



Internal Audit Report

Final

Customer Services
Review of Tendering Procedures

March 2012

1 INTRODUCTION

- 1.1 This report has been prepared as the result of an Internal Audit review of the tendering process carried out for the Helensburgh CHORD - Town Centre and West Bay Esplanade Public Realm works Contract.
- 1.2 The Helensburgh CHORD Project is an initiative led by Argyll and Bute Council (the Council) that aims to assist the regeneration and economic development of the Helensburgh Town Centre and West Bay Esplanade.
- 1.3 The total amount set aside for the Helensburgh CHORD is £6.6m. The value of the specific works contract being reviewed is approx £4m.

2 AUDIT SCOPE AND OBJECTIVES

The key objectives of the review are:

- Evaluate the adequacy of procedures set out in the Council Procedure Manual pertaining to the above contract; and
- Evaluate the level of adherence with procurement procedures.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. One risk was identified:

- SR27 Failure to effectively manage CHORD programme

4 CORPORATE GOVERNANCE

There were no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

Internal audit has found that the Procurement Manual should be treated as a guide only by management.

Management needed augmentation and support from the procurement team to provide necessary process detail.

The manual does not address the treatment of, and the use of weightings for bullet points or questions included in sub criteria and the process to be followed when tenderers are brought to interview.

The absence of a standard process to record the reasons for post interview adjustments resulted in the Council being unable to demonstrate effectively that the bullet points included in the sub criteria had been treated as broadly equal

The roles and responsibilities of the procurement team were not clearly defined in order for them to support management at key stages of the procurement process.

6 RECOMMENDATIONS

Eleven recommendations were identified as a result of the audit. The recommendations are of seven are high priority and four are medium priority. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of senior management.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.

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 fundamental, material or minor. 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.

7 AUDIT OPINION

It is Internal Audits view that the Council's Procurement Manual falls short of its claim that "following the processes and procedures contained within it will give a high level of assurance that contracts are let and managed in a both effective and legal manner".

In relation to the Helensburgh CHORD contract there are a number of key areas where the manual provides little or no guidance. Internal Audit accepts that the manual is not stand alone and that the procurement team should be involved throughout the process. However, the roles and responsibilities of procurement staff were not always clearly defined and as a result they were not as involved as was required at key stages in this contract process.

Recommendations arising from the audit work should be implemented by the nominated responsible officer/s within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the following for their co-operation and assistance during the Audit and the preparation of the report and action plan

Legal Services Manager;
CHORD Programme Manager;
Helensburgh CHORD Project Manager;
Exchequer Manager/Procurement Team Leader;
Purchasing Officer;
Procurement Training Administrator; and
Procurement Analyst, Procurement and Commissioning.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The challenge by an unsuccessful Tenderer in relation to the sub criteria and interview process was reviewed by the Council's external legal advisors. Their advice to the Council was that the challenge could be upheld. These were areas of significance that influenced the overall outcome of the process. However, the manual provides little or no guidance.	High	The manual should be reviewed and updated to ensure that it provides guidance in relation to the interview process and the treatment of and the use of any weighting in relation to bullet points or questions included in sub criteria.	Procurement and Commissioning Manager	27/07/12
2	The procurement manual was not clear on how details from specific reports would flow through the process. For those involved in the tendering interview there was no guidance on correct process.	Medium	The manual should provide clear guidance to all those involved in the procurement process as to how details from specific reports will flow through the process and what will be included in the final Contract Award Recommendation Report (CARR) and any feedback to unsuccessful tenderers.	Procurement and Commissioning Manager	27/08/12

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	In general, the procurement manual was found to be unclear on the roles and responsibilities of procurement officers and service management.	High	The roles and responsibilities of procurement officers and service management involved in a procurement exercise must be clearly defined and documented. Specifically the roles and responsibilities in relation to the evaluation of the final/price quality ratios should be agreed and documented. At all times the Council must ensure that an impartial and objective approach is taken to the evaluation of tenders.	Procurement and Commissioning Manager	27/07/12
4	Internal Audit has been advised that it is the responsibility of the Service managers to determine the particular price/quality ratio in relation to specific projects. However they must be aware of the effect price/quality ratios has on the final outcome. In this particular case the differential in quality has come at cost of £262,288.50 and questions have been raised as to whether this is justified.	High	Services must be aware of the effect of price/quality ratios on the overall outcome to ensure that any differential in price justifies the quality requirements. The manual should be updated to highlight this requirement and the procurement team must have an active role in agreeing the final price/quality ratio.	Procurement and Commissioning Manager	27/07/12

