes senior members within the Ministry and its agencies, and reports directly to the Ministry's executive committee. Crucially, it covers live contracts as well as procurements.

**1.10** To support this structure, the Ministry is strengthening internal audit coverage. It has developed a tiered approach to review all contracts worth more than £10 million with more detailed reviews for higher risk contracts, including potentially forensic audits with PwC assistance. The Ministry has provided internal audit with an additional £210,000 to carry out this work in 2014-15. Coverage of contracts is planned to rise from 3% to 15% of internal audit's effort, becoming more proportionate to the Ministry's spending through contracts (31.5% of the Ministry's expenditure in 2012-13).

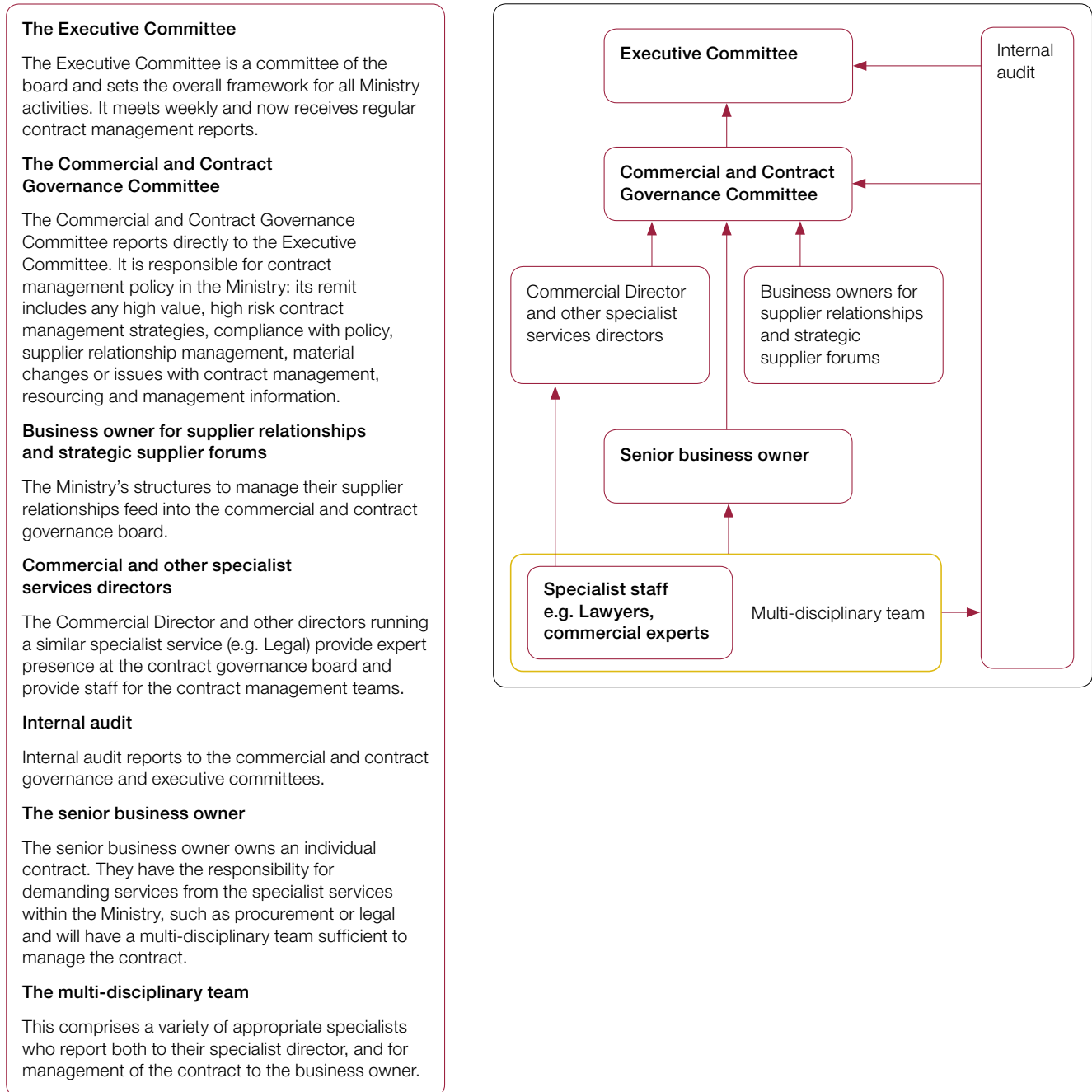


**Figure 14**  
Governance: key issues and response



Source: National Audit Office analysis

**Figure 15**  
The Ministry’s governance structure for contract management



Source: National Audit Office analysis

## Creating a clear team structure

**1.11** PwC found many contract management teams and senior responsible officers were uncertain about roles and responsibilities.<sup>29</sup> For example, on the prison escorting contract the roles and responsibilities of each team were unclear as well as who was responsible for the contract as a whole and for monitoring performance.

**1.12** The Ministry decided to examine the governance over all individual contracts. In December 2013, the Director General (Finance, Assurance and Commercial) contacted all senior business owners of contracts worth more than £10 million per annum, setting out their responsibilities and requesting confirmation that they:

- held a copy of the contract and were familiar with its main provisions;
- considered the contracts were concurrent with business requirements;
- had validated that performance was reported in accordance with the contract;
- had validated that invoice payment processes were in-line with performance;
- had defined roles, responsibilities and escalation; and
- held an up-to-date risk register.

**1.13** All business owners provided assurances, either in writing or verbally, by May 2014. The Ministry plans to verify these assurances through internal audit work, and by calling business owners before the contract governance board.

**1.14** The Ministry has also defined standard responsibilities of contract managers at different levels, including responsibility for reporting up the organisation, maintaining contract records and managing the supplier relationships. These definitions support a common understanding of contract management.

## Planning continuous improvement

**1.15** Change is inevitable for service contracts lasting several years and is also a source of potential savings to be shared between clients and suppliers. The Ministry has too rarely taken opportunities to change contracts to secure continuous improvements (with exceptions in the prison service).<sup>30</sup>

**1.16** Until 2014, the Ministry did not have a supplier relationship management strategy. Major contractors commented to us that the Ministry's approach to suppliers was often tied to individual contracts rather than to a strategic relationship; and as a result they consider that the Ministry lost opportunities to achieve better value for money. In July 2014, the Ministry appointed a senior manager for each of its top 30 suppliers to own the relationship. It has held initial executive review meetings with 3: Hewlett Packard, G4S and Serco.

## Conclusion

**1.17** The Ministry primarily plans to address the governance issues identified by Breedon and other reviews by creating a senior governance structure, identifying senior business owners and clearly setting out its expectations of contract management teams. However, despite improving governance structures significant risks remain. At a senior level, the Ministry’s plan depends on the ability of the Commercial and Contract Governance Committee to sustain appropriate scrutiny over the management of both ongoing and new contracts. The Ministry has not yet implemented its supplier relationship management strategy.

## Integration

### Integrating operations management with specialist support

**1.18** The Breedon Review noted “inadequate links” between payment processes and the services delivered.<sup>31</sup> **Figure 16** summarises the key problems and the Department’s responses.

**Figure 16**  
Integration: key issues and response



Source: National Audit Office analysis

**1.19** Between 2008 and 2010, the Ministry centralised its corporate services including its commercial specialists. Currently:

- most commercial contract management rests with its central procurement team within the Department's finance, assurance and commercial business group;
- in other cases, commercial contract management rests with individual agencies such as the Legal Aid Agency or with the Cabinet Office agency, the Crown Commercial Service; and
- operational contract management rests within individual agencies or areas of the Ministry (such as estates) who commissioned the original service.

**1.20** Centralising specialist teams can be a sensible way to make the best use of constrained specialist resources. In this case, this split in roles contributed to the failings of the Ministry's contract management function:

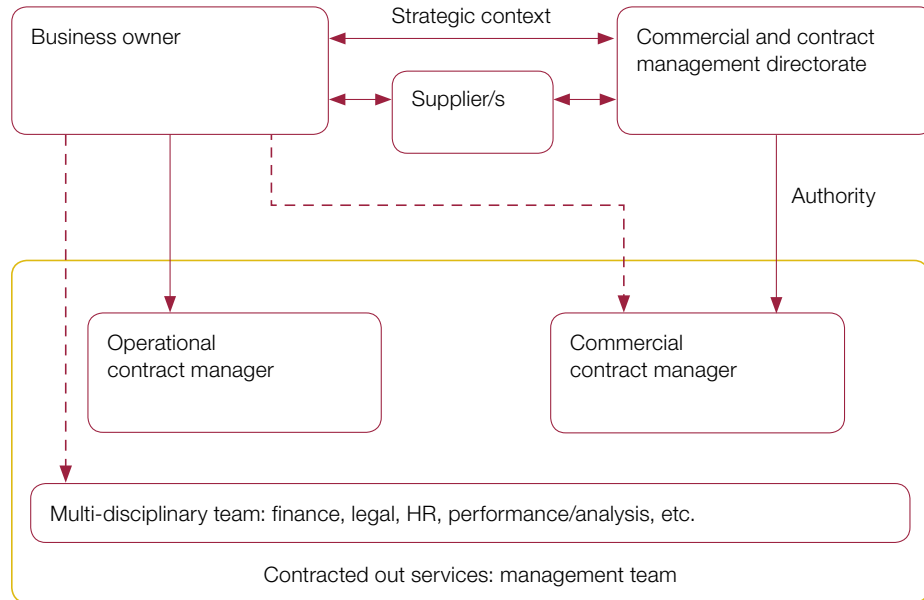
- Operations and commercial teams functioned separately without collaborating or communicating. Contractors told us that they often encountered divergent opinions, and decisions were delayed. PwC reported instances on the Prisoner Escorting Contract where operations and commercial teams conducted separate discussions with the contractor about the same issue.
- Operations contract managers were unclear about how, and whether, to report failures in contract performance. For example, with the Manchester Magistrates' Court, the court manager was unaware that the contract required her to report whether the Court was available for use.
- Elements of basic contract management were poorly aligned with the skills of staff, with operations managers involved in commercial negotiations without sufficient knowledge.<sup>32</sup> Contract managers did not involve the Ministry's lawyers when required.
- The Ministry and its agencies often lacked sufficient understanding of their duties in helping the contractor to deliver end-to-end services, for example, by supplying timely information or managing case handovers.<sup>33</sup>

### Implementing multi-disciplinary contract management

**1.21** In early 2014, the Ministry designed a multi-disciplinary contract management team model, which covers key participants (**Figure 17** overleaf). It has now defined the specific responsibilities and accountabilities for individuals within such teams, including which roles can be combined in smaller contracts and which must be kept separate.

**1.22** The Ministry has applied this model in redesigning the management of existing electronic monitoring contracts. The new electronic monitoring team includes commercial expertise, policy expertise and performance assurance. It reports to a board which includes representatives from the relevant agencies and the Ministry's legal directorate.

**Figure 17**  
The Ministry’s multi-disciplinary team model



Source: Ministry of Justice

**1.23** The Ministry intends to roll out this approach across all major contracts including Transforming Rehabilitation (the planned outsourcing of some probation services). Owners of high risk and high value contracts have affirmed that they have a contract management plan. By March 2015, internal audit expect to have desk-reviewed the contract management arrangements of all major contracts.

