

PSA

Property Services Agency

**WARDALE ENQUIRY
FINAL REPORT TO THE
SECRETARY OF STATE
FOR THE ENVIRONMENT**

August 1983

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT TO THE

SECRETARY OF STATE

FOR THE ENVIRONMENT

AUGUST 1983

Sir Geoffrey Wardale, K.C.B.
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Lewes,
Sussex.

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1, Little New Street,
London EC4.

The Secretary of State for the
Department of the Environment.

3 August 1983

Dear Secretary of State,

WARDALE ENQUIRY INTO RECENT CASES OF FRAUD AND CORRUPTION

IN THE PROPERTY SERVICES AGENCY

We have completed our investigation of the circumstances of recent cases of fraud and corruption in the Property Services Agency. Our enquiries have covered all cases in the Midland, London, South West and North East Regions of the Property Services Agency United Kingdom Territorial Organisation and thirteen selected cases in the remaining six Regions. This Final Report supercedes our Interim Report submitted in January 1983 which was based on our findings in the Midland, London, South West and North East Regions only.

Principal Findings

In the light of those cases which we have examined, we make some serious criticisms of management attitudes and of the relevant systems and procedures in the Property Services Agency. We believe that the recommendations we have made need to be implemented as a matter of urgency and that strong leadership will be required if the problems are to be rectified.

Action taken following our Interim Report

Following the submission of our Interim Report, a letter was sent to all Regional Directors by the Chief Executive on 11 February 1983, requesting immediate action on several points relating principally to Measured Term Contracts.

In April 1983 a discussion paper was sent to all Regional Directors. This covered the majority of the points raised in our Interim Report. We understand that an action plan based on this discussion paper is currently being formulated.

Systems of Internal Control

Our enquiries have shown that the present systems of internal control operating within the Property Services Agency are largely ineffective in either preventing or detecting irregularities. No system of internal control will be foolproof against fraud and corruption, particularly where this involves collusion. We believe, however, that the implementation of our recommendations will strengthen the preventive controls as well as ensuring that any irregularity stands a greater chance of being detected promptly.

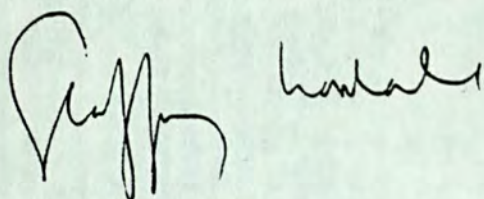
Implementation of Recommendations

Our recommendations have been drafted on the basis of the present structure of Regions, Areas and Districts but we consider that they would be equally applicable under the proposed, revised structure of Controlling Tiers and Districts. We do not believe however that organisational change can be relied upon to secure either the redirection of management attitudes or significant improvements in internal control systems. Unless these problems are tackled directly and with the highest priority, there must be a clear risk that any organisational change would simply be cosmetic and that present practices and attitudes would be unchanged.

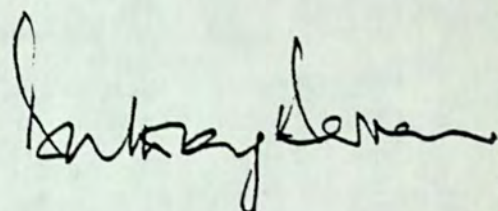
We do not consider therefore that the proposed reorganisation provides any justification for delaying the implementation of any of our recommendations.

We shall be pleased to provide any further assistance you may require on the matters covered in our report.

Yours sincerely,



Sir Geoffrey Wardale



Anthony Herron

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1. INTRODUCTION

1.1 TERMS OF REFERENCE

The terms of reference of the Enquiry were defined as follows in our letter of appointment dated 5 May 1982.

'To investigate the circumstances of recent cases of fraud and corruption in PSA and to recommend what changes in procedure or organisation are desirable in the light of your findings'.

We took as the basis for our investigation sixty-one cases of irregularity reported to PSA's Financial and Professional Accountants Unit over recent years. The reference numbers used in connection with the cases are those assigned by F/PAU.

In January 1983 at the request of the then Secretary of State we submitted an Interim Report which recorded our findings from reviews of those cases in the Midland, London, South West and North East Regions of the PSA UKTO.

We were instructed on 21 April 1983 to extend our investigation to cover a further thirteen cases in the remaining six Regions of the PSA UKTO. This report sets out our findings from both stages of our Enquiry.

1.2 BACKGROUND INFORMATION

PSA has as its object the construction, maintenance and furnishing of buildings required by both Civil and Defence Government departments, who are its clients.

This Enquiry has been concerned principally with expenditure on minor new works and maintenance. This amounted to £685 million in the year ended 31 March 1982 as indicated in the 1981/82 Annual Report. During the same period, £405 million were spent on major new works, which were not the subject of any of the cases presented to this Enquiry.

The PSA UKTO consists of ten Regions sub-divided into thirty-four Areas, which are sub-divided into one hundred and fifty-four Districts. The majority of minor new works and maintenance expenditure is incurred at Area and District level.

Only six of the cases which we have considered concern PSA Supplies which functions separately from the Works organisation. The majority of our observations and recommendations therefore relate to the Works organisation.

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1.3 APPROACH ADOPTED

Our approach to each of the cases has been to carry out a review of those systems which were involved in the irregularity.

We were provided with the Codes which, we were informed, contained details of these systems. Since they did not show the systems in an easily understandable form, we prepared flowcharts detailing all aspects of the systems relating to each case. These were prepared on the basis of discussions with officers at the locations of the cases and agreed with the appropriate Regional staff. We also identified in each system the errors which might occur in its operation, and considered the effectiveness of the preventive and detective controls which respectively should prevent such errors occurring or detect them.

During the course of our enquiries, eight Regional Offices, nineteen Area Offices and twenty-nine District Works Offices were visited and discussions held with the appropriate officers at each location. In addition we have had meetings with a number of senior officers at Headquarters.

We also met the Comptroller and Auditor General, and senior officers in the Exchequer and Audit Department to obtain their views on the problems.

Discussions were held with senior officers of Scotland Yard Fraud Squad, Thames Valley Police and MOD Police, Devonport concerning cases under their investigation.

Finally we have considered the report of the Rayner study on District Works Offices.

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2. SUMMARY OF CONCLUSIONS

We have identified a number of problems and have made certain recommendations based on our review of the cases.

2.1 PRINCIPAL PROBLEMS IDENTIFIED

The fundamental problem which we have identified relates to management's reluctance to acknowledge that problems exist and its lack of vigour in handling them when they are identified. We believe that this indicates a degree of complacency on the part of management which is reflected in its attitude towards dishonesty and fraud (see section 4.2).

This problem has resulted in a failure by management to recognise that there are shortcomings in respect of a number of important matters:

- a. the concept of financial control is not sufficiently understood (see section 4.3);
- b. management control techniques are inadequate either to prevent or to detect cases of irregularity (see section 4.5);
- c. the policy for disciplinary action against both staff and third parties is unsatisfactory (see section 4.6).

Furthermore, where management has identified that a problem exists, for example, that the existing management information system is defective, prompt action has not been taken to ensure that the deficiency has been rectified (see Section 4.4).

2.2 PRINCIPAL RECOMMENDATIONS

It is only by recognising and resolving the fundamental problem noted above that PSA management will operate effectively. In addition to this basic change in management attitude, we consider that the following recommendations should also be implemented:

- a. a budgetary control system should be introduced for all expenditure (see Section 5.2);
- b. a new management information system should provide the information necessary for proper financial and budgetary control (see Section 5.3);
- c. Regional Management Inspection Teams should be formed to give Regional management an annual assurance of the proper operation of their Areas and Districts (see Section 5.4);
- d. in the management of contracts, the respective responsibilities of all staff should be recognised (see Section 5.5);
- e. management should take a more commercial approach to various of its activities, where existing controls may not be cost effective (see Section 5.6);

PROPERTY SERVICES AGENCYWARDALE ENQUIRYFINAL REPORT2.2 PRINCIPAL RECOMMENDATIONS (continued)

- f. a more dynamic approach to staffing, training and disciplinary matters is required (see Sections 4.6 and 5.7).

For the effective management and control of PSA operations, we believe that all the above recommendations need to be implemented as a matter of urgency. This will help to ensure that PSA has a strong system of internal control, which together with positive management will minimise the possibilities for instances of fraud and corruption.

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3. THE CASES OF FRAUD AND CORRUPTION

3.1 INTRODUCTION

It was agreed with senior management of PSA at the outset of this Enquiry that our approach would be to review the cases on a Regional basis. Our Interim Report was based on our review of the thirty-seven cases in the Midland, South West, London and North East Regions. It was further agreed in April this year that of the twenty-four cases in the remaining six Regions of PSA, thirteen (including one previously covered in part in the North East Region) should be subject to a restricted review. It is from a review of these forty-nine cases, which are listed in Appendix I, that our observations have been drawn.

A number of matters has been brought to our attention which we consider should have been reported to F/PAU and a case file opened. We make this point to draw attention to the fact that the cases presented to this Enquiry do not necessarily include all possible instances of fraud and corruption in PSA.

It should be noted that all of the cases which we have reviewed have concerned minor new works or maintenance expenditure. None of them involves major new works which account for approximately one half of PSA's annual expenditure.

