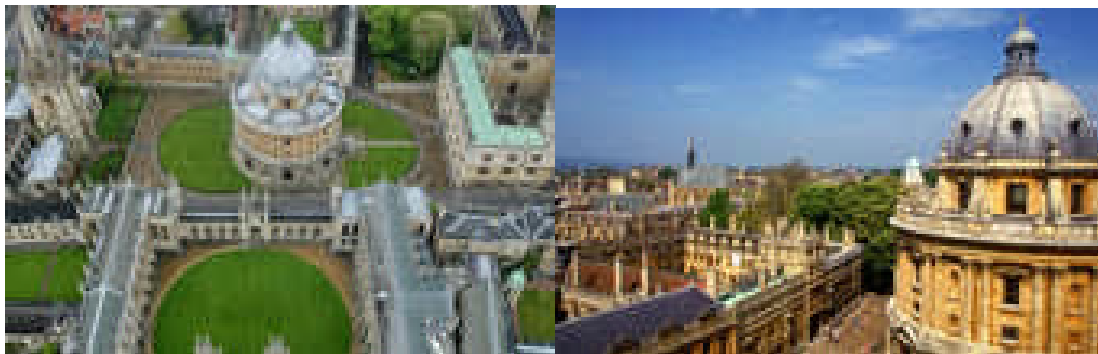


Oxford City Council

Procurement

Internal Audit Final Report 09/10 2.8



Assurance rating this review	Moderate Assurance
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Distribution List

Peter Sloman - Chief Executive

Penny Gardner / Sarah Fogden - Heads of Finance

Jane Lubbock – Head of Procurement and Shared Services

Nigel Pursey – Interim Executive Finance Directors

Performance Board



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Background and scope

Introduction

This review was undertaken as part of the 2009/10 Internal Audit Plan agreed by the Audit and Governance Committee.

This report has been prepared solely for Oxford City Council in accordance with the terms and conditions set out in our letter of engagement. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

The Authority has an in house procurement team which is responsible for the oversight of the Council's tender and purchasing processes. The Council's Procurement Policy outlines the strategic need for procurement in the achievement of Value for Money, sustainability and efficiency savings. At the time of our review, this document was in the process of being revised.

The Council's procurement arrangements were examined by the Audit Commission under KLOE 2.1. In their 2008/09 Annual Report, the Commission awarded the Council a 3 rating in this area.

"Current evidence indicates that the Council is performing well and can demonstrate a strong track record in efficiencies and a proactive procurement approach. It has a 3 year rolling procurement plan linked to a market testing programme which demonstrates a strong vfm drive. The Council is leading the procurement hub across Oxfordshire and has achieved strong outcomes for the partners involved

"The Audit Commission"

The findings from our audit support this view with a number of areas of good practice noted, particularly around the proactive approach to procurement across the Council, and the role of the Council in relation to the procurement hub.

We also recognise the desire of the procurement staff to further improve on the current 3 rating and would recommend that a formal action plan is developed in order to support this aspiration.

Approach and scope

Approach

Our work is designed to comply with Government Internal Audit Standards [GIAS] and the CIPFA Code.

Scope of our work

In accordance with our Terms of Reference (Appendix 1), agreed with the Head of Procurement and Shared Services we undertook a limited scope audit of Procurement.

This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls are operating in practice.

Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.

During our review, however, a number of issues were noted in respect of the financial accounting arrangements for procured contracts and the purchase to pay process at the Council, both of which fall outside of the scope for this audit. Whilst the financial accounting issues have been included in this report in view of the relevance to the procurement function, the issues relating to the purchase to pay process will be carried forward to our planned review of creditor payments when they will be considered in more detail. For information, these points relate to:

- the lack of an automated 'purchase to pay' system,
- timeliness of invoice payments with particular reference to BV008

Staff involved in this review

We would like to thank all client staff involved in this review for their co-operation and assistance.





Name of client staff
Jane Lubbock – Head of Procurement and Shared Services
Nicky Atkins – Procurement Manager
Sarah Fogden – Head of Finance

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of Procurement.

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the authority's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources; the safeguarding of assets; the preparation of reliable financial and operational information; and compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function or process objectives; and has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Executive Summary