### Planning contract management during procurement

**1.24** In 6 out of the 15 reviewed contracts, the Ministry failed to manage the transition between procurement and operations effectively. Staff from teams negotiating contracts rarely transferred permanently to contract management, and sometimes documentation was not retained.<sup>34</sup> Contractors told us that consequences included poor knowledge of the contract and weak supplier relations.

**1.25** The Ministry has responded by creating a new approvals process under the Commercial and Contract Governance Committee. The board will assess whether sufficient contract management arrangements are defined before deciding to proceed with new contracts. The Ministry’s new approval processes should contribute to making procurement teams more aware of contract management issues.

## Conclusion

**1.26** The multi-disciplinary team model will assist the Ministry in combining commercial expertise and operations experience. The Ministry will roll out its multi-disciplinary team model to other teams, beyond the electronic monitoring and Transforming Rehabilitation contracts, later this year. Furthermore, the Ministry will need to ensure it has the resources to staff such teams.

## Capability

**1.27** Inadequate capability contributed to the Ministry's contract management problems. Some staff believed that they were not appropriately resourced to do their job. Some contracts had experienced significant resource reductions: for example, the team responsible for Electronic Monitoring contracts shrunk from 8 to 5 people between 2007 and 2012. Following a bottom up assessment of contract management requirements, staffing has now risen to 7.

**1.28** In May 2014, there were 201 posts in the Ministry's commercial directorate plus 25 vacancies. The Ministry has recruited a further 7 people who it intends will start in August and September 2014. Officials informed us of significant challenges in recruiting staff especially given the constraints of procedures, remuneration and rules within the civil service.

## Identifying the skills needed

**1.29** Until the Ministry created its common definition of the roles required in a contract management team, it had little basis to assess the skills it required, understand the extent of gaps and to plan appropriate training or external recruitment.

**1.30** The Ministry has begun its response with the Competing Delivered Services, Electronic Monitoring and Transforming Rehabilitation contracts. It has designed different sized teams for the 3 services, depending on their risk and complexity. On Transforming Rehabilitation, the Ministry has recruited 3 senior managers and envisages the budget for contract management will be 2.5% of total contract spend.

**1.31** The Ministry has faced issues with skills, and our fieldwork identified as much concern about skills as with numbers of staff. Some managers perceived that they had insufficient specialist or operational experience.<sup>35</sup> Parts of the Ministry do share knowledge: the Legal Aid Agency, for example, has a weekly bulletin for contract managers but there was no Ministry-wide effort to facilitate sharing of knowledge and best practice between staff. The Ministry has developed intranet pages which highlight good practice in contract management, including the 2008 NAO guidance.

**1.32** The Ministry is considering the key skills associated for each role in its model; and has started to train staff in contract management. In particular:

- all senior civil servants have attended a commercial awareness course. Other commercial awareness events were targeted on headquarters staff;
- in April 2014, the Ministry ran an event for finance, assurance and commercial staff about its new contract management approach; and
- from July 2014, an initial group of 33 staff from commercial, operations, analytical services and internal audit teams, are undertaking contract management training devised by the International Association of Contract and Commercial Management in conjunction with the Ministry.

**1.33** The Ministry has also begun strengthening its commercial directorate. This has included recruiting consultancy and agency staff: currently the Ministry employs 35 consultants within its commercial function. The Ministry has also started procurement of more expertise in this area and is requiring knowledge transfer from consultants to Ministry staff to improve long-term capability. Recruiting permanent staff has proved more difficult.

**1.34** The Ministry has restructured its commercial directorate to reflect its re-prioritisation of work (**Figure 18**). Additionally, each senior civil service official has responsibility for liaising with a separate part of the Ministry's business, for example the Prison or HM Courts & Tribunals Service.

## Conclusion

**1.35** The Ministry's approach is based upon an assessment of need for each contract. The specifics of the approach are still being developed with the Ministry having completed assessments so far on Transforming Rehabilitation, Competing Delivered Services, the Prisoner Escorting Contracts, future technology services and Electronic Monitoring. The design for Transforming Rehabilitation appears reasonable, but will need greater resources (skills and finances) than were required previously.

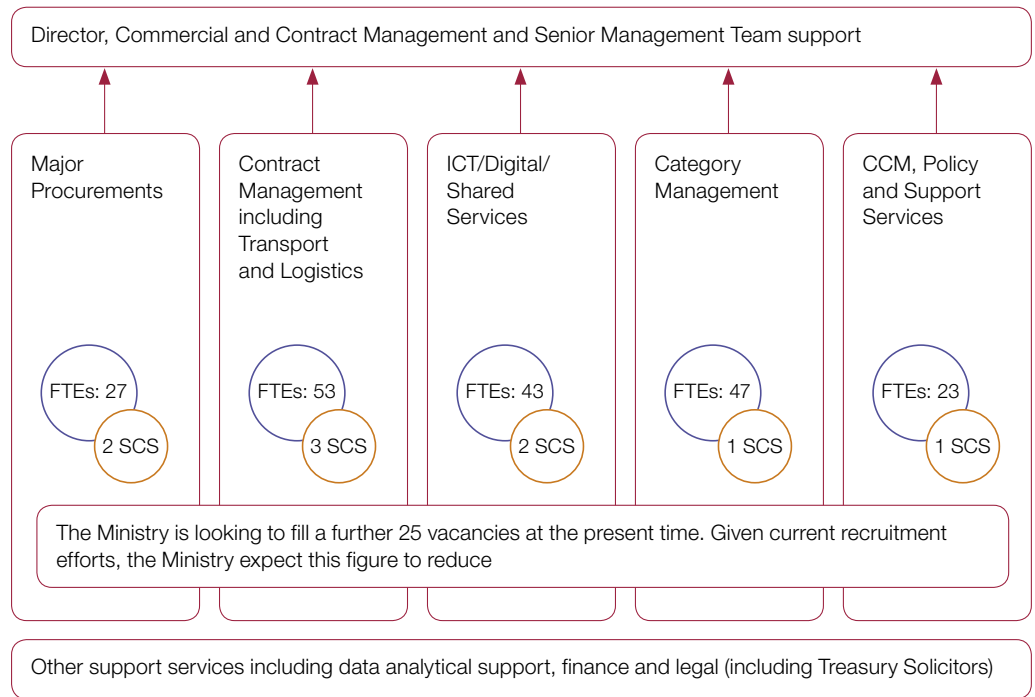
**1.36** The Ministry's approach should achieve improvements in its contract management capability. However, it demands sustained commitment from senior management at a time when resources are constrained. The Ministry will need to:

- ensure it is able to resource contract management appropriately in the commercial department and operations teams;
- continue developing its skills strategy and gap analysis both for commercial and operations staff; and
- create a contract management community of practice within the Department, bringing together commercial specialists and operations managers.



**Figure 18**  
Commercial directorate structure in the Ministry of Justice

201 full-time equivalents (FTEs)



**Note**

1 'SCS' refers to senior civil servants and are subsumed within the FTE totals.

Source: Ministry of Justice

**Visibility and use of information**

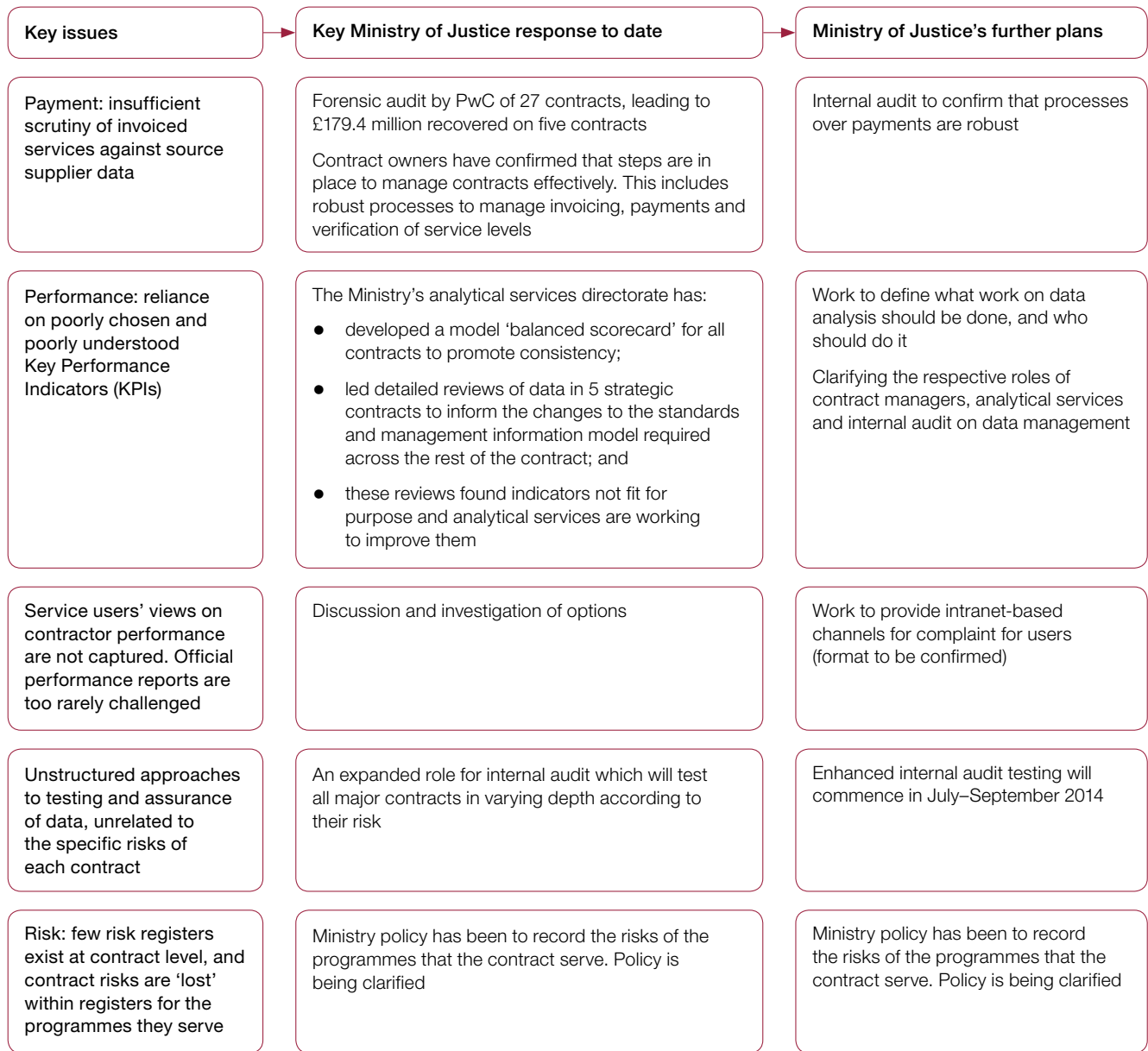
Context

**1.37** Concerns over the unreliability of information supporting payments for electronic monitoring of prisoners triggered the government's 2013 examinations of contract management across departments.<sup>36</sup>

The Ministry's response

**1.38 Figure 19** overleaf summarises the Ministry's key responses to issues in this area.

**Figure 19**  
 Visibility and use of information: key issues and response



Source: National Audit Office analysis

## Improving scrutiny of billing

**1.39** Originally, the Ministry became aware of contract management as an issue because of over-billing on electronic monitoring. It has recovered £179.4 million from G4S and Serco – made up of various costs, including: the over-billing rebate, investigation costs, interest and compensation. The Ministry was vulnerable partly because it lacked master versions of contractual documentation. Ministry lawyers told us that there are examples when they lack a signed copy of contracts (particularly for older contracts) and of change notices. Although the Ministry has a contract database called Emptoris, it is not used consistently and the Department is examining its capability.<sup>37</sup>

**1.40** PwC analysed the over-billing on Electronic Monitoring through an examination of the source data from the monitoring equipment. We examined their methodology during April 2014 and were satisfied it would give a materially accurate figure within the context of the Ministry's financial statements. PwC performed additional forensic audit work on other contracts between the Ministry, G4S and Serco. This included investigating controls surrounding billing, recalculating invoices and estimating any over-billing. In addition, we examined the controls around billing on a further 17 contracts during our financial audit of the Ministry's accounts for 2013-14 and found no material risk of over-billing. Work by the Ministry, the National Offender Management Service and financial auditors covered 75% of the Ministry's contracts. It is confident that no further issues with material over-billing exist.

