

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Corporate Procurement
TO: Head of Finance **DATE:** 25 October 2016
C.C. Chief Executive
Deputy Chief Executive (AJ)
Procurement Manager

1 Introduction

- 1.1 As part of the 2016/2017 Audit Plan an audit has recently been completed on the systems and procedures in place to manage corporate procurement (CP).
- 1.2 This report outlines the approach to the audit and presents the findings and conclusions arising.

2 Background

- 2.1 Ever since its inception the council has needed to buy works, supplies and services. For many years the instructions and guidance on how to do so were enshrined in the Codes of Financial and Purchasing Practice and Standing Orders Relating to Contracts.
- 2.2 As a result of The National Procurement Strategy for Local Government produced in 2003 and a health check undertaken locally by the Improvement and Development Agency in 2004 the council embarked on the procurement road. Initially this was going to be by the appointment of an interim procurement manager to put in place procurement savings and achieve quick wins but this was never progressed due to lack of resources.
- 2.3 It was not until 2006, as a result of the Administration Review, that the post of Procurement Officer, later classified as Procurement Manager (PM), was approved by Executive. The first PM took up her duties in August 2007. In March 2010 Employment Committee approved the creation of the post of Procurement Officer and she took her duties in June 2010.
- 2.4 A second Procurement Officer post was created in September 2012 but it has never been filled on a permanent basis and temporary staff from Commensura have been used on occasion for specific tasks. Just recently an appointment was made under the Government Apprenticeship Scheme and the successful applicant will be starting work very soon.
- 2.5 The Corporate Procurement Team, based in Finance, oversee procurement activity with a value in the region of £25M.

3 **Scope and Objectives of the Audit**

3.1 The audit was undertaken to test the management and financial controls in place.

3.2 In terms of scope, the audit covered the following areas:

- Roles and responsibilities
- Strategy and Code of Practice
- Corporate procedures
- Compliance and monitoring
- Training
- Reporting
- Risk management

3.3 The audit programme identified the expected controls. The control objectives examined were:

- Council, Executive and officer roles are clearly defined.
- Codes of Financial and Procurement Practice reflect responsibilities.
- Job descriptions are appropriate and up to date.
- A Procurement Strategy is approved and updated.
- A Code of Procurement Practice is approved, revised periodically and freely available.
- Standard corporate procedures are in place for all stages of the procurement process.
- The contact register is up date, reviewed and published.
- Expenditure is analysed for compliance and opportunity.
- Appropriate training is regularly delivered.
- Procurement progress is regularly reported.
- Risk registers identify and record relevant risks.

4 **Findings**

4.1 **Recommendations from previous report**

4.1.1 The current position in respect of the recommendations from the audit reported in June 2014 is as follows:

Recommendation	Management Response	Current Status
1 A fundamental review of the Procurement Strategy should be undertaken with a view to instilling a 'road map' approach and SMART principles, and the resultant revised document submitted to Executive for adoption.	The Strategy is being reviewed and updated along with all the other key procurement policies.	An updated Procurement Strategy covering the years 2015-2016 was approved by Executive in March 2015. A further update covering the years 2017-2019 is currently being prepared with a view to seeking Executive approval in March 2017.

Recommendation	Management Response	Current Status
<p>2 Respective roles of Members and senior managers in the strategic leadership of procurement should be clarified and correctly represented in the revised Procurement Strategy and the Significant Business Risk Register as applicable.</p>	<p>Roles will be reviewed and clarified as part of the review of procurement policies/documentation. The SBRR responsibility will be reviewed when SMT next consider it.</p>	<p>The Strategy outlines the responsibilities of members and officers in the procurement process.</p> <p>The SBRR identifies Procurement as a risk and the risk mitigations are allocated to specified officers and senior manager teams.</p>
<p>3 The role of the Procurement Board should be reviewed and codified into agreed terms of reference, ensuring that they appropriately complement and do not conflict with the respective roles of Members and senior managers.</p>	<p>As the Procurement Board is still in its infancy, the terms of reference still are to be formally agreed. This will be reviewed at the next meeting of the Board.</p>	<p>The Procurement Board is no longer in existence.</p>
<p>4 The Council's Intranet resource should be reviewed and enhanced to secure a complete and accessible purchasing framework that encompasses all corporate sourcing arrangements (including buying consortia and framework agreements) along with details of applicable contact officers.</p>	<p>Intranet page to be reviewed and updated following agreement of updated procurement policies. Feasibility and plan for details of "sourcing arrangements" to be considered.</p>	<p>The Procurement Team's Intranet Page has undergone a number of changes since June 2014. Recently the page has been enhanced and modernised by the posting of a comprehensive library of information covering all aspects of procurement. Some final touches are needed from ICT before the page goes live.</p>

