ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	SYSTEM BASED AUDIT
AUDIT TITLE	PROCUREMENT AND COMMISSIONING – OFF CONTRACT PURCHASING
AUDIT DATE	OCTOBER 2016

2016/2017

1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Procurement and Commissioning – Off-contract Purchasing within Customer & Support Services as part of the 2016/2017 Internal Audit programme.

Procurement is the process followed when purchasing goods and services. This applies to all aspects of the purchasing process, from the identification of a need to purchase, to the end of the contract. 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. The Council is required to develop their working practices to align with the requirements of the Public Procurement Reform (Scotland) Act 2014 which provides a national legislative framework for sustainable public procurement.

Off-contract purchases refer to the procurement of goods and services out with the approved suppliers list or contract frameworks. Purchases of goods and services made from sources other than approved suppliers and frameworks can potentially result in the ineffective use of resources and may result in legal challenge.

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. A major part of the role of the Purchasing Officers is to provide advice and assistance to anyone in the Council who needs to make purchases in order to deliver the services for which they are responsible.

The Council has a number of contracts in place and departments are required to comply with the Council's procedures when procuring goods and services in order to secure value for money.

2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review arrangements for identifying, reporting & reducing off contract purchasing. Controls included:

Authority –   Roles and delegated responsibilities are documented in policies and procedures;

Occurrence – Sufficient documentation exists to evidence compliance with policies and procedures;

Completeness – Documentation is fully 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 and is compliant with the document retention policy. It is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Procedures are not documented;
- The procedures are not up to date;
- Authorities, roles and responsibilities have not been identified and assigned;
- Reporting arrangements are not in place.

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

The following findings were generated by the audit:

General

- Roles and responsibilities in respect of the purchasing process are documented and are readily available. It was evidenced that these were available on the HUB.

- It was found that procurement team department responsibilities have been allocated to individual staff; these are detailed in the procurement manual.

- Specific projects have been identified in terms of procurement and have been allocated to individual members of the Procurement & Commissioning team. These are detailed in the procurement manual.

- A Procurement Manual 2016, Procurement Strategy 2015-2018, Sustainable Procurement Policy, Sustainable Procurement – Delivery Plan and Contract Standing Orders were readily available either on the Council website or the HUB.

Identifying Off-contract purchasing

There are a number of steps taken to identify spending out with agreed contracts, including**:**

- There is a reporting process in place to identify off-contract purchasing. This consists of a combination of Professional Electronic Commerce Online System (PECOS) and general ledger (ORACLE) reporting. Reports are shared with managers within departments who are able to identify spend out with agreed contractors and discuss reasons for deviation. Monthly reports are produced to identify spend on PECOS, this also identifies spend with non-contracted suppliers. In addition to this, ORACLE discoverer reports are produced detailing procurement spend for each Head of Service. The reports are shared with managers within Departments who can identify spend out with agreed contractors. This allows them to highlight and discuss reasons for spend out with the agreed contracts.

- Quarterly reports are extracted from Spikes Cavell (part of the Scottish Procurement Information HUB) showing aggregated spend with contracted and non-contracted suppliers. This is circulated to Purchasing Officers and Category Management Officers within the procurement team in order that they can identify significant areas where efforts can be focussed to reduce off contract spend i.e. spend with suppliers which they are not known or spend categories for which there could be a contract gap. A contract register is provided for cross referencing. The outcome of this exercise if reported through service measures on Pyramid.

- Purchase Card transactions and retrospective PECOS orders are reviewed to identify the nature of spend. Any spend identified off-contract is discussed at quarterly meetings with Heads of Service. This allows identification of any gaps in contracts.

- A register of justification for non-competitive (direct awards put in place by departments) action is kept and a report is provided on a monthly basis to the Strategic Management Team (SMT) in order that significant spend areas, where a contract was not in place, are captured. Discussions are entered into with the relevant departments with a view to tendering for a contract if necessary.

- Each member of the procurement team is responsible for a particular service/category of spend and are therefore familiar with the contracts required and the nature of spend within departments. There are also dedicated central purchasing teams (D&I, Education, Corporate) who, whilst preventing non-contract spend, will aim to fill contract gaps based on their knowledge of the orders that are being placed.

- For other PECOS users making purchases, access to non-contracted suppliers must first be requested and reviewed by the procurement team to ensure that the requested purchase cannot be fulfilled within a current contract.

Reporting

It was evidenced that reporting procedures are in place in terms of highlighting contracted and off-contract spend. These include:

- Performance indicators on Pyramid detailing the Council's % of contracted spends. Argyll & Bute Council seek to maintain a figure of 90% or greater in order to contribute to efficiency. The final contracted spend percentage for 2015/16 annual report is 89% which was a slight increase on 88% reported for 14/15.

- Monthly reports are provided to Heads of Service identifying spend out with agreed contracts.

- A procurement bulletin with detailed monthly performance information is provided to Departmental Management Team (DMT) and SMT. This details information on Council procurement, including contracted spend.

- A Procurement, Commissioning and Creditors Annual Performance Report is provided to the Procurement Board. This report provides the Procurement Board with an overview of procurement activity and includes details of procurement spend with contracted suppliers. It was found that during the period 2011/12 through to 2015/16 the average procurement spend with contracted suppliers was 86%.

- It was found that the annual summary report of procurement spend is published on the Council website.

- It was evidenced that procurement reports are provided to the Policy & Resources (P&R) committee on an annual basis. In addition to this, high level performance reports are provided quarterly to the P&R committee as part of overall Customer Service performance monitoring.

- The Scottish Procurement Information HUB (Spotlight on Spend) allows Councils to identify how much they are spending on external goods and services from third party suppliers, identify who the key suppliers are, ascertain how many transactions were made with each supplier, highlight commonality across suppliers and spend categories. This information means that Councils can identify where collaborative opportunities may exist and where transactional efficiencies could be made. It was found that Argyll & Bute Council has published it's spend data for the past 3 years the HUB Spotlight on Spend on a monthly basis.

Reducing Off-contract purchasing

It was found that procedures are in place with the aim of reducing off-contract purchasing including:

- The procurement manual outlines staff responsibilities in relation to considering whether purchasing requirements can be met through an existing Scottish, UK wide, sector led or local framework or contract.

- All current suppliers are registered on PECOS and staff are made aware of their responsibility, as far as possible, to use PECOS. Training in the use of PECOS is available through the Council's online training system (LEON).

- If a department wishes to add a supplier to PECOS there are procedures in place whereby a member of the purchasing team must approve and add the supplier.

- Monthly meetings between procurement and Heads of Service or 3rd tier managers provide an opportunity to identify new spend and assist to identify future demands where contracts require to be put in place.

- The Council is a member of the National Supplier Development Programme which aims to minimise any barriers for companies, particularly small businesses within the Council area, in winning contracts with the Council.

6. CONCLUSION

This audit has provided a High level of assurance as 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. There were no findings 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.

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