ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	PECOS
AUDIT DATE	SEPTEMBER 2016

2016/2017

Argyll
Bute
COUNCIL

1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Procurement and Commissioning - Procurement (PECOS) within Customer Services as part of the 2016/2017 Internal Audit programme.

The Professional Electronic Commerce Online System (PECOS) is an electronic purchasing system used throughout the Council. During financial year 15/16 approximately 26,000 orders were processed with a value of approximately £42.4 million. There are approximately 1000 users set up on the system across all 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 out with 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 remote 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 to order non-catalogue items, through approval routing, to receipting and financial settlement.

The PECOS system operates workflows which manage 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 main objective of the audit was to review the control environment of PECOS. This is a follow-up Audit of the report dated November 2015. Controls included:

Authority –   Roles and delegated responsibilities are documented in policies and procedures;
Occurrence –   Sufficient documentation exists to evidence compliance with policies, procedures;
Completeness –   All required documentation is accurately maintained;

Measurement –   Policies and procedures are in line with requirements;

Timeliness –   Policies and procedures are regularly reviewed and updated as necessary;

Regularity –   Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff

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 High.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put

	some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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

As part of this audit we reviewed the management actions identified in the Procurement – PECOS audit undertaken as part of the 2015/2016 audit plan. The 2015/2016 audit identified 3 high, 5 medium and 7 low recommendations. Further testing was undertaken of the findings and it was found that management action has contributed to an improvement in performance. There are still minor elements of non-compliance and deviation from agreed procedures however, these are deemed to be infrequent and strengthened policies, procedures, including staff training and information, should assist to reduce the volume of these. It was further noted that the Procurement and Commissioning team rely on departments following the policies and procedures.

The following findings were generated by the Audit:

- The previous audit identified that the authorised signatories list did not match the PECOS approval groups and that there were no standard templates of authorisation limits indicating approval levels. It was noted that work to complete the agreed action is ongoing with a target completion date of October 2016. This is a substantial piece of work and 2 out of 4 departments have completed the exercise.

- PECOS user application forms include an upper authorisation limit field; however it was found previously that this was not being used. Further testing was undertaken and of the user application forms tested, all were found to be compliant with this procedure.

- Audit findings noted a mixture of manual ordering and electronic ordering and agreed management action was to encourage further use of the system. It was noted that progress had been made in respect of the increased use of PECOS with an overall 10% increase on the same reporting period (based on value of invoice).   It was noted that Improvement & HR are showing a downward trend, however upon further investigation it was found that figures are skewed as a result of one large value payment which was processed manually. Table below:

Service	Quarter 1		
	% on System 16/17	% on system 15/16	Movement from 15/16
Adult Care	37%	36%	⬆ 1%
Children and Families	5%	4%	⬆ 1%
Facility Services	61%	47%	⬆ 14%
Community and Culture	67%	13%	⬆ 54%
Customer and Support Services	71%	65%	⬆ 6%
Education	34%	22%	⬆ 12%
Governance and Law	21%	11%	⬆ 10%
Improvement and HR	54%	62%	⬇ -8%
Strategic Finance	22%	3%	⬆ 19%
Economic Development	23%	12%	⬆ 11%
Planning and Regulatory	48%	28%	⬆ 20%
Roads and Amenity Services	79%	68%	⬆ 10%
TOTAL	**50%**	**40%**	⬆ **10%**

- Weaknesses were previously found in housekeeping arrangements whereby employees who had left the employment of the council were still active users on PECOS. A new procedure has been introduced whereby a 'leavers' Cognos report is provided to Procurement and Commissioning staff to enable them to update their records. It was evidenced that records are now being updated regularly.

- PECOS was being used to facilitate minor utility payments made on a monthly basis. Testing found that payment of utility invoices were still being processed, however it was found that is not always appropriate or within the scope to direct all utility type supplier payments to the centralised billing processes. Exceptions include; domestic utility payments, works (fault fixing, connections, pipe re-directions, etc.).

- Previous audit findings identified that construction invoices had an incomplete audit trail. A standardised method of recording has been developed by the centralised procurement and commissioning team. Following the merger of the purchasing team

in April, changes were made to sub team processes to ensure consistency and to remove duplication of work and recording. Request forms are now stored elsewhere within the shared team server and are fully accessible and a full audit trail is available.

- It was previously found that there were a number of incidences where orders were entered onto the PECOS system retrospectively with insufficient description. Of the entries tested, orders that were entered onto the system retrospectively were now found to have sufficient descriptions to support the purchase made.

- It was noted previously that staff were re-using old order numbers for specific purposes. Further testing found that all orders had new individual order numbers and there was no evidence of re-use.

- It had been identified that PECOS is used as a form of contract monitoring in respect of a council-wide contract for multi-function devices (printer/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. Following a review and feedback from other local authorities, it was determined that current processes were the deemed appropriate practice.

- An issue was highlighted in the previous audit report whereby the reconciliation process, which uses a match-all button, was being used in error. There is now a warning in place on PECOS advising staff to avoid using "match all function" and a process in place whereby matching takes place on a nightly basis.

6. CONCLUSION

This audit has provided a high level of assurance. Although improvements have been achieved since the previous audit in 2015/2016, further progress requires to be made to provide assurance that PECOS procedures are being adhered to. There are no recommendations for improvement identified as part of the audit.

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

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