Recommendation	Management Response	Current Status
<p>5 Incorporation of procurement into the corporate Learning and Development Programme and mandatory employee induction training should be explored in consultation with Human Resources.</p>	<p>Consideration of procurement training programme and the best way to manage as part induction process being discussed with HR.</p>	<p>The council's Learning and Development Programme is now called On Course and a number of sessions on Procurement Awareness and one on the Principles of Contract Management are in the calendar for the final quarter of 2016.</p> <p>A presentation was recently made to Managers' Forum by the Procurement Manager and a series of short sessions on individual aspects of the procurement process are being arranged.</p>
<p>6 Monitoring mechanisms should be established in accordance with agreed roles and clear management objectives which in turn should be clearly defined in the Procurement Strategy.</p>	<p>Being addressed as part of review of procurement policies/documentation.</p>	<p>Monitoring of activity is undertaken using the council's contracts register and the Intends contract management system. The use of software is currently being explored in order that heads of service and contract managers can be automatically prompted to take action at the various stages of a project.</p>
<p>7 The formulation of the Procurement Strategy and Action Plan should have regard to the Strategy's role of informing projects relating to procurement represented in the Service Delivery Plans (especially Finance).</p>	<p>To be reviewed as part of update of Strategy, and clarify where such projects should be detailed having regard to the Contract Register and the Team Operational Plan.</p>	<p>Rather than in the Service Area Plan the current and future projects involving procurement will be included in plans that are currently undergoing development. Each service area will have a Forward Procurement Plan. This will detail all known procurement projects and the CP team will monitor</p>

Recommendation	Management Response	Current Status
		progress throughout the year.
8 Re-introduction of annual team operational plans for the Procurement Team should be considered.	Being produced based on updated Contracts Register and meetings held with budget/contract managers.	The Procurement Team do not have a team operational plan. Their work each year is dictated by the contracts register and the Forward Procurement Plans.

4.2 Roles and responsibilities

4.2.1 The roles and responsibilities in respect of CP are primarily laid down in the Constitution (The Scheme of Delegation), The Procurement Strategy, the Codes of Financial and Procurement Practice and in job descriptions. In addition there is a general duty placed on all staff to abide by council policies and procedures and to achieve economies and efficiencies in service provision.

4.2.2 Specifically and briefly the roles and responsibilities are as follows;

- Executive assumes ultimate responsibility for procurement across the authority.
- Finance and Audit Scrutiny Committee promotes value for money and good procurement practice.
- Corporate Management Team carry out the responsibilities stipulated in the Codes of Financial Practice and Procurement Practice.
- The Head of Finance is responsible for the procurement team, procurement activity and adherence to the Code.
- Heads of Service and budget managers are responsible for ensuring that the Codes of Financial and Procurement Practice are observed.
- The Procurement Manager and his team provide the expertise to ensure that procurement activity complies with all relevant local, national and European legislation.

4.2.3 The council has been following procurement principles since August 2007 when the first Procurement Manager was appointed. Since that time procedures have been introduced and are constantly being added to and improved in an attempt to embed procurement across the authority and to be fully procurement compliant.

4.2.4 The stumbling block in the whole process and something that is hindering procurement becoming second nature to everybody is the very high level of staff turnover in the CP team.

- 4.2.5 In the nine years since the first procurement appointment there have been four Procurement Managers, including one that was only a temporary appointment for about three months, and at least an equal number of Procurement Officers. A recent attempt to recruit an apprentice resulted in three applicants who were all invited for interview and then either withdrew or failed to attend.
- 4.2.6 The lack of stability within the team and the periods when the team is below strength restricts the support that is available to service areas, possibly resulting in poor procurement practice. Also the somewhat stop / start nature of procurement staffing limits the time that is available for developing the service as dealing with ongoing projects will take priority.
- 4.2.7 Although purchasing has been around for ever in local government and larger authorities will have had purchasing departments and purchasing officers the concept of procurement, which goes far beyond the buying phase, is a fairly new concept, certainly in local government. The relatively short time that procurement has been recognised as a specialism means that procurement staff are in short supply and it seems that they are able to progress their careers relatively easily.
- 4.2.8 The recent high level of turnover suggests that the inability of the council to recruit and retain suitably qualified staff could be a problem for the foreseeable future and certainly until more people enter the profession and salaries reflect the increased number of people in the market.

Risk

The council's inability to recruit and retain suitably qualified staff hinders both dealing with the current work load and developing the service.