**1.41** Previous internal audit coverage of contracts had been too infrequent (with only 7 contracts covered in 3 years), and insufficiently detailed (examining controls without testing detailed transactions). The Ministry's new internal audit plan (paragraph 1.10) should allow internal audit to offer better assurance on billing.

## Performance measurement

**1.42** The Ministry has also recognised that poor design and use of Key Performance Indicators (KPIs) is a common problem. PwC found examples on Manchester Magistrates' court of KPIs that the contractor could not possibly meet given its approach to service delivery. Contractors criticised the Ministry's approach to performance reporting, suggesting that they were inconsistent and did not make best use of information. In one case, the supplier was incentivised by the KPIs to act against the Ministry's best interests.<sup>38</sup>

**1.43** Additionally, the Ministry often relied upon contractor data without validation:

- On the language services and the prisoner escorting contracts the Ministry did not fully exercise its rights to audit data from contractors.<sup>39</sup>
- On Electronic Monitoring, the Ministry and contractors held different interpretations of when a charge should be made (for example, when monitoring an offender started or finished).<sup>40</sup>
- Officials in some parts of the Ministry told us that user experience was not reflected in contractual measures of performance.

**1.44** To correct such problems, the Ministry is also developing a balanced scorecard format to improve reporting on each contract (Figure 11). A Scorecard provides a risk rating of the contract and key mitigating actions. The Ministry envisages the scorecards could be combined to generate an overall assessment. Currently the scorecard is in development and has not been implemented on any contract.

**1.45** The Ministry is aware that it will need to collect better data in the future to enable this scorecard approach to work. Consequently, it has stated that all new contracts will need to have an open-book relationship built into them and that past contracts will be renegotiated to enable this.

**1.46** During April 2014, the Department's analytical services directorate examined 6 existing contracts in detail, to check the utility and reliability of the data. These contracts included the facilities management and electronic monitoring contracts reviewed by PwC. As a result, the Ministry is currently renegotiating the KPIs on the facilities management contract, and redesigning payment processes on the electronic monitoring contracts.

**1.47** The Ministry is also considering how to obtain more views from the customers of contracted services. It is considering whether it can use social media as a route to quickly access information to verify contractor performance.

The Ministry's plans should make significant improvements

**1.48** The Ministry's plans to enhance the visibility and use of contract information should make major improvements if:

- The planned levels of input by internal audit and analytical specialists are maintained, and their recommendations followed-up.
- Impractical KPI frameworks can be improved in negotiation with contractors without undue cost or delay.
- The Ministry has sufficient rights to contractor information under open-book provisions in contracts.
- Plans to develop ICT systems to store and collate contractual data and information are further advanced.

# Appendix Two

## Contract management – Home Office

### Context

#### Services

**2.1** The Home Office (the Department) manages contracts in diverse areas, including critical national services such as the maintenance of the public safety radio communications service (known as 'Airwave') and detection of radioactive material. Other contracted services include the provision of asylum accommodation,<sup>41</sup> and transport and accommodation for immigration detainees (Figure 4). These contracts often involve complex subcontractor arrangements, and operate within a fragmented criminal justice system<sup>42</sup> that creates a challenging environment for contract management.

#### Spend

**2.2** In 2013-14, the Department spent £2.5 billion on third-party contracts,<sup>43</sup> a 5% decrease from 2012-13. In both years the top 15 suppliers represent a significant proportion of total spend (52% in 2013-14, **Figure 20** overleaf). The top Home Office supplier by spend in 2013-14 was Airwave Solutions Limited (£247 million). A further £172 million was spent on Serco and G4S contracts (**Figure 21** on page 45).

#### Challenges and improvement plan

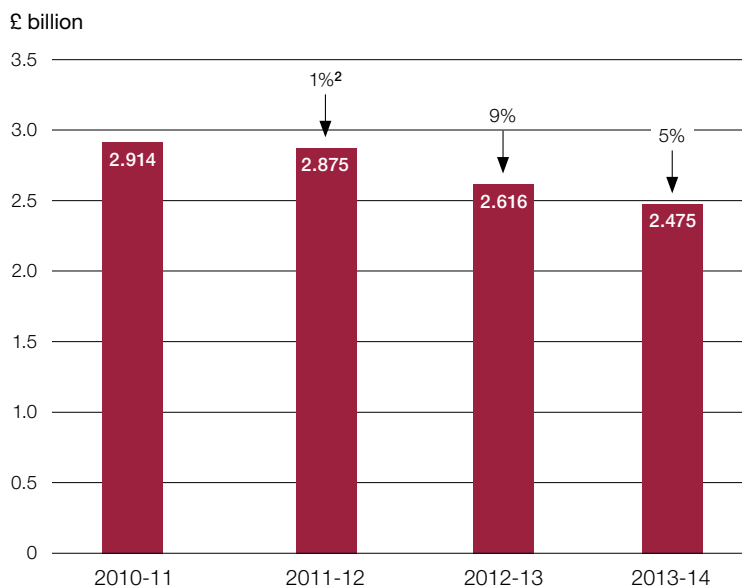
**2.3** Alongside the cross-government reviews (Figure 1 on page 6), the Home Office commissioned a review by Moore Stephens to seek further assurance on the risk of over-billing and other contract failures. This review used our 2008 evaluative framework<sup>44</sup> and focused on 14 contracts. The review team, together with the Department, selected contracts on the basis of:

- Risk of a major impact on the Home Office should contract management fail.
- Value of the contract, including low and high value.
- Different types of contract.

The contracts represented 20% of the Department's third-party supplier spend by value, in 2012-13.

**Figure 20**

Third-party supplier spend, 2010-11 to 2013-14

**Notes**

1 Figures rounded to the nearest million.

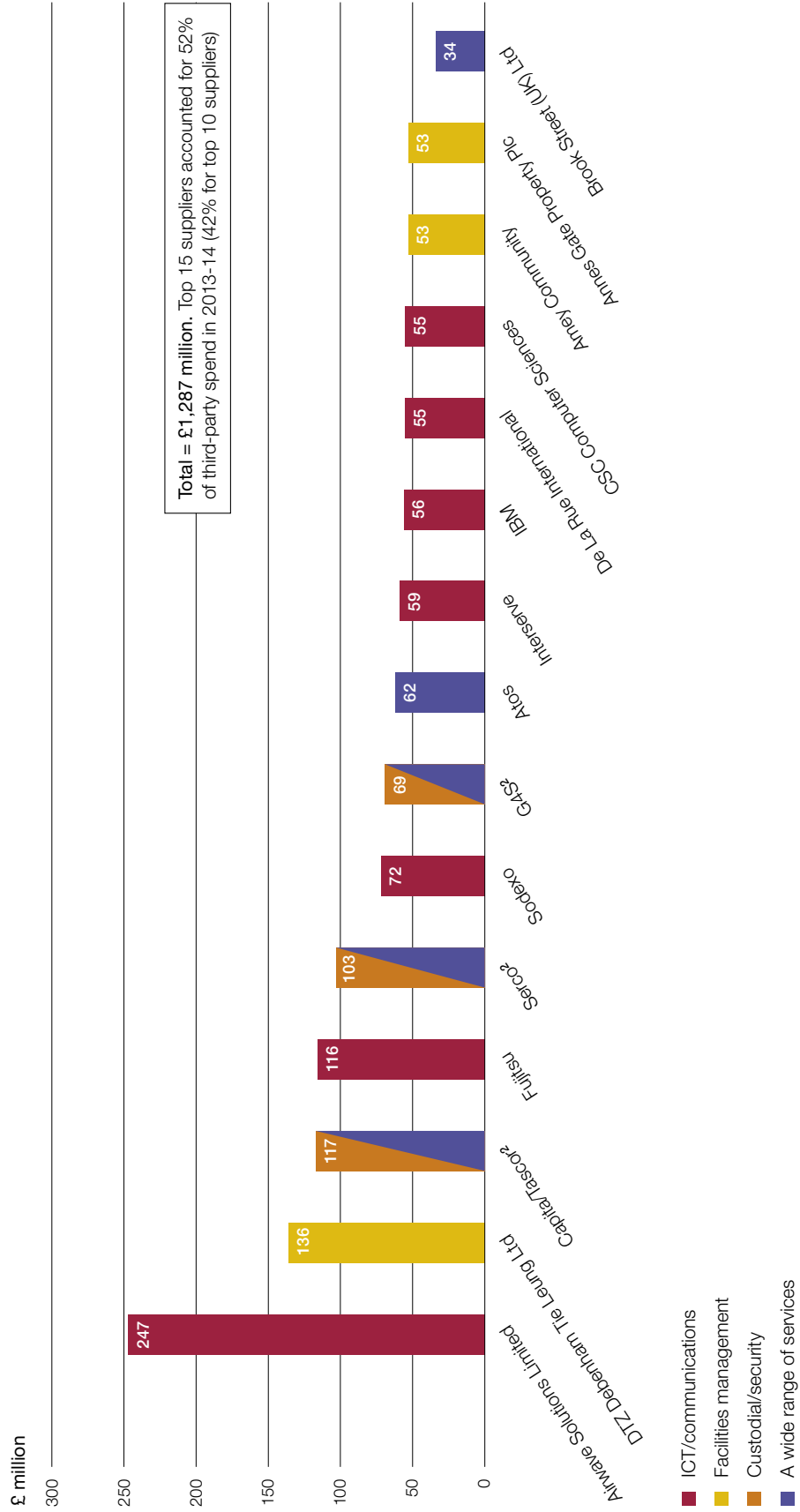
2 Figures and arrows relate to change from previous years' figure.

