



Internal Audit

FINAL

Dacorum Borough Council

Assurance Review of Procurement

2021/22

January 2022

Executive Summary

OVERALL ASSESSMENT



ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

SR1 - Funding and income is not sufficient to deliver the Council's Corporate Objectives

SCOPE

The aim of the review was to determine whether the Council's Standing Orders for Procurement are being adhered to across the organisation and whether Brexit rules will be introduced, if any, from 2021/22.

KEY STRATEGIC FINDINGS



Sample testing and review of the Council's Procurement documents, identified that adequate controls are in place and operating as intended.



The audit identified that Procurement rules are potentially being circumvented, which is evidenced by the number of exceptions/ waivers processed and the volume of retrospective orders. More importantly, there is no formal oversight in place, by way of reporting such incidences to Committee/ Cabinet.



Spend against stipulated spend thresholds is monitored, including four year cumulative aggregate spend. This is reported quarterly to Group Managers and Assistant Directors.

GOOD PRACTICE IDENTIFIED



An organisation-wide process to proactively identify procurement work plan activities and follow up on matters is undertaken by the Procurement team.



Meetings were being held during the audit to manage areas of high-spend relating to temporary staff through official multi-agency framework arrangements.

ACTION POINTS

Urgent	Important	Routine	Operational
0	2	2	0

Assurance - Key Findings and Management Action Plan (MAP)

Rec	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	<p>Procurement Standing Orders (PSOs) were 'set aside' (waived) 40 times during 2020/21, with a value of £6.861m.</p> <p>Procurement non-compliance reports are issued to Assistant Directors and to Group Managers. However, it was noted that such information/ reports are not presented to a 'designated' Committee or to Cabinet.</p> <p>Furthermore, review and testing of a sample of 10 procurement awards, over £25k, identified that three should have been subject to competitive quotes. However, an exception was raised by the Lead which resulted in a waiver being applied.</p> <p>Procurement staff stated this was a common issue due to time restraints, insufficient planning or input sought for commissioning support from the Procurement Department, and a lot of rollover, making it difficult to demonstrate best value.</p>	<p>Periodic formal oversight of organisation-wide procurement activity reports be established and presented to Committee/ Cabinet, with Leads held to account, where concerns are identified.</p> <p>Reports should include the level and nature of procurement non-compliances, for example, bypassing of procurement process requirements, exceptions, where Procurement Standing Orders (PSOs) were waived.</p>	2	<p><i>A report is currently presented to the Finance & Resources Overview Scrutiny Committee every quarter and this includes statistics on procurement activities.</i></p> <p><i>To comply with this recommendation, it is suggested that the organisation-wide activity report that is reported to this committee, also includes the number of times the PSO's have been set aside and other non-compliance issues.</i></p> <p><i>Should members have concerns over the procurement activity, then they can request that the client officer attends the next meeting or provides a written response to the concerns raised by committee.</i></p> <p><i>It is also suggested that the non-compliance report is shared with Senior Leadership Team each quarter.</i></p>	01/04/22	Group Manager Procurement & Contracted Services

PRIORITY GRADINGS

1 **URGENT** Fundamental control issue on which action should be taken immediately.

2 **IMPORTANT** Control issue on which action should be taken at the earliest opportunity.

3 **ROUTINE** Control issue on which action should be taken.

2	Directed	<p>Analysis of a requisitions report, post the invoice date for the period April 2020 to 9th September 2021, identified that:</p> <ul style="list-style-type: none"> • 5,617 requisitions were retrospective, totalling £14,653,827.32; • Relating to 559 suppliers for 136 areas of the Council. <p>For 2021/22, year to date, there were 1800 requisitions raised retrospectively, totalling £4,523,280.52.</p> <p>Furthermore, review of the Top 5 suppliers by volume and the Top 5 suppliers by value with the Group Manager - Procurement and Contracted Services along with the Procurement Team Leader, identified concerns with seven of these 10. TIAA were unable to further assess appropriateness based on the information provided; therefore the full analysis was shared for further review and investigation by the Council. It is understood this information was not being reported anywhere.</p>	<p>The level of retrospective orders be kept under review and reported to Senior Management as well as Committee/Cabinet. An Action plan must be devised by Senior Management, in order to reduce such instances.</p>	<p>2</p> <p><i>The Council has a 'no PO no pay' policy, which means that no invoice will be processed for payment without a requisition first being raised. It is highlighted in training provided to those raising requisitions that it is best practice to raise requisitions prior to the receipt of an invoice. 100 %compliance with this is a challenge for any organisation to achieve. We agree that further action can be taken to improve performance in this area.</i></p> <p><i>As a result of the audit findings, the Council's Finance Service will:</i></p> <p><i>-Circulate the % of invoices paid with a retrospective requisition to Group Managers at service level, with the offer of further support/training for staff as required particular for those with highest %. Our first report will be Q3 21/22, to be circulated in January 2022 and quarterly thereafter.</i></p> <p><i>-We will review these arrangements after 12 months and determine whether or not reports on performance need to go to the Council's Senior Leadership Team.</i></p> <p><i>The auditor's finding overstates the number of requisitions in the analysis period. Where a requisition is split across different financial system account codes, this requisition is counted multiple times in the auditor's analysis. Our analysis of requisitions raised after the invoice date for the period 01/04/20 – 09/09/21 shows the following:</i></p> <ul style="list-style-type: none"> •Of 3633 total invoices paid, 1504 had requisitions raised after the due date. This equates to 41% of total invoices paid. •Of these, excluding data relating to the 2 individual officers with the most requisitions raised after the invoice date, the percentage drops to 28% (716 requisitions of 2,518 invoices paid). <p><i>The comments around top 5 suppliers by volume and value made by the auditor were investigated further by Council officers. Our conclusion is that they do not represent an additional finding beyond that of requisitions being raised after invoice dates. We have discussed this position with the auditor.</i></p>	31/01/22	Fiona Jump Group Manager Financial Services
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PRIORITY GRADINGS

