# ARGYLL & BUTE COUNCIL

# Internal Audit Section

# INTERNAL AUDIT REPORT

| CUSTOMER DEPARTMENT | CUSTOMER SERVICES |
|---|---|
| AUDIT DESCRIPTION | RISK BASED AUDIT |
| AUDIT TITLE | PROCUREMENT - PECOS |
| AUDIT DATE | NOVEMBER 2015 |

**2015/2016**

Argyll
✚ Bute
COUNCIL

## 1. BACKGROUND

A review of Procurement and Commissioning within Customer Services has been planned as part of the 2015/16 Internal Audit programme.

The Professional Electronic Commerce Online System (PECOS) is an electronic purchasing system used throughout the Council. During financial year 14/15 26,828 orders were processed with a value of approx. £35 million.  There are approx. 1000 users set up on the system across all the service departments.

PECOS is a system that enables the Council to make their purchasing processes while generating efficiencies in respect of reduced paper based systems in relation to ordering and invoicing.

PECOS is a collaborative buying system used throughout the public sector in Scotland.  It is a cloud based system that is hosted outwith the Council's server environment, however,  PECOS users, can access the system from anywhere within the Council and also through the weblink from any non-Council PC as long as access has been granted.

PECOS is an application for ordering all goods and services needed to run day-to-day business. PECOS provides facilities to order via electronic catalogues or non-catalogue items, through approval routing, to receipting and financial settlement.

The PECOS system operates workflows which manages transactions and approvals, and supports interfaces into the Oracle system. Purchase information and general ledgers are updated via the interface routines.  The system also produces reports providing management information such as Spend Analysis.

## 2. AUDIT SCOPE AND OBJECTIVES

The scope and objectives of the audit were limited to a review of the following:

- User procedures, authorisation roles and responsibilities.
- Housekeeping procedures, archiving and reconciliation processes.
- Reporting and year-end processes and procedures.
- System user manual and guidance.
- Volume of use of PECOS system against other procurement methods and associated risk comparison.

A sample of orders was selected from a cross section of services and walkthrough testing was carried out.

## 3. RISKS CONSIDERED

- The procurement system does not meet statutory, professional, best practice, requirements and standards.

- The system's accuracy and effectiveness have not been assessed.

- The system, data and activities are not up to date.

- The system is not documented leading to a lack of awareness of processes and requirements.

- Authorities, roles and responsibilities have not been identified and assigned.

## 4. AUDIT OPINION

The level of assurance given for this report is Limited

| Level of Assurance | Reason for the level of Assurance given |
|---|---|
| High | Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. |
| Substantial | Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| Limited | Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues. |
| Very Limited | Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues. |

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## 5. FINDINGS

The following findings were generated by the audit:

AUTHORISATION ROLES AND RESPONSIBILITIES

- It was evidenced that approval groups are set up within the system, these groups link members of staff who are able to request orders within PECOS (requisitioner's) and those who are able to approve the orders (approvers). The groups distinguish the roles and the teams within the council that staff can order on behalf of.

- The Council has an Authorised Signatory list on the Hub which provides details of members of staff and management who are able to authorise invoices and other services within the Council. Within the list there is a section for Requisition approval which relates to the PECOS system. A number of discrepancies were evidenced between the Authorised Signatory list and PECOS approval groups, with variations in approval limits and some approvers not present.

- There are approximately 190 approval groups of which only 9 have prescribed authorisation limits. It was also noted that some of these approval groups are either not in use or redundant, however it is not known exactly how many fall into these categories.

- There is no set protocol or indicative matrix for setting approval limits.

- It was evidenced that the PECOS User Application Form includes an upper authorisation limit field, however this is not being used.

- It was evidenced that manual authorisation processes in the form of signed request documents from service staff to the construction purchasing team are being combined with electronic ordering which results in additional administration, increases the risk of error and does not maximise the functionality of the PECOS system. There is currently an exercise underway establishing an Education procurement team who will implement processes entirely based within the PECOS system, once established and if proved successful this should be used as a guide to best practise for the construction team. Internal Audit will review at a later date.

- The travel and accommodation team only use PECOS in limited circumstances. The majority of transactions are off contract due to their nature and the availability of more advantageous rates.

HOUSE KEEPING PROCEDURES

- From a population of 16,000 records entered onto the PECOS system from 1/1/15 – 31/7/15, a sample of 1% = 160 records was taken. From the records reviewed, 58 of the 160 orders remained open despite goods and services having been received and invoices paid, the remainder were complete. The procurement team have provided evidence of measures put in place to ensure that all orders are closed on a timely basis.

