

# *Northampton Borough Council* Internal Audit Report 2011/2012 for Northampton Borough Council

October 2011

**Procurement**  
**01\_11\_12 NBC**  
**FINAL**

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## Distribution List

For action	Stuart Taylor, Procurement Manager Sue Morrell, Risk and Business Continuity Manager Bill Lewis, Head of Finance
For information	Isabell Procter, Director of Finance and Support Audit Committee Alan Bottwood, Portfolio Holder Finance

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# 1. Executive summary

Report classification	Trend		Total number of findings			
			Critical	High	Medium	Low
 High risk	N/A No Procurement review was conducted in 2010/11.	Control design	0	0	1	0
		Operating effectiveness	0	2	0	0
		Total	0	2	1	0

## Headlines / summary of findings

Control issues have been identified regarding the use of existing supply and framework agreements in place at the Authority. Compliance with existing agreements is not enforced, and members of staff can place orders with any supplier and then request for these new suppliers to be added to the Agresso system without challenge. Use of these agreements is not encouraged because these are based on historic relationships with suppliers, as opposed to resulting from a strategic intention to hold agreements with specific suppliers, or because these suppliers offer discounts of value for money.

The Authority already have plans in place to resolve these issues, as the intention is to replace supply agreements with formalised contracts, and then to enforce the use of such contracts via the Agresso purchasing system, and any new 'e-sourcing' system.

The need for training and reinforcement of the procurement procedures is highlighted through the results of sample testing undertaken over the procurement process. This testing pointed to a number of issues with cases tested; for example members of staff ordering goods often did not obtain the minimum required number of quotations, or comply fully with tender processes prior to purchasing goods or services.

Service areas rarely use centralised templates in their procurement activities.

Discussions with management in service areas outside of the central procurement team has highlighted that they would benefit from this procurement manual being supported by formal and frequent training on procurement processes.

Signed copies of contracts selected for testing could not be located.

## ***2. Background and scope***

In 2010/11 the Authority had a separate procurement function with a core team reporting to a Head of Procurement. A restructure at the Authority at the beginning of 2011/12 has led to the procurement function being amalgamated into the finance department, with the procurement team reporting to the Head of Finance.

We identified operating effectiveness weaknesses relating to procurement processes as part of our 2010/11 review of creditors (Agresso system). This review did not cover procurement in detail. However these weaknesses, along with the restructure, led to the inclusion of a full review of procurement within the 2011/12 audit plan.

### **Scope and limitations of scope**

We have reviewed the design and operating effectiveness of key controls in place relating to procurement during the period 2011/12.

The sub-processes and related control objectives included in this review are:

- Tendering
- Selection of Suppliers
- Purchasing

We have not reviewed contract management as part of this audit

## 3. Detailed current year findings

### 1. Compliance with tender processes – operating effectiveness

#### Finding

In 3 of 5 cases reviewed, the signed contract with the supplier could not be located.

In 1 of the cases, the service area had utilised an existing framework agreement to procure the product, but no record had been maintained to demonstrate how the team had decided that the supplier selected under the agreement represented the best value for money, although this was required by the agreement itself. Furthermore, no formal contract was ever put in place for this agreement, as the terms and conditions of the existing framework agreement were not considered to be applicable to the nature of this order.

In another 1 of the cases tested, the following issues were noted with the tender process undertaken:


- Standard templates were not used.
- No record has been maintained to show the evaluation of the tender.

#### Risks

The Authority may enter into purchases or contracts that do not meet required standards or represent sufficient value for money.

The Authority does not have evidence of signed contracts and can't refer to the contract in the event of a dispute.

#### Action plan

Finding rating	Agreed action	Responsible person / title
 High risk	<ol style="list-style-type: none"> <li>A complete list of contracts will be compiled and maintained. A central repository of signed contracts will be created, with departments retaining copies. Replacement copies will be requested for any missing contracts – to be completed September 2011.</li> <li>A gap analysis is currently underway to identify where inadequate arrangements are in place. Steps will then be taken to ensure contracts are in place through the use of frameworks, mini competitions or full tender exercises as required. The gap analysis will be completed in September 2011. The replacement of inadequate contracts will depend on the contract value - To be in place by 31st January 2012.</li> <li>Training will be provided to all Managers and Team Leaders on the procurement process and the</li> </ol>	Stuart Taylor – Procurement Manager <b>Target date:</b> See agreed action

