



# Dacorum Borough Council

## Final Internal Audit Report

### Procurement

June 2015

This report has been prepared on the basis of the limitations set out on page 14.

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**Key Dates:**

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# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit programme for 2014/15, we have undertaken an audit of the Council’s systems of internal control in respect of Procurement.

## 1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Procurement, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Legislation, Category Management, Commissioning, Tendering and Management reporting / Reporting to relevant Committees / Board. Further detail on the scope of the audit is provided in Section 2 of the report.

## 1.3. Summary Assessment

Our audit of DBC’s internal controls operating over Procurement found that whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. Also, there is evidence that the level of non-compliance puts the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Substantial	Limited

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Housing Rents is shown in Section 3.

## 1.4. Key Findings

We have raised one priority 1, three priority 2 and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Procedures should be in place for Procurement to match the expenditure identified from the contracts register, with contractors actual spend on Agresso. (Priority 2)
- When savings have been identified between contracts and actual supplier expenditure, this should be added to the Council's savings tracker. (Priority 3)
- The “commission to procure” documentation should be formally approved by budget holders prior to all tendering projects beginning. (Priority 2)
- All purchases and contracts should be procured and/or tendered in line with the Commissioning and Procurement Standing Orders. (Priority 1)

- The Procurement team’s performance, based on objectives and cost savings identified for each procurement activity, should be monitored and reported to the appropriate forum. (Priority 2)

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. **Management Response**

We will include a summary of any management response in our Final report.

1.6. **Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

## 2. Scope of Assignment

### 2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Procurement, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

### 2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner.

### 2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

- Legislation, policies and procedures (including Procurement Strategy)

Robust procedures are in place to ensure that key legislation, policies and procedures are in place and available to all members of staff involved in the procurement process. Roles and responsibilities are clearly defined and communicated and that members of staff involved in procurement have the appropriate skills or that the procurement section is consulted to advise on all strategic procurement matters, act as the source of the organisation's procurement expertise, and also to monitor and steer the organisation's procurement

- Category Management:

Procedures are in place to help ensure that procurement is clearly identified against the Council's designated categories. Procedures are in place to manage the Council's spend profile, whilst achieving the objectives of the procurement. Savings identified should be linked to the Council's savings tracker procedure.

- Commissioning:

Robust procedures are in place to identify the need for the procurement activity. Procedures are in place to ensure that the procurement activity to be carried out is in line with the Council's stated corporate objectives. The case for the procurement activity includes the identification of any potential cost savings. Procedures are in place to enable the Council to perform market testing, and that consideration of various factors such as economic viability, pricing versus affordability etc. has taken place. Confirmation should be retained that options have been considered and appraised to give management information to make an informed decision when selecting the most suited option for the Council. The commission to procure should be formally approved.

- Tendering:

Procedures are in place to enable procurement to be carried out in accordance with Council policy and legislative requirements. Procurement should where possible seek to innovate. Formal tendering process should be adopted and an audit trail maintained. Tenders received are evaluated in a timely and accurate manner. The award of contract is formally approved and a signed contract is in place before work commences.











- Management reporting / Reporting to relevant Committees / Board

Robust procedures are in place to confirm that key decisions are assessed and reviewed throughout the procurement lifecycle. Key decisions are scrutinised before being reported to Senior Management Team and relevant Committees/Board, and the Cabinet for consideration. Procedures are in place to ensure that the objectives and cost savings identified for each procurement activity are achieved and are reported to the appropriate forum.

### 3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Legislation, Policies and Procedures			
Category Management			<b>Recommendations 1 and 2</b>
Commissioning			<b>Recommendation 3</b>
Tendering			<b>Recommendation 4</b>
Management reporting / Reporting to relevant Committees / Board			<b>Recommendation 5</b>

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

## 4. Observations and Recommendations

### Recommendation 1: Procedures (Priority 2)

<p><b>Recommendation</b></p> <p>Procedures should be in place for Procurement to match the expenditure identified from the contracts register to the actual expenditure on Agresso.</p>
<p><b>Observation</b></p> <p>Procedures help ensure that staff are aware of how to perform their duties and working practices are consistent across the teams.</p> <p>Audit confirmed that the procurement team have recently undertaken a spend analysis on all suppliers to identify firstly ones which do not have contracts in place but should, and secondly whether the contract value matches the actual spend with the supplier. However, formal procedures have not been created.</p> <p>Where procedures are not in place there is a risk that work will be performed that is not to the adequate standard and does not comply with standing orders.</p>
<p><b>Responsibility</b></p> <p><b>Group Manager ( Procurement, Commissioning and Compliance)</b></p>
<p><b>Management response / deadline</b></p> <p>Agreed.</p> <p>As part of the Council’s category management approach we have now set up a manual process (May 15) to review actual expenditure on a rolling monthly basis with contracts (initially valued greater than £100k) to track and identify under/over spend and will raise any issues/concerns that we have with the relevant budget holder and request an explanation for the change in expenditure. The change in expenditure and explanation for the change will also be reported at the quarterly Procurement Board.</p> <p>Ongoing, we will look to see if a ‘contracts register’ field can be added to the Council’s FMS (Agresso) so that we can run reports on contract value vs spend. This will enable us to monitor contracts below £50k.</p>