3.2 FRAUD AND CORRUPTION

We consider fraud and corruption to include deliberate deception or bribery for personal gain. This may or may not involve collusion. Fraud may be perpetrated against PSA without the positive involvement of PSA staff but in such cases there will always be passive involvement, since all payments made by PSA require positive authorising action.

Some of the cases involve non-beneficial patronage, non-compliance with departmental procedures, minor theft and pilferage. Whilst reprehensible in varying degrees these matters would perhaps not generally be regarded as fraud and corruption.

3.3 CATEGORISATION OF CASES

In Appendix I we have given a brief description of each case and have categorised the cases as follows:

- A - important cases involving fraud and corruption;
- B - cases involving fraud and corruption which individually are not apparently significant, but which collectively cannot be ignored;
- C - minor cases involving fraud and corruption;
- D - cases which we have been unable to assess due to lack of information;
- E - cases not apparently involving fraud and corruption.

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3. THE CASES OF FRAUD AND CORRUPTION

3.4 REVIEW OF CATEGORY A CASES

The following review of the category A cases does not attempt to relate the detailed facts of each case. It is intended to illustrate those procedural or organisational deficiencies which we have identified in relation to each case.

Case Number 21

This is an important case in view of the length of time taken to assess the overcharge to PSA, the limited scope of the internal investigation which was carried out and the continued use of the contractors involved.

These factors illustrate certain shortcomings in management's attitude towards fraud and corruption since it failed to ensure that the investigation identified the extent of the monetary loss to PSA, which was not established until four years later, and failed to ensure that the procedural weaknesses identified by the investigation were corrected.

Case Number 47

This case demonstrates that where both authority and responsibility are delegated to a technical officer there is no effective challenge to the performance of his duties by his immediate supervising officer. Furthermore, since the technical officer was in collusion with a contractor, monetary loss to PSA resulted.

No disciplinary action was taken against any of those individuals who should have supervised the technical officer.

Case Number 62

In this case a PSA officer was convicted for submitting fraudulent travel and subsistence claims over a period of two and a half years which resulted in substantial monetary loss to PSA.

The case illustrates both the failure to make use of available management information and the failure to recognise the responsibilities of officers in supervisory roles.

Although adequate information was available for the fraud to have been detected, this was not used properly and no disciplinary action was taken against those responsible.

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3. THE CASES OF FRAUD AND CORRUPTION
3.4 REVIEW OF CATEGORY A CASES (continued)

Case Number 66

In this case management failed to carry out a sufficiently comprehensive investigation following the conviction of a number of staff at a District Works Office for the misappropriation of stores items. Although the extent of the losses from the Daily Issue Stores was assessed, no consideration was given to the possibility of losses arising from stores delivered direct to site. In view of both the number of staff involved and the volume of direct deliveries, it appears that a potential problem could have existed.

Case Number 67

The fundamental problem in this case was that the majority of staff at a District Works Office was involved in the irregularities. These irregularities occurred over a number of years and resulted in considerable monetary loss to PSA.

The lack of challenge by either Area or Regional management to the operation of the District Works Office enabled the irregularities to remain undetected for a long period. No disciplinary action was taken against any supervisory staff.

Case Number 77

This is an important case because of the potentially large monetary loss to PSA, the failure of management to implement a proper internal investigation and the lack of supervision exercised over the technical officer involved.

Having established that a problem existed the subsequent internal investigation determined that overcharges had occurred but did not attempt to determine the causes of the problem. By allowing the key position of Regional Grounds Maintenance Officer to remain vacant for three years and by permitting an ex-employee of the contractor both to order work and to authorise its payment, management has contributed to the weakening of internal control systems.

Case Number 82

This case demonstrates the problem which can arise if inadequate challenge is made of contractors invited to tender for C1001 lump sum contracts.

The lack of challenge resulted from the post of Regional Grounds Maintenance Officer remaining vacant for three years and the apparent unwillingness of other supervisory officers to accept any responsibility for grounds maintenance work. No disciplinary action was taken against any of the supervisory officers who had failed in their management duties.

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3. THE CASES OF FRAUD AND CORRUPTION

3.4 REVIEW OF CATEGORY A CASES (continued)

Case Number 84

This is an important case since it illustrates a lack of challenge to a subcontractor's invoices by the authorising officer, poor investigatory procedures by management and inadequate subsequent disciplinary action.

The invoices in question were produced by the main contractor and not the subcontractor and contained not only inflated prices but also charges for goods actually supplied by PSA. The irregularities were found only by chance by a nominated quantity surveyor. Management failed to investigate another major contract held by the contractor, failed to take any disciplinary measures against the PSA officers responsible and has now reinstated the main contractor on the approved list.

Case Number 86

This case demonstrates the consequence of over-advancing payments on account to a contractor and not finalising promptly a large number of accounts where the contractor is known to be in financial difficulties.

The Area Officer encouraged District staff to accelerate payments to the contractor in order to alleviate his financial difficulties. This action, together with that of Regional staff who knew of the problem but took no corrective action led to PSA suffering a substantial loss when the contractor went into liquidation. This case cannot be considered separately from case number 67 since the contractor was the predecessor of the contractor in that case, and many of the personnel now convicted in that case had similar positions of responsibility with respect to both contractors.

Case Number 88

This PSA Supplies case is significant because it shows that the systems currently in operation for the supervision of floor-laying contracts are ineffective. Internal investigations identified that substantial overcharges occurred as a result of both the supervision of the work and the challenge to contractors' charges being inadequate.

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3. THE CASES OF FRAUD AND CORRUPTION

3.4 REVIEW OF CATEGORY A CASES (continued)

Case Number 100

In this case PSA has been overcharged by a Measured Term Contractor as a result of inflated claims for daywork, overmeasurement of self-measured items and the suppression of discounts received from subcontractors.

These irregularities have been facilitated by lack of challenge to the contractor's charges by those technical officers responsible for the supervision of the contracts. The Measured Term Contractor concerned holds a number of contracts, in a number of Regions, and has been placed on the ineligible list whilst police enquiries continue.

Case Number 101

In this case, a Measured Term Contractor consistently submitted inflated charges over a number of years resulting in a large monetary loss to PSA. These overcharges were facilitated by the lack of challenge to the contractor's invoices by both the nominated quantity surveyor and the PSA authorising officer.

Although substantial sums of money were recovered from the contractor, no action was taken against the nominated quantity surveyor, the authorising officer or the contractor.

Case Number 122

This case illustrates the confusion which exists between the responsibilities of the PSA authorising officer and the nominated quantity surveyor in respect of work carried out on Measured Term Contracts.

PSA were overcharged by the contractor as a result of the negligence of the nominated quantity surveyor and the lack of challenge by the PSA authorising officer. The nominated quantity surveyor was subsequently dismissed but no action was taken against the authorising officer. Furthermore, the contractor continues to be used by PSA.

3.5 CATEGORY B CASES

All of these cases involve allegations of collusion between PSA staff and contractors in the London Region. Geographically the Region is small and many of the contractors operate in more than one District. The allegations apparently originate from different sources, but nevertheless demonstrate a consistent degree of knowledge of irregularities occurring in the Region.

It should be noted that when collusion occurs, preventive controls cannot operate and therefore management must ensure that appropriate and effective detective controls are operating.

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3. THE CASES OF FRAUD AND CORRUPTION

3.6 CATEGORY C CASES

The important issues arising from these minor cases of fraud and corruption have already been discussed in section 3.4 under category A cases.

3.7 OTHER CASES

For category D cases PSA have been unable to supply us with the detailed information necessary in order for a full assessment of the cases to be made. None of the category E cases involves a serious breakdown of internal control.

PROPERTY SERVICES AGENCYWARDALE ENQUIRYFINAL REPORT4. PRINCIPAL PROBLEMS IDENTIFIED4.1 INTRODUCTION

In PSA, professional and technical officers at all levels are required to act in a managerial capacity. Historically greater emphasis has been placed on technical ability rather than managerial skill. Managerial skill however has become increasingly important following the reduction of the directly employed labour force and the greater employment of outside contractors.

The principal problems which we have identified all relate to management at all levels. It appears that management deficiencies have facilitated the perpetration of fraud and corruption and, in many cases, enabled irregularities to go undetected.

In the following sections we assess the different aspects of those management deficiencies, considering in particular, management attitudes, financial objectives and information systems. We also discuss management control techniques and the policy towards disciplinary matters. Finally we set out some of the constraints which have operated on PSA management which may have reinforced the attitudes we criticise. We are in no doubt that, however such constraints may have operated, there is no alternative to a radical change of attitudes if PSA is to be regarded as effectively managed.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.1 Introduction

Those responsible for directing PSA are in agreement that better management is the key to reducing the incidence of fraud and corruption. In the light of our examination of the cases, and the procedures associated with them, it is clear that management deficiencies have facilitated the perpetration of fraud and corruption and, in many cases, allowed irregularities to go undetected. Indeed, we believe that senior management has underestimated the extent of the change that is required in management attitudes at all levels. We recognise that the majority of top management has only been in post for a relatively short period of time and it is therefore too early to judge their impact on the organisation.

