



## **Internal Audit Report**

Customer Services  
Review of Tendering

February 2013

## **1. INTRODUCTION**

1.1 As part of the annual audit plan for 2012/13 internal audit undertook a review of the Tendering system. There is a need to follow a recognised Tendering process; this can be evaluated by establishing that tendering regulations and procedures are adequately detailed in the Procurement Manual and being followed in such areas as roles, duties, authorisations and responsibilities. In addition, regulations need to be adhered to in terms of advertising, invitation, receipt, opening, evaluation; and that selection process is obtaining value for money.

1.2 Controls were reviewed to ensure that:

- Appropriate tendering method for goods and services is adopted
- Proper controls exist over the opening/assessment and award process
- Advertising of contracts
- Review selective/restrictive tendering
- Review Financial Assessments

## **2. AUDIT SCOPE AND OBJECTIVES**

2.1 An Audit Agreement Document (AAD) was prepared and agreed. The Agreement set out the main objectives of the audit approach and scope. The following areas were looked at:

- They have been submitted in accordance with the procurement regulations and procedures;
- Adequate public notice was given in journals and newspapers according to the type and value of the contract;
- Proper procedures have been carried out during the scoring process;
- Check that where contracts exceeded EU thresholds a contract notice was placed in OJEU in accordance with EU directives;
- Checks were made to ensure that the contracts awarded were within the constraints of the Council's budget-contract award recommendation report;
- Unsuccessful contractors were properly notified and feedback as to the reasons they were unsuccessful has been properly notified; and
- Adequate training is scheduled for Council personnel.

## **3. RISK ASSESSMENT**

3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system;  
RA03: Inaccurate management information.

#### **4. CORPORATE GOVERNANCE**

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

#### **5. MAIN FINDINGS**

- 5.1 There were 5 projects chosen by internal audit to be reviewed. All 5 projects had been recently awarded. Of the 5, 3 were of low value i.e. <£50,000 and were tendered using the quick quote method one was tendered using the open tendered method and the other one was tendered using the restricted tender method.
- 5.2 All tenders were checked to ensure that the Councils rules and regulations were adhered to. Internal audit found that the documentation forwarded to ourselves concerning these 5 tenders, was in line with procedures laid down.
- 5.3 The introduction of a document management system would facilitate the Procurement team in the Tendering process.
- 5.4 The savings calculation used in the Contract Award Recommendation Report (CARR) has not taken into account the avoidance of future inflation costs in the new Transport contracts.
- 5.5 Strategic Finance should be consulted in cases where Equifax reports indicate a company has failed the financial criteria tests.
- 5.6 Tender review forms should be completed for all contracts over £50,000.

#### **6. RECOMMENDATIONS**

- 6.1 Four recommendations were identified as a result of the audit. The recommendations have the following priority ranking 3 medium and one low. 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.
- 6.2 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.
- 6.3 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.

## 7. AUDIT OPINION

- 7.1 It is Internal Audits view that based on the audit undertaken that the procedures laid out in the Procurement manual are being followed and consequently the procurement processes are in order.
- 7.2 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

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:
- Procurement and Commissioning Manager; and
  - Purchasing Officers.
- 8.2 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.
- 8.3 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**

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
2	<p>In assessing the financial aspects of the tenders in relation to savings achieved by the procurement team Internal Audit found that in certain types of tenders, the savings figure stated in the Contract Award Recommendation Report (CARR) was in fact understated. This related to contracts where Procurement has changed the detail of the tender as regards inflation. Where previously, as in Transport contracts, we have awarded annual inflation adjustments to the successful tenderer, the new Transport contracts no longer award inflation for future years other than for fuel. Procurement has worked out the annual savings without taking this material factor into account. The avoidance of this future cost on Transport contracts is very significant and Procurement should recognise this positive outcome in their savings calculation.</p>	Medium	<p>That Procurement recognise the savings that the Council will make for contracts that had previously had future cost inflation built but now no longer require to budget for this future cost such as in Transport contracts.</p>	<p><b>Procurement and Commissioning Manager</b></p>	<p><b>31<sup>st</sup> March 2013</b></p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	For large value contracts Procurement request an Equifax assessment of the financial health of the companies tendering for that contract. Procurement bases their decision on whether that company proceeds to the next stage on the financial scoring from the Equifax report. Where a company is rejected via the Equifax scoring method, Strategic Finance should be requested to give a second opinion as regards to whether they agree with this assessment as there are examples where on further scrutiny it was found to be financially viable.	Medium	In cases where a supplier is rejected as a result of failing an Equifax assessment a representative from Strategic Finance should be requested to verify the reasons for the rejection as Strategic Finance rather than procurement have the necessary financial skills to verify the Equifax assessment.	Procurement and Commissioning Manager	31 <sup>st</sup> March 2013

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
<b>4</b>	Tender review forms as specified in Appendix 11 of the procurement manual are filled in by the contract owner after the award of the contract. This document provides a good feedback from customers as to how they felt the procurement team facilitated the procurement process and it also acts as a powerful tool to assess how future contract documentation and procedures should be addressed. Internal audit found that this document is completed on an intermittent basis.	Medium	It should be ensured that for tenders over £50,000 the tender Review Form should always be completed by the contract owner.	<b>Procurement and Commissioning Manager</b>	<b>31<sup>st</sup> March 2013</b>