**Recommendation 2: Contract Savings Tracker (Priority 3)**

<p><b>Recommendation</b></p> <p>When savings have been identified between contracted amount and actual spend with the supplier, this should be added to the Council's savings tracker.</p>
<p><b>Observation</b></p> <p>Efficiencies and value for money is key for the Council in achieving its objectives. Therefore, where savings have been identified, previously allocated funds can be freed up and used for other projects.</p> <p>Audit confirmed that the procurement team has recently undertaken a spend analysis on all suppliers to identify those which do not have contracts in place but should, and whether the contract value matches the actual spend with the supplier. However, cases where supplier spend is under the contract value have not been highlighted.</p> <p>Where savings are not tracked there is a risk that money which could be available for use on other projects has not been made available in budgets.</p>
<p><b>Responsibility</b></p> <p><b>Group Manager ( Procurement, Commissioning and Compliance)</b></p>
<p><b>Management response / deadline</b></p> <p>Agreed.</p> <p>As part of the Council's category management approach we have now set up a manual process (May 15) to review actual expenditure on a rolling monthly basis with contracts (initially valued greater than £100k) to track and identify under/over spend and will raise any issues/concerns that we have with the relevant budget holder and request an explanation for the change in expenditure. The change in expenditure and explanation for the change will also be reported at the quarterly Procurement Board.</p> <p>If the Procurement Board agree that any reported underspend should be removed from the budget, then this will be entered on to the Council's 'saving's tracker'</p> <p>Ongoing, we will look to see if a 'contracts register' field can be added to the Council's FMS (Agresso) so that we can run reports on contract value vs spend. This will enable us to monitor contracts below £50k.</p>

**Recommendation 3: Commission to Procure Approval (Priority 2)**

<p><b>Recommendation</b></p> <p>The “commission to procure” documentation should be formally approved by budget holders prior to all tendering projects beginning.</p>
<p><b>Observation</b></p> <p>To help ensure that budget is available for potential contracts and the need for the contract is justified, the “commission to procure” documentation should be formally approved by budget holders.</p> <p>Departments should complete a tender requisition form which is Appendix One of the Commissioning and Procurement Standing Orders. One part of this form confirms that the proposed budget and cost centre/s to which the contract will be charged has been checked and approved by Finance. Another part is the budget holder’s approval to proceed, which needs to be signed before the whole form is passed to procurement.</p> <p>In one case out of five tested, we were unable to obtain formal approval of the commissioning. We were, however, provided with meeting minutes which demonstrated that discussions between procurement and the budget holder took place prior to the tender.</p> <p>Where approval for commission to procure is not obtained, there is a risk that commissioning and procurement activity takes place which has not been correctly costed.</p>
<p><b>Responsibility</b></p> <p><b>Group Manager ( Procurement, Commissioning and Compliance)</b></p>
<p><b>Management response / deadline</b></p> <p>Agreed.</p> <p>The Tender Requisition Form was introduced to initiate the procurement process back in 2008 to mitigate the risks associated with undertaking activities which had not been properly costed or planned. Following a discussion with the AD Finance &amp; Operations in June 2014, the form was amended and a section was added whereby the form needed the signature of the budget holders accountant to confirm that there was sufficient budget.</p> <p>All Commissioning &amp; Procurement Officers are aware that they require a TRF that has been signed by both the client officer and the budget holder’s accountant before commencing any activities.</p> <p>I can confirm that an email reminding all members of the team of the importance of obtaining the signed copies of the TRF has been sent out today (11/06/15)</p>