Source: National Audit Office analysis

**2.4** Moore Stephens produced an interim report in December 2013 and a final report, including transaction testing on 5 contracts, with overall recommendations in March 2014. The Department's Audit Committee received this report. Moore Stephens also produced a 'heat map' to highlight thematic areas of contract management concern across 14 contracts. Internal audit will update this on a quarterly basis for the Department's audit committee and Executive Management Board.

**2.5** Following the *Cross Government Review of Major Contracts*<sup>45</sup> (paragraph 3), the Cabinet Office required all departments to develop a contract management improvement plan and share it with them by February 2014. Home Office updated its plan in July 2014; it is included, alongside other important developments, in **Figure 22** on pages 46 and 47.

**Figure 21**  
Third-party supplier spend (2013-14), top 15 suppliers

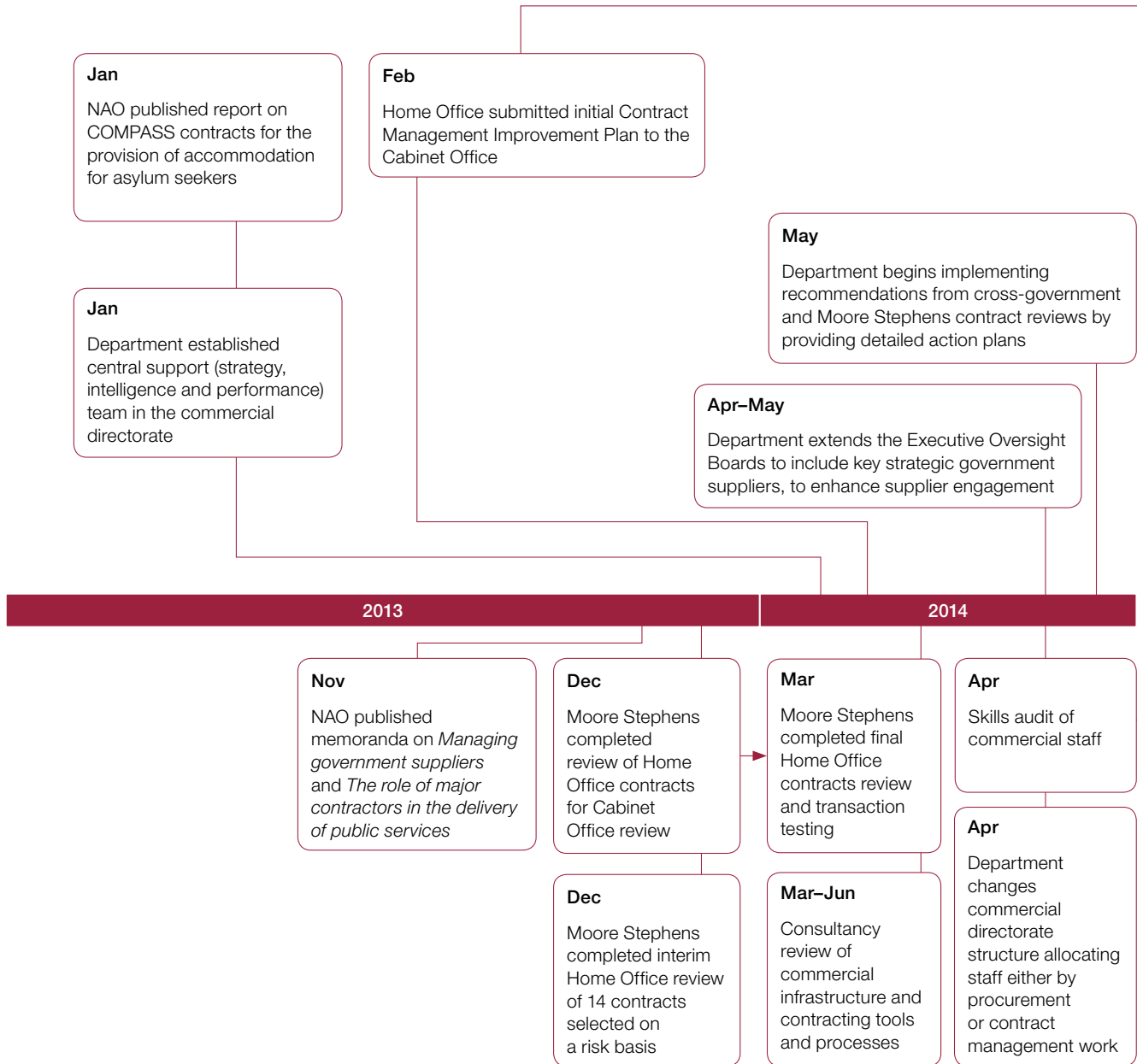


**Notes**

- 1 Figures rounded to the nearest million.
- 2 Diagonal colour split does not represent value of different activity carried out by companies.

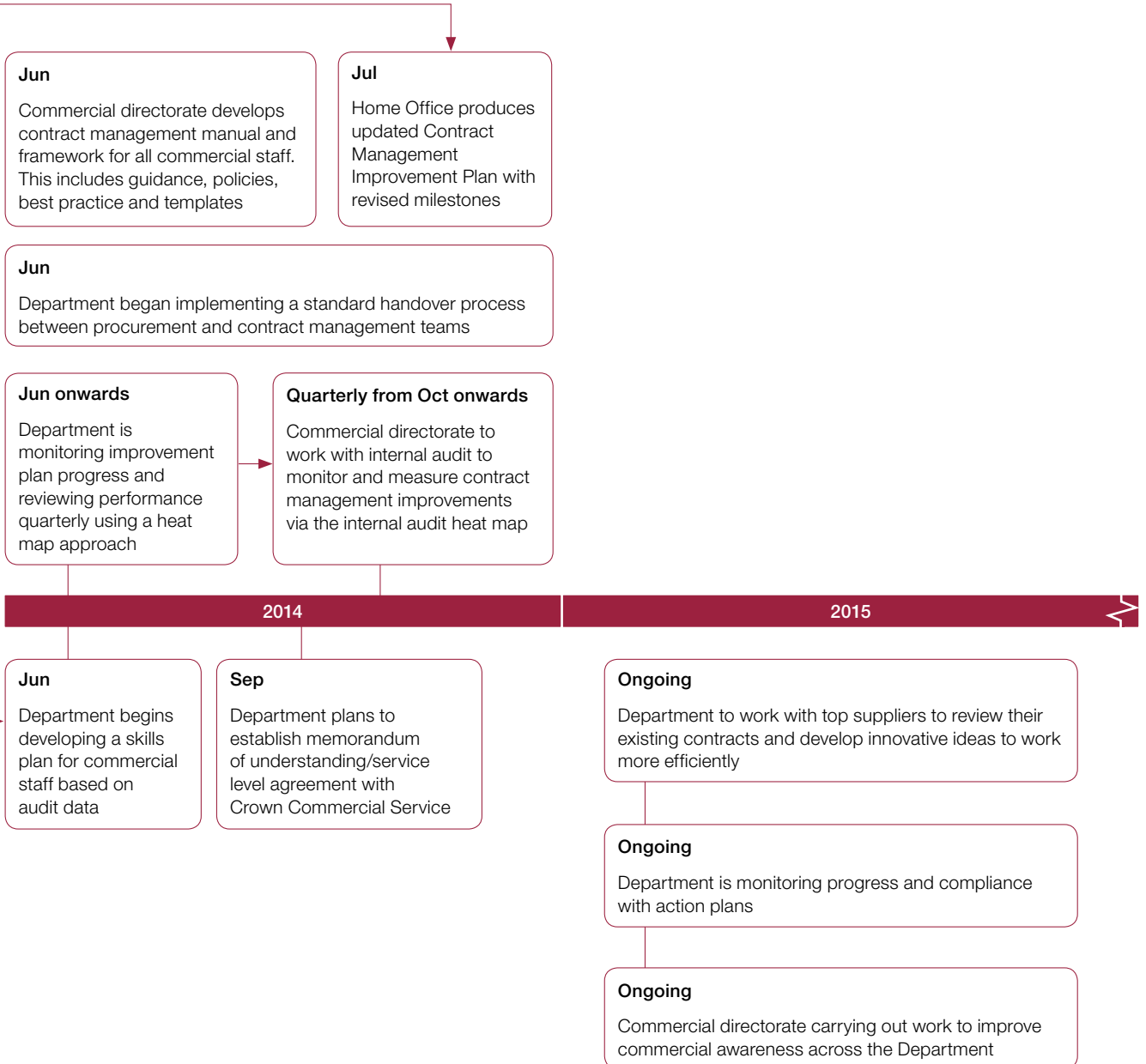
Source: National Audit Office analysis of Home Office data

**Figure 22**  
Home Office timeline for improving contract management



Source: National Audit Office analysis





## **Governance**

Governance problems, particularly blurred roles and responsibilities, have hindered contract management

**2.6** The Home Office has had contract management governance problems. Moore Stephens's December 2013 review concluded the Department should have more robust oversight and scrutiny of the providers' operations, including greater audit of the providers' processes and contract management arrangements, finding particular issues in the COMPASS contracts.

**2.7** Moore Stephens's subsequent review also found 4 of 14 contracts had significant gaps or weaknesses in planning and governance:

- In a number of cases it was not entirely clear who in the Department was in control of contract management.
- Some contract managers were concerned about overlaps with operations teams and were unclear on their precise contract management roles. The review deduced a lack of ownership from the failure of the Department to produce a realistic action plan in response to the November 2013 Cabinet Office reviews of Immigration Removal Centres.
- Managing contract-level supplier relations was also a problematic area with 6 contracts having significant supplier-relations weaknesses, such as slow and fractious relationships with providers. Moore Stephens found that in 3 of these cases this created the risk of material errors or irregularities in charging or a significant operational failure.