PSA has as its object the construction, maintenance and furnishing of buildings required by Government departments who are its clients. It is understandable that satisfying the demands of those clients is treated as a high priority and we are informed that political pressures may reinforce this. On the extent of the success of PSA in satisfying its clients we were not, in our enquiries, directly concerned. It appeared, however, that other management problems, such as effective staffing and financial control as we understand it, took a lower priority, and did not seem to command the attention they deserved. We were concerned to discover that there was sometimes a reluctance to acknowledge that problems existed in these areas and a lack of vigour in pursuing them when they were identified. Further, and as a facet of this, management's approach towards dishonesty and fraud does not always seem satisfactory.

These are attitudes which collectively we can only call complacent. We have also noted a lack of understanding of both individual responsibility and the delegation of authority.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.2 Attitude towards problems

From the outset of our Enquiry, we noted that although certain posts were recognised as of particular importance for effective management, this recognition was not matched by acceptance of the need to fill them promptly with suitably qualified staff. For example, vacancies in the key management post of District Works Officer had continued in the London Region at a very high level. Failure to fill important posts for long periods has, we believe, contributed to some of the irregularities in the cases we have examined.

Where problems have been recognised and remedial action taken, there often seems to be a lack of vigour in following it through. A good illustration of this is the introduction of the 5% check of all works orders by the District Works Officer which is represented by senior management to be a major measure against irregularities (see Section 4.5.4). The implementation of this check has been slow and moreover it has a number of fundamental conceptual defects.

A further aspect of the same approach is what appears to be a defeatist attitude to certain problems on the grounds that objectives cannot be attained because of the constraints imposed by the 'system'. We deal with such constraints in Section 4.7. A relevant example is that it has often been represented to us that PSA has been subject to pressures to reduce staff levels, and that this makes it difficult to maintain a desirable level of control. We recognise that there have been particular problems in this respect but it appears that the pressures on staff levels are used too readily as an excuse for lack of positive management. In particular this is allowed to reinforce the inherent tendency to regard as paramount the satisfaction of the clients, with the maintenance of effective controls being regarded as less important.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.3 Attitude towards dishonesty and fraud

It is a characteristic of employees of any organisation to feel loyalty towards their colleagues and therefore to find it difficult to believe that such colleagues may be involved in irregularities. It must be recognised, however, that in any collection of people a proportion, albeit small, is likely to be dishonest. Failure by management to recognise this will facilitate the perpetration of irregularities.

Management's reluctance to acknowledge the existence of problems has been illustrated by many of the cases covered by this Enquiry. For example in case number 67 the majority of staff at a District Works Office were involved in irregularities which appear to have been carried out over a substantial period of time. It seems likely, therefore, that other staff at the District Works Office, some Area staff and possibly even Regional staff must have been aware of the activities. If Area and Regional management had carried out their duties properly, it is at least possible that the irregularities might have been detected earlier. Despite the obvious seriousness of the situation there was still a tendency, during our Regional visit, for local management to play down the problem.

Management's lack of vigour in dealing with identified irregularities results in failure to determine the causes of problems and therefore does not ensure that the problems cannot recur. This approach has often been justified to us by the argument that the cases are isolated incidents and not evidence of more prevalent practices.

Our Enquiry has, however, noted many similarities amongst the cases which we have reviewed. For example, three of the cases which we have examined, namely case numbers 67, 84 and 100, have involved the suppression of discounts obtained by contractors from suppliers and subcontractors. We are, however, unaware of any steps having been taken by management to warn all those PSA personnel involved in the supervision of contracts, of such practices.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.4 Attitude towards responsibility and delegation

In any organisation management at all levels must recognise responsibility for their own job function and that this will incorporate responsibility for the actions and performance of those individuals working under them. We have noted a considerable reluctance to accept personal responsibility, compounded by some apparent reluctance by management to hold any individual responsible for the activities of others. This attitude is most apparent where there have been allegations or suggestions of fraudulent activity.

Further, there would appear to be a certain degree of confusion at various levels of management over the delegation of authority. In particular, many individuals appear to believe that the delegation of authority also entails the delegation of responsibility.

This is exemplified by case number 47 in which both authority and responsibility were delegated to a technical officer who was in collusion with a contractor. Monetary loss to PSA resulted.

The officer in charge at each operational level is responsible for all activities under his jurisdiction. He cannot pass that responsibility down to the next level although he may delegate certain authority. In this way the Regional Director is responsible for all activities within his Region. His District Works Officers will each be responsible for the activities carried out under their delegated authorities within their respective Districts. Thus an irregularity perpetrated at a District Works Office is the responsibility in the first instance of the District Works Officer, but responsibility will also have to be accepted by the respective Area and Regional Officers.

4.2.5 Recommendation

We consider that senior management should recognise, as an urgent priority, the need to change the attitudes we have criticised. The implementation of all the recommendations in this report will require a positive approach, and consequently a change in attitude, by management at all levels.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.3 MANAGEMENT FINANCIAL OBJECTIVES

4.3.1 Introduction

Throughout our Enquiry we have found that PSA management identifies two prime objectives:

- a. to satisfy its clients;
- b. to spend up to, but not more than, its allocated votes.

We believe that in many cases these objectives have been allowed to override other equally important management considerations. In particular, we believe that the importance of financial control is not sufficiently widely understood.

The constraints under which PSA management operates in respect of financial control within the Parliamentary Vote System are discussed in Section 4.7.

4.3.2 Financial control

Financial control is the control of expenditure to ensure that it has been properly, necessarily and economically incurred. It should also include the control of the custody of assets purchased through such expenditure.

Our discussions with Regional, Area and District personnel suggest that their concept of financial control is principally the control of overall expenditure during a financial year measured against allocations of monies within the various votes. A discussion with Training Division staff at Cardington indicated that this view is reinforced by the courses given there.

Whilst we appreciate the importance of this form of control within the Parliamentary Financial System, we consider that this view is allowed to dominate attitudes to the extent of conflicting with those other objectives necessary for full financial control. An example of this is where monies are allocated towards the end of the financial year and are required to be spent quickly. In such instances, it appears that the spending of the additional funds is given a higher priority than the necessity and propriety of the expenditure; and that this can happen even when the overall Government policy is to reduce public expenditure.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.3 MANAGEMENT FINANCIAL OBJECTIVES

4.3.3 Problems in achieving financial control in PSA

There are certain inherent problems, given the nature of PSA's activities, in achieving the objectives of financial control.

- a. Maintenance needs to be planned over the long term, particularly in conjunction with new building programmes. The Parliamentary system of annual votes, as discussed in Section 4.7, hampers but does not preclude this procedure.
- b. The assessment of the need for maintenance is in many respects a subjective exercise. The timing of the carrying out of maintenance has an inbuilt flexibility. It is therefore difficult to apply the 'necessity' criterion in all cases.
- c. In PSA, the 'economic' criterion is not always applied. Two examples of this are given below.
 - i. The requirement to meet the target spend may result in uneconomical work being carried out towards the end of the financial year. It should also be noted that any savings made in one financial year cannot be carried over to the following year. These factors remove any incentive to ensure that value for money is obtained.
 - ii. The requirement not to exceed the target spend may result in apparently economical short term measures being taken when greater initial outlay would result in longer term savings.

Whilst recognising the existence of these difficulties we believe that more attention needs to be paid to the fundamental objectives of financial control as against the often conflicting objectives of spending specified sums.

4.3.4 Recommendations

Our recommendations to establish financial control are given primarily in Section 5.2.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.4 MANAGEMENT INFORMATION

4.4.1 Introduction

The management information currently available is inadequate to achieve the objectives of financial and budgetary control. The information produced at the Hastings computer centre appears to arise as a by-product of the accounts paying system and the manual information produced locally overcomes only some of its shortcomings.

4.4.2 Computer produced information

The present computerised management information has grown over some years without a structured plan as to the requirements of the user. The information is mainly produced from payment details, and is therefore predominantly expenditure based. Although of some use to management, inadequate information is produced as to how monies have been spent and both committed and budgetted expenditure are excluded from the current system.

These shortcomings together with management's requirement for timely, detailed information have led to a large number of manual records being kept by District, Area and Regional staff. These manual records often contain information which is also held within the computer at Hastings, but which is not detailed in the output available to users.

User manuals are not provided and we have found that users are unaware of:

- a. all of the information that is available to them;
- b. how the information should be used;
- c. those financial control objectives to be achieved by use of the information;
- d. follow-up action to be taken.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.4 MANAGEMENT INFORMATION

4.4.2 Computer produced information (continued)

Bulk expenditure accounts, on average, for over 50% of the total maintenance expenditure at District Works Offices. At present, this expenditure is controlled by reviewing the total monthly spend and comparing this to the allocated funds. There is no detailed information received at District, Area or Regional level showing individual items of expenditure against property numbers. We consider that the lack of such information is a fundamental weakness in the control of bulk expenditure.

We have noted further shortcomings in many of the computer systems currently employed. In some cases the information retained is too complicated to be of subsequent value and in others the objectives of the processes appear to be ill-defined.

4.4.3 Manual information

The main control information produced manually is the F2/F3/F4 reporting system for maintenance jobs estimated to cost over £2,500 and small new works estimated to cost over £1,000. The production of this information is labour intensive and uneconomical in an age of on-line computer installations.

4.4.4 Current computer studies

The UKTOMIS study team are investigating the current management information systems with the objective of implementing a new, integrated computerised system. The study was first commissioned in 1977, and by the beginning of 1982 had only advanced to the feasibility study stage with expected full implementation in 1986. The timescale of this study seems to be inordinately long as there has obviously been a long-standing and urgent requirement for better management information to achieve the objectives of financial control.