**Recommendation 4: Procurement Standing Orders Compliance (Priority 1)**

<p><b>Recommendation</b></p> <p>All purchases and contracts should be procured and/or tendered in line with the Commissioning and Procurement Standing Orders.</p>
<p><b>Observation</b></p> <p>The Council should be able to show that it is getting value for money with its purchases and is keeping in line with legislation.</p> <p>Out of a sample of 10 suppliers with significant spend in the 2014/15 financial year it was identified that in 3 cases formal procurement and/or tendering activities should have taken place and contracts should have been formalised.</p> <p>Streetmaster Products - £10,085</p> <p>There was no formal procurement procedure to the knowledge of the officers concerned. The supplier has been used regularly for many years and they would not consider using another supplier as they would not be able to supply the exact same benches which have been used across the Borough.</p> <p>Egbert H Taylor &amp; Company LTD - £33,971</p> <p>There is currently no contract in place for the supply of Euro Containers of the type supplied by Egbert Taylor. As there are few companies that manufacture this type of bin, the Council has merely sought quotes from Egbert Taylor before placing an order.</p> <p>This financial year the Council will need further additional supplies and will be purchasing through an existing framework agreement. Either through Braintree or YPO frameworks.</p> <p>EC Harris LLP - £97,000</p> <p>EC Harris is a Built Asset Consultancy firm and the Council has paid them 9 invoices in the 2014/15 financial year. They helped produce the Council's Asset Management Strategy. We were unable to obtain a contract with the supplier or evidence that any formal tendering process was undertaken.</p> <p>Where appropriate procurement and tendering activity does not take place there is a risk that the Council is not receiving value for money for its purchases.</p>
<p><b>Responsibility</b></p> <p><b>Group Manager ( Procurement, Commissioning and Compliance)</b></p>
<p><b>Management response / deadline</b></p> <p>Agreed.</p> <p>Compliance with the commissioning &amp; procurement standing orders is the responsibility of all officers who carry out commissioning &amp; procurement activities.</p> <p>The Council use a clear set of commissioning and procurement procedures, rules and policies that have been designed to protect both the Council and the Officers responsible for Council expenditure and to be simple to use and follow.</p> <p>By complying with these rules and the commissioning &amp; procurement strategy, this not only demonstrates that the Council is mitigating the risks associated with public procurement, but that it also strives to deliver value for money.</p> <p>During 2014 the Council agreed a new commissioning &amp; procurement strategy and standing orders and the implications of these new rules have been shared with officers across the Council</p> <p>In addition to these new documents being uploaded onto Sharepoint, a user friendly 'short guide' has been produced and sent out to all AD'S &amp; GM's asking that they disseminate this document to their teams and encourage their staff to read the document.</p>

Guidance on the commissioning & procurement quotation & tendering thresholds was also included in the corporate publication 'The Review' which is sent out to all members of staff.

As well as offering our services to any Departmental Team Meetings, procurement officers have also been meeting with teams and providing them with training and awareness of the new governance arrangements and will continue to do so when requested.





**Recommendation 5: Performance Reporting (Priority 2)**

<p><b>Recommendation</b></p> <p>The Procurement team’s performance, based on objectives and cost savings identified for each procurement activity, should be monitored and reported to the appropriate forum.</p>
<p><b>Observation</b></p> <p>Performance objectives and reporting help identify where both good and bad performance exists and allows the Council to improve or reward teams as required.</p> <p>The Commissioning and Procurement Strategy lays out several quantifiable objectives for the Procurement team.</p> <ul style="list-style-type: none"> <li>○ Cashable savings from improved commissioning and procurement activities - 2015/16 target - 0.38% of revenue expenditure only - £200,000.</li> <li>○ % of spend via collaborative contracts - 2015/16 target - 6.5% of revenue expenditure - £3,465,381.</li> <li>○ % of spend with Dacorum-based small to medium sized enterprises - 2015/16 target - 4.5% of capital and revenue expenditure only - £3,266,844.</li> <li>○ Number of apprenticeships via contracts - 2015/16 target - 10</li> <li>○ % of spend with the third sector - 2015/16 target - 3.5% - £1,865,974</li> </ul> <p>However, these objectives have yet to be incorporated into the Council’s Corvu system which tracks performance and gives items for discussion to the Finance and Resources Scrutiny Committee.</p> <p>Where performance is not reported there is a risk that poor performance will not be identified and rectified.</p>
<p><b>Responsibility</b></p> <p><b>Group Manager ( Procurement, Commissioning and Compliance)</b></p>
<p><b>Management response / deadline</b></p> <p>Agreed.</p> <p>I have been working with officers from the performance team and can confirm that in May 2015 the service performance objectives were uploaded on to the Council’s performance management system (Corvu). The performance of the service will now be monitored and reported on a quarterly basis to the relevant Scrutiny committee.</p> <p>I have also just received more accurate financial data from 2014/15 and as a consequence this will result in the 2015/16 targets needing to be amended slightly. These updated targets will be published on the procurement page of the Council’s website.</p>

## Appendix A - Reporting Definitions

### Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

### Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B - Staff Interviewed

The following personnel were consulted:

Ben Hosier - Group Manager (Procurement, Commissioning and Compliance)

Andrew Linden - Team Leader (Procurement, Commissioning and Compliance)

Laura Badham - Technical Assistant (Strategic Planning & Regeneration)

Neil Brown - Team Leader (Programme and Procurement, Property & Place)

Nicholas Egerton - Team Leader (Environmental Protection & Housing)

Craig Thorpe - Group Manager (Environmental Services)

We would like to thank the staff involved for their co-operation during the audit.

## Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

### **Mazars Public Sector Internal Audit Limited**

#### **London**

#### **June 2015**

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