Argyll & Bute Council
Internal Audit Review of Tendering Procedures

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5	There is no standard process to record the specific details of each interview including the questions asked and responses given. There is a record of the interview panel's views on each tenderer's performance. These views suggest that the interview purpose was greater than just clarification. This conclusion is shared by the Council's external legal advisors.	High	The Council must ensure that the purpose of any interview is clearly defined and the process undertaken at the interview relates to that purpose only.	Procurement and commissioning manager	27/07/12
6	There is no standard process to record the specific details of each interview including the questions asked and responses given. There is a record of the interview panel's views on each tenderer's performance. These views suggest that the interview purpose was greater than just clarification. This conclusion is shared by the Council's external legal advisors.	High	There must be a standard process followed to record the details of each interview including the questions asked and the responses given. This information would be used to justify any adjustments made to the tenderers scores and provide clear evidence of how any sub-sub criteria have been dealt with.	Procurement and commissioning manager	27/07/12

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
7	<p>At the interview stage, the evaluation panel was joined by the Chair of the Project Board. Internal audit could not identify the Chairs role on the panel. Internal audit understands that he asked at least one question of the tenderers, and was present when the adjustments to scores were made.</p>	Medium	<p>Changes to the evaluation panel should be by exception only and any changes should be agreed with the procurement team.</p>	Procurement and commissioning manager	27/07/12
8	<p>The Procurement Manual states that <i>“the role of the purchasing officer on the evaluation panel is to ensure that an impartial and objective approach has been taken to the evaluation of tenders”</i>. The purchasing officer was unable to provide internal audit with a view on the Chairs role at the interview panel as procurement staff did not attend the interviews. Therefore the purchasing officer’s role stated in the procurement manual was not fulfilled with regard to this procurement process.</p>	Medium	<p>The procurement officer must be in a position to fulfil their role of ensuring that an impartial and objective approach has been taken to the evaluation of tenders. To ensure that this role can be fulfilled the procurement officer must be represented at key stages in the evaluation process. At all stages in the evaluation process there must be a transparent and documented process which provides the procurement officer with the information required to assess whether an impartial and objective approach has been taken. The Council must ensure</p>	Procurement and commissioning manager	<p>13/10/13 this is the date whereby the team will be finalised after all purchasing officers achieve CIPS level 6 and 1 of them will become senior procurement officer</p>

Argyll & Bute Council
Internal Audit Review of Tendering Procedures

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			that there are the appropriate resources within the procurement team to allow this role to be fulfilled.		
9	The Procurement Manual advises that clear distinction must be made between selection and award criteria. It is the view of the Council's external legal advisors that in this case, the tender evaluation panel may have strayed towards looking at the experience of the bidders rather than the bid itself. Internal Audit has been advised that this is a fundamental and common error which is frequently challenged by tenderers. While the manual is clear regarding the distinction, the manual does not outline what mechanism is in place to prevent this from happening or for the procurement team to identify cases where it has.	High	There must be a clearly documented process to ensure that any evidence that selection criteria have been used at the evaluation stage would be identified by the procurement team. The procurement officer must be in a position at all stages of the evaluation process to confirm that an impartial and objective approach has been taken to the evaluation of tenders	Procurement and commissioning manager	27/07/12

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
10	<p>There was no feedback given to the Project Manager in relation to the training self-assessment however Internal Audit has been advised that the training needs identified by the Project Manager would not be required to fulfil her role.</p> <p>Internal Audit has been advised that while self-assessments have been carried out for officers across the Council and training needs have been identified no training has yet been in put in place.</p>	Medium	The assessment of training needs should be such that it relates specifically to the officer involved and the role that they have to fulfil. . Practical training must be provided to officers where a training need is identified.	Procurement and commissioning manager	27/07/12
11	Internal audit identified areas where the manual was insufficient in detail and requiring expansion by the procurement team in their role as professional support advisors.	High	The manual should be updated or supplemented to ensure that the roles and responsibilities of service department officers and procurement staff are clearly defined. Additional guidance should be provided on the evaluation process. The updated manual and any subsidiary guidance should be subject to external evaluation.	Procurement and commissioning manager	27/7/12