4.4.5 Recommendations

Our recommendations concerning management information are included in Section 5.3.

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4. PRINCIPAL PROBLEMS IDENTIFIED
- 4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.1 Introduction

In any large organisation internal control systems are required to ensure that operations are properly controlled. A system of internal control is the combination of checks and balances which together prevent errors or irregularities from occurring or detect and correct them after the event. No system of internal control will ever be foolproof but will always be dependent on the calibre of people who are employed to operate it. A strong system of internal control is particularly important in the case of PSA where personnel are required to interpret and implement the same set of procedures in different parts of the country and in varying circumstances. In this section we comment on the control techniques employed by management.

4.5.2 Preventive controls

In order to execute the large number of orders placed with contractors PSA has adopted a system of financial delegations. In a number of instances this has been adopted without consideration of the need for the separation of duties between individuals and consequently in many cases the same individual is ordering work, certifying that it has been carried out satisfactorily, and subsequently authorising the invoice for payment.

In such circumstances the preventive control depends almost entirely on the integrity of the individual concerned. If an error is made the transaction will proceed and there is no further preventive control in the system.

During our enquiries we became aware of a serious deficiency in the control systems for maintenance work. Under the present arrangements, before payment can be made, the PTO responsible for the job must certify that the work has been completed to his satisfaction. In order to make this certification, a physical inspection of the work would normally be required. We have been informed, however, that in a high proportion of cases, the certification is made without any such physical inspection. We understand that both the number of orders requiring certification and the diverse locations of the jobs make it impossible for the PTO to carry out an inspection in every case.

The effect of this is that a procedure deemed necessary for financial control is being carried out in a manner which often provides no effective control whatsoever. Also we consider that it is unreasonable for PTOs to be required to give a false assurance. We understand that the arrangements for such certifications are currently under review.

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4.5.3 Detective controls

Detective controls operate some time after a transaction has been completed. They are generally of two kinds; either the testing of individual items on a sample basis or an analytical review of management information.

Within PSA's procedures sample testing usually operates after a significant time lag and the samples are so small that they cannot be relied upon to identify all errors. The currently available management information does not always facilitate appropriate analytical review procedures.

We believe that more use should be made of management information in carrying out detective control procedures. If the right information was produced a critical review of this would be the most effective detective control.

We have identified three categories of detective controls operated within the systems:

- a. District Works Officer 5% check;
- b. Area and Regional checks;
- c. Internal Audit.

Our review has revealed serious weaknesses in each of these and we set out our comments in the following paragraphs.

4.5.4 District Works Officer 5% check

It is stated in the District Works Office Code, DW502.8 that:

'The District Works Officer will personally carry out physical checks of at least 5% of all orders for work and stores placed on his behalf. The selection of jobs so checked will be at his own discretion in the light of his local experience. The aim will be not only to confirm that the work has been carried out properly in accordance with the written order but also that the price invoiced represents fair value for the work done. He will indicate his satisfaction by an initialled endorsement to this effect on the office copy of the appropriate order which will be available to audit inspection in the normal way. Where the District Works Officer is personally unable to carry out these checks he will arrange for them to be carried out on his behalf by a nominated officer who has not been concerned in the orders being checked.'

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4.5.4 District Works Officer 5% check (continued)

This instruction is designed to cover a wide range of situations throughout the country but nevertheless we consider that it is unsatisfactory in the following respects:

- a. it commences by stressing the importance of the District Works Officer carrying out the check personally but ultimately allows him to delegate the check without indicating when this would be appropriate;
- b. it does not specify the method of selection of orders;
- c. it does not specify how the District Works Officer will establish satisfaction in the work carried out or that fair value has been obtained;
- d. it provides no guideline on measures to be taken if he is not satisfied with either objective;
- e. it makes no provision for increasing the sample if any problems are found;
- f. it makes no provision for reporting the findings of the check to Area or Regional management.

Partly as a result of the deficiencies we have indicated above, the 5% check seems to have been interpreted differently and given a different priority by each District Works Officer. Its effectiveness in practice must also be questioned, since we know of no irregularity which has come to light as a result. Certainly none of the cases presented to this Enquiry was identified by the check.

New instructions have been issued in Accommodation and Works Circular 23/83 dated 1 July 1983, which was apparently designed to meet these criticisms. We consider however that the revised 5% check is still subject to criticisms a, b and e above. Further, our enquiries suggest that a firm drive from Headquarters will be required to ensure compliance with these instructions.

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The District Works Officer is responsible for the actions of all his PTOs when ordering work on any contractor by whichever form of ordering is appropriate. This includes the PTO's actions when ordering and authorising work under his delegations. The position of District Works Officer necessitates a thorough understanding of all of the activities of the District to provide the incumbent with sufficient information to exercise financial control. The requirement to make site visits, examine orders and challenge the authorisation of invoices is essential to his everyday management of the District. We consider that the requirement for him specifically to carry out a 5% check as prescribed is somewhat misconceived since he should be having to do considerably more than this in the normal course of his management duties.

If senior management requires a specific check as a detective control we consider that the check should be conducted independently of the District (see Section 5.4.2).

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4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.5 Area and Regional checks

Area and Regional checks include those carried out by Administration Officers, those performed under maintenance appraisals and those carried out by quantity surveyors. The Administration Officers' checks are primarily designed to establish that individuals at the District Works Office are familiar with procedures as documented in the Codes. The duration of these visits, about one day each year, provides only a minimal coverage. For these reasons we do not consider the Administration Officers' check to be an effective detective control.

Our review of maintenance appraisals indicates that they are concerned more with the technical aspects of building maintenance than with financial control. The regularity of the checks varies in the Regions we have visited, but nowhere did they attempt to cover more than a few buildings in any District each year. We do not consider that this constitutes sufficient coverage to provide a reasonable chance of detecting any financial errors or irregularities that may be occurring.

The check carried out by quantity surveyors covers work on Measured Term Contracts only and is designed to test check work signed off by both in-house and nominated quantity surveyors. The value of this detective control is illustrated by the fact that two of the cases which we have reviewed were identified as a result of this check.

4.5.6 Internal Audit

We do not consider the primary function of an internal audit department to be to act as a detective control. We consider that Internal Audit should provide an independent assurance to senior management that its control procedures are being implemented effectively and efficiently. It cannot do this if it acts as an integral part of those control procedures. Our principal criticisms of the current organisation of Internal Audit are equally applicable to the department following its recent increase in staffing levels and are given below.

a. Internal Audit Staffing

Internal Audit work is of a specialist nature, requiring an understanding of accounting matters, the technical aspects of PSA's work, and auditing theory. The individuals selected for this department seem lacking in these skills and the training programmes provided appear inadequate.

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4.5.6 Internal Audit (continued)

b. Nature of work

At present different aspects of Internal Audit work are assigned differing priorities and Internal Audit management has the flexibility to adjust its detailed programmes of work. Accordingly senior management will not be clear at any one time of the level of assurance being provided by Internal Audit.

c. Special investigations

Internal Audit is also used for troubleshooting exercises, such as fraud investigations. In such circumstances no provision is made to ensure that the annual programme of work is completed. When this happens the independent assurance ceases to function and senior management can place no reliance on it.

On the evidence of the investigations that have taken place into cases covered by this Enquiry we doubt whether Internal Audit has the expertise or the ability to conduct them. Its assessment of the cases seems to lack sufficient perception to design appropriate investigatory procedures.

d. Conflict of reporting

Internal Audit is designed to provide assurance to senior management on the operation and effectiveness of the control systems throughout PSA. As noted above, however, Internal Audit is the only independent challenge to Area and District activity and Regional management is dependent on its work. Internal Audit reports are addressed to Regional management, but the latter is not responsible for the control over the former's work plan. As such, Regional management is dependent on a control over which it has no direct authority.

e. Period covered by audits

The work of Internal Audit at any particular location covers neither the previous financial year nor the whole period since their last visit. As a result, its work tends to concentrate on recent activity and is able to provide no assurance to management prior to this, in the period since the last audit.

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4.5.6 Internal Audit (continued)

f. Techniques adopted by Internal Audit

The Audit Guide is a list of instructions which requires the auditor to establish that staff have adhered to procedures as laid down in the Codes. Whilst this may be a suitable method for insufficiently trained staff it does not lead to a particularly constructive or well thought out audit approach. Furthermore, the tools of the department, such as its sampling techniques, are somewhat elementary and consequently do not lead to the most efficient approach or to evaluated conclusions being drawn from the work carried out.

g. Effectiveness of Internal Audit

None of the cases categorised as important in Section 3.4 was detected by Internal Audit, although some of the transactions involved would have been subject to its scrutiny. This must throw serious doubt on the effectiveness of the department.

The views expressed in this Report are based on our observations of the present arrangements. We understand that following a recent Treasury/PSA review of Internal Audit certain changes, in addition to the increase in staff to which we have referred, are in progress.

4.5.7 Recommendations

We consider that the present detective controls do not together form a sufficient check to provide reasonable confidence that errors and irregularities will be detected. Our recommendations in Sections 5.4 and 5.5 suggest new approaches to the problems.

In respect of preventive controls we have made various recommendations on the methods of execution of work covered by the cases (see Section 5.5).

