

**AUDIT REPORTS WITH MODERATE OR LOW LEVEL OF ASSURANCE  
ISSUED QUARTER 4 2015/16**

**Warwick Plant Maintenance (Procurement) – 10 September 2015**

**1 Introduction**

- 1.1 In accordance with the Audit Plan for 2015/16, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate.

**2 Background**

- 2.1 WPM is the in-house team of engineers that looks after mechanical and electrical plant installations in the council's operational properties.
- 2.2 The WPM role is one of 'first response' for mechanical and electrical repairs combined with daily and cyclical routines for servicing swimming and paddling pool water, gas boilers and air conditioning units at corporate premises.

**3 Scope and Objectives of the Audit**

- 3.1 At the request of the Head of Housing & Property Services, the scope of the review was to undertake a 'full audit of the purchase of supplies and their payment within WPM and whether the use of contractors is appropriate and undertaken within the relevant financial regulations and standing orders'.

**4 Findings**

**4.1 Payments Made**

- 4.1.1 Internal Audit were advised that WPM staff were not being able to make purchases from certain suppliers as the accounts held with them had been placed on stop due to delays in making payments to them.
- 4.1.2 An extract was run from TOTAL to identify all payments that had been made from the relevant subjective code (2030), during the period 1 April 2014 to 19 August 2015, in order to ascertain the extent of these issues and to find out whether appropriate procurement processes had been followed.
- 4.1.3 The extract included 300 different payment lines, although in some cases more than one payment line related to the same invoice or order due to the split between different cost centres. Twenty of the lines were discounted from the review as they related to credit notes, journals or

recharges for use of petty cash and payment cards.

- 4.1.4 Copies of the relevant invoices were viewed on TOTAL to identify the invoice dates, the dates they had been received by the council (as per the DMC date stamp) and the date that they had been received by the FS Team for payment (as identified by their stamp).
- 4.1.5 Of the 280 payment lines reviewed, purchase orders had been raised on TOTAL in relation to 175 of the payments, with the other orders being raised on Active H where suppliers had been able to be set up appropriately. Upon review it was found that only seven of the orders had been raised prior to the date of the invoice, with a further eleven being raised on the date of the invoice.
- 4.1.6 It is acknowledged that some of the purchases required by WPM will be urgent in order to fix pieces of plant or machinery that have broken and are affecting the use of the council's buildings. However, the majority of payments appear to relate to orders for non-urgent items and works performed by other contractors, so orders should have been raised on either TOTAL or Active H prior to these purchases or the placement of the works.

#### **Risks**

**Financial systems may not show all committed expenditure and budgets may become overspent.**

#### **Recommendation**

**Orders should be raised on either TOTAL or Active H for all goods or services at the earliest opportunity, normally in advance of the purchases being made.**

- 4.1.7 Upon further examination of the dates of invoices, date stamps and payment dates, it was highlighted that it was taking an average of 42 days to raise the orders after the dates of the invoice and 25 days after the invoice was actually received at the council, as per the DMC date stamp, although some of the figures may be skewed due to a number of missing date stamps. In the most extreme case, it had taken 268 days to raise an order after the invoice date.
- 4.1.8 Once the orders were actually raised, the invoices were generally being passed to the FS Team in a timely manner and the invoices would then be paid on the next payment run.

#### **Risk**

**Suppliers may refuse to provide goods and services to the council.**

#### **Recommendation**

**All invoices should be paid in a timely manner.**

- 4.1.9 The Energy Manager suggested that some of the delays would be due to the fact that the DMC did not know who to pass the invoices to and the invoices had not, therefore, reached him or members of his team in a

timely manner. However, whilst Internal Audit accept that this may sometimes account for small delays, it is not considered that it would take an average of over three weeks for the invoices to find their rightful destination and that, if this was considered to be an issue, DMC should have been issued with instructions on how to deal with the invoices once the issue came to light.

4.1.10 Another reason given for the time taken to raise orders was that WPM staff do not have access to either TOTAL or Active H, so members of the Energy Management team were raising orders on their behalf. Internal Audit were informed that the recent service redesigns had proposed that the WPM Technical Inspector would spend one day per week at Riverside House to enable some of the financial processes to be migrated to him, but this had not, apparently, been happening.

**Risk**

**Delays may occur in the raising of appropriate orders.**

**Recommendation**

**Appropriate Warwick Plant Maintenance staff should be given access to TOTAL and Active H to allow them to raise purchase orders.**

4.1.11 During the meetings held with the relevant parties, it was queried whether WPM had been issued with procurement cards, as this would go some way to reducing the amount of orders that were required and remove the associated payment delays. Internal Audit were informed that a card had been ordered.

**4.2 Use of Suppliers & Contractors**

4.2.1 The extract of payments from TOTAL identified payments to thirteen different suppliers and contractors with payments over the period to the individual companies ranging from just over £400 to over £16,000, as set out below:

<b>Supplier</b>	<b>Amount (£)</b>
G.E.M Integrated Solutions Ltd.	11,184.90
J.A.K Water Systems Ltd.	5,164.14
Leamington Plant Hire Ltd.	1,188.41
Poolcare Leisure Ltd	6,797.90
HVDS Air Filters	12,911.10
Brisol Ltd.	430.00
Plantool Ltd.	428.00
Musco Lighting	2,971.30
Leisureteq	3,431.25
Wolseley UK Ltd.	7,606.82
Electric Centre	6,130.96
Pinner & Sons Ltd.	1,252.18
D&K Heating Services Ltd.	16,347.52

4.2.2 Formal contracts are only in place with two of these suppliers, as per the Housing & Property Services (H&PS) contracts register, with D&K Heating holding the contacts for air conditioning servicing and maintenance and housing related gas servicing, and Pinner & Sons holding the contract for general corporate repairs.

