

Dacorum Borough Council

Final Internal Audit Report

Procurement Strategy

March 2019

This report has been prepared on the basis of the limitations set out on page 11.

CONFIDENTIAL

Distribution List:

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

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

Nigel Howcutt - Assistant Director Finance and Resources

Mark Brookes - Assistant Director Corporate & Contracted Services

James Deane – Corporate Director, Finance & Operations (Final Report only)

Sally Marshall – Chief Executive (Final Report only)

Key Dates:

Date of fieldwork: December 2018

Date of draft report: January 2019

Receipt of responses: February 2019

Date of final report: March 2019

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix C of this report for further information about responsibilities, limitations and confidentiality.

Contents

1. Executive Summary	1
2. Scope of Assignment	3
3. Assessment of Control Environment.....	4
4. Observations and Recommendations.....	5
Recommendation 1: Strategic Procurement Governance (Priority 2).....	5
Recommendation 2: Procurement Guidance (Priority 2).....	7
Recommendation 3: Critical Contracts Analysis (Priority 2).....	8
Appendix A - Reporting Definitions	9
Appendix B - Staff Interviewed.....	10
Appendix C Statement of Responsibility.....	11

1. Executive Summary

1.1. Background

As part of the agreed 2018/2019 Audit Plan, Mazars have undertaken a review of the controls in place for Procurement Strategy to ensure that controls have been adequately designed and implemented.

We are grateful to the Procurement Team, and other council staff for their assistance provided to us during the course of the audit.

This report summarises the results of the internal audit work and, therefore does not include all matters that came to our attention during the audit. Such matters have been discussed with relevant staff.

1.2. Audit Objective and Scope

The overall objective of the audit was to provide assurance over the adequacy and effectiveness of current controls, and provide guidance on how to improve the current controls going forward. In summary, the scope covered the following areas:

- Strategic Procurement Governance;
- Organisation, Management and Development;
- Strategic Procurement Planning;
- Providing Procurement Guidance and Advice;
- Compliance Audit, Procurement Performance Monitoring and Management Reporting;
- Key Supplier Relationship Management, Risk Management and Business Continuity; Management; and
- Strategic Procurements.

1.3. Summary Assessment

Our audit of DBC's internal controls in operation 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. There is evidence that the level of non-compliance with some of the controls may put some of 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	Substantial

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.

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 is shown in Section 3.

1.4. **Key Findings**

We have raised three Priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Strategic Procurement Governance (Priority 2);
- Procurement Guidance and Advice (Priority 2); and
- Critical Contract Analysis (Priority 2);

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

1.5. **Management Response**

We received the management responses in a timely manner and these have been included in the main body of the 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 Strategy, with regards to 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 identified risk areas:

- **Strategic Procurement Governance:**
 - The team does not contribute to corporate strategic procurement objectives.
- **Organisation, Management and Development:**
 - The team's authority may be insufficient to achieve its strategic procurement objectives.
 - The team's capacity and capability may be insufficient to achieve its strategic procurement objectives.
- **Strategic Procurement Planning:**
 - Procurement savings not realised.
 - Procurement non-compliances not rectified.
- **Compliance Audit, Procurement Performance Monitoring and Management Reporting:**
 - Poor procurement performance not identified and improved upon.
 - On-going best value not achieved.
 - Non-compliance with EU Public Procurement Directives and/or CSO.
- **Key Supplier Relationship Management, Risk Management and Business Continuity Management:**
 - Critical services and/or strategic objectives not achieved due to contract failure.
 - Service failure at times of major business interruption events.
- **Strategic Procurements:**
 - Unnecessary procurement may be undertaken.
 - Balance between contestability and service desire not achieved.
 - Sub optimal procurement options selected.
 - Benefits are not realised.

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
Policies Procedures and Legislation			Recommendation 1
Organisation, Management and Development			
Strategic Procurement Planning			
Providing Procurement Guidance and Advice			Recommendation 2
Compliance Audit, Procurement Performance Monitoring and Management Reporting			
Key Supplier Relationship Management, Risk Management and Business Continuity Management			Recommendation 3
Strategic Procurements			

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: Strategic Procurement Governance (Priority 2)

<p>Recommendation</p> <p>Management should ensure the following:</p> <ul style="list-style-type: none">• An up-to-date Procurement Strategy is in place and approved by Cabinet and Council.• The most up to date version of the Procurement Strategy is available on the council website and intranet• The elements of the Service Plan that relate to Procurement are up to date and appropriate.
<p>Observation</p> <p>A Procurement Strategy is in place to support the delivery of the following Council objectives:</p> <ul style="list-style-type: none">• Clean and Safe Environment;• Community Capacity;• Regeneration;• Dacorum Delivers; and• Affordable Housing. <p>However, through review of the Strategy, it only covers periods 2014-16. It was noted that the Council website and the intranet at the council did not contain the most up to date version of the strategy. It was last updated in 2016 when the KPI's for the year were added.</p> <p>A Service Plan, which sets out how the Councils objectives will be delivered is in place and this includes service objectives for the group manager of Commissioning, Procurement & Compliance. However, a review of the service plan found that the following areas appear incomplete:</p> <ul style="list-style-type: none">• Barriers to overcome (Service Objectives);• Detail within the service improvement plan;• KPI targets;• Medium term financial plan; and• Staffing structures. <p>Whilst the Service Plan is a Council wide document Procurement should ensure that the contents of the service plan are fully complete and up to date with the current service provision of the department.</p> <p>There is a risk that the council fails to deliver on its service objectives through lack of strategic planning and supporting delivery plans.</p>
<p>Responsibility</p> <p>Group Manager (Procurement, Commissioning and Compliance)</p>
<p>Management response / deadline</p> <p>The procurement strategy was due to be reviewed and updated during 2017/18 but it became apparent that the new National Procurement Strategy for Local Government would be published in 2018 and it was decided to wait until this was published to see what impact this would have on the Council's own procurement strategy.</p> <p>The new National Procurement Strategy for Local Government was published in the autumn 2018 and work is currently ongoing to fully review the content of this against the Council's own procurement strategy. It is envisaged that a significant level of input will be required to draft a new and meaningful Council procurement strategy and that this will require consultation with both CMT & Members before presenting a draft strategy to both Scrutiny and Cabinet and obtaining approval for Full Council to adopt. It is predicted that this will be presented to Full Council by the end of 2019.</p>