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.6 MANAGEMENT POLICY TOWARDS DISCIPLINARY MATTERS

4.6.1 Introduction

We consider disciplinary action to include all penalties ranging from the issue of letters of reprimand to dismissals. We distinguish in this section between disciplinary action taken against employees and that taken against third parties.

4.6.2 Disciplinary procedures against PSA staff

The Civil Service and therefore PSA distinguish between 'failures of conduct' and 'failures of performance'. Although these terms are not defined, it appears that 'failure of conduct' implies deliberate contravention of procedures set out in the Codes, dishonesty or that the individual has been convicted of an offence. 'Failure of performance', however, seems to relate to shortcomings in the supervision exercised by an individual through negligence or incompetence.

We have been informed that under current practice 'failures of conduct' would normally result in disciplinary procedures being initiated against an individual, whereas 'failures of performance' are likely to result in adverse comment on an individual's annual report. We were also informed that it is only recently that the role of the relevant supervisory staff has been considered when a disciplinary case has arisen.

We consider that the most effective means of ensuring that management recognises its responsibilities is for it to see those who commit 'failures of performance' being disciplined for their contributory role in an irregularity.

We believe the distinction made between 'failures of conduct' and 'failures of performance' is unsatisfactory since it serves to prevent management in supervisory roles from being disciplined. This distinction should be modified and a graduated scale of disciplinary action formulated against which all personnel associated with an irregularity can be disciplined. We believe that the various methods of exercising disciplinary procedures should be made known to all management and staff.

It has been represented to us that where cases of apparent fraud and corruption have been reported to the Police, disciplinary action by PSA must often be delayed. Although we recognise that this can be a difficulty, management may have allowed it to become more of an obstacle than necessary.

Recently, stronger action has been taken by PSA against those found guilty of offences. We would like to see, however, a similar attitude towards 'failures of performance'.

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4.6 MANAGEMENT POLICY TOWARDS DISCIPLINARY MATTERS

4.6.3 Disciplinary procedures against contractors

We understand that the responsibility for the instigation of disciplinary measures against contractors is divided as set out below.

- a. For contractors on the central approved list (those with a notation of £100,000 or over) the Contracts Directorate at Headquarters will be informed by the supervising officers responsible for the contractors and will implement the necessary procedures.
- b. For all other contractors the responsibility lies with Regional management and the maximum penalty which it can impose is suspension from the approved list for one year. In cases judged to warrant more severe action the matter must be referred to Headquarters.

The most severe penalty which can be imposed is for contractors to be placed on a blacklist which precludes their working for PSA. We have been informed that only contractors and their directors who have been convicted of criminal offences are placed on this list. In other circumstances, contractors may be removed from the approved list for periods of one year upwards.

We consider that PSA should take a more commercial approach towards the contractors which it employs. We believe that contractors should be employed only on the understanding that they will perform their services in accordance with the prescribed contractual terms. If it is subsequently discovered that a contractor has not so complied, then unless the offence is trivial, he should no longer be employed by PSA. We recognise that such action might have adverse repercussions where the contractor is involved in unfinished work in the same or another Region. We do not consider, however, that this should be used as an excuse for failing to take appropriate action. We believe that this strong action would act as a deterrent to all contractors and assist in ensuring that they comply with contractual terms. The current treatment of aberrant contractors, which is largely confined to recovering certain overcharges, serves no such purpose.

Finally, we consider that a number of contractors have avoided disciplinary action by blaming members of their staff for the irregularities which have occurred. We believe that such a defence is generally inadmissible since employees are merely the agents of the contractor.

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4.6 MANAGEMENT POLICY TOWARDS DISCIPLINARY MATTERS

4.6.4 Disciplinary procedures against nominated quantity surveyors

PSA management appears to be confused as to the responsibility for opinions given by professional firms of quantity surveyors. Where a nominated quantity surveyor is employed, it is the partners in the firm and not the staff whom they employ who are responsible for all opinions given. The means by which the partners of such firms monitor the performance of their employees is for them to decide and need not concern PSA.

In a number of cases where the work of nominated quantity surveyors has been found to be deficient, we have found inconsistencies in the action taken by PSA management. In case number 122 the nominated quantity surveyor was dismissed, having been found to be negligent whereas in case number 101 no action was taken against a similarly negligent nominated quantity surveyor.

In order to avoid such inconsistencies, we believe that PSA should adopt a policy whereby if the work of a nominated quantity surveyor is found to be unsatisfactory that firm should not receive further work from PSA unless there are extenuating circumstances.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.7 CONSTRAINTS UNDER WHICH MANAGEMENT OPERATE

4.7.1 Introduction

During the course of our Enquiry we have noted that PSA management is required to operate under a number of constraints. These are a direct result of PSA being a Government department. It appears, however, that these constraints are often used to justify a defeatist attitude by management towards the resolution of problems. We discuss below, a number of constraints which have been quoted to us.

4.7.2 The Constraints

a. The Parliamentary Vote System

Under the present Parliamentary Vote System, allocations of funds are made under each vote heading for each financial year and all funds so allocated are required to be spent within that financial year. This requirement to spend funds by a certain date is in direct conflict with the objectives of financial control as discussed in Section 4.3.2.

b. Staffing levels

It has been represented to us that staff cuts arising as a direct result of Ministerial policy have led to imbalances in both the grades and locations of staff. Management has used this constraint as one of the reasons for allowing key posts to remain unfilled over long periods. We consider that more positive action should have been taken by senior management to plan and implement the reallocation of staff to ensure that all key posts were filled.

A further constraint over staffing levels is that the rates of pay offered by PSA do not appear to attract individuals of sufficiently high calibre, particularly in the London Region. We recognise that Civil Service pay scales are determined independently of PSA but consider that PSA management should make those responsible for pay policy aware of the difficulties which have been encountered.

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4.7 CONSTRAINTS UNDER WHICH MANAGEMENT OPERATE

c. Use of contractors

It is PSA policy that only in those cases where there has been a criminal conviction will a contractor be placed on a blacklist which precludes his working for PSA. We have noted a reluctance on the part of PSA management to take any action against those contractors who are known to have overcharged PSA but who have not been convicted by a Court.

We have been informed that this reluctance is due to a fear that the contractor will complain of unfair treatment and the belief that strong action will not be sustained politically. We believe that only by positive action being taken against offending contractors will an effective deterrent result.

d. Police investigations

When police are investigating an irregularity within PSA, it is PSA policy that all internal investigations must cease until police enquiries have been concluded. The justification given for this is that PSA do not wish to prejudice police investigations.

The result of this is that internal investigations often take place a significant time after the initial problem has been identified. During the intervening period the system which gave rise to the irregularity continues to operate unchanged. We believe that management should take positive action to review the relevant systems each time an irregularity is suspected of having occurred and to rectify any internal control weaknesses at the earliest opportunity.

e. Pressure from clients

It appears that pressure from clients to carry out work quickly, may result in control systems being overridden and uneconomic and unnecessary work being carried out. This has often been justified by the argument that one of PSA's prime objectives is to satisfy its clients.

We consider that this objective is often given too high a priority, and other equally important objectives, such as ensuring that work is carried out properly, necessarily and economically, are given less attention than they deserve.

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5. RECOMMENDATIONS

5.1 INTRODUCTION

In this section we make a number of recommendations which we believe will assist in reducing the incidence of fraud and corruption within PSA. We consider that the implementation of these recommendations would also produce a marked increase in efficiency in the management of PSA.

These recommendations should be viewed as an overall proposal and not as individual solutions to separate problems. A committed approach to their comprehensive implementation will be required to achieve the desired result. For example, the introduction of appropriate management information systems will only have a beneficial effect if management use the information for its designed purpose, and if adequate training is planned and carried out, to ensure that users are fully instructed.

We are aware that the Chief Executive is developing his own plans for some reorganisation of PSA's structure. As far as we understand these plans we do not believe that they will be incompatible with our recommendations in any material manner.

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5. RECOMMENDATIONS

5.2 FINANCIAL AND BUDGETARY CONTROL

5.2.1. Financial control

As discussed in Section 4.3, we consider that the systems operating within PSA do not ensure that the objectives of financial control are met. We consider that financial control over expenditure is fundamental to the proper management and control of PSA's activities. This forms the basis of many of our recommendations.

In particular we believe that the funds allocated to the various vote headings should be viewed as the funds available rather than funds which have to be spent in that financial year. We believe that there should be some arrangement with the Treasury to carry forward unutilised funds to future periods.

We also consider that long term planning of work should be carried out regardless of the uncertainty of future allocations. We believe that an assumption of the base levels of future allocations should be made to assist this exercise.

5.2.2 Budgetary control

The objectives of financial control are normally assisted by the implementation of a system of budgetary control.

It is partly by setting budgets for categories of expenditure, measuring actual performance against them and explaining the variances between budget and actual, that financial control can be achieved.

We consider that all PSA maintenance expenditure should be measured against budgets with the annually allocated funds being considered as the cash available to fund the budgetted work.

Many budgets are produced currently in PSA for different purposes and they are used primarily for ensuring that expenditure is in line with the annual votes. We believe that much of the information produced in the preparation of these budgets could also be used in effecting budgetary control.

