

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	FINANCIAL SYSTEM AUDIT
AUDIT TITLE	PROCUREMENT
AUDIT DATE	APRIL 2014

2013/2014



1. AUDIT SCOPE AND OBJECTIVES

This report has been prepared as a result of the Internal Audit review of Procurement within Customer Services as part of the 2013/2014 Internal Audit programme. 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 Audit Scotland recently produced a report titled 'Procurement in Councils' which contains some 20 recommendations. Internal Audit will assess what procedures or action plans Argyll and Bute Procurement team have in place in order to be compliant.

The main objectives of the audit are to assess and report on the following areas:

- Procurement is compliant or has an established strategy to meet the recommendations as outlined in the latest Audit Scotland report called 'Procurement in Councils'.
- Tenders have been submitted in accordance with the procurement regulations and procedures;
- Proper procedures have been carried out during the scoring process;
- Departments are achieving best value for money in the selection of suppliers for tender;

2. RISKS IDENTIFIED

- Failure to increase value from procurement with key contracted service of better quality and effectiveness - CC06 per risk register.
- Failure to action recommendations as proposed by Audit Scotland.
- Procedures outlined in the Procurement manual are not implemented.
- Failure to have a robust internal control process and system.
- Failure to achieve Best Value for Money when choosing suppliers.

3. 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:-

<p>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;</p>
<p>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;</p>
<p>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.</p>

4. FINDINGS

The following findings were generated by the audit:

- The latest report from Audit Scotland outlined 20 recommendations that Council Procurement teams as well as Scotland Excel should follow. Internal Audit reviewed all recommendations in conjunction with the Procurement and Commissioning manager and found that the Argyll and Bute Procurement Team have an established strategy to fully achieve the recommendations or are already compliant in 18 out of the 20 recommendations.
- Appendix 3 outlines each of the recommendations, as well as the action/comment from the Argyll and Bute Council Procurement Team, the proposed implementation date and the Lead Officer involved.
- Appendix 3 also details where the Procurement Team are already implementing the recommendations and this has been evidenced back to relevant documentation.
- Ten tender projects were chosen at random from the Procurement database, by Internal Audit to be reviewed for compliance with Procurement procedures and scoring. Of the 10 chosen, 8 were generated by Customer Services and 2 by Development and Infrastructure. The value of the tenders chosen ranged from £3,439 to £230,952 and were all procured via the quick quote method.
- 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 10 tenders was generally in line with procedures laid down.
- Procurement documentation should be standardised across the all offices. Kilmory and Argyll House have examples of different documentation for similar sized projects. Documentation as regards Bills of Quantity for projects and Tender Issue Forms would be examples of differing documentation.
- Scoring of the tenders were checked to ensure that in cases where lowest price was the criteria, this was adhered to. 8 of the 10 tenders were based on lowest price and all of the successful tenderers were found to have submitted the lowest tender. The scoring for the remaining 2 was based on a combination of both quality and price and the successful tenders were found to have been chosen in accordance with procedures.

- The MEAT (Most Economic Advantageous Tender) criteria, where both price and quality is taken into account will be required for all tenders once the procurement reform bill becomes law, i.e. will no longer be price only. Departments should be working with their procurement officer to prepare for this major change in procurement processes.
- No audit trail was apparent as to why companies were chosen to tender and this issue is being addressed by the introduction by Procurement of the proposed vendor rating register.
- In discussions with Property at Argyll House as regards the introduction of the 'The Vendor Rating System it became apparent that a number of issues require to be resolved in relation to the workings of the system.
- Basic training in finance would be beneficial for all Procurement officers in order that they gain an understanding of costing's and financial terms that they may come across in preparing tenders.

5. CONCLUSION

This audit has provided a Substantial level of assurance. There were 5 recommendations for improvement identified as part of the audit and these are set out in Appendices 1 and 2. There are three medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are three low recommendations which are 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. Procedures and guidelines		High/ Medium or Low		
<p>The latest report from Audit Scotland outlined 20 recommendations that Council Procurement teams should follow. Internal Audit reviewed all recommendations in conjunction with the Procurement and Commissioning manager. Appendix 3 outlines the actions required against recommendations where Argyll and Bute are not fully compliant.</p>	<p>Failure to fully comply with all recommendations could lead to the Council failing to achieve Best Value for Money.</p>	<p>Medium</p>	<p>Procurement to prepare a list of actions required to meet Audit Scotland report recommendations.</p>	<p>Procurement and Commissioning Manager</p> <p>Completed – attached per appendix 3</p>
<p>The MEAT (Most Economic Advantageous Tender) criteria, where both price and quality is taken into account will be required for all tenders once the procurement reform bill becomes law. Departments should be working with their procurement officer to prepare for this major change in procurement processes.</p>	<p>Failure for departments to prepare for the change in legislation concerning criteria in choosing tenders will result in the Council being at risk to legal challenges</p>	<p>Medium</p>	<p>Procurement to ensure all relevant tenders have MEAT criteria contained within them</p>	<p>Procurement and Commissioning Manager and all relevant 3rd Team managers</p> <p>31st December 2014</p>

