

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	Tendering Processes
AUDIT DATE	September 2015

2015/2016



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Procurement processes within Customer Services as part of the 2015/16 Internal Audit programme.

Public procurement is the process by which public bodies acquire goods, services and works from third parties to meet customer and service user needs.

The Council's Procurement Strategy for 2012–2015 details strategic procurement arrangements. Effective procurement arrangements can make significant contributions to a wide range of Council objectives including a successful local economy, a thriving voluntary sector, community involvement and environmental issues as well as delivering value for money. It is essential that procurement decisions are taken with a focus on the outcomes that the Council is seeking to achieve.

All purchasing must take place in accordance with the Council's statutory duty to secure best value under the Local Government in (Scotland) Act 2003. This requires the Council to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance, having regard to economy, efficiency, effectiveness, and equal opportunities requirements and to contribute to the achievement of sustainable development.

The Council has a Procurement Strategy in place that covers the procurement aims and goals of the Council for 2012-2015. These aims and goals reflect both national and local policies and priorities.

The Council operates with a small procurement team, with the combination of Purchasing Officers working on corporate contracts (those that are for the purchase of goods, services and works that are common across the Council) and Purchasing Officers embedded within service departments, working on contracts that are largely specific to the activities of those services. The 2014/15 budget for the procurement team is £433k which represents 18.1 full time equivalents.

2. AUDIT SCOPE AND OBJECTIVES

The audit scope will be limited to:

Review a sample of supplies and services /works procured covering the following areas:

- Procurement Sourcing strategy has been outlined and agreed ,
- Pre-qualification has been properly carried out where the sourcing strategy has determined that this is appropriate.
- Invitation to Tenders (ITT) documents have been properly submitted in accordance with guidance
- Invitation to Tenders documents have been properly evaluated as per guidance
- The contract has been properly awarded and the recommendation report (CARR) has been properly prepared in line with guidance

Control objectives will include Authority, Occurrence, Completeness, Measurement, Timeliness and Regularity.

3. RISKS CONSIDERED

- Non-compliance with legislation requirements
- Non-compliance with operational policy
- Reputational damage to the Council
- Failure to secure best value

4. AUDIT OPINION

The level of assurance given for this report is substantial.

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:

- It was evidenced that the Council has a procurement manual which outlines the steps in order to achieve effective procurement by detailing the processes and procedures that should be carried out. The manual covers :
 - Planning, procurement and strategy
 - Advertising on Public Scotland Contract website and /or the office journal of the EU
 - Pre-qualification to establish the capability and capacity of the tenderers
 - Invitation to tenders
 - Submission of tenders
 - Evaluation of bids
 - Award decision
 - Standstill
 - Completion of contract
 - Contract Award Recommendation Report
 - Management of Contract

- A sample of 21 tenders was chosen from the procurement database. The sample was chosen covered a range of values and various procurement routes that a tender may follow. The Scottish Government has published guidance for Councils on Procurement routes and these are defined as under noted:

Route 1

Route one has been designed to be used by staff across the public sector who have a requirement and are authorised by their organisation to conduct low value/low risk/non repetitive procurement for goods or services. It is not necessary for staff using these processes to have extensive purchasing training; however it is assumed that individuals who are authorised to procure for their organisation have an awareness of EU Regulations and any applicable local procurement policies, guidelines and governance arrangements.

Route 2

This Route of the Procurement Journey is for the procurement of moderate value and risk procurements and is designed for use by Procurement officers and it is assumed that individuals will have been trained in EU regulations. Consideration must be given to planning and risk and records should be kept for audit purposes

Route 3

This Route of the Procurement Journey provides guidance for high value/high risk/strategic procurements and is designed for use by Procurement officers and it is assumed that individuals will have been trained in EU regulations. Consideration must be given to planning and risk and records should be kept for audit purposes

- Of the 21 tenders chosen, 8 related to “route 1” journey where the procurement is of relatively low risk and is of a non-repetitive nature. Of the remaining 13 tenders, 7 related to “route 2” journey and 6 related to “route 3” journey where services are openly advertised and the risk is deemed medium to high.
- In respect of the 21 tenders chosen for the various routes it was evidenced that for all routes personnel involved had the appropriate training and knowledge.