4.2.3 Upon review of the payments made to D&K, it was identified that some payments were associated with gas-related works at corporate properties. However, a separate contract is held with Renuvo for these works.

4.2.4 The Energy Manager suggested that Renuvo are only being used for certain jobs due to issues that have been encountered with the standard of work and their response times, so D&K have been used instead. However, this could leave the council subject to challenge.

**Risk**

**The council may be open to challenge.**

**Recommendation**

**The appropriate contractors should be used for all works placed.**

4.2.5 It had been suggested to Internal Audit that 'arrangements' were in place with a number of suppliers. This seemed to apply to trade counters at suppliers such as Electric Centre and Wolseley. However, no formal arrangements were in place with these suppliers.

4.2.6 The Energy Manager suggested that the Procurement Manager had been spoken to regarding these 'arrangements' in order to get something more formal in place. The Procurement Manager agreed that an initial discussion had been held, but nothing further had been mentioned to her.

**Risk**

**Value for money may not be attained.**

**Recommendation**

**The Procurement team should be approached in order to assist in setting up formal 'supply chain solutions'.**

4.2.7 Another issue raised in relation to these trade counters was that WPM staff were frequently driving to Coventry to use one supplier. The WPM staff member spoken to suggested that this was because there was no arrangement in place with a local supplier. However, the Energy Manager suggested that a local supplier had previously been used, but WPM staff did not like using them and had chosen to use the Coventry-based supplier when they had closed their Leamington trade counter. The location of relevant trade counters will, therefore, need to be taken into account when progressing the above recommendation.

4.2.8 The value of the individual payments to these companies was generally

low, with the highest being a payment of £2,971.30 to Musco Lighting for the supply of light bulbs for the all-weather pitch floodlights at St Nicholas' Park.

- 4.2.9 However, where companies are being used on a regular basis, the small value payments can mount up, as seen on the above table. In these cases, continued use of the suppliers may result in transactions breaching procurement thresholds, especially as the review has only considered the payments coded against one specific subjective code.

**Risk**

**Payments may fall foul of procurement regulations.**

**Recommendation**

**The use of the (non-contracted) suppliers identified in the table at 4.2.1 should be discussed with Procurement to ascertain whether their continued use needs to be formalised or subject to competition.**

- 4.2.10 Specific reference was made during the audit to the use of a certain supplier to secure electrical parts where WPM felt that they should have been able to get them directly from a local supplier. However, upon review of the payments made, none was found to have been made to the supplier in question (EM&I Ltd.).

- 4.2.11 WPM staff and the Energy Manager agreed that the company had been used as asserted, so it is probable that the payments have been miscoded. Upon review of the invoices received from the company during the relevant period, it was not possible to identify any relevant payments, as they generally only included lists of works order numbers from Active H and, due to the number of payments made to them, it was not considered to be feasible to undertake a review of all of these jobs on Active H.

**Risk**

**Expenditure figures against ledger codes may not be reliable which will affect budget monitoring.**

**Recommendation**

**Ensure payments made are coded to the correct ledger codes.**

- 4.2.12 Internal Audit were also advised that D&K's accounts were similarly being used at certain trade counters where the council's accounts had been stopped. This was confirmed upon review of their invoices. It was not, however, clear whether any mark-up had been applied to the costs of the items purchased.

**Risk**

**Value for money may not be attained.**

**Recommendation**

**The practice of using trade accounts of contractors should stop.**

**4.3 Expenditure Authorisation Limits**

- 4.3.1 The subject of authorisation limits and whether WPM staff needed to get approval for their purchases was also raised.
- 4.3.2 It was confirmed that no official spending limits were in place, although WPM staff felt that a figure of between £500 and £1,000 would be the most they would spend without seeking authorisation. The Energy Manager suggested that he would expect lower-value items, like-for-like replacements and urgent items to be purchased without reference to himself.
- 4.3.3 Whilst authorisation limits have not been specified in the past, these will now have to be considered. Purchasing cards come with a set limit, and they may also have to be considered if WPM staff are given order authorisation privileges on TOTAL if they are set up on the system in line with the recommendation at 4.1.10 above.

**Risk**

**Inappropriate purchases may be made.**

**Recommendation**

**Formal expenditure limits should be agreed for Warwick Plant Maintenance staff.**

**4.4 Stock Control for Spare Parts**

- 4.4.1 The issue of stock control was also raised, with the Energy Manager suggesting that this had led to increasing numbers of trips to suppliers and more frequent invoices along with the associated processing costs.
- 4.4.2 The Technical Inspector had, however suggested that, due to the lack of standardisation of the plant across the council buildings and the lack of store rooms at the different sites, only minimal stores of consumables were maintained.
- 4.4.3 Although buying spare parts and consumables in bulk should allow for savings to be made, the practicalities of holding this stock will need to be examined in further detail.

**Risk**

**Value for money may not be attained.**

**Recommendation**

**A formal review of stock control should be undertaken.**

**5. Summary & Conclusion**

- 5.1 Following our review, we are able to give a MODERATE degree of assurance that the systems and controls in place in respect of Warwick Plant Maintenance Procurement are appropriate and are working effectively.

5.2 A number of issues were identified during the course of the audit relating to:

- The timelines of raising orders and making payments.
- The lack of access to computer systems for WPM staff.
- Use of companies to undertake works which another company holds the contract for.
- The need for formalisation of procurement processes with certain companies or procurement competition to be entered into.
- Use of trade accounts of contractors.
- Potential miscoding of payments.
- The need for expenditure authorisation limits to be put in place.
- The need for a stock control review to be performed.

## **6 Management Action**

6.1 The recommendations arising above are reproduced in the Action Plan for management attention.