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedures and guidelines		High/ Medium or Low		
<p>No audit trail was apparent as to why companies invited to tender were chosen. The proposed vendor rating system should address this issue.</p> <p>In discussing the proposed the new Vendor rating system with Property personnel there are still a number of issues to be clarified as to how the new Vendor Rating System will function</p>	<p>In order to ensure best value for money there should be a clear audit trail as to why suppliers are invited to tender.</p>	<p>Medium</p>	<p>Management must be fully cognisant of how the new proposed Vendor rating system will function otherwise there is a risk of the Council failing to achieve best value for money.</p>	<p>Procurement and Commissioning Manger And Property Services Manager</p> <p>31 July 2014</p>

Appendix 3 Summary of Recommendation from Audit Scotland Procurement report and actions assigned.**AUDIT SCOTLAND — KEY RECOMMENDATIONS:****Report Title – Procurement in Councils**

Report Ref no.	Key Point/Checklist/Good Practise Recommendation	Council Position Yes/No	Response	Action	Date for Implementation	Lead Officer
1	The Scottish Government should work with councils to review and update the Best Practice Indicators (BPIs), drawing on councils' experiences, to reflect changes in procurement since 2008 and improve their usefulness to councils	YES	The Council will support the Scottish Government and our local Government colleagues in reviewing and updating BPI'S. On an ongoing basis the Council will continue to adhere and address the BPI requirements	None	None	P and C Manager
2	Scotland Excel should: maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust, and with the associated joint venture companies.	YES	Argyll and Bute Council fully support these recommendations and will assist Scotland excel as and when required	None	None	P and C Manager
3	Scotland Excel should set realistic timescales for contract development, particularly in new areas of contracting.	YES	Argyll and Bute Council fully support these recommendations and will assist Scotland excel as and when required.	None	None	P and C Manager or appropriate contract representative
4	Councils and Scotland Excel should review and formalise arrangements to fund procurement reform activity beyond 2016.	YES	Argyll and Bute Council fully support these recommendations and will assist Scotland excel as and when required	None	None	P and C Manager

Report Ref no.	Key Point/Checklist/Good Practise Recommendation	Council Position Yes/No	Response	Action	Date for Implementation	Lead Officer
5	Council staff involved in procurement should submit accurate and complete information to the procurement Hub on a regular and timely basis (ideally quarterly, and as a minimum within three months of the end of the financial year)	YES	Argyll and Bute Council submit on a monthly basis the spend onto the procurement HUB and in regard to BPI's this is carried out where possible on a quarterly basis. Delays out with the Council control as savings from Centre's of Excellence can occur periodically.	None	None	Procurement analyst
6	Council staff involved in procurement should examine the costs and benefits of differentiating ALEO and council expenditure in their Hub submissions.	NO	Argyll and Bute Council do not have ALEO's in place	None	None	N/A
7	Council staff involved in procurement should make greater use of the tools and facilities provided by the Hub, including the use of BPIs in their performance reporting and to benchmark their progress.	YES	Argyll and Bute Council use the tools and facilities to carry out the following : <ul style="list-style-type: none"> • Comprehensively analyse their spend on goods and services. • Identify suppliers and analyse spending they have in common with other public sector bodies to help identify opportunities for collaborative purchasing. • Find out how their spend profile compares with other public sector bodies. • Connect contract and spend data to make it easier to analyse, track and manage spend. 	None	None	P and C Manager

