

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a yellow cross on a blue background. The top-right quadrant shows a white reindeer head on a blue background. The bottom-left quadrant shows a white sailing ship on a blue background. The bottom-right quadrant shows a white eagle with spread wings on a blue background. Above the shield is a crown with four points, each topped with a white flower. Below the shield is a white banner with the text "ANE FOR A'".

Agenda Item

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Internal Audit Report

CENTRAL SCOTLAND VALUATION JOINT BOARD

Subject: Internal Audit Report
Meeting: Central Scotland Valuation Joint Board
Date: 23 June 2017
Author: Internal Audit Manager

1. Introduction

- 1.1 This paper presents the final Internal Audit report in relation to our review of the Board's Procurement arrangements.

2. Background

- 2.1 Clackmannanshire Council's Internal Audit Team provides the Internal Audit service on behalf of the Assessor and the Board. The Audit Plan for 2016/2017 included a review of Procurement arrangements.
- 2.2 Our work on Procurement focussed on reviewing procurement strategies, policies, and procedures, and on ensuring that Contract Standing Orders were being applied.
- 2.3 We found that, in general, procurement processes were operating effectively. Financial limits are in place for authorising officers, and sample testing confirmed that proper use was being made of existing (local and national) contracts, with invoices matched to purchase orders. Regular budget monitoring reports are received from, and meetings held with, Clackmannanshire Council's Accountancy Team.
- 2.4 Purchasing activity is underpinned by Financial Regulations and Contract Standing Orders. Both require to be updated to reflect current procurement regulations and best practice, and there was some scope for improving the procurement procedure notes for staff. In addition, we noted several contracts that have been in place for 7-10 years.
- 2.5 In overall terms, we have provided **reasonable assurance**, with action agreed to address the recommendations made.
- 2.6 The final version of the Internal Audit report is attached to this paper.

3. Recommendation

3.1 The Board is asked to note the contents of this paper.

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Internal Audit Manager

Date: 12 June 2017

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Date: 15 June 2017



INTERNAL AUDIT REPORT

Procurement

Issued To:

Peter Wildman	Assessor / Electoral Register Officer, Central Scotland VJB
Laura Taylor	Executive Assistant, Central Scotland VJB

Annual Plan:	2016/17
Date Report Issued:	May 2017

1. INTRODUCTION

- 1.1 This report sets out the findings of the Internal Audit review of Procurement arrangements at the Central Scotland Valuation Joint Board (VJB). The scope and terms of the review were agreed in consultation with the Assessor and Electoral Registration Officer (ERO) for Central Scotland.
- 1.2 Procurement is the process of acquiring goods or services from third parties. This includes the identification of need, the purchase process, and ongoing contract management.
- 1.3 The VJB's Contract Standing Orders (CSO) set out the rules for the procurement of goods, works, and services. CSO aim to ensure that the Board is fair and accountable in its dealings with contractors and suppliers. It is the Board's duty to secure best value and, therefore, efficient use of resources is imperative.
- 1.4 The public sector is facing unprecedented challenges to provide higher quality services with reduced funding. The Board has an annual budget of around £2.6m and, in 2016/17, spent c£650k on goods and services using a number of framework, collaborative, and national contracts.

2. SCOPE AND OBJECTIVES

- 2.1 The scope of this review was to examine and assess procurement strategies, policies, and procedures, and to ensure that CSO are being applied. Internal Audit, in conjunction with senior management, identified the following key risks:

Key Risk	Assurance Assessment
1. Procurement governance processes are not efficient, effective, or economical, leading to poor value for money or lack of accountability.	Reasonable
2. Non compliance with CSO leads to reputational and financial harm, including failure to meet relevant statutory provisions and EU procurement directives.	Reasonable
3. Expenditure and procurement related management information and reporting is inadequate, leading to loss of control or compromised decision making.	Reasonable

- 2.2 In overall terms, we can provide **reasonable assurance** that risks are being adequately mitigated and managed (see **Annex A** for assurance category definitions). Expenditure budgets are regularly monitored, and Public Contracts Scotland contracts are being widely used. In addition, a management review of expenditure is being undertaken, with a view to ensuring that evidence of appropriate procurement is in place. We did, however, identify weaknesses, including out of date CSOs relating to expenditure and contracts, and a lack of procurement procedures for responsible officers.
- 2.3 A summary of our findings is set out at **Section 5** of this report, with more detail provided at **Section 3**.