Scope 1: Procurement Sourcing Strategy has been outlined and agreed

- It is the policy of the Council that a Sourcing Strategy should be prepared to ensure that the Council’s approach to a particular procurement has been fully thought out prior to embarking on the selection process. As per the procurement manual “it is not necessary to devise a sourcing strategy for each individual procurement exercise, advice is to be taken from the purchasing officer as to when it is appropriate to use / compile a sourcing strategy” i.e. when an existing framework is in place. The council procurement manual details the various requirements that the sourcing strategy should cover namely :

- Executive summary
- Stakeholder and User Intelligence Group (route 2 and 3 only)
- Internal Research
- Market Research and Analysis
- Risks and Issues
- Opportunity Assessment
- Options Appraisal
- Procurement Approach
- Project Plan
- Conclusion

A summary of the findings concerning sourcing strategy is outlined below:

	No of Tenders Reviewed	Comprehensive Sourcing Strategy in Place or framework adopted	Draft comprehensive Sourcing Strategy	No evidence of a Comprehensive Sourcing Strategy in place	Evidence of Management approval of Sourcing Strategies	No evidence of Management approval
Route 1	8	5	1	2	5	3
Route 2	7	6	0	1	6	1
Route 3	6	5	1	0	2	4

Route 1 tenders

- A review of the “route 1” tenders showed that for one of the tenders a comprehensive sourcing “draft” sourcing strategy was completed as per the procurement manual guidelines though no evidence could be found of a “final” sourcing strategy which had been approved.
- As regards the remaining 7 tenders it was evidenced that 5 of the tenders either had a comprehensive sourcing strategy in place or that the service/commodity had been acquired via a framework agreement, and therefore as per the procurement manual there was no requirement to produce a sourcing strategy. For the remaining 2 no evidence of a sourcing strategy was in place.

Route 2 tenders

- Of the 7 “route 2” tenders which were reviewed 6 were evidenced as having a comprehensive strategy in place. Of these 7 tenders 6 had appropriate authorisation controls in place.
- As regarding the 7th tender reviewed, it was evidenced that a summarised sourcing strategy had been prepared in the form of an executive summary but no evidence could be found of a comprehensive sourcing strategy as prescribed in the Procurement Manual, also no evidence of sign off authorisation control.

Route 3 tenders

- Of the 6 “route 3” tenders which were reviewed it was evidenced that 5 had a comprehensive sourcing strategy. It was evidenced that the 6th strategy was in a “draft” stage and no evidence could be found of the completed version.
- For 4 of the 6 “route 3” tenders reviewed there was no evidence of appropriate authorisation control.
- It was noted for a number of tenders undertaken via framework agreement; explanations of the reasons as to why the route was chosen were given but these reasons are not formally documented.

Scope 2: Pre-qualification has been properly carried out where the sourcing strategy has determined that this is appropriate.

- Where it was deemed appropriate that a pre-qualification exercise should be carried it was evidenced that actions adhered to prescribed guidance. It was noted that for one tender where a Pre-Qualification Questionnaire (PQQ) had been required no sourcing strategy was prepared, however it was evidenced from e-mails which sets out the rationale for a PQQ, that a PQQ would be required for this tender.
- It was evidenced that a PQQ had been prepared and that an evaluation of each of the PQQ returns had been carried out via a scoring mechanism. It was also evidenced that a PQQ model answer document had been prepared that sets out the responses that would be expected from respondents to aid scoring. The purpose of this document is to ensure that there is an objective benchmark available when scoring candidates responses.
- It was evidenced that scoring sheets had been properly evaluated and that a score had been given awarded on the responses required per the PQQ.
- It was evidenced that the candidates invited to the Invitation to tender stage were appropriately selected having achieved the highest scores.