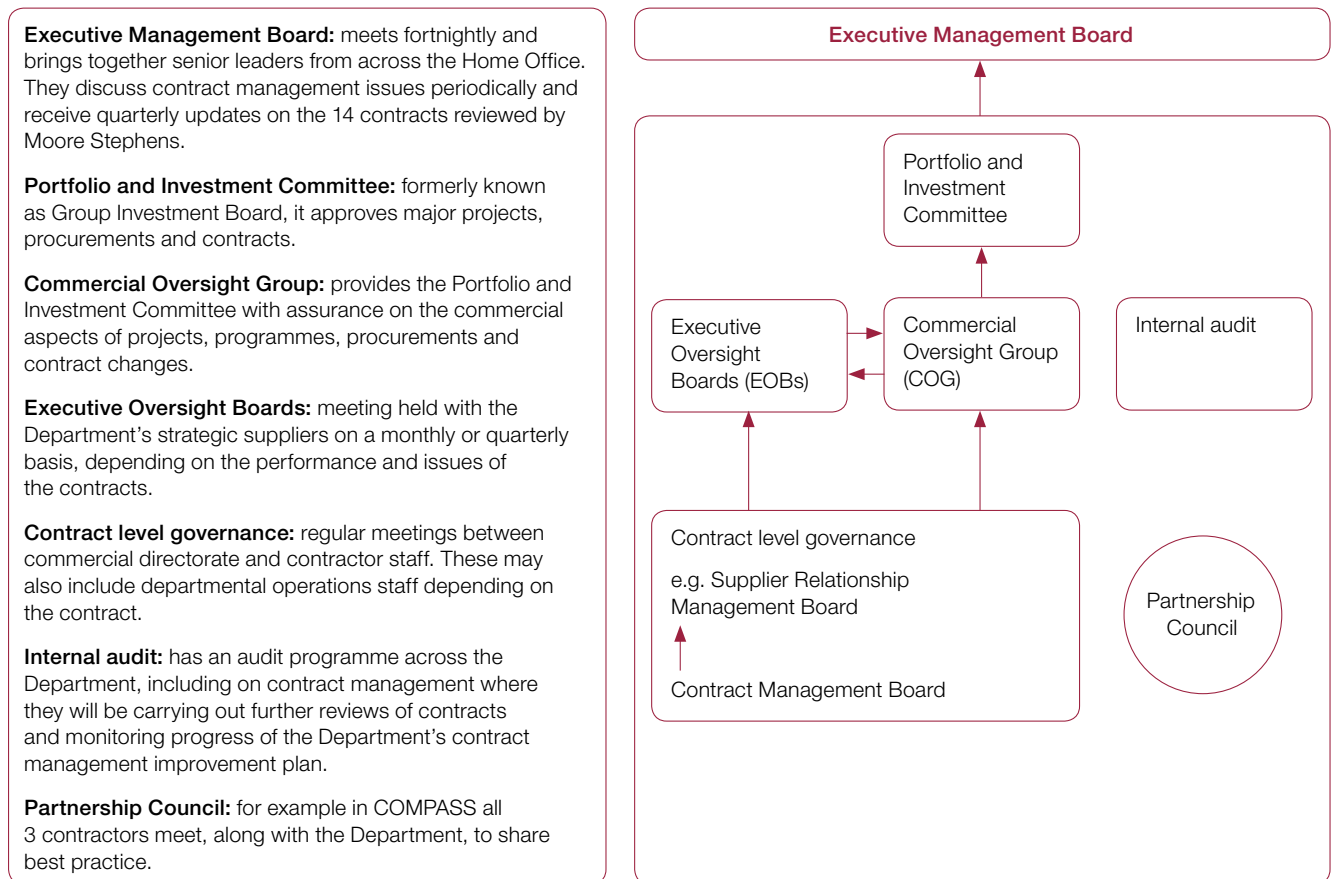
**2.8** Our discussions with Department staff and contractors revealed similar concerns.

Progress has been made but further improvements to contract management governance are required

**2.9** The Department's plans focus on reorganising its commercial directorate (**Figure 26** on page 55) and implementing a new contract management manual to share good practice and standardise processes (**Figure 24** on page 50).

**2.10** The Department's governance of contract management has many elements (**Figure 23**). Contractors we spoke to particularly valued the Executive Oversight Boards with its top 17 strategic suppliers.<sup>46</sup> These provide forums to discuss wider issues such as the client-contractor relationship, use of smaller and medium-sized enterprises and, where relevant, progress on contractors' 'corporate renewal' programmes. Contractors, however, considered that the boards could focus more on continuous improvement and positive changes within multi-year contracts. The boards usually meet quarterly but poor performing contractors meet the Department more regularly.

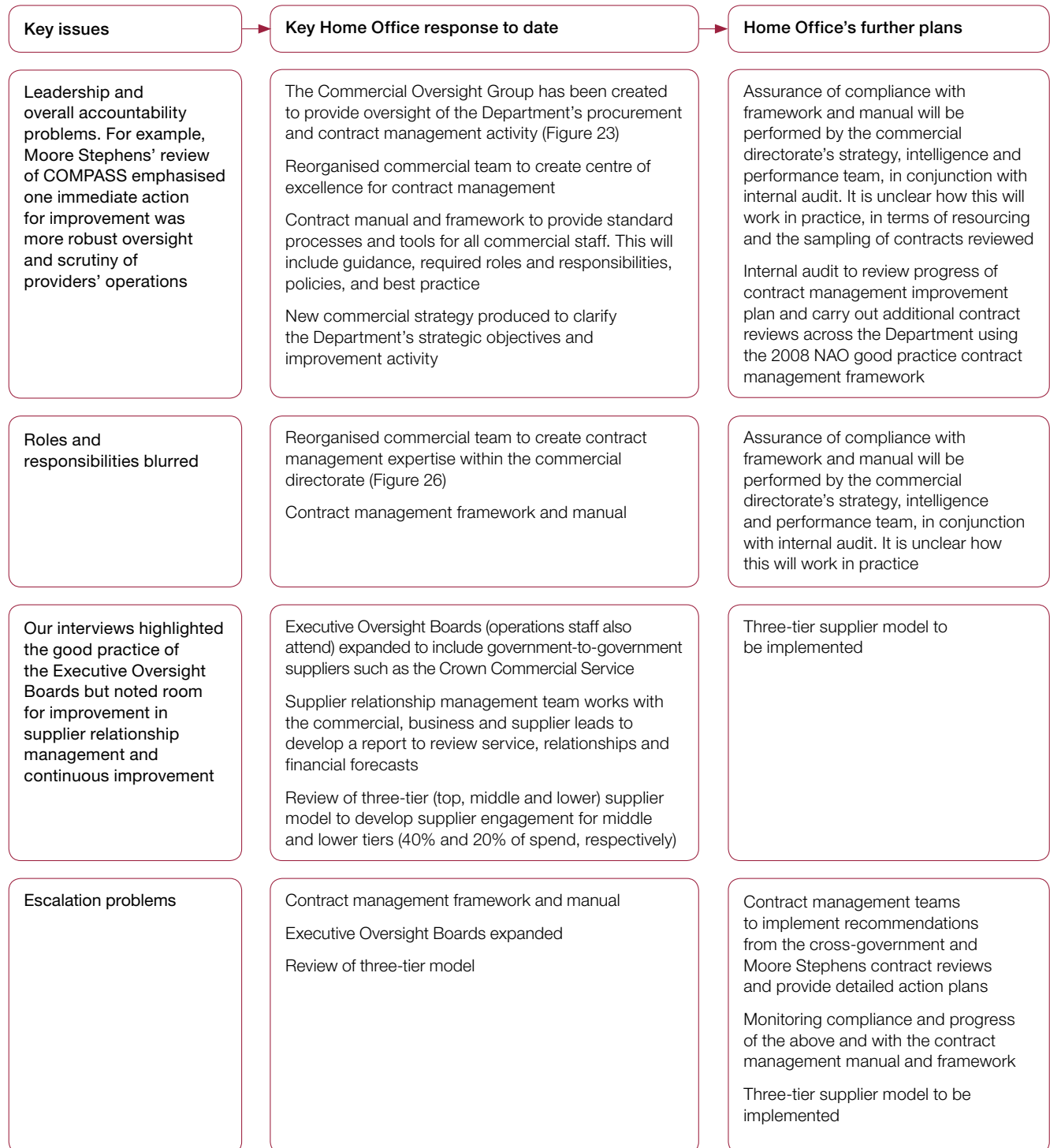
**Figure 23**  
Home Office contract management governance



Source: National Audit Office analysis

**2.11** The Department's internal audit function has increased its focus on contract management between 2012-13 and 2014-15 from 0% to 3% of its effort. This is not proportionate to the Home Office spending through contracts (21% of Departmental expenditure in 2012-13). However, some of the Department's 2014-15 audit work is focused on project and programme management which can include elements of contract management.

**Figure 24**  
Home Office contract management governance issues and responses



## The prospects for improved governance

**2.12** While the Home Office has taken essential steps to improve governance of contract management, some important challenges remain. In particular:

- The Department has begun to disseminate its new commercial guidance and strategies across the Home Office group, and intends that its commercial directorate, in conjunction with internal audit, will assure compliance with them. However, it is unclear how this will work in practice, in terms of resourcing and how contracts will be selected for review.
- Its Commercial Oversight Group only covers the commercial directorate and it will be important to develop the contract management leadership structure to engage more with business owners and operations managers for the services to leverage improvements.
- Supplier relationship management has focused primarily on the top 17 strategic suppliers. This will need to be extended to the more significant middle-tier suppliers; and the Home Office is currently developing a supplier management strategy, including for these middle-tier suppliers, following work with Deloitte.

## Integration

Challenges in handovers between procurement and contract management and in integrating commercial and business teams

**2.13** Our report on COMPASS,<sup>47</sup> our interviews and document review, and Moore Stephens's reviews identified 2 recurrent problems in this area: poor handover from contract negotiation to contract managers, and gaps between commercial contract managers and the operations managers who act as customers for the services.<sup>48</sup>

**2.14** Insufficient handover processes between contract award and commencement often led to different expectations between providers and the Department. Moore Stephens found a lack of clarity about who is in control of some contracts and inconsistency in the roles of commercial contract and operations managers. Five out of 14 contracts had significant issues such as insufficient capacity and blurred responsibilities. They also concluded there is no consistent job specification for a contract manager or contract management function. Specific examples include:

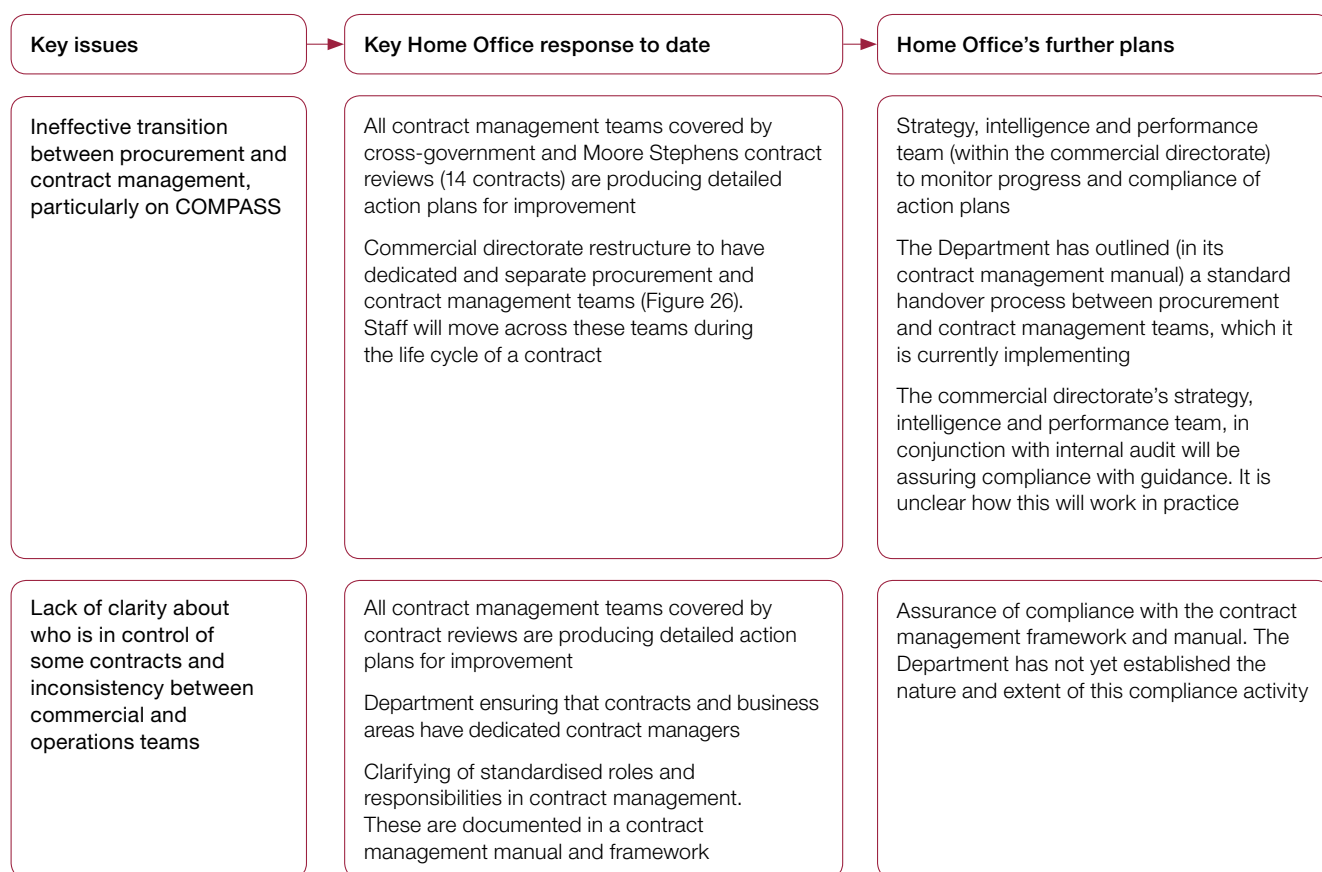
- Immigration removal centres: Moore Stephens's November 2013 report for the Cabinet Office<sup>49</sup> found contract management and contract monitoring had been split between the Home Office commercial team and on-site immigration teams respectively. Subsequently, the lack of formal reporting arrangements and capability between the 2 teams meant issues could be missed.
- In various ICT-related contracts, operations management arrangements did not connect clearly with contract management. For example, with Immigration Caseworking, contract management was detached and distant from operations.<sup>50</sup>