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5. RECOMMENDATIONS

5.2 FINANCIAL AND BUDGETARY CONTROL

5.2.2 Budgetary control (continued)

For effective budgetary control it is necessary to break down budgets into sufficiently small categories such that individual items of expenditure can be measured against them. We recommend that appropriate categories are identified for budgeting types of expenditure by individual buildings or small groups of buildings. Bulk expenditure is already coded against buildings or groups of buildings and this information is maintained on the computer at Hastings under the relevant property numbers. All other items of expenditure should also be coded to the appropriate property number to provide an overall analysis of all work being carried out on each property.

We recognise that initially it will be extremely unlikely that such detailed budgeting will be particularly accurate. This is not an argument against introducing budgetary control, however, since the essence of such control is that variances of actual spend against budget are explained.

In subsequent periods, experience will ensure that budgets become more accurate although it will still be the critical examination of variances between actual spend and budget which will determine those areas of expenditure which require further explanation. It is by this process that the objectives of budgetary control will be achieved.

The introduction of such a system of budgetary control based on property numbers would be of value to all levels of management within PSA. In particular it would facilitate a challenge of any individual item of expenditure which at present is not possible for that proportion of the total spend included in the bulk expenditure.

5.2.3. Custody of fixed assets

We understand that fixed asset registers are not maintained by PSA or their clients. This constitutes a major weakness in internal control, since for certain categories it is impossible to establish those assets which should be present. For example, the considerable annual expenditure made by PSA on furniture for its clients is written off annually, and no record is kept of the assets held, hence losses cannot be identified.

We recommend that fixed asset registers are maintained by the departments responsible for the safe-keeping of these assets. Regular reviews and independent checks of these registers would help to ensure the proper control of the custody of fixed assets held by Government departments.

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5. RECOMMENDATIONS

5.3 MANAGEMENT INFORMATION

5.3.1. Introduction

For effective management of any business it is necessary for management to receive relevant and timely information which it understands and on which it can act. As noted in Section 4.4 the present management information system does not provide this.

5.3.2 Recommendations

- a. All management information should be computerised to ensure that it is maintained on a consistent basis and that the inefficiencies of manual recording are avoided.
- b. The system needs to be on-line so that users have immediate access to current information.
- c. The system should be designed to incorporate the budgets discussed in Section 5.2 as well as actual expenditure and commitments.
- d. The system must be designed to achieve the objectives of financial control.
- e. User manuals and adequate training should be provided to ensure that the optimum benefits are obtained from the system.

We recognise that in an organisation as large as PSA the introduction of a new management information system will be a complicated process. The implementation of such a system requires urgent attention, however, in view of the need for improved management information to achieve the objectives of financial and budgetary control.

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5. RECOMMENDATIONS

5.4 AUDIT FUNCTIONS

5.4.1 Introduction

Our review of the detective controls within the systems has revealed that Internal Audit is used as a primary detective control. Our comments on this current arrangement are given in Section 4.5.

Our recommendations in this section provide for the creation of a new, effective detective control and clarify the objectives of Internal Audit.

5.4.2 Regional level assurance

We consider that Regional management needs an annual assurance that its controls are operating satisfactorily throughout the Region and that its expenditure is being effected in the most economical manner in line with client requirements and availability of funds through Parliamentary votes. Furthermore, we believe that those giving this assurance should be responsible to the Regional Director.

We do not consider that any of the existing arrangements would be appropriate to carry out this function and, therefore, recommend the creation of a new body which could be entitled 'Regional Management Inspection'. This body would comprise both full time and seconded staff. It would, however, be led by a full time officer whose status would be second to the Regional Director and who would be a member of the Regional Board. The team leader's position would ensure that the team's work was given top priority by all Regional staff.

The status of the team will be important. It must be respected by other staff in the Region and it must be seen to operate efficiently. It must, therefore, be staffed by the best individuals available. It would be desirable for professional officers with career prospects to spend a period within the team. They would be required to carry out maintenance appraisals and to act as technical advisors to the other members of the team. On the audit side, to the extent that they are considered suitably qualified, Internal Audit staff would be incorporated into the team, but it would also require the presence of qualified auditors. It would be desirable for PSA to use its own staff but until those with the necessary qualifications are available, it might be possible to arrange secondments of suitable staff from firms of Chartered Accountants.

The experience gained by all PSA staff working in these teams would be invaluable. The wide range of exposure to all activities within a Region should place these individuals in an advantageous position when competing with others for senior management posts.

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5. RECOMMENDATIONS

5.4 AUDIT FUNCTIONS

5.4.2 Regional level assurance (continued)

The team leader would be responsible for the design of the procedures which he considers appropriate to provide an annual assurance to Regional management. We consider that in particular the teams should make use of the improved management information (see Section 5.3) and that much of its work would be based on a comparison of budgetted and actual expenditure as outlined in Section 5.2. In addition, we would expect them to carry out detailed reviews of contractual arrangements considering such aspects as staff relationships with contractors. As a result they would be in a position to make recommendations for the rotation of staff responsibilities with a view to minimising the opportunities for patronage and potential bribery. They should also consider the appropriateness of the type of contract used.

5.4.3 Audit at National level

In the same way that Regional management requires an annual assurance as to the activities of its Areas and Districts, we believe that Central management requires a similar assurance about the Regions. This assurance would be given by a National audit function, whose work would include both a review of the Regional Management Inspection Team's work and such other audit procedures as are considered necessary by the Accounting Officer.

The timing of this work, in order to achieve an annual assurance, will be seasonal. Moreover, the individuals carrying out the audit should be at least as well qualified as those making up the Regional Management Inspection Teams. If such a team could not be assembled at Headquarters, then consideration should be given to obtaining assistance from a professional firm of accountants.

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5. RECOMMENDATIONS

5.5 MANAGEMENT OF CONTRACTS

5.5.1. Introduction

In this section we make specific recommendations in respect of the management of different types of contract to overcome the weaknesses within the systems which may have contributed to the irregularities in the cases which we have considered.

5.5.2 Measured Term Contracts

There appears to be some confusion amongst the various individuals involved in Measured Term Contracts regarding their respective responsibilities. Our recommendations have, therefore, been classified in terms of the individual to whose function they relate.

a. The PTO and the QS.

We consider that the PTO and the QS, whether in-house or nominated, have quite separate but complementary roles in the management of a Measured Term Contract. The PTO must satisfy himself of the quality and technical aspects of the work being carried out whereas the QS's involvement is usually confined to the completion stages of the work, where he is simply required to measure it in accordance with the schedule of rates laid down in the contract.

We recommend that this distinction is made clear to all individuals involved with Measured Term Contracts.

b. The role of the PTO

The PTO responsible for individual Measured Term Contract orders is the person with responsibility for the day to day management of the contract and he is required to authorise contractors' invoices for payment. We believe that PTOs should be made aware of their responsibilities especially under the following three circumstances:

- i. where PSA materials are incorporated into work carried out by the contractor, the onus is on the PTO to ensure that PSA is not charged subsequently for those materials;
- ii. when sub-contractors are employed by the main contractor, the PTO should take whatever steps he considers necessary to ensure that any discounts obtained by the main contractor are passed on to PSA;

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5. RECOMMENDATIONS

5.5 MANAGEMENT OF CONTRACTS

5.5.2 Measured Term Contracts (continued)

iii. when work is carried out at daywork rates under a Measured Term Contract it is the PTO who must both give prior approval for the daywork and authorise the relevant contractors' invoices for payment. We consider that the recently noticed high incidence of daywork on Measured Term Contracts is due largely to a relaxation of these controls.

c. The role of the Area QS

The role of the Area QS in respect of Measured Term Contracts is to monitor the work carried out by the nominated quantity surveyors employed by PSA. This monitoring procedure is important to ensure that PSA are given proper professional services by the firms concerned.

We do not believe that monitoring should be by means of such a rigid criterion as the present 2% check of measurements. We recommend that Area quantity surveyors should be required to satisfy themselves that QS work within their Area is being carried out in an efficient and proper manner. This may well involve a much greater level of checking of measurements than 2%.

We also recommend that where a nominated quantity surveyor has been found to have provided an unsatisfactory service, the Area QS should be responsible for ensuring that appropriate action is taken which may include the relevant firm no longer being used.

d. Role of the Area Officer

Within an Area, the largest amount of recurring expenditure will normally be effected through Measured Term Contracts. The Area Officer has overall responsibility for those Measured Term Contracts in his Area and we recommend that positive steps are taken by such officers to monitor the management of these contracts in each of his Districts.

e. Role of Regional Contracts Departments

We recommend that Regional Contracts Departments are reminded of their responsibilities for monitoring the volume of work being carried out by Measured Term Contractors against both their notation and the estimated annual value of these contracts. One of the major cases (number 86) should have been identified much earlier had Regional Contracts done this.

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5.5 MANAGEMENT OF CONTRACTS

5.5.3 Grounds Maintenance Contracts

Our enquiries have indicated that the following recommendations are relevant to Grounds Maintenance Contracts.

- a. It is currently the responsibility of the grounds maintenance officer to certify that the work has been completed satisfactorily. Since the grounds maintenance officer cannot physically inspect all the work done we believe that it would be more appropriate for the client to make this certification.
- b. The nature of much grounds maintenance work is such that it can only be physically checked at the time the work is done. This has often been used to justify the lack of an effective detective control over this kind of work. We believe that under such circumstances, District Works Officer and Internal Audit checks should concentrate on establishing whether the contractors' charges are fair and reasonable for the work done.
- c. We have noted a lack of effective challenge to work under the control of grounds maintenance officers at District level. This has been justified to us by the argument that there are no other staff at District level with sufficient technical expertise to question the grounds maintenance officer's judgement.