<p>Department: Procurement & Shared Services</p> <p>Audit Owner: Jane Lubbock</p> <p>Date of last review: -</p>	<p>Overall Opinion: Moderate Assurance</p> <p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the Procurement process. However, either their impact would be less than significant or they are unlikely to occur.</p>	<p>Direction of Travel</p> <p>No previous review has been conducted by PwC. A recommendation tracking system has been introduced and all issues raised will be formally followed up.</p>	<p>Number of Control Design issues identified</p> <p>0 Critical 0 High 2 Medium 0 Low</p>	<p>Number of Controls Operating in Practice issues identified</p> <p>0 Critical 0 High 1 Medium 2 Low</p>			
<p>Key Areas of Risk</p> <ul style="list-style-type: none"> Procurement is not aware of financial regulations relating to the accounting of leases and contracts 	<p>Other Considerations</p> <table border="1"> <tr> <td data-bbox="732 895 1126 1046"> <p>Use of Resources-related</p> <p>All conclusions will contribute towards KLOE 2.1</p> </td> <td data-bbox="1126 895 1476 1046"> <p>Corporate Plan- related</p> <p>None noted</p> </td> </tr> <tr> <td data-bbox="732 1046 1126 1345"> <p>VFM-related</p> <p>VFM cannot be confirmed in those instances where supporting documentation cannot be provided.</p> </td> <td data-bbox="1126 1046 1476 1345"> <p>Financial Reporting related</p> <p>Procurement is not aware of financial regulations relating to the accounting of leases and contracts leading to increased risks around financial reporting.</p> </td> </tr> </table>		<p>Use of Resources-related</p> <p>All conclusions will contribute towards KLOE 2.1</p>	<p>Corporate Plan- related</p> <p>None noted</p>	<p>VFM-related</p> <p>VFM cannot be confirmed in those instances where supporting documentation cannot be provided.</p>	<p>Financial Reporting related</p> <p>Procurement is not aware of financial regulations relating to the accounting of leases and contracts leading to increased risks around financial reporting.</p>	<p>Scope of the Review</p> <p>To ensure that the Council has an effective Procurement Strategy in place that is complied with and ensures that Value for Money is achieved.</p>
<p>Use of Resources-related</p> <p>All conclusions will contribute towards KLOE 2.1</p>	<p>Corporate Plan- related</p> <p>None noted</p>						
<p>VFM-related</p> <p>VFM cannot be confirmed in those instances where supporting documentation cannot be provided.</p>	<p>Financial Reporting related</p> <p>Procurement is not aware of financial regulations relating to the accounting of leases and contracts leading to increased risks around financial reporting.</p>						

Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of Procurement, subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to Procurement is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Findings and recommendations

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
1	<p>Financial accounts may not be compliant with accounting guidelines leading to an increased risk of an adverse audit opinion.</p> <p>Specifically, procurement staff may not be aware of the implications of IFRS on the procurement function.</p>	<p>International Financial Reporting Standards (IFRS) will be introduced into Local Government from 2010/11. In addition, the Council is required to restate their 2008/09 opening balance sheet on an IFRS basis by 31st December 2009.</p> <p>New standards will require the Council to assess all leases and contracts in order to ascertain whether they are operating or finance leases and therefore whether they should be held on balance sheet. The definitions of these leases have changed from previous guidance.</p>	<p>● Medium</p>	<p>Finance should liaise with Procurement to ensure that they obtain relevant training in accounting for leases and contracts. Procurement should devise procedures (e.g. standard checklists) to ensure that they are able to assess future leases and contracts against relevant criteria and inform finance if specialist advice is required.</p>	<p>Agreed</p> <p>All larger leases and contracts are subject to CEB approval and the need for specific accounting treatment will be picked up as part of the report approval process.</p> <p>Detailed training on leases for property and finance staff has been undertaken and a higher overview level can be made available to procurement staff. However, all corporate property issues go through the property team so the stop gap is property. A full review of all contracts and leases is in hand.</p>	<p>Kelly Whitehead 31st January 2010</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
		Procurement is a key stakeholder in the IFRS conversion process. It was identified that no information or training has been provided to the Procurement team in this area.				
2	Financial accounts may not be compliant with accounting guidelines leading to an increased risk of an adverse audit opinion. Specifically procurement staff have not received the appropriate training or guidance in relation to this issue.	Since 2007/08, the Council has been required to account for those contracts which are linked to an external source (e.g. RPI) as embedded derivatives. These cases require particular treatment in the Council's accounts based on fluctuations payments made. A number of large contracts of this nature have been identified during audit. However procurement has not been provided with training in this area.	● Medium	Finance should liaise with Procurement to ensure that they obtain relevant training in accounting for leases and contracts. Procurement should devise procedures (e.g. standard checklists) to ensure that they are able to assess future leases and contracts against relevant criteria and inform finance if specialist advice is required.	Agreed Contracts will be reviewed by finance to establish the correct accounting treatment.	Kelly Whitehead 31st January 2010

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating Effectiveness						
3	The procurement strategy may not be consistent with the Council's current objectives. Information may be outdated leading to an increased risk of error within the process.	The Council's current procurement strategy is dated 2004-07. A new strategy is in the process of being drawn up which has been reviewed in draft by both internal and external audit. An additional policy is in place for the Procurement hub which is led by the Council.	● Low	The Council is in the process of drawing up a new strategy. This should be finalised and approved by members before being circulated to all responsible managers and being placed on the intranet for reference.	Agreed The main 'headings' of the strategy have been drafted and communicated to internal and external audit. The strategy will be finalised in the coming months and approved before circulation.	Jane Lubbock 28th Feb 2010