Report Ref no.	Key Point/Checklist/Good Practise Recommendation	Council Position Yes/No	Response	Action	Date for Implementation	Lead Officer
8	Council staff involved in procurement should engage earlier with suppliers and the people who use public services to help develop contract specifications that more accurately reflect service user requirements and allow for greater innovation within contracts.	YES	See Council sourcing strategy. Argyll and Bute Council are part of the supplier development program. This provides training and support to suppliers on contract specifications and also advice on how to complete tender contracts.	None	None	P and C Manager
9	Council staff involved in procurement should use the Public Contracts Scotland tender module for all applicable contracts.	YES	As at Jan 2014 80% implementation via PCST and 20% via PCS but by October 2014 it will be fully implemented.	Use the Public Contracts Scotland tender module for all applicable contracts	October 2014	P and C Manager
10	Council staff involved in procurement should make full use of national collaborative contracts and provide a clear explanation for non-participation in these contracts to the relevant council committee.	YES	Argyll and Bute Council make full use of collaborative contracts. Of the 38 contracts available to Argyll and Bute Council 35 are at present in use	None	None	P and C Manager
11	Council staff involved in procurement develop a systematic approach to collecting information on non-financial benefits including economic, community and environmental benefits and report the benefits to the relevant council committee on a regular basis.	YES	Argyll and Bute Council have just initiated this recommendation. See procurement Board Paper 2013 and Community Benefit toolkit. Applies to contracts over £500k	Non	None	P and C Manager

Report Ref no.	Key Point/Checklist/Good Practise Recommendation	Council Position Yes/No	Response	Action	Date for Implementation	Lead Officer
12	Council staff involved in procurement savings calculate procurement savings using a consistent and transparent methodology that demonstrates clearly how the savings are calculated and their relationship to improved procurement.	YES	Procurement staff adhere to the Government guidelines. See copy of Government guidelines.	None	None	P and C Manager
13	Council staff involved in procurement make better use of market research, cost avoidance and improved contract management to identify savings and potential service improvements	YES	Ongoing as evidenced by PCA requirements	None	None	P and C Manager
14	Council staff involved in procurement should aim to achieve the superior performance level in the PCA, particularly in relation to: 1/spend covered by agreed commodity/project strategies 2/participation in Scotland Excel Contracts 3/ automation of procurement and payment processes 4/ spend captured in the council's contract register.	Superior Conformance Improved	Procurement have a PCA action plan to achieve 65% for 2014 . This has been approved by the Procurement Board and there is an understanding that in order to achieve superior performance overall in the PCA will require additional resource and significant change to existing systems and methods by which the Council currently pays suppliers.	As agreed by procurement Board and SMT procurement commission team will work to achieve 65% PCA score for 2014	November 2014	Procurement Board/SMT

Report Ref no.	Key Point/Checklist/Good Practise Recommendation	Council Position Yes/No	Response	Action	Date for Implementation	Lead Officer
15	Councils' corporate management teams should: Benchmark their procurement staffing against similar-sized councils with higher PCA scores and, where appropriate, produce a business case for employing additional qualified procurement staff where they have lower staffing levels		Procurement commission manager will report benchmarking findings to future procurement board.	Manager to report benchmarking findings to procurement board.	October 2014	P and C Manager
16	Councils' corporate management teams should: examine the benefits of joint working or joint procurement teams as a way of securing economies of scale and creating collaborative contracts	YES	Awaiting report from Aberdeen City and Aberdeenshire on pros and cons of combining the two procurement teams.	Review report once received and report on findings to procurement board.	31 st December 2014	Procurement Board / P and C Manager
17	Councils' corporate management teams should phase out paper purchasing systems and consider the business case for moving all purchasing systems to an electronic 'purchase to pay' basis	YES	Purchase to Pay / Oracle Purchasing Project in place. Was initially delayed to allow for R12 Oracle Project to be implemented.	Proceed with Oracle purchase project. Initial meeting scheduled for 27 th May 2014	Ongoing	Procurement Board/SMT

Report Ref no.	Key Point/Checklist/Good Practise Recommendation	Council Position Yes/No	Response	Action	Date for Implementation	Lead Officer
18	Councils' corporate management teams should: raise staff awareness of accountability and controls by: 1/ implementing a written code of ethics 2/ requiring staff involved in procurement to complete a register of interest statement 3/ require internal audit to conduct a regular assessment of procurement risk, including the risk of fraud.	YES	See copy of register of interest. Written code of Ethics to be submitted. Risk Re Procurement covered in Financial audits	None	None	P and C Manager/ Internal Audit
19	Councils should require a report on procurement savings and non-financial procurement benefits to be submitted to the appropriate committee on a regular basis	YES	P and C Team report monthly on Procurement savings to SMT and awards of Contracts. As regards on Financial Procurement savings this is done a 6 monthly basis to the Procurement Board and SMT.	None	None	P and C Manager
20	Councils should encourage elected members sitting on the main committee(s) dealing with procurement to complete specific training to help them undertake their governance role more effectively.	NO	Argyll and Bute Council structure is such that this recommendation is not applicable. However procurement training is available to members when required. Last session was December 12 th 2012	None	None	

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