

**AUDIT REPORTS WITH MODERATE OR LOW LEVEL OF ASSURANCE
ISSUED QUARTER 1 2014/15**

Corporate Procurement – 6 June 2014

1 Scope and Objectives of Audit

1.1 The purpose of the audit examination was to report a level of assurance on the adequacy of the Council’s control framework to secure economic, efficient and effective procurement activity that accords with best practice and complies with legislation.

1.2 The examination took the form of an evidential risk-based evaluation of structures and processes for managing procurement from the corporate centre in terms of:

- § strategic leadership
- § procurement organisation
- § resource and skills management
- § demonstrating the effectiveness of the Procurement function.

1.3 The evaluation was structured under the following themes:

- § strategies and policies
- § roles and responsibilities
- § communication and training
- § policy compliance
- § monitoring and review
- § information assurance.

1.4 As part of the examination, the status of recommendations from the previous audit report on this subject matter (issued March 2012) was ascertained.

1.5 The examination was conducted through discussions with relevant staff and reference to documents and records as appropriate. The principal contacts were Susan Simmonds (Procurement Manager) and Naomi Nortey (Procurement Officer).

2 Background

2.1 Procurement is earmarked for cyclical risk-based audit under strategic audit planning framework by virtue of its corporate risk profile as represented by the Significant Business Risk Register. Specifically, the Register represents a commitment to manage the risk of “improper practices and (of) legislative requirements not being complied with”.

- 2.2 The mitigation/control entries refer to:
- § regulation by the Codes of Financial and Procurement Practice;
 - § training of staff;
 - § monitoring of the procurement function;
 - § Procurement Strategy.
- 2.3 The latest available information shows the Council's current procurement spend to be in the region of £25 million per annum.
- 2.4 The concept of central strategic and specialist support roles overseeing procurement activity within the Council emerged from a health check undertaken in 2004 by the Improvement and Development Agency. This arose out of the National Procurement Strategy for Local Government produced in 2003.
- 2.5 The establishment of a specialist procurement function dates from 2006, initially in the form of a single officer post but graduating four years later to the team of two full-time officer posts in existence today.
- 2.6 The National Procurement Strategy had run its course by 2008 leaving a legacy of enhanced sources of support to local authorities in their efforts to achieve procurement efficiencies, in particular the Government Procurement Service (now subsumed into the Crown Commercial Service) and Regional Improvement and Efficiency Partnerships (RIEPs). Warwick District Council comes under the umbrella of the RIEP for the West Midlands.
- 2.7 A report entitled "Review of arrangements for efficiencies from smarter procurement in local government" (known as the "Roots Review") appeared in 2009. The report recognised that "substantial actions are underway by...(RIEPs) and others to enhance procurement efficiency", while making recommendations which deal mainly with national leadership through a procurement champion and reinforcing the central role of the RIEPs.
- 2.8 For local authority consumption, however, one recommendation stands out:
- "Each local authority should formally review its procurement arrangements and practices at least annually".
- 2.9 No evidence could be found of any further significant central government initiatives on local authority procurement after the Roots Review. This may be explained by the changed political landscape from 2010 and the far more sweeping budget challenges that have come with it.
- 2.10 Recently, government attention in sphere of procurement has turned toward the NHS sector with a procurement strategy produced by the Department of Health in 2013.

2.11 In the twelve months year prior to the audit, there has been a change of Procurement Officer at the Council followed by two changes of Procurement Manager less than two months apart. More recently, issues emerging in respect of major contract letting and specialist resource commissioning by Housing and Property Services have come to dominate the scene (investigations are still ongoing at the time of this report).