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
4	Performance is not being formally monitored on a regular basis. Management may not be aware of adverse performance or areas of best practice.	The current procurement strategy contains details on a number of performance indicators which, following government advice, are no longer monitored by procurement. There is currently no programme of performance indicators in place for the department.	● Low	<p>The procurement strategy should reflect the current arrangements for monitoring performance and therefore the content relating to performance indicators that are no longer used should be reviewed and amended.</p> <p>Consideration should be given to the introduction of a 'Balanced Scorecard' to monitor performance on key indicators around the following:</p> <ul style="list-style-type: none"> • Customer (e.g. customer satisfaction) • Financial (e.g. cost of each tender) • Internal Business Processes (e.g. Time to Procure) • Learning and Growth (e.g. Training provided) 	<p>Agreed</p> <p>A balanced scorecard will be produced which acknowledges targets in all areas. However, given the key strategic objectives of the department (e.g. to achieve VFM), the scorecard will be weighted towards financial indicators.</p>	<p>Jane Lubbock</p> <p>31st December 2009</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	We were unable to verify that procurement and purchasing guidelines have been followed in 2 out of 25 purchases and tenders tested.	<p>Detailed testing was performed on a sample of 25 purchases and tenders by audit to ensure that procurement and purchasing guidelines are being followed across the organisation. This was found to be the case with just the following exceptions:</p> <p>For 2/25 purchases and contracts tested we were unable to obtain supporting documentation to demonstrate that the Council's procedures had been followed. One of these cases related to the appointment of a consultant.</p>	<p>● Medium</p>	<p>Officers should be reminded to ensure that clear documentation is retained for all quotes obtained. This should be available for audit purposes.</p> <p>In any situation where procurement policies have not been followed, officers should provide procurement with clear justification of this decision.</p>	<p>Agreed</p> <p>In one case the missing information appears to have been mislaid in the office move.</p> <p>The consultant was appointed, following interview, from a number of agencies and consultancy firms. The information was destroyed after 1 year in accordance with the Council's constitution.</p>	<p>Jane Lubbock</p> <p>With Immediate Effect</p>

Appendix 1 - Terms of Reference

Objectives and deliverables

Objectives

To ensure that the Council has an effective Procurement Strategy in place that is complied with and ensures that Value for Money is achieved.

Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over Procurement.

Listed below is the information that may be required at the commencement of the audit:

- Copies of the procurement strategy
- Access to the Councils contract register
- Listing of all orders placed on Agresso from 1st April 2009

The list is not intended to be exhaustive. Evidence should be available to support all operating controls. Other information arising from our review of the above documentation may be requested on an ad hoc basis.

Scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- The Authority has a formally approved procurement strategy document which is supported by policies to ensure that it is properly implemented and progress against its objectives is properly monitored;
- The Authority has sufficient resources in place to reflect the importance of procurement within the organisation;
- Efforts are made to disseminate the procurement policy throughout the Authority and encourage officers to adhere to policies in place;
- Tendering/quotation protocols are followed for goods and services in adherence to limits outlined in SFI's/S.O's.
- Efforts are made to ensure Value for Money in respect of purchasing activity.

We will discuss our findings with the Strategic Procurement and Shared Services Manager or nominated representative to develop recommendations and action plans. A draft report will be issued to all relevant officers for review and to document management responses.

Limitation of Scope

The scope of our work will be limited to those areas identified above.

Stakeholders and responsibilities

Role	Contacts	Responsibilities
Strategic Procurement and Shared Services Manager	Jane Lubbock	<ul style="list-style-type: none"> ▪ Review draft terms of reference ▪ Review and meet to discuss issues arising and develop management responses and action plan ▪ Review draft report. ▪ Implement agreed recommendations and ensure ongoing compliance.
Heads of Finance Interim Executive Finance Director	Penny Gardner Sarah Fogden Nigel Pursey	<ul style="list-style-type: none"> ▪ Receive agreed terms of reference ▪ Receive draft and final reports.
Chief Executive	Peter Sloman	<ul style="list-style-type: none"> ▪ Receive final report

Our Team and Timetables

Our team

Chief Internal Auditor	Chris Dickens
Audit Manager	Katherine Bennett
Auditor	Katherine Bennett

Timetable

Steps	Date
TOR approval	October 2009
Fieldwork commencement	2 nd November 2009 (T)
Fieldwork completed	T + 2 weeks
Draft report of findings issued	T + 4 weeks
Receipt of Management response	T + 6 weeks
Final report of findings issued	T + 7 weeks

Budget

Our budget for this assignment is 5 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

Terms of Reference Approval

These Terms of Reference have been reviewed and approved:

.....

Jane Lubbock
Signature

.....

Chris Dickens
Signature (Chief Internal Auditor)

Appendix 2 - Assurance ratings

Level of assurance	Description
High	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
Moderate	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
Limited	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
No	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>



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