Recommendation

A review of the staffing of the Procurement Team should be undertaken with a view to examining the options to improve stability.

4.3 Procurement Strategy and Code of Practice

- 4.3.1 At the heart of the formal guidance and plans for procurement are the Procurement Strategy, the Code of Procurement Practice and to a lesser extent the Code of Financial Practice. It is vital that these documents are relevant, reviewed, updated and widely communicated.
- 4.3.2 The last audit of CP recommended that the Strategy should be reviewed and presented to Executive for adoption. Accordingly an updated version was presented to Executive on 11 March 2015 to cover the years 2015 to 2016. That version is currently being reviewed and updated to cover the years 2017 to 2019 with a view to presenting it to Executive in March 2017.
- 4.3.3 The Code of Procurement Practice is very much the guidance manual for officers in conducting procurement business. It is important that this be kept

up to date as it will dictate which particular course of action should be followed.

- 4.3.4 Prior to this year the Code was last reviewed in 2010. An updated version was approved by Executive on 6 April 2016 and it included for the first time an Ethical Procurement Statement, a Sustainable Procurement Policy and a Social value Policy. Already another version of the Code is being prepared for presentation to Executive in the near future.

4.4 **Corporate procedures**

- 4.4.1 Although service areas undertake a lot of the steps in the procurement process themselves it is very much under the guidance of the CP team, particularly in the case of high level procurement. Naturally for all of the different categories the procedures to be followed are the same.
- 4.4.2 For the purposes of the audit it was deemed acceptable to have the corporate procedures explained and to see some evidence of their existence rather than to record and assess every step of every stage. There is no attempt to detail the procedures here other than in outline form. The reference point for all staff needing guidance and answers is in a 50-page Procurement Manual which has been issued to service areas and which will shortly be available on the Intranet Home Page.
- 4.4.3 There are a number of key components to the overall procurement process. Lower level activity can be dealt with by a number of means without the need to invite tenders on the open market. For all other activity tenders are invited and the vehicle for this purpose is the Coventry, Solihull and Warwickshire Joint E Tendering System (CSW-JETS). Basically, when a decision has been made that works, goods or services are required from the market and a specification has been written and approved along with a number of other standard supporting documents (quality questions, price schedules, KPIs, details of the scoring system), the opportunity is advertised in various quarters through CSW-JETS. Interested firms will submit a tender by the required date.
- 4.4.4 Tenders are "opened" after the closing date and the bids are recorded. Qualifying bids are evaluated by a team of officers in accordance with standard rules and procedures and a successful tender is recommended for acceptance. Once accepted the successful and unsuccessful tenderers are informed and the legal formalities are begun.
- 4.4.5 As far as evidence of the whole process is concerned the CSW-JETS system will contain the history as will the electronic filing in the Awarded Procurement folder within Finance on the I Drive. The folder will also contain all of the appropriate standard forms and letters that result following the submission of tenders.
- 4.4.6 There are many more steps to the process than those referred to and also there are several steps that are currently being developed for future use e.g. procedures for extending contracts, forward procurement plans, automatic notification of contract expiry to Heads of Service and contract managers.

- 4.4.7 As already referred to, the main business of the already small team, which may soon become even smaller, is dealing with the current workload i.e existing and future contracts. There are many ideas in development for enhancing the overall standard and control within the process and they are having to be worked on as time allows.
- 4.4.8 Communication of all of the necessary steps in the procurement process is by way of formal and individual training, responses to requests and accessing information on the Procurement Page on the Intranet. The page was previously somewhat limited but it has recently been revamped to provide a comprehensive library of information.
- 4.5 **Compliance**
- 4.5.1 Compliance with the Code of PP and all related requirements is exercised in the main through examination of the contracts register. The register takes two forms that should be identical in content. One is maintained in CSW-JETS and it results from the activity in the system and it contains some functionality. The other is simply a spreadsheet of information that is populated by service areas and it is publicly available on the WDC website. Periodically the individual service area registers are submitted to Finance and Audit Scrutiny Committee for examination.
- 4.5.2 By examining the contracts register the CP team are able to recognise the contracts that they have been involved in or that were already in existence when they started working for the council and anything unfamiliar will be identified and queried.
- 4.5.3 One aspect of procurement that was one of the key features when WDC first embarked on the procurement route was the question of aggregation and whether there was scope either to combine the same type of expenditure across service areas e.g. cleaning or stationery supplies into one contract or to look at recurring expenditure in one service area that could be let over a number of years as opposed to an annual basis.
- 4.5.4 Some work has been undertaken over the years in this area and a lot of the works and supplies previously ordered individually by service areas have been combined into authority wide contracts e.g. cleaning, stationery, security etc. In addition work that was ordered on an annual order basis has been let under contract for longer periods e.g. maintenance and repair of cemetery memorials.
- 4.5.5 There is scope for further work in this area to establish if recurring expenditure is suitable for letting under contract. This would involve a detailed examination of the council's expenditure using a technique called "spend analysis". The resources in the CP team do not allow for this to be undertaken in house so the engagement of a consultant is being examined. This has the advantage of the task being undertaken by somebody with the relevant experience in the matter and they would be independent thereby taking a detached view.