3 Findings

3.1 Recommendations from previous report

3.1.1 The current position in respect of the recommendations from the audit reported in March 2012 is shown below:

Recommendation	Management Response	Current Status
<p>The Procurement Site on the intranet should be enhanced by the addition of details of the services provided by the team, a statement defining the purpose of procurement and also the role of service areas in the process.</p> <p style="text-align: right;"><i>(Low risk)</i></p>	<p>Intranet to be updated</p>	<p>The current Intranet page includes a statement as recommended. Some limitation as to resource content was noticed however (discussed further under Communication and Training – see Para. 4.4.2 below).</p>
<p>A training plan should be compiled so that as many staff as possible with procurement responsibilities receive appropriate training.</p> <p style="text-align: right;"><i>(Medium Risk)</i></p>	<p>Deputy Chief Executive compiling a list of officers requiring training and another list of officers requiring to be updated. Training also being arranged for members but the difficulty is trying to ensure that the members attend.</p>	<p>Both lists were prepared targeting budget managers and training sessions were run accordingly during October and November 2012. Of the 23 officers earmarked for full training, 22 are recorded as attending. Recorded attendance at the refresher sessions was limited (only 5 out of the 12 listed). A new assessment of procurement training needs is committed to under the Finance Service Delivery Plan for 2014/15.</p>

3.2 Strategies and Policies

3.2.1 The Council has an adopted Procurement Strategy underpinned by an action plan covering a three-year period. Since its last formal adoption by Executive in 2010, the Strategy has been rolled forward annually as part of the reviews by Finance and Audit Scrutiny Committee and the latest version covers from 2012 to 2015. Some of the content is clearly influenced by the Roots Review.

3.2.2 Despite the annual review, the Strategy has remained essentially unchanged over the four years since formal adoption and closer inspection highlights some limitations as a foundation for strategic leadership and demonstrating effectiveness. The Strategy comes across as strong on strategic principles founded on corporate priorities, but fails in what is seen as a key function of a strategy - a sense of 'direction of travel' towards achieving clear goals at a specified point in time. The Action Plan reinforces that impression by being based almost entirely on ongoing and repetitive processes that do not reveal any clear milestones and have themselves remained unchanged over the last four years (except for the removal of references to national performance indicators and cashable savings targets).

3.2.3 It is recognised that the procurement function at Warwick District Council may now be well past the stage where it can plan for significant quantifiable savings on procurement spend on a strategic basis. With that in mind, it is also acknowledged that procurement might not lend itself easily to identifying tangible outcome measures and milestones. However, with adequate facilitation and involvement of as many officers as possible with the appropriate skills and experience, this is seen as achievable.

3.2.4 Apart from the above, certain other developments make this an opportune time to fundamentally revisit the Strategy including:

- § constitution of a 'Procurement Board'
- § refresh of the Sustainable Community Strategy
- § change of Member portfolio title.

Risk

The Procurement Strategy does not provide an adequate foundation for developing procurement towards achieving priority corporate goals.

Recommendation

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.

3.2.5 The policy framework for procurement is essentially enshrined in the Code of Financial Practice and Code of Procurement Practice, both of which form a part of the official Constitution and are subject to periodic review and re-approval by Executive.

3.2.6 The Code of Financial Practice outlines basic principles on authority and process which are expanded in the Code of Procurement Practice. The former also lays down basic conditions on access to and use of corporate purchasing cards (which have recently replaced credit cards and rolled out to a greater number of officers) and on progressing capital schemes.

3.2.7 The current approved Code of Procurement Practice dates from March 2013 and is earmarked for review under the current year's Finance Service Delivery Plan (which will undoubtedly take due account of the issues in Housing and Property Services still being investigated).

3.3. Roles and Responsibilities

3.3.1 To assemble a comprehensive picture of defined roles and responsibilities required reference to several sources, the principal ones being:

- § Constitution (Scheme of Delegation) – general powers of Heads of Service to place orders and accept tenders within Council rules including the Codes of Financial and Procurement Practice;
- § Code of Financial Practice – role of Head of Finance to oversee procurement arrangements across the Council and responsibilities of Heads of Service and budget managers to ensure observance of the Codes of Financial and Procurement Practice in their respective areas;
- § Code of Procurement Practice – outlines the role and expectations of the Procurement Manager. This includes boundaries of involvement in applicable projects and highlights the importance of being an early consultee on any significant project involving procurement;
- § Procurement Strategy - outlines a hierarchy of responsibilities from strategic down to operational level (officers and Members).
- § Significant Business Risk Register – ownership of the four risk mitigation elements (see Paragraph 3.2. above), mainly vested in the Head of Finance (alone or in conjunction with Senior Management Team);
- § Job Descriptions of Procurement Manager and Procurement Officer posts –point mainly to maintenance and deployment of professional skills to influence procurement operations through advisory, policy development and networking means.