Progress to date

**2.15** Executive Oversight Boards already bring together operations and commercial staff as well as suppliers (Figure 23). The Department, in its newly developed contract management manual, has also produced a defined set of contract management roles and responsibilities and detailed arrangements for handover of contracts from procurement teams to contract managers (**Figure 25**). The commercial directorate intends to monitor compliance with these in conjunction with Home Office internal audit.

**Figure 25**

Home Office contract management integration issues and responses



Source: National Audit Office analysis

## The prospects for integrated contract management

**2.16** Centralising specialist teams can be a sensible way to make the best use of constrained specialist resources. However, the Department, in centralising its commercial function, could diminish ownership and involvement by operations managers and service users. This is important as contractors told us Home Office commercial staff and operations teams often have different perspectives, for example, on proposals for change or contract interpretations. The Home Office aims to mitigate this risk through:

- the commercial directorate, in conjunction with internal audit, ensuring compliance with the new manual's requirements for clear roles and responsibilities and ownership, and
- developing a supplier relationship management process for middle-tier suppliers with the aim to increase business team participation.

**2.17** However, it is unclear how compliance and supplier relationship management activity will work in practice, particularly in terms of resourcing and the sampling of contracts reviewed.

**2.18** While we recognise that the standard handover process from procurement to contract management and the manual covering best practice represent progress, this activity is focused on the commercial directorate and does not embed cooperation with operations.

**2.19** The Department's improvement plan depends upon compliance (across the organisation) with standard guidance and processes, performed by its commercial directorate supported by internal audit. However, it is not yet clear how this will work in practice in terms of resourcing and the sampling of contracts reviewed.

## Capability

### Resource constraints

**2.20** Following the 2010 Spending Review, the Department was required to reduce its budget by 23% in real-terms over the 4 years to 2014-15. The Department's plans to achieve this include a commitment to reducing administration expenditure by 50% in real-terms between 2010-11 and 2015-16.

**2.21** The Home Office's commercial directorate's running costs have reduced 11%, from £12.4 million to £11.0 million, between 2010-11 and 2013-14; however this excludes expenditure the department has stated as one off non-pay costs.<sup>51</sup> The Directorate currently has 13 vacancies (7% of complement). The Department is currently considering the size and skills mix of its commercial directorate, including a change in its staff mix towards fewer, more senior specialists. At a senior level, the head of the commercial directorate and the lead for contract management left in June 2014, presenting additional risks to the leadership and momentum of the improvement plan. However, the lead for contract management has since been replaced, as has the head of the commercial directorate (albeit on an interim basis requiring other commercial staff to take on additional responsibility).

**2.22** Moore Stephens's review identified further capability problems including: unclear roles and responsibilities, and insufficient continuity of staff and routine sharing of good practice. They found 5 contracts had some evidence of significant gaps or weaknesses in contract management staffing. We also identified management concerns with staff recruitment, retention and expertise in commercial teams. Managers recognise that contract management requires a different skill set and attitude to procurement, with a greater emphasis on softer skills such as relationship management.<sup>52</sup>

**2.23** Our discussions with major contractors highlighted concerns that senior contractor staff are often dealing with junior staff in the Department who are not empowered to make necessary decisions. In the commercial directorate as a whole, only 3% of 182.7 full-time equivalent staff are at senior civil servant level, with 60% at senior executive officer or lower. The new contract management function has just one senior civil servant, with 80% of staff at senior executive officer or lower.

The Department has made significant progress in developing its commercial capability but various risks remain

### **Commercial directorate restructure**

**2.24** Before April 2014, the Home Office's commercial directorate's staff were dispersed around different areas of the business, such as immigration, or major projects and HM Passport Office. A reorganised commercial directorate (**Figure 26**) now features:

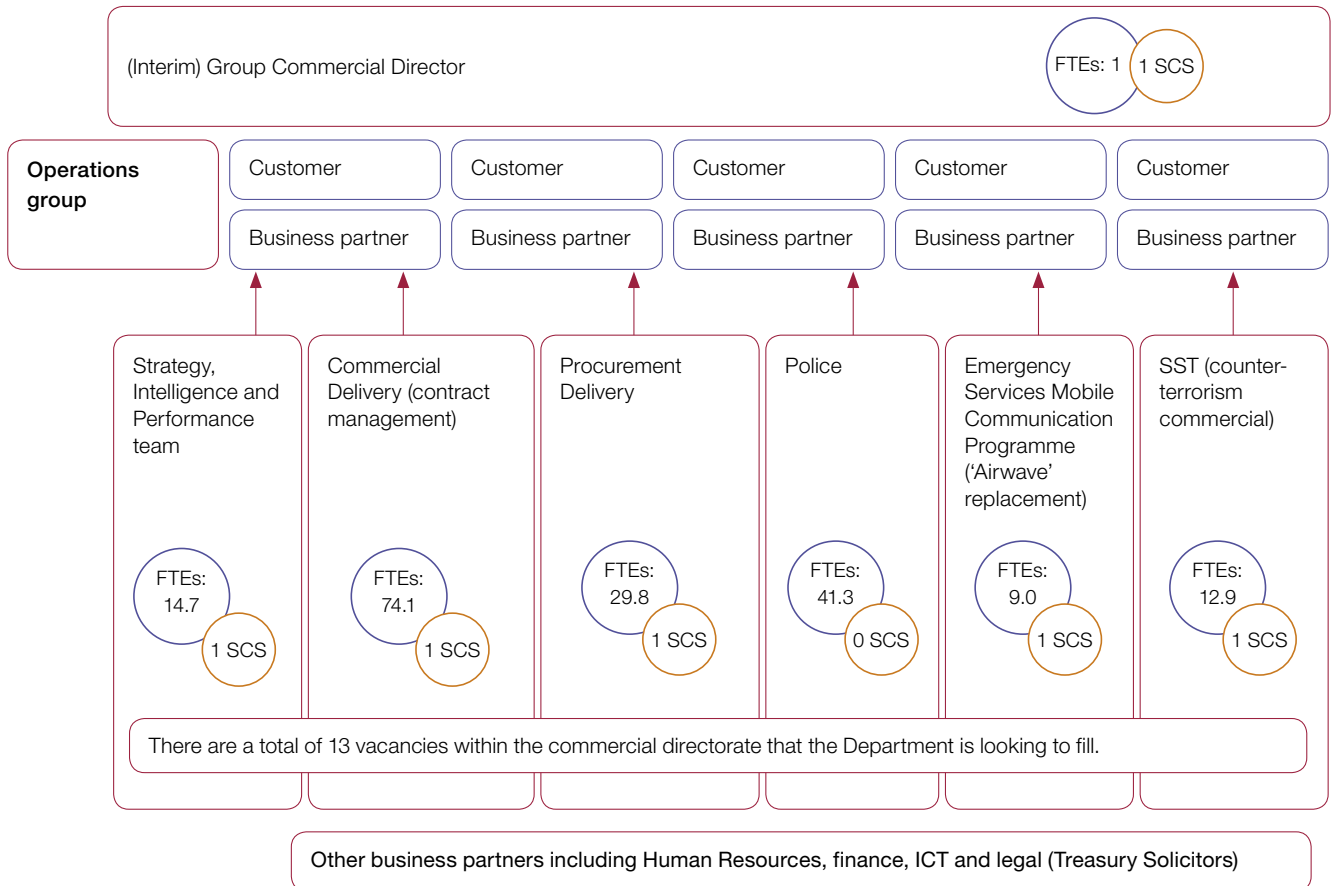
- Separate, dedicated 'towers' of staff to develop centres of excellence in procurement and contract management. Commercial staff will move flexibly between these towers over the life cycle of a contract, to maximise continuity between phases.
- Distinctive teams for commercial activity in specialist business areas, such as the police, to consolidate business knowledge.
- A strategy, intelligence and performance team to support commercial teams and 'own' the Department's contract management improvement plan.
- 'Business partner' links to the operations teams, as well as HR, ICT and finance teams.



**Figure 26**

Home Office commercial directorate structure

There are 182.7 full-time equivalents (FTEs) – an additional 9 staff are on secondment (including 1 senior civil servant), career breaks or have been redeployed



**Notes**

- 1 The police commercial director is currently acting as interim commercial director, with his police role being filled by a more junior member of staff.
- 2 'SCS' refers to senior civil servants and are subsumed within the FTE totals.

Source: National Audit Office analysis

### **Skills audit and sharing best practice**

**2.25** In February 2014, the Home Office published its departmental improvement plan that explores a range of performance and improvement activity, including contract management. This plan, building on the Department's annual skills review, identified 8 priority capability gaps, including commercial skills. Subsequently, in April 2014, the Department produced a detailed skills plan covering these priority areas.

**2.26** Within commercial skills, the Department has:

- Analysed results of its procurement and contract management skills audit, concluding:
  - In procurement, all staff below grade 5 self-reported 'below average' skills levels and insufficient knowledge and experience in this area.
  - In contract management, grades 7 and higher reported 'above average' skill levels but junior staff (the majority, with 60% of commercial staff below grade 7) reported lower than average skill levels.
  - Some 60% of commercial professionals had relevant professional qualifications, primarily from the Chartered Institute of Purchasing and Supply.
- Produced a contract management manual and framework in order to standardise processes and roles, and share best practice.
- Begun commercial awareness sessions across the Department, primarily through lunchtime seminars.