4.6 **Training**

- 4.6.1 The introduction of procurement practices into the contract process necessitated a major change in approach and attitude and understandably there was a major training need in the early years.
- 4.6.2 Once that training had been delivered there was a need to maintain officers' understanding of what was required and also to enhance it as a result of legislative and internal requirements. Also training would be required on an ongoing basis as a result of staff changes.
- 4.6.3 Training takes many guises ranging from a one to one approach to the more formal classroom or presentation style. Often one of the CP team will train a member of staff in a specific aspect of the procurement process e.g. writing a tender specification or tender evaluation. At other times a formal session will be delivered to managers as with the recent presentation to Managers' Forum by the Procurement Manager.
- 4.6.4 The council's training programme "On Course" contains a number of half day sessions between now and the end of 2016 on Procurement Awareness and a full day on the Principles of Contract Management. Recently the Procurement Manager has advertised a series of Bite Sized Chunks on the individual aspects of the procurement process.
- 4.6.5 Prior to the commencement of a procurement project a member of the team will meet with relevant service area staff to go through the various stages of the process, explain what is required of them and resolve any queries or concerns.
- 4.6.6 The recently much enhanced procurement page on the Intranet will soon be available containing a comprehensive library of information on policies, procedures, guidance and FAQs.

4.7 **Reporting**

- 4.7.1 Procurement and more specifically the buying phase, the stage of the process that most people focus on, attracts a lot of interest. Procurement of the major multi-million pound contracts is of major concern politically and strategically. Poor procurement resulting in adverse publicity would be very unwelcome. Members therefore show a keen interest in the matter.
- 4.7.2 Members agreed at the July 2010 Executive that they would receive annual updates on procurement and progress against the strategy and action plan. Accordingly reports have been submitted as required. As already mentioned members receive regular reports on individual service areas' contract registers where they have the opportunity to raise questions or queries.
- 4.7.3 The council also has in place a Procurement Champions approach whereby five appointed members can meet regularly with the Procurement Manager to discuss ongoing work and progress with the action plan.

4.8 Risk management

- 4.8.1 Procurement cuts across all service areas and activities to various degrees. It is a key part of the operation of the council and one where failure to comply with legislation could result in financial penalties or fines and damage to the council's reputation. Poor practice generally could result in waste and inefficiency.
- 4.8.2 Procurement risks feature in both the Significant Business Risk Register (SBRR) and the Finance Risk Register (FRR). The FRR addresses the risks as they apply to Finance i.e. the risks of Finance being non-compliant with procurement. It is the SBRR that addresses procurement as it affects the whole council and the risk is identified as "Risk of improper procurement practices and legislative requirements not being complied with". The triggers listed can be summarised as "A poor procurement function."
- 4.8.3 The SBRR does not address the major risk posed by the ongoing recruitment and retention situation. It does not even include the almost customary and standard entry "Absence of key staff." It would be very damaging to the council if it was unable to recruit suitably qualified recruitment professionals.

Risk

The SBRR fails to identify and manage the risk of not being able to recruit procurement staff.

Recommendation

The next review of the SBRR should include a risk of not being able to recruit suitable procurement staff and detail the mitigations and actions required.

6 Conclusions

- 6.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Corporate Procurement are appropriate and are working effectively.
- 6.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

7 **Management Action**

- 7.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Corporate Procurement – October 2016

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.8	A review of the staffing of the Procurement Team should be undertaken with a view to examining the options to improve stability.	The council's inability to recruit and retain suitably qualified staff may hinder both dealing with the current work load and developing the service.	Medium	Head of Finance	A review of the Procurement function is planned to be commissioned which will consider the aspects raised.	March 2017
4.8.3	The next review of the SBRR should include a risk of not being able to recruit suitable procurement staff and detail the mitigations and actions required.	The SBRR fails to identify and manage the risk of not being able to recruit procurement staff.	Medium	Head of Finance	Will be discussed with SMT when the SBRR is next reviewed.	23 November 2016: SMT

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.