- 3.3.2 For the most part, the above are seen as representing a clear and robust regime. In terms of strategic leadership, however, a lack of clarity is perceived along with a degree of contradiction. The roles and expected inputs of the Portfolio Holder, Procurement Champions and Corporate Management Team do not come out clearly in the Procurement Strategy and no sources giving any expanded definition could be found.
- 3.3.3 The perceived contradiction lies in the risk mitigation entry relating to 'monitoring the procurement function' for which ownership has, according to the Significant Business Risk Register, been assumed by Senior Management Team (SMT). This is not reflected in the Procurement Strategy or the Codes of Financial/ Procurement Practice, neither is it supported by any tangible evidence of SMT engagement in such monitoring (at least over the last two years).
- 3.3.4 In discussions, the Head of Finance advised that the entry was viewed more as reflecting the role of SMT members in monitoring the procurement function within their respective service areas. There was a consensus in the discussion, however, that the wording of the entry should be re-examined to improve clarity.
- 3.3.5 A further factor clouding the picture is that no agreement has yet been reached on terms of reference for the Procurement Board (two draft versions have been produced contrasting widely in scope).
- 3.3.6 ***Risk***
Effective strategic management of procurement is prejudiced by a dysfunctional structure and unclear roles.

Recommendations

- (1) **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.**
- (2) **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.**
- 3.4 **Communication and Training**
- 3.4.1 Central to effective communication is a comprehensive purchasing framework accessible to all staff via the corporate intranet. This should encompass the contract procedure rules and supporting guidance which will include standard documents and links to appropriate external resources.

3.4.2 The Council's Intranet resource fits the above criteria for procurement activity involving quotations and tenders, but does not give any guidance on acquisition of supplies and services where use of corporate sourcing arrangements, buying consortia and framework agreements is the 'order of the day'. In discussions, the Procurement Manager advised that the need for a more comprehensive procurement directory had been recognised and that this would be addressed as and when resources permit.

Risk

Staff may order goods and services bypassing existing sourcing arrangements at higher cost than necessary.

Recommendation

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.

3.4.3 The Council's website incorporates a 'business procurement' resource for external consumption which includes details of tender opportunities and links to the Code of Procurement Practice, a copy of the Council's Contract Register and the joint e-tendering system to which the Council now subscribes. It is noted the Procurement Strategy Action Plan provides for the promotion of opportunities to local suppliers, SMEs and voluntary/third sectors as an ongoing process led by the Procurement Manager in conjunction with Economic Development.

3.4.4 Issues concerning the accuracy of the published Contract Register have emerged from the ongoing investigation into Housing and Property Services contract letting. At the time of this report, the known inaccuracies are being addressed and the wider issues considered by management.

3.4.5 Ongoing liaison with the Service Areas and Members is at the heart of the role of the Procurement Team. It was not within the intended scope of this audit to attempt a review of meeting activity in detail – it is assumed for the purpose of this review that records of meetings in respect of major procurements are maintained by the Service Areas classified under the projects to which they relate.

3.4.6 It is noted, however, that quarterly briefings have been established for the Procurement Champions with pre-prepared agendas based mainly on updates of procurement activity, work of the Procurement Team and emerging issues.

3.4.7 Following the training sessions organised in 2012 in the wake of the previous audit recommendations (see Paragraph 4.1.1 above), formal training activity appears from the evidence to have petered out apart from one-hour basic introduction sessions given in May 2013 to 15

staff. The last recorded instance of Member training is a 2-hour briefing given in September 2011.

3.4.8 That said, it is recognised that the ongoing liaison role of the Procurement Team itself contributed to staff and Member awareness. It is also noted that a new training needs assessment initiative is under way in accordance with a commitment under the current year's Finance Service Delivery Plan.