### Plans exist for enhanced training and commercial accreditation

**2.27** The Home Office plans to use its skills data to target gaps and develop tailored training programmes. It also plans to rerun its skills audit on a 6-monthly basis to maintain oversight of its commercial capacity.

**2.28** The commercial directorate continues to run commercial awareness sessions across the Department and is aiming to achieve 'gold accreditation' from the Chartered Institute of Purchasing and Supply to establish greater credibility, assurance and access to good practice.

## The prospects for contract management capability

**2.29** We have identified various risks with the capability elements of the Department's contract management improvement plan:

- It is unclear how the Department will assure compliance with the contract management manual and framework good practice, particularly related to the contract management roles, responsibilities and skills.
- The need for specific strategies to improve recruitment and retention of experienced commercial staff, within resource constraints.
- The limited analysis of commercial skills and awareness outside the commercial directorate, for example in understanding the contract management skills and knowledge in operations managers.

## Visibility of information

Insufficient contract visibility puts the Department at risk of overcharging and operational failure

**2.30** Visibility of contracts, commercial terms, costs and performance are crucial for effective contract management, as are risk management and identifying opportunities for continuous improvement.

**2.31** Moore Stephens's unpublished report for the Home Office in March 2014 considered:

- Six out of 14 contracts reviewed had significant gaps or weaknesses in managing performance. Three of these contracts were subsequently at risk of material errors, irregularities in charging, or a significant operational failure.
- Nine out of 14 contracts to have some evidence of significant gaps or weaknesses around payments and incentives. Three of these contracts were subsequently at risk of material errors, irregularities in charging, or a major operational failure.

**2.32** Despite these risks, Moore Stephens found no evidence of deliberate overcharging by suppliers. However transaction testing confirmed multiple problems with contract control environments, for example in the contract for services in escorting and custody of detained immigrants, previously run by Reliance Secure Services and subsequently run by Tascor. The problems in this contract were first identified and immediately reported to the Home Office by Capita when it undertook a deep forensic audit of Reliance Secure Management's contracts, following its acquisition and rebranding of this organisation to Tascor. The problems included historic invoicing anomalies and errors in mileage claims, resulting in some over- and under-billing. Subsequently, Moore Stephens produced an additional report on this contract. This report confirmed these anomalies and identified that the over-billing was, however, outweighed by under-billing.

**2.33** In addition, while Moore Stephens's transaction testing of 4 other contracts did not find over-billing, it highlighted errors, irregularities and control weaknesses that put the Department at risk of over-billing. Furthermore, in some cases Moore Stephens were only able to carry out partial transaction testing owing to some data and documents being unavailable for review.

**2.34** Overall the main review found:

- Over-reliance on contractor information for example, for: asylum accommodation, escorting of immigrants, Contact Management and Caseworking Services and Immigration Case Working.
- Variability in the effectiveness of open-book accounting arrangements, where these existed.
- Examples of inconsistent and ineffective service credit and gain share regimes.
- Difficulty tracing clear and up-to-date contract documentation.
- Variability in risk management, with the majority of contracts having no formal joint risk registers with either contractors or operational teams.
- Inconsistent review and management of continuous improvement.

**2.35** Similarly, contractors emphasised to us an over-reliance on, and lack of scrutiny of, contractor information in meetings with the Department. They also emphasised performance regimes that they often considered too open to interpretation, with limited opportunities to discuss continuous improvement, particularly on gain share provisions. Our review of COMPASS, too, found issues with the application of service credits and a provider perception that the KPI regime is applied too rigidly.<sup>53</sup>

Plans to improve visibility are focused on strategic suppliers and those reviewed by Moore Stephens

**2.36** The Home Office has developed a range of actions within its contract management improvement plan that are aimed at improving visibility and performance across all contracts. The Department is:

- Developing specific contract improvement plans for those contracts reviewed by Moore Stephens.
- Using internal audit to carry out periodic reviews on other contracts.
- Utilising its strategy, intelligence and performance and internal audit teams to monitor overall progress of its contract management improvement plan. In total, internal audit has dedicated 150 days to contract management audit work in 2014-15, an increase from 2013-14. **Figure 27** outlines the Department's plans.

**Figure 27**

## Home Office contract management visibility issues and responses

Key issues	Key Home Office response to date	Home Office's further plans
<p>Risks of over-billing and operational failure stemming from the reliance on provider information</p>	<p>The Home Office commissioned Moore Stephens's review in an effort to improve visibility of 14 contracts selected on a risk basis. The review generated a contract management 'heat map' (RAG ratings) using the principles of 2008 good practice framework</p> <p>Contract manual and framework to provide standard processes and tools for all commercial staff. This includes guidance and best practice in a range of areas including supplier and performance management. It also outlines the necessity for regular and formal feedback from users of contracts to enable performance issues to be identified and addressed</p> <p>Contract register (pipeline) produced to collect extensive contract data from across the organisation. The majority of data has been compiled</p>	<p>Internal audit to review progress of contract management improvement plan, carry out additional contract reviews and provide quarterly updates of the Moore Stephens heat map</p> <p>Assuring compliance with framework and manual. This will be done by the commercial directorate's strategy, intelligence and performance team, in conjunction with internal audit. It is unclear how this will work in practice</p> <p>The Department has developed an electronic central repository for all contract documentation</p> <p>The commercial directorate is exploring ways to establish new integrated ICT systems to track variations, spend and other important financial information. Plans to use the cross-government SID4GOV system to store and collate contractual data are not well advanced</p>
<p>Only partial use of open-book accounting and access rights</p>	<p>Limited action to date beyond contract improvement plans developed for 14 contracts reviewed by Moore Stephens for Home Office internal audit</p>	<p>The Department plans to standardise contracts for new procurements, and the use of open-book accounting provisions, by monitoring compliance through the Commercial Oversight Group</p>
<p>Variable risk management and an absence of joint risk registers (with operations teams and the provider)</p>	<p>Specific contract improvement plans developed for 14 contracts reviewed by Moore Stephens for Home Office internal audit</p> <p>Contract manual and framework provides guidance and best practice in a range of areas, including risk management and the need for joint risk registers</p> <p>The Department's contract management improvement plan includes limited reference to risk management</p>	<p>The commercial directorate plans to work with the Department's Portfolio and Programmes Team to develop consistent governance and processes (including accountability structures and risk management) to all programmes. However, this work has not yet started</p>
<p>Inadequate opportunities to discuss and implement continuous improvement of the contract</p>	<p>Executive Oversight Boards provide an opportunity to discuss continuous improvement with its top 17 strategic suppliers. Continuous improvement work for other suppliers is less defined</p> <p>Staff within the Department's strategy, intelligence and performance team are dedicated to supplier relationship management and coordinate information for Executive Oversight Boards</p> <p>The contract management manual also notes that good practice means a contract improvement plan should be in place and reviewed at least annually, to monitor progress of existing initiatives and identify any new opportunities going forward</p>	<p>The commercial directorate plans to develop a reporting mechanism with finance colleagues and report savings on a quarterly basis by the end of September 2014</p> <p>The Department has ongoing work with key strategic suppliers to develop and ensure continuity and contingency plans are in place</p>

## The prospects for visibility of contracts and their costs and performance

**2.37** The Department's contract management improvement plan covers various actions aimed at improving contract visibility. However, notable gaps and risks remain. In particular:

- While the Department aims to standardise the use of open-book accounting, there is an absence of specific plans and skills to ensure information is used routinely to understand the contractor performance. The Department is participating in a Crown Commercial Service study on open-book contracts, to inform its future approach.
- The commercial directorate has limited analytical capability, which hinders its ability to interrogate and validate contractor information. This lack of capability was evident in immigration removal centres where contract monitoring undertaken by Home Office teams was insufficient.
- While the commercial directorate's contract manual notes the necessity of regular and formal feedback from service users, the Department has work to do to enforce consistent standards and formats for feedback across its portfolio. Furthermore, as with other improvement activity targeted through the manual, it is unclear how the commercial directorate with internal audit will assure compliance with good practice.
- The Department initially focused on its top 17 strategic suppliers with less corporate visibility of the middle and lower tiers. The Department has, however, been working with Deloitte to review its three-tier supplier model to focus on strategic, operational and (low-value, high-volume) transactional contracts.
- The Department maintains an electronic central repository for all contract documentation. Plans are not well advanced to use the new cross-government SID4GOV information system to better store and collate an improved range of contractual data and information. Data includes Executive Oversight Board meeting papers, supplier risk summaries, financial information, KPIs and supplier compliance with corporate social responsibility and information security.

# Appendix Three

## Our audit approach

**1** This study examined contract management arrangements in the Ministry of Justice and Home Office in order to provide a comparative assessment on value for money in both departments. We have focused on contract management at a departmental level and have not examined specific contracts in detail ourselves. However, we have utilised past NAO reports and departmental and external reviews that assess specific contracts.

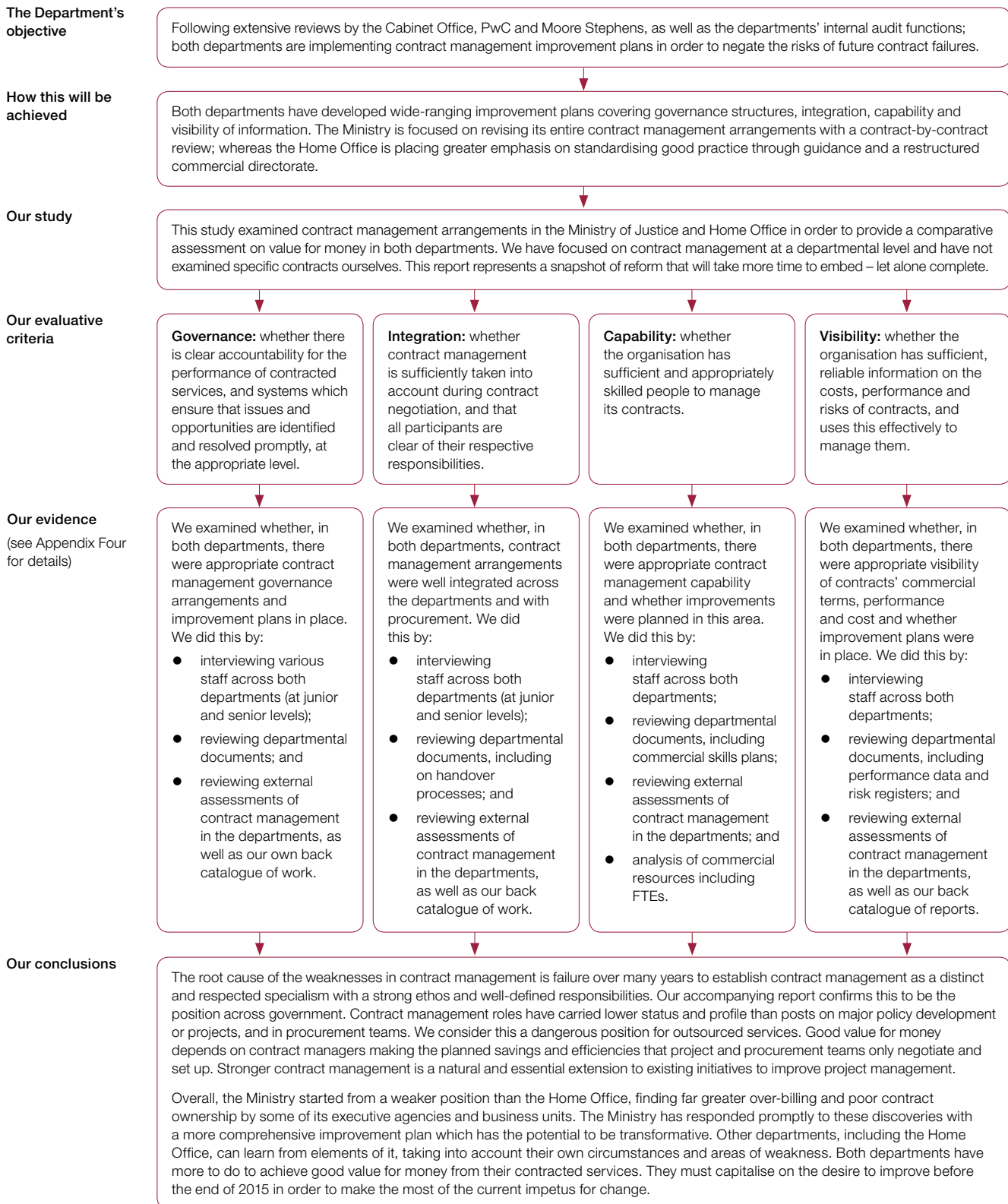
**2** We examined contract management across the Ministry. But our report excludes the Legal Aid Agency which manages its own numerous small contracts with solicitors and barristers outside the Ministry's procurement function. Its context is unlike the Ministry and Home Office which manage fewer, larger contracts.