Scope 3: Invitation to Tender (ITT) documents have been properly submitted in accordance with manual

- Tenders were reviewed to assess compliance with procedures stipulated in the Procurement Manual as regards submission of ITT's namely:
 - Opening of tenders is only carried out by the Procurement and Commissioning Team.
 - ITT are submitted within the deadlines stipulated.
- It was evidenced that for all tenders reviewed that the procedures outlined above had been adhered to.

Scope 4: Invitation to Tenders documents have been properly evaluated as per manual

- Tenders were reviewed to ensure compliance with procedures stipulated in the Procurement Manual namely :
 - Panel member involved in evaluating the tender have been involved in PQQ and/or ITT.
 - There is a minimum of 2 panel members who demonstrate technical ability to evaluate tenders , one of which may be from the procurement team
 - Evaluation and scoring methodology has been determined.
 - Each panel has completed a scoring sheet which contains strengths/weaknesses for each question.
 - Price scoring has been carried out by the Procurement Contract team only.
 - Scoring sheets have been properly completed.
- Of the tenders evaluated it was noted that 4 consisted of 2 panel members of whom one included the procurement officer which complies with the 2014 manual. It is noted that the new guidelines for 2015 state that there will normally be a minimum of 3 evaluation panel members and a representative from Procurement Contract Team acting as Chairperson.
- It was evidenced that an audit trail was available with scoring sheets properly evaluated and that a score had been given awarded on the responses required per the tender documents. It was also evidenced that each panel member had recorded their scores/reasoning on to an electronic scoring matrix and that comments had been inserted where appropriate.

Scope 5: The contract has been properly awarded and the recommendation report has been properly prepared.

- The Procurement Manual stipulates that a Contract Award Recommendation Report (CARR) should be prepared by the Procurement Officer for approval by the prescribed signatories. The CARR is an internal mechanism to record the decision making process for contract award and provides an audit trail to enable the authorised signatories to approve the recommendation based on all available information.

- Once the CARR has been prepared and signed off the manual stipulates that the successful and unsuccessful tenderers should be notified by the Procurement team as soon as possible after the award.
- The Procurement Manual contains a template which states the headings that should be elaborated on when completing the CARR namely :
 - Purpose of report
 - Summary of requirements
 - Details and results of PQQ if appropriate
 - Price/quality ratio results
 - Details of any bid clarifications
 - Details of any interviews carried out
 - Details of any presentations
 - Details of any post tender negotiations
 - Sustainability considerations
 - Final recommendations
 - Evidence of sign off by relevant personnel
- CARR's were reviewed in order to evidence actions as specified in the headings listed above had been carried out in order for management to approve the recommendation on all information available. It was noted that 6 of the CARR'S reviewed did not reference the following areas, interviews, presentations, post tender negotiations and sustainability.
- It was noted that for 2 of the CARR'S reviewed detailed information relating to the sourcing strategy was included in the CARR. This requirement is not prescribed in the manual but nevertheless gives assurance to management that the sourcing strategy had been addressed.
- For CARR's reviewed appropriate authorisation controls were in place however it was noted that for one tender it had not been formally signed and the head of service name had been typed in the relevant box.

- It was evidenced that all successful and unsuccessful tenderers had been properly notified as prescribed in the manual.
- It was noted that the template for each of the CARR'S has a section at the bottom entitled for "Procurement Officer Use only" where the various stages of the Procurement route are outlined and where a date of completion should be entered. The stages being :
 - Notification issued to preferred bidder
 - Notification issued to unsuccessful bidder
 - Standstill period commenced
 - Contract Award letter issued
 - Copy of Award letter passed to appropriate finance manager
 - Contract award noticed placed
 - Confirm that contract award has been uploaded into spikes

It was noted that none of the CARR's reviewed had this table completed.