3.4.9 It is not clear whether there has been any discussion in the past with Human Resources on incorporating procurement into the corporate Learning and Development Programme and/or mandatory induction training. With procurement routes having become complex involving corporate sourcing arrangements, buying consortia and framework agreements (on top of the traditional competitive quotation and tendering provisions), it can be argued that staff awareness in this area comes close to matching already existing induction subjects in importance.

Risk

Lack of understanding of procurement legislation and corporate provisions may lead to inappropriate purchasing practices.

Recommendation

Incorporation of procurement into the corporate Learning and Development Programme and mandatory employee induction training should be explored in consultation with Human Resources.

3.5 Policy Compliance

3.5.1 Several elements of control are in evidence that contribute to assurance on compliance, some already referred to under the preceding sections:

- § Electronic library of procedures, guidelines and pro-formas;
- § Tenders processed through joint Coventry, Solihull and Warwickshire e-tendering system (CSW-JETS) – currently requires direct intervention by the Procurement Team to process them due to restricted access rights;
- § Other roles assumed by the Procurement Team including
 - maintaining the official Contract Register;
 - review and sign-off of quotation forms required for contracts between £5,000 and £20,000;
 - adjudication on new Total trade creditor requests and with log maintained of approvals.

- 3.5.2 It was advised that the Procurement Team has a more direct involvement in procurement activity than was the case under the previous Procurement Manager. Additionally, the Council had only migrated to the CSW-JETS system in September last year.
- 3.5.3 It should be pointed out that the contract letting activity under investigation occurred prior to the changes of Procurement Manager postholder and the above control elements should not be seen as representative of those in operation at the time when the contracts in question were let.
- 3.5.4 It was agreed with the Procurement Manager that testing aided by data analytics focusing on contracts in the £5,000 to £20,000 range would be appropriate with a view to verifying general compliance with the quotation procedure. However, it was not possible to perform these tests because of unresolved software issues preventing the data analytics operations. This may be pursued as a separate exercise once the software issues are resolved.
- 3.6 Monitoring and Review
- 3.6.1 The Procurement Strategy Action Plan provides for reports to Members on procurement activities and reviews of the Strategy itself and the Code of Procurement Practice, all on a yearly basis. The annual reports on procurement activity are supplemented by interim half-yearly updates. The update report scheduled for January 2014 was dispensed with as the contract letting issues in Housing and Property Services have come to dominate the scene and were themselves reported on to Executive in March 2014.
- 3.6.2 At service management level, the picture becomes more blurred. Despite the intention contained in the Action Plan to 'reflect the Procurement Strategy in service plans and team operational plans', examination of the Service Delivery Plans for 2013/2014 found only passing reference to procurement (if any at all).
- 3.6.3 In the case of Finance, there are clear indications that the Procurement Strategy Action Plan has been side-lined in the course of service plan formulation. An illustration of this is the fact that two prominent projects of recent months (migration of the e-tendering system and implementation and rollout of purchasing cards) are even not mentioned in the Action Plan. Also, the Action Plan refers to planned use of a 'free audit' being offered by the Government Procurement Service (GPS) in 2013 – nothing was mentioned of this in the Finance Service Delivery Plan for 2013/14 even though the GPS initiative was announced in plenty of time for it to be included.
- 3.6.4 The 'free audit' in question is believed to be a funded 'spend analysis and opportunity assessment' for West Midland public bodies. In the event, it was never taken up by the Council and has since run its course. On closer inspection, the complex series of data extraction