We believe that the District Works Officer is responsible for all work carried out in the District (see Section 4.5.4) regardless of its technical nature.

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5. RECOMMENDATIONS

5.5 MANAGEMENT OF CONTRACTS

5.5.4 Jobbing Arrangements

Our consideration of the systems relating to jobbing arrangements has led to the following recommendations.

- a. When delegations are used, it is important to maintain a separation of duties between the ordering of work and its subsequent authorisation for payment.
- b. In order to exercise proper financial control over jobbing arrangements, District Works Officers must have some positive involvement. We believe that this involvement should at minimum include a brief review of both all orders raised before they are issued and all invoices which have been authorised for payment.
- c. There are no guidelines to assist PSA staff in establishing the level of usage of a jobbing contractor which constitutes undue patronage. Given the sensitive nature of this area we consider that some appropriate guidelines should be prepared.

5.5.5 Daywork Term Contracts

The conditions of Daywork Term Contracts appear to lead to Internal Audit giving too much emphasis to checking the documentation relating to the hours charged. As Internal Audit has a right of access to the contractors' books there is a dependence on the ability of the hours reported to be checked subsequently with the contractors' records. We consider that the emphasis should, more properly, be placed on whether the charge for the work is fair and reasonable.

5.5.6 C1001 lump sum contracts

These contracts are let from a District without the involvement of Regional Contracts Departments, and from April 1983 cover work up to the value of £25,000. There are no formal vetting procedures for such contracts, the only control being to ensure that the contractor is not on the ineligible list. We believe that more stringent vetting procedures should be applied to contractors tendering for substantial C1001 contracts.

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5.5.7 Removal and floor laying contracts

The PSA Supplies' technical officers responsible for certifying that work has been done and for authorising contractors' invoices for the provision of removal and floor-laying services, in many cases do not have direct knowledge of the work done. Under these circumstances we consider that they are not able to provide a useful control function and that they would be unlikely to detect irregularities. We believe that the accommodation officers of the relevant buildings are in a better position to carry out this function.

We understand that the irregularities relating to the floor laying contracts were facilitated by the lack of challenge of contractors' measurements of floor areas by PSA Supplies staff. Again, we believe that this control function would be more appropriately performed by the accommodation officers of the relevant buildings.

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5.6 ACTIVITIES REQUIRING A MORE COMMERCIAL APPROACH

5.6.1 Introduction

Certain matters have been brought to our attention where, apparently, a disproportionate amount of time and expense is incurred in operating the current systems of control, and a more cost effective approach could be adopted without any significant decrease in the levels of control. Indeed, if accompanied by more appropriate management information we believe that more effective control would be achieved. Where a cost effective measure is taken as a policy decision we believe that management should be prepared to defend its commercial approach.

In this section we consider a number of activities where cost effective measures would be appropriate.

5.6.2 Daily Issue Stores

With the decline in numbers of the Directly Employed Labour force the position of the Daily Issue Stores needs to be reconsidered. We understand that in many Districts the annual value of purchases through the stores is now approximately £30,000 or less. We believe that the cost of administering these stores is disproportionate to this annual value.

We recommend that in such Districts a more commercial approach towards the provision of materials for the Directly Employed Labour force would be either free issue stores or direct purchasing from nominated local suppliers.

In either situation the critical control would be the District Works Officer's review of monthly stores expenditure. The average monthly spend in such circumstances is unlikely to exceed £2,500 and any material divergence from this figure will be able to be identified and investigated promptly, provided appropriate management information is supplied on a timely basis.

We also recommend that there should be more effective control of the large stores purchases which go direct to site. Present controls appear minimal and this contrasts with the elaborate recording of the Daily Issue Stores. We endorse the PSA management view that contractors should generally be made responsible for supplying materials, and that use of PSA stores by contractors should be regarded as a last resort. We would expect the Regional Management Inspection Team we have recommended to look carefully at this form of expenditure.

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5.6 ACTIVITIES REQUIRING A MORE COMMERCIAL APPROACH

5.6.3 Travel and subsistence claims

The cost of the control systems operating over travel and subsistence claims would appear to be quite disproportionate to the level of such expenditure. We understand that the level of expenditure at a District Works Office is usually of the order of £1,250 a month. We believe that this expenditure would be most effectively controlled by the District Works Officer through a review of the monthly spend.

If the above approach was adopted, various aspects of the current laborious claims procedure could be eliminated. The certifier of a travel and subsistence claim should be required to authorise it in all respects i.e. necessary journey and correct details. This would have the advantage of eliminating further detailed checking procedures in the sub-accounts office and the routing of the claim slip back to the claimant via the authorising officer. The District Works Officer's monthly check could be relied upon to identify any unusual claims since the volume and value of claims passing through a District is relatively low.

A similar approach to the travel and subsistence claims procedure could be adopted at Area and Regional levels.

5.6.4 Treatment of scrap

We consider that PSA management is too sensitive when dealing with cases where PSA personnel have been caught stealing scrap items. Although we do not condone such thefts we consider that the systems implemented to attempt to safeguard scrap are too detailed and are not cost effective in relation to the value of the scrap.

The levels of scrap generated are dependent on the amount of materials requisitioned initially. We consider that the most important control operates at this requisitioning stage, and it should be the authorising officer's responsibility to deal with the disposal of any scrap materials which may arise at the end of a job. We believe that in many cases local disposal of scrap items will be the most cost effective. In these circumstances the transporting of scrap back to the District Works Office and its subsequent safeguarding will be unnecessary.

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5.6 ACTIVITIES REQUIRING A MORE COMMERCIAL APPROACH

5.6.5 Staff restaurants

The requirement to have an annual certification of the accounts of the individual staff restaurants necessitates a disproportionate amount of time being spent on such procedures. In the year to 31 March 1982, 3% of Internal Audit's time was taken up in this relatively minor area compared with 1.6% of its time being spent on all Part I services. We recommend that the requirement for a separate certification is critically reconsidered.

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5.7 STAFFING AND TRAINING

5.7.1 Introduction

All management control systems are dependent upon their being manned as envisaged when designed. This not only necessitates all positions being filled but also that staff are appropriately qualified and suitably trained.

Whilst we have not reviewed the Staff Management function specifically during the course of our Enquiry, we have noted a number of weaknesses which we believe could be overcome by positive management.

5.7.2 Staff shortages in key positions

At our initial meetings with Regional management in London we were informed that seven District Works Officer posts were vacant and had been for some months. This position is critical within the organisation both from a control point of view and as regards the smooth execution of maintenance work for clients. At a subsequent meeting, some months later, we were informed that four of the posts were still vacant.

The District Works Officer grade is not the only level where staff shortages have been noticed. We understand from London Regional management that some thirty-five PTO III and IV posts (about 10%) are vacant at present. In addition, during our visits to Area and District Works Offices, shortages of Executive Officers and typists were identified.

It is important that senior management recognises its responsibilities for maintaining appropriate staffing arrangements throughout PSA. If this is not done it must be recognised that senior management cannot rely on its staff to operate the prescribed controls.

5.7.3 Responsibility for staffing arrangements

Area Officers and District Works Officers are responsible for the overall management of their respective Areas and Districts. In order to carry out their responsibilities as managers, such officers are required to deal with the majority of staffing problems that arise on a day to day basis, but nevertheless have only limited powers to ensure that their respective Areas and Districts are appropriately staffed. We understand that this function rests with Staff Management and the Regional Establishments Officers who do not appear to have reacted to the critical staffing problems in key positions, as quickly as they should have done in the circumstances. This puts Area Officers and District Works Officers in a very difficult position in that they have management responsibilities yet no authority to alter staffing arrangements in their offices.

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5.7.3 Responsibility for staffing arrangements (continued)

It is difficult to see how an Area Officer or District Works Officer can accept full responsibility for the proper management of his Area or District respectively if key personnel are missing. Such vacancies can only mean that other staff are attempting to cover the work of the missing officer which must lead eventually to overstretching of resources and a break-down in controls.

We recommend that Staff Management is made aware of the control implications of leaving key positions unfilled. Senior management should consider modifying the current procedures for filling posts to provide for greater forward planning so as to help prevent vacancies from occurring.

5.7.4 Mobility of staff

We understand that Staff Management believes that part of the staffing problem derives from a reluctance of staff to move. We consider that to plan for appropriate staffing in a national organisation such as PSA and for a range of experience to be gained, all management should be mobile. To this end management should understand clearly that mobility is a critical factor in promotion.

One of the reasons represented to us for difficulties in filling vacant posts in the London Region is the additional cost of housing and travel associated with living and working in London. We have been informed of some cases where individuals would apparently reduce their standard of living if they were moved to the London Region even if this move involved a promotion. Whilst we understand that salaries are in accordance with Civil Service rates in general, these must be inadequate if appropriate staff cannot be attracted. We consider that PSA must ensure that its salary levels are sufficient to maintain adequate manning levels especially in important management posts.

5.7.5 Handovers in key positions

During the course of our enquiries we have frequently been informed of instances where key positions have not been subject to a period of handover on the occasion of a change in personnel. Indeed, in some circumstances, we understand that a new officer in a post has had to be trained by his new subordinates. We recommend that Staff Management ensures appropriate handovers in all key positions including the posts of District Works Officer and Executive Officer at a District Works Office.