In the mean-time the current procurement strategy will be amended to update the areas identified in the audit report. These minor amendments will not require Cabinet approval as they are just operational updates, although all amendments will be discussed with the Portfolio Holder prior to updating. It is predicted that these updates will be concluded and published on the website and intranet by the end of 2018/19.

The Service plan for Procurement & Contracted Services is updated annually in line with the corporate approach to service plans and work on the 2019/20 plan should commence shortly. I will ensure that all areas that were identified as incomplete in the original documentation that was reviewed in this audit, are included as they were in the subsequent documentation that was sent to audit.

Recommendation 2: Procurement Guidance (Priority 2)

Recommendation

Management should ensure the following:

- Contract Standing Orders are reviewed and updated on a periodic basis;
- The most up to date version of Commissioning and Procurement Standing Orders should be made available on the council's website and intranet;
- Procurement guidance to staff should be reviewed and updated on a periodic basis; and
- SME guidance should be reviewed and updated.

Observation

There is a Commissioning and Procurement Standing Orders document available at the Council which sets out the rules to which it will adhere when commissioning and procuring goods and services. The version available on the Council's website is dated 9th July 2014. Audit was informed that an update was completed in December 2015 but no updates have taken place since then.

Through review of the current procurement process, it was highlighted that in a number of instances the Procurement Standing Orders are out of date with job titles and the OJEU thresholds requiring updates.

Moreover, further procurement guidance and procedures that are available for staff to follow has also not been reviewed and updated since 2014.

In addition, from a review of the Procurement guidance that is available on the Council website, it was found that *A statement of principles to encourage effective trade between local authorities and small businesses* document is provided, however this document has not been updated since 2008.

There is a risk that incorrect working practices are followed leading to errors and non-compliance with Procurement legislation.

Responsibility

Group Manager (Procurement, Commissioning and Compliance)

Management response / deadline

The procurement standing orders will be reviewed at the same time as the new procurement strategy to ensure that they provide robust guidance and advice to Council officers and members. It is predicted that this will be presented to Full Council by the end of 2019.

In the mean-time the current procurement standing orders will be amended to update the areas identified in the audit report. These minor amendments will not require Cabinet approval as they are just operational updates, although all amendments will be discussed with the Portfolio Holder prior to updating. It is predicted that these updates will be concluded and published on the website and intranet by the end of 2018/19.

Recommendation 3: Critical Contracts Analysis (Priority 2)

Recommendation

Management should ensure the following:

- A critical contracts analysis is undertaken and business continuity plans prepared in response to those contracts identified as critical to delivering the organisation's objectives.

Observation

It is best practice to ensure that an analysis of all contracts is undertaken to identify which of the contracts are critical for the council to maintain its statutory functions. This will enable appropriate business continuity plans to be developed should any of the critical contracts begin to cause serious issues for the council's operations.

We were informed there is no single critical contracts analysis undertaken and business continuity plans are not prepared in response to critical contracts.

Therefore, there is an increased risk that the council fails to deliver its statutory functions.

Responsibility

Group Manager (Procurement, Commissioning and Compliance)

Management response / deadline

The procurement team carry out an analysis of all third party expenditure across the Council. Along with the contracts register, this enables the team to advise client officers when and how contracts require re-tendering.

Apart from a handful of contracts that are managed by the procurement team, the responsibility for the remainder of the contracts rests with the relevant client team which is customary when working with devolved budgets.

As the client officers are responsible for the majority of the contracts, any 'critical contract analysis' from a Council statutory function perspective should be carried out by the client officer.

Guidance on the process for undertaking 'critical contract analysis' will be included in the procurement standing orders to ensure a consistent approach across the Council. It is predicted that this will be included in the included in the standing orders and published on the website and the intranet by the end of 2018/19.

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
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		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.
Limited		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.
Nil		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 grading's 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
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	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:

Audit sponsor: Nigel Howcutt – Assistant Director, Finance & Resources

Audit Contacts: Ben Hosier – Group Manager, Procurement, Commissioning and Compliance

Andrew Linden – Team Lead, Procurement, Commissioning and Compliance

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

Appendix C Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared since the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

The matters raised in this report are only those which came to our attention while 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom.
Registered in England and Wales No 0C308299.