- Contained within the approval group information provided for review, there were a number of users who remain on the system despite having left the employment of the Council or changed roles and no longer required access to PECOS.

- The process in relation to ordering goods and services via the construction team and telephone requisition part of ICT is part manual and part electronic. In respect of the manual paper based element we were unable to evidence a full audit trail within the PECOS system. The majority of forms are not attached onto the PECOS system for review purposes.

- Where orders are entered onto the PECOS system retrospectively, descriptions were limited and referred only to the invoice number with no description of goods or services purchased.

- It was evidenced that the PECOS system was being used to facilitate minor utility payments made on a monthly basis. This involves timely manual input to adjust for variances and fails to utilise discounts offered via other payment methods.

- It was evidenced that purchase of ferry tickets did not require receipting as a separate process has been agreed. The controls in respect of this process are adequate, however, outwith PECOS, there is an issue regarding staff re-using old PECOS order numbers for purchase of further ferry tickets, this causes mis-matches within the PECOS system resulting in administrative requirements to process new orders retrospectively.

- PECOS is used as a form of contract monitoring in respect of a council-wide contract for multi-function devices (copiers). The process is very complex and difficult to reconcile with a number of cancellations, updates and adjustments resulting in a less than clear audit trail.

- A reconciliation process is in place which uses a "match-all" button, however, the use of this field is not restricted to the originator/approver of orders and was evidenced as being used in error by other staff.

REPORTING AND YEAR-END PROCESSES

- Housekeeping weaknesses have resulted in a number of issues in relation to accuracy of information produced from PECOS in relation to year-end accrual figures which has resulted in a manual work around process being developed by strategic finance. Measures have recently been put in place to improve housekeeping and increase accuracy of year-end reports.

MANUAL AND GUIDANCE

- A review of the PECOS manual showed comprehensive guidance on how to work the system and online training modules that can be accessed at any time to refresh knowledge.

- The process to request new users is currently a form completed by staff, which requires to be authorised by their line manager and forwarded on to the eProcurement team.  This process does not make use of current workflow technology which would also allow for free flow of information for the maintenance of the authorised signatory list, however after discussion with management it is recognised that the team do not have the expertise or resource to implement this level of technology at the present time.

VOLUME OF USE

- Information provided by Customer and Support Services confirms that manual keying of invoices remains the most common method of purchasing and payment of goods and services.  The following table highlights the volume and value of use of PECOS in comparison with other methods of purchasing for quarters one and two 2015/16:

| SYSTEM | VOLUME | % by Volume | VALUE £ | % by Value |
|--------|--------|-------------|---------|------------|
| PECOS | 12,870 | 25.32 | 12,312,872 | 25.89 |
| CareFirst | 2,114 | 4.16 | 5,717,598 | 12.02 |
| Tranman | 3,598 | 7.08 | 981,557 | 2.06 |
| NATWEST (purchase cards) | 2,729 | 5.37 | 290,089 | 0.61 |
| Manual | 29,520 | 58.07 | 28,258,532 | 59.42 |
| Total | 50,831 | 100 | 47,560,648 | 100 |

SURVEY RESULTS

- A survey was issued to a cross section of both authoriser and requisition users of the system, 50 surveys were issued and 14 returned, a further 2 indicated that they have moved posts and no longer use the system and one auto reply was received indicating that the user had left the Council.  Of the 14 returned 6 were from requisitioners, 7 were from authorisers and 1 had read only access.

- The results of the survey are summarised at Appendix 3, some of the additional comments received included a desire for some additional training and that it would be useful for authorisers to be able to see the items available.

- The variations and multiple boxes ticked for the questions regarding problems finding items or items that are unavailable on PECOS showed the majority of users are aware of alternative methods and the support available from both purchasing team and the eProcurement team.

- An issue was highlighted within the survey regarding coding errors arising from users of the system correcting coding errors on PECOS after the invoice has been received and not completing a corresponding journal entry within the Oracle Financial Management System.