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**Action plan**


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Finding rating	Agreed action	Responsible person / title
	importance of adhering to it - DMT's have been attended by the Procurement Manager to provide training and update on changes that have taken place within Procurement. A training package will be developed on the Council's e-learning portal – to be completed and in use by December 2011.	
iv.	All staff with the ability to purchase will be required to complete a 'signed' declaration that they understand the procurement requirements and they will adhere to them. Disciplinary action will be considered against staff who continue to pursue non-compliant practices - declarations will form part of the procurement e-learning tool that is currently being developed. An auditable trail will identify all those that accept the online declaration at the end of the training – all relevant staff signed up by 31st January 2012.	
v.	Increased control and direction for procurement across the Council through the creation of the Strategic Procurement Group (SPG) – terms of reference created, email sent to request senior nominations from each directorate, initial meeting to be held by the end of November 2011.	
vi.	Procurement Officers to attend Service Managers Team Meetings (SMTs), for the services they are responsible for, twice a year to enable services to flag forthcoming procurement exercises, raise issues and queries. Procurement Officers can get involved and provide guidance at inception stage, monitor compliance, raise non-conformity issues and identify and tailor any training needs – to commence with immediate effect.	
vii.	The introduction of the electronic tendering portal will improve central control and transparency of process moving forward, provide 'audit capability' and a central repository for all future procurement documentation – October 2011.	
viii.	Introduce a requirement as part of the standard service plan template to capture all planned procurements for the coming year. This will provide the Procurement Team and Strategic Procurement Group with an annual plan of procurement exercises. This plan will improve resource planning for the Procurement Team and provide a useful 'birds eye view' for the SPG to capture opportunities for collaborative working and highlight key procurements for review – new template to be finalised 30th November 2011.	
ix.	Introduce procurement to the new Management Accountants Monitoring Pack to capture information and flag developments with the Procurement Team – to commence by the end of November 2011.	

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## 2. Compliance with the quotations process – operating effectiveness

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### Finding

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In 11 of 25 cases tested where service areas are required to obtain quotations prior to purchase, the appropriate number of quotes had not been obtained.

- in 6 of these cases, this had occurred because the team placing the order believed a contract or agreement was in place with the supplier which did not exist
- in 2 of these cases, only one quotation had been obtained when two were required
- in 1 case only two quotations had been obtained when three were required
- in 2 cases, no quotations had been obtained. In 1 of these cases, this was because goods were selected from a catalogue.

Furthermore, 1 of 4 managers surveyed stated that they commonly use suppliers who they are familiar with, instead of following a procurement process. 3 of 4 managers identified that they would like further training on the procurement process. The Authority does not provide training on procurement as part of the induction process.

In 1 of 25 cases, an order had been placed against an existing contract with Kingston Communications; however the contract was negotiated by Northamptonshire County Council and a copy is not held by Northampton Borough Council, meaning assurance could not be gained that this contract was in place.

In 2 of 25 cases, the Authority believe that a contract is in place with the suppliers and so it was correct for the member of staff not to obtain alternative quotations when placing the purchase order; however no evidence could be obtained to support this as the supplier is not referred to in any formal contract.

3 of 25 cases were noted where although it was appropriate that the order had not followed set procurement procedures, there was no exemption from the procurement process stated in the Procurement Manual for these cases. These included:

- temporary accommodation is selected from a list of approximately 5 places, although there has been no procurement process behind which suppliers are used on this list
- a subscription to a benchmarking organisation
- training on sheltered housing.

In 3 of 25 cases, no evidence was provided to audit about whether the correct number of quotes was obtained. In 1 case, this had arisen because the people who had raised and authorised the order had left the Authority, and so could not provide the relevant details. In another case, quotes were only obtained verbally, and so no evidence was retained of quotes obtained. In the remaining case, no response was received from the person placing the order as to the procurement process followed during the review period.

In 3 of 25 cases tested standard templates, such Invitation to Quote forms, were not used.

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### Risks

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The Authority may enter into purchases or contracts that do not meet required standards or represent sufficient value for money.


Increased risks of inappropriate transactions.