**3** Our criteria for this examination were derived from our 2008 analytical framework,<sup>54</sup> which the Departments have also used to define good practice. The report addresses them in 4 main sections:

- **Governance:** whether there is clear accountability for the performance of contracted services, and systems which ensure that issues and opportunities are identified and resolved promptly, at the appropriate level.
- **Integration:** whether contract management is sufficiently taken into account during contract negotiation, and all participants are clear of their respective responsibilities.
- **Capability:** whether the organisation has sufficient and appropriately skilled people to manage its contracts.
- **Visibility:** whether the organisation has sufficient, reliable information on the costs, performance and risks of contracts, and uses this effectively to manage them.

**4** Our audit approach is summarised in **Figure 28** overleaf. Our evidence base is described in Appendix Four.

**Figure 28**  
Our audit approach





# Appendix Four

## Our evidence base

1 Our conclusion on whether both departments have appropriate contract management arrangements, including sufficiently developed improvement plans, was reached following an analysis of evidence collected between April and June 2014. Our audit approach is outlined in Appendix Three.

2 We reviewed key documents including:

- departments' contract management improvement plans;
- governance structures and organisation charts;
- commercial skills plans; and
- contract management guidance and examples of good practice.

3 We also reviewed extensively reports prepared for the departments by Breedon, PwC and Moore Stephens concerning contract management on a selected range of contracts. Moore Stephens reviewed 22 Home Office contracts and PwC assessed 37 Ministry of Justice contracts.

4 We interviewed both junior and senior staff in the Home Office and Ministry of Justice to determine their views on a range of issues such as:

- contract management governance, escalation processes and supplier relationship management;
- contract visibility, including access to documentation, and performance and cost data;
- the integration of contract management with other areas of the department, including: operations, finance, ICT and HR;
- the handover between procurement and contract management phases; and
- commercial capability, including: headcount, commercial budgets, skills and training.

**5** We also interviewed a range of suppliers who provide various services for the Ministry of Justice and the Home Office. We spoke to the following suppliers:

- G4S;
- Serco;
- Capita;
- Clearsprings Group; and
- Airwave Solutions Limited.

**6** We also analysed quantitative data available on departments': contractor spend; contract coverage of recent departmental reviews as a proportion of overall third-party contractors spend; expenditure on commercial functions; and capability data such as headcount, vacancies and skills.

# Endnotes

- 1 For example, *National Savings and Investments' deal with Siemens Business Services, four years on*, Session 2002-2003, HC 626, National Audit Office, May 2003.
- 2 Comptroller and Auditor General, *Central government's management of service contracts*, HC 65, Session 2008-2009, National Audit Office, December 2008.
- 3 National Audit Office, *Good Practice Contract Management Framework*, December 2008.
- 4 Ministerial Statement, 11 July 2013: Column 573, available at: [www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130711/debtext/130711-0002.htm](http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130711/debtext/130711-0002.htm).
- 5 National Audit Office, *Memorandum: The Ministry of Justice's language services contract*, September 2012; Comptroller and Auditor General, *The Ministry of Justice's electronic monitoring contracts*, HC 737, Session 2013-14, National Audit Office, November 2013; Comptroller and Auditor General, *COMPASS contracts for the provision of accommodation for asylum seekers*, Session 2013-14, HC 880, National Audit Office, January 2014.
- 6 Comptroller and Auditor General press statement, *Memorandum on Managing government suppliers*, Session 2013-14, HC 811, National Audit Office, November 2013.
- 7 HM Government, *Cross Government Review of Major Contracts*, Autumn 2013.
- 8 Parliamentary Statements on Statement on review of major government contracts: Column 122WS and by the Lord Chancellor and Secretary of State for Justice: Column 129WS1: December 2013.
- 9 Cabinet Office and The Rt Hon Francis Maude MP, *Statement on review of major government contracts*, December 2013, available at: [www.gov.uk/government/speeches/statement-on-review-of-major-government-contracts](http://www.gov.uk/government/speeches/statement-on-review-of-major-government-contracts).
- 10 Comptroller and Auditor General, *Transforming government's contract management*, Session 2014-15, HC 269, National Audit Office, September 2014.
- 11 National Audit Office, *Good Practice Contract Management Framework*, December 2008.
- 12 Chartered Institute of Public Finance and Accountancy, *Open Book Accounting* 2013.
- 13 Public Accounts Committee, Minutes of Evidence, *Contracting out public services to private sector*, Session 2013-14, HC777, Q52, March 2014.

- 14 An additional nine staff are on secondment, career breaks or in the redeployment network.
- 15 Comptroller and Auditor General, *Transforming government's contract management*, Session 2014-15, HC 269, National Audit Office, September 2014.
- 16 Comptroller and Auditor General, *Transforming government's contract management*, Session 2014-15, HC 269, National Audit Office, September 2014.
- 17 Chartered Institute of Purchasing and Supply, and the International Association for Contract and Commercial Management.
- 18 Comptroller and Auditor General, *Transforming government's contract management*, Session 2014-15, HC 269, National Audit Office, September 2014.
- 19 Comptroller and Auditor General, *Transforming government's contract management*, Session 2014-15, HC 269, National Audit Office, September 2014.
- 20 Comptroller and Auditor General, *The Ministry of Justice's electronic monitoring contracts*, HC 737, Session 2013-14, National Audit Office, November 2013, p. 10-11.
- 21 Comptroller and Auditor General, *The Ministry of Justice's electronic monitoring contracts*, HC 737, Session 2013-14, National Audit Office, November 2013, p. 2.
- 22 Ministerial Statement, 11 July 2013: Column 573; Comptroller and Auditor General, *The Ministry of Justice's electronic monitoring contracts*, HC 737, session 2013-14, National Audit Office, November 2013, p.11.
- 23 G4S repaid £108.9 million (of which 4.5 million related to the facilities management of courts) available at: [www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140312/wmstext/140312m0001.htm](http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140312/wmstext/140312m0001.htm); Serco confirmed it would repay £70.5 million (of which £2 million related to the prisoner escorting contract) available at: [www.gov.uk/government/news/taxpayer-compensated-for-overcharging-as-cross-government-contracts-review-concludes](http://www.gov.uk/government/news/taxpayer-compensated-for-overcharging-as-cross-government-contracts-review-concludes).
- 24 Secretary of State for Justice, Ministerial Statement, 11 July 2013, Column 573.
- 25 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), December 2013, p. 10.
- 26 Legal Services Commission, *Annual Report and Accounts*, 2010-11, pp. 34-42.
- 27 Secretary of State for Justice, Ministerial Statement, 11 July 2013.
- 28 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), December 2013, p. 13.
- 29 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), December 2013, p. 13 and 14.
- 30 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p. 27 and 28.

- 31 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p.16.
- 32 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p.46.
- 33 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p. 15.
- 34 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p. 44.
- 35 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p.36.
- 36 Statement to Parliament by the Secretary of State for Justice, 11 July 2013.
- 37 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p. 42.
- 38 Ministry of Justice, *Contract Management Review: findings and recommendations report* (Breedon), p. 49.
- 39 National Audit Office, *Memorandum: The Ministry of Justice's language services contract*, September 2013, p. 5.
- 40 Comptroller and Auditor General, *The Ministry of Justice's Electronic Monitoring Contracts*, Session 2013-14 , HC 737, National Audit Office, November 2013, p. 10.
- 41 Comptroller and Auditor General, *COMPASS contracts for the provision of accommodation for asylum seekers*, Session 2013-14, HC 880, National Audit Office, January 2014.
- 42 Comptroller and Auditor General, *Criminal Justice Landscape Review*, Session 2013-14, HC 1098, National Audit Office, March 2014, p. 4 and 5.
- 43 Home Office data. Does not include spend with other government departments just third party supplier spend.
- 44 National Audit Office, *Good practice contract management framework*, December 2008.
- 45 HM Government, *Cross Government review of major contracts*, Autumn 2013.
- 46 Top 17 in terms of strategic importance not value. Includes Foreign and Commonwealth Office Services and the Crown Commercial Service.
- 47 Comptroller and Auditor General, *COMPASS contracts for the provision of accommodation for asylum seekers*, Session 2013-14, HC 880, National Audit Office, January 2014, p. 5 and 34.

48 Comptroller and Auditor General, *COMPASS contracts for the provision of accommodation for asylum seekers*, Session 2013-14, HC 880, National Audit Office, January 2014.

49 Fed into HM Government, *Cross Government review of major contracts*, Autumn 2013

50 50 Comptroller and Auditor General, *The UK Border Agency and Border Force: Progress in cutting costs and improving performance*, Session 2012-13, HC 467, National Audit Office, July 2012.

51 If you include expenditure, the department has stated as one off non-pay costs, such as legal, equipment and vehicle costs, Home Office's commercial directorate expenditure decreased 32% (from £22.5 to £15.4 million) between 2010-11 and 2013-14.

52 National Audit Office analysis of interview data.

53 Comptroller and Auditor General, *COMPASS contracts for the provision of accommodation for asylum seekers*, Session 2013-14, HC 880, National Audit Office, January 2014, p. 6.

54 National Audit Office, *Good Practice Contract Management Framework*, December 2008.

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Design and Production by NAO Communications  
DP Ref: 10477-001

£10.00

ISBN 978-1-904219-37-8



9 781904 219378

---