## 6. CONCLUSION

This audit has provided a Limited level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There were 3 high and 5 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are 7 low recommendations which are not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the procurement staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

**APPENDIX 1          ACTION PLAN**

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|---|---|---|---|
| **1. Authorisations** | | **High/ Medium or Low** | | |
| The Authorised Signatories list does not match the PECOS approval groups. There are no standard templates of authorisation limits indicating approval levels. | Increased risk of unauthorised purchasing leading to error and/or ineffective use of resources. | High | **An authorisation limit template will be developed & issued to management for completion, thereafter, passed to both Creditors and Procurement for implementation and subsequent update of approval groups and individual limits. The user limits will be used to set limits within the approval groups on PECOS.** | **Procurement & Commissioning Manager**<br><br>**31 July 2016** |
| **2.  System Functionality** | | | | **High/ Medium or Low** |
| The PECOS User Application Form includes an upper authorisation limit field, however this is not being used | System functionality not being maximised leading to control weaknesses resulting in unauthorised purchasing. | Medium | **PECOS User Application Form will be updated to enforce selection of authorisation values** | **Head of Customer and Support Services**<br><br>**30 November 2015** |

| Findings | Risk Impact | Rating | Agreed Action | Responsible person agreed implementation date |
|---|---|---|---|---|
| **3.  Ordering Processes** | | | | **High/ Medium or Low** |
| Manual authorisation processes are being combined with electronic ordering which results in additional administration, increases the risk of error and does not maximise the functionality of the PECOS system. | Double entry of orders increases risk of error resulting in ineffective use of resources. | Medium | **Senior management to encourage further use of PECOS system** | **Head of Customer and Support Services**<br><br>**31 December 2015** |
| **4.  Housekeeping** | | | | **High/ Medium or Low** |
| The approval group information contained users who have left the employment of the Council or changed roles and no longer required access to PECOS. | Failure to maintain accurate user records leads to unauthorised purchasing | Medium | **An Exercise will be undertaken to remove all inactive users** | **Procurement and Commissioning Manager**<br><br>**30 November 2015** |
| **5.  Housekeeping** | | | | **High/ Medium or Low** |
| The PECOS system was being used to facilitate minor utility payments made on a monthly basis.  This involves timely manual input to adjust for variances and fails to utilise discounts offered via other payment methods | Failure to maximise discounts available resulting in ineffective use of resources. | Medium | **User manual will be updated and users advised to ensure most appropriate payment options are utilised to achieve best value** | **Procurement and Commissioning Manager**<br><br>**30 November 2015** |

**APPENDIX 2      SURVEY RESULTS**

| Question | Yes | NO |
|---|---|---|
| I am aware of the council's code of conduct for employees' | **10** | **4** |
| I am aware of the council's code of corporate governance | **6** | **8** |
| I am aware of the  council's Whistleblowing Policy | **5** | **9** |
| I am aware of the council's Standing Orders and Financial Regulations | **9** | **5** |
| I am aware of and have received training regarding the Data Protection Act and Freedom of Information Act | **10*** | **4** |
| I am aware your departments records management and document retention procedures | **13** | **1** |

| | Strongly agree | Agree | Disagree | Strongly disagree |
|---|---|---|---|---|
| I receive sufficient training and user support to assist me in the use of PECOS | **2** | **10** | **1** | **1** |
| I have access to the Procurement Policy and PECOS Manual | **3** | **9** | **2** | |
| I receive written guidance and notification of changes to PECOS | **2** | **10** | **1** | **1** |

|  | Strongly agree | Agree | Disagree | Strongly disagree |
|---|---|---|---|---|
| I am aware of how to report problems with the system | 2 | 13 | | |
| The information I require is easily located within the system. | 2 | 10 | | 2 |
| Overall I think that the PECOS system is user friendly | 2 | 10 | | 2 |
| **Authorisers Only** | | | | |
| I am aware of my responsibility to check orders prior to authorisation. | 5 | 2 | | |
| I am aware of other authorisers who are able to authorise in my absence and they are appropriate | 4 | 3 | | |
| **Requisitioners only** | | | | |

| I am aware of the various methods of procurement within PECOS | 2 | 5 | | 1 |
|---|---|---|---|---|
| | **Find an alternative item which will do the same job** | **Seek support from the Purchasing team** | **Seek support from eProcurement team** | **Use an alternative method of procurement e.g. Purchase card etc.** |
| If I have any problems finding items within the system, I will. | 3 | 7 | 3 | 2 |
| If the item required is not available on PECOS, I will. | 2 | 8 | 2 | 3 |

- **One of which aware but no training**

**Contact Details**

Name          Viv Barker & Mhairi Weldon

Address       Whitegates, Lochgilphead, Argyll, PA31 8RT

Telephone    01546 604759 & 01546 604294

Email          Vivienne.barker@argyll-bute.gov.uk & Mhairi.weldon@argylll-bute.gov.uk

**www.argyll-bute.gov.uk**

*Argyll & Bute – Realising our potential together*