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**Action plan**


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Finding rating	Agreed action	Responsible person / title
 High risk	<ol style="list-style-type: none"> <li data-bbox="495 359 1646 470">i. Training will be provided to all Managers and Team Leaders on the procurement process and the importance of adhering to it - DMT's have been attended by the Procurement Manager to provide training and update on changes that have taken place within Procurement. A training package will be developed on the Council's e-learning portal – to be completed and in use by December 2011.</li> <li data-bbox="495 478 1646 646">ii. All staff with the ability to purchase will be required to complete a 'signed' declaration that they understand the procurement requirements and they will adhere to them. Disciplinary action will be pursued against staff who continue to pursue non-compliant practices - declarations will form part of the procurement e-learning tool that is currently being develop. An auditable trail will be available to identify all those that accept the online declaration at the end of the training – all relevant staff signed up by 31st January 2012.</li> <li data-bbox="495 654 1646 710">iii. The procurement manual will be updated to clearly reflect Contract Procedure Rules where there are exemptions from the procurement process – to be completed September 2011.</li> <li data-bbox="495 718 1646 742">iv. A revised supplier list for temporary accommodation is currently being finalised – Action complete.</li> <li data-bbox="495 750 1646 885">v. The procurement team will reiterate to staff the importance of using standard templates, to ensure all tender processes are compliant with procurement and EU requirements, and to ensure consistent branding for the Authority - the adoption of electronic tendering will prevent incorrect templates from being used in the future. The frequent contact with service teams through the attendance at SMTs will also enable Procurement Officers to provide guidance at the earliest opportunity – October 2011.</li> <li data-bbox="495 893 1646 1029">vi. The procurement team will liaise with individual departments in designing templates, to ensure that templates are meeting the individual needs of service areas. This may lead to a series of different standard templates being available for staff to use - the adoption of an electronic procurement system will ensure templates meet the needs of service areas and prevent incorrect templates from being used – October 2011.</li> </ol>	Stuart Taylor – Procurement Manager <b>Target date:</b> See agreed action

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### 3. Supply agreements – control design

#### Finding

Compliance with existing supply agreements is not enforced.

Members of staff can place orders with any supplier and then request for these new suppliers to be added to the Agresso system without challenge.

There is no active consideration of whether the supply agreements in place adequately identify the optimal number of suppliers for a specific type of product or service.

There is no mechanism in place for members of staff to actively seek and take advantage of early payment or bulk purchase discounts. This is predominantly because there is no uniform approach to obtaining quotes or placing orders, as this is at the discretion of individual departments.

Although the use of framework agreements is encouraged, there is no listing of agreements already established at the Authority for members of staff to consider using when placing orders.

If a member of staff wishes to consider using a framework agreement, they must contact the central procurement team, who then review all contracts in this area to identify whether an agreement is in place, making the process cumbersome for both service areas and the central procurement team alike.


#### Risks

Supply agreements are not used, potentially leading to orders placed with inappropriate suppliers, or value for money not being achieved.

The Authority may not be obtaining value for money on orders raised, as prices are not sufficiently negotiated prior to committing to orders.

Increased risks of inappropriate transactions.

#### Action plan

Finding rating	Agreed action	Responsible person / title
 Medium risk	<ol style="list-style-type: none"> <li>i. As an interim measure, a central register of supply and framework agreements will be developed to enable staff to easily see existing agreements in place – September 2011.</li> <li>ii. The Authority will replace supply agreements with formal contracts, and use of these contracts will be enforced through the Agresso system, where the system will only allow orders to be placed with named suppliers for certain products and services – a gap analysis will be completed and appropriate procurement exercises conducted in accordance with Contract Procedure Rules – September 2011.</li> <li>iii. Any requests to add new suppliers to the system will be challenged ensuring quality and price of these orders have been considered, or whether a contract could provide a better deal - process introduced by end of September 2011.</li> <li>iv. The Authority will enforce the use of framework agreements through use of the Agresso system, as users will only be allowed to raise orders with named suppliers for certain products and services -</li> </ol>	Stuart Taylor – Procurement Manager <b>Target date:</b> See agreed action

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**Action plan**

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<b>Finding rating</b>	<b>Agreed action</b>	<b>Responsible person / title</b>
	initial work complete on existing agreements. This will be an ongoing action as and when procurement exercises are completed – February 2012.	
	v. The 'Due North' e-sourcing system will support the use of framework agreements where a mini-competition is required - system to go live October 2011.	
	vi. The Authority will negotiate early payment and / or bulk purchase discounts as part of the process of negotiating new contracts with suppliers whilst replacing supply agreements - Early payment discounts and bulk purchasing will be investigated in the replacement of current supply agreements – January 2012	