- requirements was probably a crucial inhibiting factor.
- 3.6.5 It is still a requirement to submit annual returns to the Cabinet Office for compilation of EU statistics on public procurement.
- 3.6.6 A key foundation for effective monitoring, the Team Operational Plan is absent for the Procurement function and appears to have been so in the previous year as well. It was advised that the work of the Procurement Team in recent months has been substantially reactive in nature and operational monitoring has tended to be confined to one-to-ones with no documented trail.
- 3.6.7 A further observation relates to benchmarking, identified as part of the role of both Procurement posts. In discussions, the Procurement Manager referred to some benchmarking activity by a networking group across Warwickshire and Worcestershire authorities. No mention can be found of inter-authority benchmarking in the reports to Scrutiny Committee, nor any evidence of benchmarking outcomes ever being reported to management.
- 3.6.8 As the Significant Business Risk Register reference to 'monitoring of the Procurement function' was interpreted as mitigation measure owned by SMT as a body, the evaluation was based on examination of SMT agendas and minutes rather than consultations with Service Area Managers individually. No evidence of actual engagement in the monitoring process was found from this source.
- 3.6.9 While it is acknowledged that not consulting with Service Area Managers individually may have left the evaluation incomplete, indications from other sources (including Service Delivery Plans) also cast some doubt on whether SMT members as a whole are visibly engaged in such monitoring.

Risk

The effectiveness of the Procurement function cannot be demonstrated.

Recommendations

- (1) 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.**
- (2) 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).**
- (3) Re-introduction of annual team operational plans for the Procurement Team should be considered.**

3.7 Information Assurance

3.7.1 Assurance of confidentiality, integrity and availability of information assets is of heightened importance in a realm where much of the information processed is commercially sensitive. No one business information system used by the Council handles all aspects of procurement. Three different systems operate:

- § Total FMS – the Council’s nearest equivalent to a full enterprise resource planning (ERP system), this handles invoice payment transactions for all procurements and the rump of purchase ordering, and goods and services receipt/completions not processed by the MIS building works and services application managed by Housing and Property Services;
- § MIS ActiveH – handles fault reporting, works ordering and completion certification under contracts for repairs, maintenance and improvements to property assets (includes utility bill and usage management).
- § CSW-JETS – e-tendering portal hosted by In-Tend and used by WDC under consortium arrangement with the CSW Partnership.

3.7.2 Total and MIS have been subject to separate cyclical audit review as priority business application systems under the ICT audit plans. The In-Tend product platform on which the CSW-JETS system operates has been used by a consortium of sub-regional authorities for over four years with Warwick District joining in 2013.

3.7.3 From brief examination of system literature and discussions with the Procurement Manager, the security features and system administration are seen as appropriately robust. At the time of the audit only the Procurement Team have access to operate in the system on behalf of the Council, although future roll-out to other appropriate staff is envisaged.

3.7.4 Enquiries made confirm that any other sensitive electronic information on the Council’s networks processed by the Procurement Team is held in appropriately restricted folders. It was advised that some sealed original contracts are held in the Procurement Team office area, although these are in a locked cabinet and it is intended to move them to the Riverside House Document Store. Owing to previous issues with missing contract originals, SMT has recently agreed to make arrangements for all original signed contracts to be held in the Document Store.

4 **Conclusions**

4.1 The overall impression gained is of a corporate management system that comprises most of the expected control elements, but does not function cohesively. The system is strong on areas such as policies,

procedures, respective operational roles, information protection and clear professionalism on the part of the Procurement Team.

4.2 However, there are clear shortcomings in the areas of strategic direction and monitoring. The Procurement Strategy comes across as sitting in isolation and not informing service and operational planning as would normally be expected of such a strategy for such a high profile area.

4.3 Part of the reason is seen as lying in the Procurement Strategy itself which is itself considered of doubtful value in its present form, lacking a sense of 'direction of travel' and clear definition of strategic leadership roles. This substantially dilutes the value of the Strategy as a key mitigation measure flagged in the Significant Business Risk Register.

4.4 A second key risk mitigation measure, that of monitoring of the 'procurement function' does not stand up to scrutiny due to some confusion over the role of SMT and indications of a lack of engagement. Evaluation of monitoring and review generally hit a 'blind spot' with no visible monitoring mechanisms in place along with a perceived lack of direction due to the absence of any real foundation for gauging the effectiveness of the Procurement function (e.g. team plans, benchmarking, etc.).

4.5 On the basis of the findings, we can give only MODERATE assurance that the key risks in respect of corporate procurement are managed effectively.

5 **Management Action**

5.1 Recommendations to address the issues raised are reproduced in the Action Plan with management responses incorporated.