3. FINDINGS

- 3.1 The main guidance for staff are the Board's Contract Standing Orders (CSOs) and Financial Regulations. These are supported by the Scheme of Delegation, which sets out officers' delegated responsibility to make decisions and authorise actions on behalf of the Board. The CSOs and Financial Regulations are over 10 years old and require to be updated to reflect current procurement regulations and best practice, eg. use of Public Contracts Scotland framework, collaborative, and national contracts (**Finding 5.1**). In addition, there are no written procurement procedure notes for officers covering areas such as: the steps for raising orders; processing invoices and checking to contract terms; supplier vetting and contract management; and provision of procurement management information (**Finding 5.2**).
- 3.2 We were content that the following procurement processes were operating effectively: existing live contracts adhered to; Public Contracts Scotland used where appropriate; and 2 quotes obtained for purchases exceeding £250.
- 3.3 Financial limits have been set for each authorising office to ensure that that only valid and authorised expenditure is incurred. The Principal Administration Officer, and Executive Assistant can authorise expenditure up to £10k. The Assessor and Assistant Assessor can authorise expenditure up to £50k. Expenditure in excess of £50k requires the approval of the Assessor and Clerk and expenditure in excess of £100K must be authorised by the Board.
- 3.4 At the time of our audit, management were undertaking a review to ensure procurement activity is undertaken via appropriate suppliers and contracts. In addition, day to day, operational, procurement support is available from Clackmannanshire Council's Procurement Manager.
- 3.5 The following table summarises VJB expenditure on goods and services over the past 5 years:

Year	Expenditure
2012/13	£732,984
2013/14	£837,981
2014/15	£796,356
2015/16	£811,159
2016/17	£659,588
Total:	£3,838,068

* Source: VJB Invoice Log

- 3.6 We tested a sample of 25 suppliers (out of 92 who have had invoices paid in 2016/17) to ensure that a contract was in place (eg via Public Contracts Scotland) or quotes were obtained, that contract monitoring was being undertaken, and that invoices were being checked and appropriately authorised. The results of the testing are summarised below:
- all invoices were matched to a purchase order and appropriately authorised in line with financial limits;
 - in every case there was either a contract in place or, where appropriate, there was evidence that market testing had been undertaken. We did, however, find 9 suppliers with contract terms of between 7-10 years. Management confirmed that these will be reviewed and that, in future, contract terms would be restricted to a maximum of 3 years;
 - Public Contracts Scotland and other national contracts are being regularly used, and there was evidence of two quotes being sought for other purchases. There was, however, a lack

of evidence of vetting of suppliers from which quotes were being sought, and the Public Contracts Scotland 'Quick Quotes' facility is not being routinely utilised. **(Finding 5.2)**