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## Appendix 1: Basis of our classifications

### Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Critical</b> monetary or financial statement impact (quantify if possible = materiality); or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences (quantify if possible); or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).</li> </ul>
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Significant</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Moderate</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences (quantify if possible); or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance (quantify if possible); or</li> <li>• <b>Minor</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences (quantify if possible); or</li> <li>• <b>Minor</b> impact on the reputation of the organisation (quantify if possible).</li> </ul>
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

*Report classifications*

Findings rating	Points
<b>Critical</b>	40 points per finding
<b>High</b>	10 points per finding
<b>Medium</b>	3 points per finding
<b>Low</b>	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

## Appendix 2: Terms of reference

To: Stuart Taylor, Procurement Manager and Bill Lewis, Head of Finance

From: Matthew Plummer, Internal Audit Team Manager

This review is being undertaken as part of the 2011/2012 internal audit plan approved by the Audit Committee.

### Background

In 2010/11 the Authority had a separate procurement function with a core team reporting to a Head of Procurement. A restructure at the Authority at the beginning of 2011/12 has led to the procurement function being amalgamated into the finance department, with the procurement team reporting to the Head of Finance.

We identified operating effectiveness weaknesses relating to procurement processes as part of our 2010/11 review of creditors (Agresso sytem). This review did not cover procurement in detail. However these weaknesses, along with the restructure, led to the inclusion of a full review of procurement within the 2011/12 audit plan.

### Scope

We will review the design and operating effectiveness of key controls in place relating to procurement during the period 2011/12

The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Tendering	Determine the requirements and explicitly communicate those to potential suppliers Ensure that tenders are advertised, received and recorded in accordance with an appropriate approved protocol Comply with European Union tendering requirements / directives.
Selection of suppliers	To ensure that tenders are evaluated in a transparent consistent manner in line with approved procedures Investigate the financial strength and business reputation of final candidates
Purchasing	Clear instructions are available for budget managers to undertake purchasing Use of supplier agreements is maximised to promote value for money Quotations are obtained in line with appropriately approved protocol Purchases are appropriately approved Reputable suppliers are used Goods or services are purchased at an agreed price

### *Limitations of scope*

We will not review contract management as part of this audit.

### *Audit approach*

Our audit approach is as follows:

- Obtain an understanding of procurement through discussions with key personnel, review of systems documentation and walkthrough tests
- Identify the key risks of relating to procurement
- Evaluate the design of the controls in place to address the key risks
- Test the operating effectiveness of the key controls.

### *Internal audit team*

<b>Name</b>	<b>Role</b>
<b>Richard Bacon</b>	Engagement Leader
<b>Chris Dickens</b>	Engagement Manager
<b>Matthew Plummer</b>	Team Manager
<b>Nikki Smith</b>	Audit Team Member

### *Key contact – Northampton Borough Council*

<b>Name</b>	<b>Title</b>	<b>Role</b>	<b>Responsibilities</b>
Stuart Taylor	Procurement Manager	Audit Sponsor	Review and approve terms of reference Review draft report. Review final report. Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

### *Other Roles and Responsibilities – Northampton Borough Council*

<b>Name</b>	<b>Title</b>	<b>Responsibilities</b>
Bill Lewis	Head of Finance	Review and approve terms of reference Review draft report. Review final report
Isabell Procter	Director of Finance and Support	Review draft report. Review final report
Audit Committee Portfolio Holder - Finance	N/A	Review final report

### *Timetable*

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Fieldwork start	23/05/2011
Fieldwork completed	3/6/2011
Clearance Meeting	17/6/2011 (TBC)
Draft report to client	24/6/2011 (TBC)
Response from client	1/7/2011 (TBC)
Final report to client	8/7/2011 (TBC)

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Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

## ***Appendix 3: Limitations and responsibilities***

### ***Limitations inherent to the internal auditor's work***

We have undertaken the review of procurement, subject to the limitations outlined below.

#### ***Internal control***

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment 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***

Our assessment of controls relating to procurement is for the period 31/3/2011 to 31/3/2012. 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 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.





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