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2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	Control issue on which action should be taken.
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Rec	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
3	Directed	Copies of quotes obtained are not held centrally or uploaded on to a system as evidence of adhering to the Council's PSOs and mitigate the risk of fraud	Procurement quotes obtained be held centrally, to demonstrate the Council's PSOs have been adhered to.	3	<i>To help to mitigate the risk of fraud, it is suggested that copies of all procurement quotations are held centrally on Sharepoint. The PSO's will then need to be updated so that staff are aware of the guidance for saving copies of all quotations on to Sharepoint. I will investigate how easy this can be set up with colleagues in the Council's IT service.</i>	01/04/22	Ben Hosier Group Manager Procurement & Contracted Services
4	Delivery	The Procurement Team provides training to staff or where Managers identify key staff, who require targeted training on forthcoming public procurement transformation and process changes, which is planned to be followed by tender evaluation and contract management training. A Procurement 'Do it on Dennis' intranet page was also being setup to include a number of guidance documents but this has been delayed pending a SharePoint and IT update. Supporting emails were seen, however a date for the completion of this had not been provided.	Further actions be undertaken to improve the Council's training arrangements, as follows: <ul style="list-style-type: none"> Assistant Directors to identify nominated leads in each area so Procurement can ensure these staff are appropriately trained; Completion of the Procurement intranet page be progressed in line with an agreed timescale, with matters escalated where necessary. 	3	<i>The Procurement Service has already undertaken a number of training sessions with identified officers who carry out tendering activities as part of the roles. I will investigate with the GM of Technology and Digital Transformation as to when the Sharepoint update will be concluded, so that the Procurement 'Do it on Dennis' page can be updated with the latest procurement guidance for officers to follow . This will be important, as the Government have recently published its response to the consultation on 'Transforming Public Procurement and the Council have adopted a new commercial approach which will impact on the advice and guidance that Procurement will be required to provide to officers.</i>	01/04/22	Ben Hosier Group Manager Procurement & Contracted Services

PRIORITY GRADINGS

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Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
No Operational Effectiveness Matters were identified				

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Findings



Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	Governance Framework There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	Partially in place	1	-
RM	Risk Mitigation The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In place	-	-
C	Compliance Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	Partially in place	2, & 3	-

Other Findings

-  Council Commissioning & Procurement Standing Orders and a Commissioning & Procurement Strategy are in place, covering the period 2019-2024. The Standing Orders reflect Public Contracts Regulations in terms of the World Trade Organisation Government Procurement Agreement procurement thresholds and definitions in line with Brexit and the UK being an independent member of the World Trade Organisation Government Procurement Agreement from 1 January 2021. A range of supporting guidance has also been developed.
-  A 'No Purchase Order, no pay' policy is adopted by the Council to help reinforce procurement rules and process this requirement is clearly published on the intranet. However this does not stop Purchase Orders being raised retrospectively (as referred to in the recommendations above) A list of exempt suppliers is in place.
-  A Contracts Register and Forward Procurement Plan are maintained. The Council is transparent in publishing its Contracts Register and spending data on its website.

Other Findings



Review and testing of the Council's procurement process and supporting evidence for a sample of 10 procurement awards, comprising of various different types of procurement exercises, namely:

- tenders subject to UK public procurement legislation;
- general tenders, competitive quote processes; and
- framework agreements.

In all cases, it was confirmed that the relevant process had been adhered to, and these were in accordance with the Council's procurement financial threshold requirements. The sample tested contained a number of awards which were given via an 'exception', whereby the competitive quotation was by-passed. As a result of this, the sample was extended to include a further competitive quote process review which confirmed that the exercise had been appropriately completed.