- 3.7 Individual officers within business area are responsible for the day to day administration of the purchasing process, including the placing of orders. Purchase orders and invoices are subsequently processed by Clackmannanshire Council's Creditors Section. It is recognised that there is scope for streamlining this process. Management have advised that the current process will soon be replaced with direct access to Clackmannanshire Council's Finance System. This will lead to a process whereby electronic purchase orders will be automatically matched to invoices, with access to online purchasing catalogues. The timetable for this has, however, yet to be agreed. **(Finding 5.3)**
- 3.8 The Assessor receives regular budget monitoring reports from, and has regular budget monitoring meetings with, Clackmannanshire Council's Accountancy Services team.
- 3.9 In addition, an invoice log spreadsheet is maintained by the Executive Assistant, and this is available to the Assessor to help monitor expenditure. This spreadsheet is also being used to feed into the ongoing management review of purchasing and contracts. The move to direct access to the Council's Finance System will mean that real time reports on actual and committed expenditure are available.
- 3.10 A 'regular bills' contract spreadsheet is used by officers to monitor those contracts where consistent contract amounts are expected to be paid. This spreadsheet could be improved (for contract monitoring and management information purposes) by including all contracts' start and end dates (including extensions), estimated contract values, and aggregated expenditure to date. **(Finding 5.4)**

4. RECOMMENDATIONS

- 4.1 The Management Action Plan at **Section 5** sets out a summary of findings and risks. Two recommendations are 'Priority 2' and two are 'Priority 3'.
- 4.2 The priorities relating to Internal Audit recommendations are defined as follows:
- **Priority 1 recommendations** are significant matters relating to factors critical to the success of the organisation. The weakness may also give rise to material loss or error, or seriously impact on the reputation of the organisation. These recommendations require urgent attention.
 - **Priority 2 recommendations** relate to important issues, and may also give rise to material financial loss or error.
 - **Priority 3 recommendations** are usually matters that can be corrected through line management action, or improvements to the efficiency and effectiveness of controls.
 - **Priority 4 recommendations** these are recommendations that improve the efficiency and effectiveness of controls. The weaknesses highlighted do not affect the ability of the controls to meet their objectives in any significant way.

5. SUMMARY OF FINDINGS AND ACTION PLAN – MAY 2017

Ref	Finding	Risk	Priority	Agreed Management Action	Responsible Officer	Target Date
5.1	<p>The Board's CSOs and Financial Regulations are over 10 years old and require to be reviewed and updated.</p> <p>Report Paragraph 3.1</p>	CSOs and Financial Regulations do not reflect best practice, eg utilisation of Public Contracts Scotland framework, collaborative, and national contracts, compromising the achievement of best value.	2	Revised CSOs and Financial Regulations are to be prepared and submitted to the Board for approval.	Treasurer	March 2018
5.2	<p>There are no written procurement procedure notes for officers covering:</p> <ul style="list-style-type: none"> • roles and responsibilities; • process for raising orders, processing invoices, and checking to contract terms; • supplier vetting and contract management; • use of the Public Contracts Scotland 'Quick Quotes' facility; and • procurement management information. <p>Report Paragraphs 3.1 and 3.6</p>	Inconsistent procurement practice, non compliance with policy and, ultimately, poorly controlled expenditure.	2	Procedures to be drawn up in conjunction with the Procurement Advisor at Clackmannanshire Council	Assessor	March 2018

Ref	Finding	Risk	Priority	Agreed Management Action	Responsible Officer	Target Date
5.3	<p>The timetable for provision of direct access to Clackmannanshire Council's Finance System (to facilitate a more streamlined purchasing process) has not been agreed.</p> <p>Report Paragraph 3.7</p>	Continuation of time consuming and labour intensive purchasing process.	3	Timetable for direct access to be developed	Treasure & Assessor	March 2018
5.4	<p>The 'regular bills' spreadsheet does not contain details of all contracts' start and end dates (including extensions), estimated contract value, or aggregated expenditure to date.</p> <p>Report Paragraph 3.10</p>	Incomplete information, compromising contract monitoring.	3	Spreadsheet to be updated	Executive Assistant	September 2017

Internal Audit Assurance Category Definitions

Assurance	Definitions
Significant Assurance	There is an adequate and effective system of risk management, control and governance to address risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Reasonable Assurance	Business objectives are likely to be achieved. However, improvements are required to enhance the adequacy / effectiveness of risk management, control and governance.
Limited Assurance	There is considerable risk that the system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, control and governance.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.