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5.7.6 The position of District Works Officer

The District Works Officer is usually, under present arrangements, an officer with a technical background and the post represents his final promotion. Hitherto management capabilities have not been regarded as the overriding qualification for promotion to the post. In many respects it has been regarded as something of a clerk of works post.

A District Works Officer today requires a disciplined approach to paperwork and an understanding of control procedures in order to carry out the difficult task of managing third party contracts. We believe that the post provides experience which is fundamental to a proper understanding of the maintenance activities controlled by PSA. Consequently, we believe that some of the senior management in PSA should be selected from individuals who have held this post. We therefore recommend that the District Works Officer post is incorporated into a grading arrangement which leads on to higher management positions for both technically and professionally qualified officers.

5.7.7 Relationships with contractors

It would appear that the requirements of the Staff Handbook by which members of staff who have either a direct or indirect interest in a contractor, must disclose the fact to their Director and hand the matter over to another officer, have not always been observed. We have been made aware of a number of situations where close relationships exist between technical officers and contractors and in some of these cases, the contractor is indeed a former colleague.

We recommend that all staff are reminded of the requirements in the Staff Handbook to minimise potential accusations of patronage.

We further recommend that where a PSA officer is an ex-employee of a contractor, he should not be responsible for authorising payments to that contractor.

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5. RECOMMENDATIONS

5.7 STAFFING AND TRAINING

5.7.8 Training

Several criticisms regarding training arrangements have been brought to our attention during the course of our enquiries. We recommend:

- a. wherever possible, appropriate training should be given to individuals prior to their taking up a new post;
- b. greater use should be made of courses run by external organisations, especially in the case of staff requiring specialist knowledge;
- c. training in aspects of financial control should be provided to all staff who are expected to exercise it;
- d. wherever there is a substantial change in procedures appropriate training should be planned to accompany its implementation.

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<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
21	Southern Region	Overcharges by a Measured Term Contractor.	A
35	PSA Supplies London Region	Irregularities on removal contracts.	D
47	London Region	Collusion with Daywork Term Contractors and alleged irregularities with jobbers and Daywork Term Contractors.	A
62	Directorate of Works Navy Base Development	Fraudulent travel and subsistence claims.	A
65	PSA Supplies North East Region	Theft of goods from DHSS stockpile.	E
65/1	PSA Supplies North East Region	Theft of tyres from stores.	E
66	Midland Region	Collusive activity and misappropriation of stores items.	A
67	South West Region	Irregularities concerning Measured Term Contracts, stores ordering procedures and stores issuing procedures.	A
67/1	South West Region	Irregularities concerning orders for goods delivered direct to site.	C
69	Scottish Region	Irregularity by a Daywork Term Contractor.	C
71	London Region	Alleged patronage of a jobbing contractor.	E
72	Welsh Region	Overcharges by a Grounds Maintenance Contractor.	C

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<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
73	London Region	Allegations of bribery and collusion with a jobbing contractor.	B
73/1	London Region	Allegations of malpractices by a jobbing contractor.	B
75	Midland Region	Overcharges by a Daywork Term Contractor.	C
77	South East Region	Overcharges by a Grounds Maintenance Contractor.	A
78	North East Region.	Theft of building materials by a member of industrial staff.	E
79	Midland Region	a. Misrepresentations by a stockholder. b. Overclaims for travel and subsistence by apprentices attending college.	E C
80	PSA Supplies Midland Region	Failure to comply with departmental procedures.	D
81	Eastern Region	Falsification of a subcontractor's invoices by a Grounds Maintenance Contractor.	C
82	South East Region	Non-disclosure of direct interest in a contractor.	A
83	Midland Region	Receipt of bribes by PSA personnel from a supplier.	C
84	North East Region	Overcharges by a Measured Term Contractor.	A
86	South West Region	Overpayments to a Measured Term Contractor which were not recovered because the company went into liquidation.	A

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<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
87	London Region	Allegations of malpractice in connection with jobbing contractors and disposal of scrap.	B
88	PSA Supplies London Region	Alleged irregularities by floor laying contractors.	A
89	South West Region	Allegations of overcharging by a contractor.	E
90	North East Region	Theft of MOD property.	E
91	South West Region	Misappropriation of PSA materials, and fraudulent completion of accounting documentation.	C
92	Southern Region	Overcharges by a Measured Term Contractor.	C
93	South West Region	Allegations of patronage of a jobbing contractor.	D
95	Midland Region	Inadequate staffing arrangements in a store.	E
96	Midland Region	Overcharges by a Daywork Term Contractor.	C
97	Midland Region	Misappropriation of cash and falsification of records.	C
99	South West Region	Private use of a PSA van.	E
100	North East Region Southern Region	Overcharges by a Measured Term Contractor.	A
101	London Region	Overcharges by a Measured Term Contractor.	A

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<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
102	London Region	Allegations of malpractice and receipt of bribes from a jobber by a PSA officer.	D
103	London Region	Allegations of moonlighting and receipt of backhanders by a PSA officer.	B
104	London Region	Allegations of PSA officers receiving bribes from jobbing contractors.	B
105	PSA Supplies London Region	Theft and fraudulent claims for petrol by a van driver.	C
106	North West Region	Falsification of invoices by a lump sum contractor.	C
107	Eastern Region	Collusion between a contractor and a PSA employee resulting in fraudulent invoices being paid.	C
108	London Region	Allegations of bribery and misappropriation of petty cash.	B
109	Midland Region	a. Overcharging on a Daywork Term Contract. b. Improper authorisation procedures.	C D
111	Scottish Region	Overcharging on a Daywork Term Contract.	C
113	Eastern Region	Allegations of bribery of a PSA officer by a Grounds Maintenance Contractor.	D
114	London Region	Allegations of malpractice.	B
122	North West Region	Overcharges by a Measured Term Contractor.	A

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CLASSIFICATION OF THE CASES

The above cases have been classified as follows:

- A - Important cases involving fraud and corruption;
- B - Cases involving fraud and corruption which individually are not apparently significant, but which collectively cannot be ignored;
- C - Minor cases involving fraud and corruption;
- D - Cases which we have been unable to assess due to lack of information;
- E - Cases not apparently involving fraud and corruption.

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COMMENTS ON RAYNER STUDY RECOMMENDATIONS

In November 1982, the Chief Executive of PSA requested us to review the findings of the Rayner study of District Works Offices (the Draper report) in the light of our own recommendations.

The recommendations made by the Draper team are confined to modifications within the existing structure of PSA. Our Enquiry however has recommended fundamental changes in both organisation and control systems. We have not commented below on those recommendations of the Draper report which would be redundant if our proposals were implemented.

The report covered aspects of PSA's organisation and activities which our Enquiry did not specifically review. Our comments below are confined to those Draper recommendations which relate to matters we have also considered.

We agree in general with the recommendations of the Draper report in relation to Measured Term Contracts although from the auditing and checking point of view we would draw attention to our recommendations in Section 5 of this report.

We are sympathetic to the views expressed on delegation, but believe they are all secondary to our recommendations on the recognition of responsibility.

We agree with the need for forward planning of maintenance work.

We cannot concur with the Draper recommendation that previous good performance should be a factor in determining whether an audit visit should be made to a District Works Office.

We agree with the proposals relating to improvements in the system for the selection and recruitment of PSA staff.

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GLOSSARY OF TERMS

Analytical review procedures	These procedures include studying significant ratios, trends and other statistics and investigating any unusual or unexpected variations.
Authorising officer	The PSA officer who authorises a contractor's invoice for payment.
Bulk expenditure	Non-planned maintenance expenditure.
C1001 Contract	A lump sum contract for maintenance works up to a value of £10,000 (£25,000 from April 1983).
Codes	The procedural manuals used within PSA. e.g. District Works Office Code, Financial Control Code, Contracts Code.
Daily Issue Stores	Stores maintained at a District Works Office for use by Directly Employed Labour.
Daywork Term Contract	A contract whereby charges to PSA are on a daywork basis i.e. the charges are based on man hours and materials at agreed rates.
Directly Employed Labour	Industrial staff employed by PSA, who are normally assigned to a specific District Works Office and are used on smaller maintenance tasks.
District Works Office	The office responsible for the operational activities within a District, and under the control of a District Works Officer.
F/PAU	The Financial and Professional Accountants Unit.
Jobbing arrangements	The use of smaller contractors for maintenance work normally costing less than £500.
Lump sum contract	A contract where a fixed price is agreed for a specific job.
Measured Term Contract	A contract where completed work is normally measured by a QS in accordance with a pre-set schedule of rates.
Nominated quantity surveyors	An outside firm of quantity surveyors who are employed by PSA to measure work carried out on Measured Term Contracts.
Notation	The approximate maximum value of any single project for which a firm may normally be invited to tender.

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GLOSSARY OF TERMS

Part I expenditure	New works costing more than £100,000.
PTO	Professional and Technical Officer.
Property numbers	In order to facilitate the recording of expenditure each building or group of buildings is given a unique reference number known as a property number.
QS	Quantity surveyor.
UKTO	United Kingdom Territorial Organisation.
UKTOMIS	The study team who are designing a new computerised management information system.