Testing confirmed there is evidence of the use of structured electronic procurement portals for competitive procurements which provides inbuilt automated controls, such as disallowing late bids and a detailed audit trail. Official Tender Requisition forms are completed to obtain the authority to commence the tender process. Tenders evaluations were held that supported decisions made. Award processes had been appropriately completed, including clarification log records, the issuance of letters to all bidders (successful and unsuccessful) with explanatory reasons and justification provided for the decision made. Associated contract documentation was supplied.



A variety of procurement documentation has been developed by the Council and standard formats were seen to be in use.



Officer and Portfolio Holder Decision Record Sheets had been completed where required. Official Procurement Certificates were also provided where necessary, that were appropriately authorised by the relevant Group Manager, in accordance with Section 5 of the Procurement Standing Orders. The documentation provided also demonstrated Finance, Deputy Monitoring Officer and Deputy Section 151 Officer comments, as well as key implications being put forward for consideration in decision making in terms of value for money, financial matters and risk.



There was evidence of communications with bidders where decisions were challenged. The auditor was informed the Council has never been taken to Court or settled out of Court.





Delivery Risk:


Failure to deliver the service in an effective manner which meets the requirements of the organisation.


Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	Performance Monitoring There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	In place	-	-
FC	Financial Constraint The process operates within the agreed financial budget for the year.	In place	-	-
R	Resilience Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	In place	4	-

Other Findings

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The 2021/22 Quarter 1 Performance Report for Corporate and Contracted Services to the Finance and Resources Overview and Scrutiny Committee, contained a Procurement & Contracted Services update on Covid-19 and a summary listing the names of ongoing procurement exercises and projects.
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Quarterly highlight reports are provided to Group Managers, as evidenced for Quarter 1 2021/22, and follow up meetings are held by Procurement staff with key areas. Reports outline aggregate cumulative spend with suppliers over the past four years and matters requiring attention according to the process followed and amount spent, whether this is nearing or has reached requisite thresholds, as well as the procurement forward plan to promote the identification of procurements and early engagement to address these areas. Annual reports including the above were sent to Assistant Directors for 2020/21. Details of procurement processes exceptions are maintained.
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In terms of Brexit, documentation has been updated, such as the Procurement Standing Orders as referred to above. Public Contracts Regulations have been adopted. Management were aware of national changes likely to be delayed to April 2022. It was stated that prices have been increasing due to Brexit, as well as Covid-19 particularly for materials and construction, which may not return to normality therefore matters are being raised with internal clients as part of the specification process.
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Management stated Covid-19 has not had a large impact as the Council is typically service related, with little reliance on overseas materials. Procurement leads have liaised with key suppliers on matters such as staffing, repatriation to Europe, and considered wider new opportunities although tendering has not yet resulted in global options. An external consultancy explanatory paper of market changes has been shared across the Council. The Group Manager also stated the project to replace Berkhamsted leisure centre has considered projected cost increases and the impact of Brexit and Covid-19.

EXPLANATORY INFORMATION

Appendix A

Scope and Limitations of the Review

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

Disclaimer

2. The matters raised in this report are only those that came to the attention of the auditor during the course of the review, and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Effectiveness of arrangements

3. The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

In place	The control arrangements in place mitigate the risk from arising.
Partially in place	The control arrangements in place only partially mitigate the risk from arising.
Not in place	The control arrangements in place do not effectively mitigate the risk from arising.

Assurance Assessment

4. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

5. We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

6. The table below sets out the history of this report.

Stage	Issued	Response Received
Audit Planning Memorandum:	23 rd June 2021	23 rd June 2021
Draft Report:	15 th October 2021	12 th January 2022
Final Report:	13 th January 2022	

AUDIT PLANNING MEMORANDUM

Appendix B

Client:	Dacorum Borough Council		
Review:	Procurement		
Type of Review:	Assurance	Audit Lead:	Principal Auditor

Outline scope (per Annual Plan):	Rationale: Any form of procurement exercise/ activity must adhere to the Trusts Procurement rules and demonstrate value for money. Scope: To determine whether the Council's Standing Orders for Procurement are being adhered to across the organisation and whether Brexit rules will be introduced, if any, from 2021/22.		
Detailed scope will consider:	<p>Directed</p> <p>Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.</p> <p>Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register.</p> <p>Compliance: Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.</p>	<p>Delivery</p> <p>Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.</p> <p>Financial constraint: The process operates with the agreed financial budget for the year.</p> <p>Resilience: Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.</p>	
Requested additions to scope:	N/A		
Exclusions from scope:	N/A		

Planned Start Date:	18/06/2021	Exit Meeting Date:	29/09/2021	Exit Meeting to be held with:	Group Manager of Procurement and Contracted Services, Team Leader: Commissioning, Procurement & Compliance
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SELF ASSESSMENT RESPONSE

Matters over the previous 12 months relating to activity to be reviewed	Y/N (if Y then please provide brief details separately)
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	N
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	N
Have there been any significant changes to the process?	N
Are there any particular matters/periods of time you would like the review to consider?	N