- Included in the manual for "routes 2 and 3" tenders is the pre contract Award checklist requirement where a yes/no answer is required for the following :
 - Can all information provided to a supplier be justified in the event of a formal complaint and/or legal action?
 - Was the standstill notice sent to all tenderers and candidates?
 - Has the standstill period actually passed? Note the standstill period should not end on weekends or public holidays.

There was no evidence from the "routes 2 and 3" tenders reviewed that this checklist had been completed.

- It was noted that mobilisation timescales for contract implementation was specified in only 6 of the CARR's reviewed and involved a period of between 2 and 4 weeks.
- Whilst undertaking the audit it was noted that record management arrangements were inconsistent.

6. CONCLUSION

This audit has provided a substantial level of assurance however elements of residual risk are slightly above an acceptable level and need to be addressed in a reasonable time scale. 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 2 high and 4 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There is one low recommendation which is 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 Customer Services 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. Incomplete Documentation		High/ Medium or Low		
During the audit it was noted that Sourcing Strategy documentation was incomplete and/or unavailable.	Failure to have complete documentation may result in ineffective decision making leading to failure to achieve best value and/or legal challenge.	High	Where documentation was incomplete and /or unavailable sourcing strategies had been approved via the CARR process. Ensure guidance is provided to all services and staff to ensure that Sourcing Strategies are complete prior to passing to appropriate signatory for sign off when these are required.	Procurement Commissioning Manager 30th November 2015
2. Authorisation Protocols				High/ Medium or Low
Authorisation control weaknesses were identified in respect of Management signing off Sourcing Strategy	Failure to adhere to authorisation control results in ineffective purchasing which does not reflect value for	High	Where there was no management sign off of sourcing strategy this was covered via the CARR process.	Procurement Commissioning Manager

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
	money or operational efficiency		Ensure guidance is provided to all services and staff to ensure appropriate authorised signatory signs off Sourcing strategy	30th November 2015
3. Contract Award Recommendation Report				High/ Medium or Low
Inconsistences exist in respect of content of reports specifically in regard to interviews, post tender negotiations, presentations and sustainability	Reports are produced which do not provide all available information potentially leading to ineffective decision making.	Medium	<p>In the CARRs where headings were removed, this was due to the fact that this particular procurement process did not occur hence the removal of these headings.</p> <p>Ensure all headings in CARR remain and are not deleted and if they are not appropriate for the specific contract officers to state this i.e. not applicable</p>	<p>Procurement Commissioning Manager</p> <p>30th November 2015</p>

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
4 Completion Stages				High/ Medium or Low
Documentation includes completion checklist however from the tenders reviewed it was evidenced that none of these had been completed.	Failure to complete checklist increases potential for omission /error resulting in inefficient use of resources.	Medium	Remove checklist from CARR and include within tender sub folder filing structure which has end to end process and will evidence completion stages.	Procurement Commissioning Manager 30th November 2015
5. Records Management				High/ Medium or Low
Whilst undertaking the audit it was noted that record management arrangements were inconsistent.	Failure to have adequate records management arrangement adversely impact on transparency resulting in further scrutiny.	Medium	Review of file structure has been implemented and proposed tender sub folder filing structure agreed at team meeting on 27th October	Procurement Commissioning Manager 30th November 2015
6. Mobilisation periods				High/ Medium or Low
Mobilisation timescale is not always specified or may be insufficient in length.	Mobilisation timescale is insufficient to allow tenderer to make necessary arrangements and meet specified	Medium	Mobilisation period not always relevant i.e. contract can start immediately on start date. When mobilisation	Procurement Commissioning Manager

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
	requirements.		appropriate, this is dealt with in CARR and in sourcing strategy. Management arrangements are in place to give consideration to nature of contract/tender and potential mobilisation time required.	30th November 2015



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