

**REPORT TO: TAYSIDE VALUATION JOINT BOARD – 20 NOVEMBER 2017**

**REPORT ON: INTERNAL AUDIT**

**REPORT BY: ASSESSOR**

**REPORT NO: TVJB 26-2017**

## **1 PURPOSE OF REPORT**

1.1 To present to the Joint Board the Internal Audit Report – Compliance with Legislation - Procurement (No 2018/02) which is attached as an Appendix to this report.

## **2 RECOMMENDATIONS**

2.1 The Joint Board is asked to note the contents of the Report.

## **3 FINANCIAL IMPLICATIONS**

3.1 The cost of Internal Audit Services is provided for in the Assessor's Revenue Budget.

## **4 POLICY IMPLICATIONS**

4.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## **5 BACKGROUND**

5.1 Henderson Loggie, Chartered Accountants, were appointed to provide an Internal Audit Service in respect of the period from 1 April 2016 to 31 March 2019. Audit work has proceeded in accordance with the Audit Needs Assessment and Strategic Plan for the period 2016 to 2019 as approved by the Joint Board on 22 August 2016.

5.2 Internal Audit Report 2018/02 on Compliance with Legislation - Procurement is attached as an Appendix to this report. It has been prepared by Internal Audit following discussion with the Assessor. The overall conclusion of the report is that the Joint Board's systems are satisfactory and meet the control objectives with some weaknesses present. Two recommendations have been made; that estimates are received from Angus Council before purchase orders for services (e.g. building repairs) are raised, and that management review the current form and procedure for raising purchase orders. These actions will be considered/implemented by management within the agreed timescales and Internal Audit will review the position as part of a future follow up review.

## **6 CONSULTATIONS**

6.1 The Clerk and Treasurer to the Joint Board have been consulted on this report.

## **7 BACKGROUND PAPERS**

7.1 None.

**ALASTAIR KIRKWOOD**  
Assessor

**November 2017**

**Tayside Valuation Joint Board**

**Compliance with Legislation - Procurement**

**Internal Audit Report No: 2018/02**

**Draft Issued: 31 October 2017**  
**2<sup>nd</sup> Draft Issued: 2 November 2017**

**Final Issued: 2 November 2017**

**LEVEL OF ASSURANCE**

**Satisfactory**

## Content

### Page No.

<b>Section 1</b>	<b>Overall Level of Assurance</b>	<b>1</b>
<b>Section 2</b>	<b>Risk Assessment</b>	<b>1</b>
<b>Section 3</b>	<b>Background</b>	<b>1</b>
<b>Section 4</b>	<b>Scope, Objectives and Overall Findings</b>	<b>1 - 2</b>
<b>Section 5</b>	<b>Audit Approach</b>	<b>2</b>
<b>Section 6</b>	<b>Summary of Main Findings</b>	<b>3</b>
<b>Section 7</b>	<b>Acknowledgements</b>	<b>3</b>
<b>Section 8</b>	<b>Findings and Action Plan</b>	<b>4 - 8</b>

### Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

<b>Good</b>	System meets control objectives.
<b>Satisfactory</b>	System meets control objectives with some weaknesses present.
<b>Requires Improvement</b>	System has weaknesses that could prevent it achieving control objectives.
<b>Unacceptable</b>	System cannot meet control objectives.

### Action Grades

<b>Priority 1</b>	Issue subjecting the organisation to material risk and which requires to be brought to the attention of the Joint Board.
<b>Priority 2</b>	Issue subjecting the organisation to significant risk and which should be addressed by the Assessor.
<b>Priority 3</b>	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.

## 1. Overall Level of Assurance

**Satisfactory**

System meets control objectives with some weaknesses present.

## 2. Risk Assessment

This review focussed on the controls in place to mitigate the following risks included on the Board's risk register:

- 2.2 – Unexpected expenditure leading to cash flow problems (risk rating: low);
- 2.3 – Unauthorised expenditure (risk rating: low); and
- 2.4 – Fraud (risk rating: low).

## 3. Background

As part of the Internal Audit programme at Tayside Valuation Joint Board ('the Board',) for 2017/18, we carried out a review of the arrangements and key internal controls in place in relation to procurement. Our Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and Assessor that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The Procurement Reform (Scotland) Act 2014 ('the Act') was enacted on 18 April 2016 and created new public procurement rules aimed at improving public sector purchasing of goods, works and services in Scotland. The Act applies to the Joint Board. All procurement for services and supplies above £50,000 in value and all works above £2 million have now become 'regulated contracts'. The Act also requires larger spending contracting authorities with significant procurement spend (where the total value of regulated contracts in a year exceed £5 million) to produce a Procurement Strategy before the start of any given financial year, setting out how it intends to carry out its regulated procurements (or to review its Procurement Strategy for the current financial year and make such revisions to it as the authority considers appropriate).

## 4. Scope, Objectives and Overall Findings

This audit focussed on the systems of internal control in place for the ordering of goods and services and the payment of invoices.

We also considered whether the procurement strategy followed and procedures in place support best value purchasing in relation to non-pay spend.

The table below notes each separate objective for this review (which collectively underpin the overall objective) and records the results:

## 4. Scope, Objectives and Overall Findings (continued)

Objective	Findings			
	1	2	3	
<b>The objective of this audit was to obtain reasonable assurance that:</b>	<b>No. of Agreed Actions</b>			
1. the Board's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations').	<b>Good</b>	0	0	0
2. procurement procedures ensure that: <ul style="list-style-type: none"> <li>◆ areas of high spend are monitored appropriately;</li> <li>◆ opportunities for pooling of expenditure are identified in order to achieve best value; and</li> <li>◆ collaborative procurements and frameworks available to the Board are utilised where appropriate.</li> </ul>	<b>Satisfactory</b>	0	0	2
3. the Board's procurement guidance on quotes and tenders, together with the Act and Regulations, are being complied with.	<b>Good</b>	0	0	0
<b>Overall Level of Assurance</b>	<b>Satisfactory</b>	<b>0</b>	<b>0</b>	<b>2</b>
		System meets control objectives with some weaknesses present.		

## 5. Audit Approach

From discussions with the Administration Manager and other relevant staff, we established the procurement strategies, procedures and monitoring arrangements which were in place. These were then evaluated to establish whether they followed recognised good practice.

Specifically, we sought to establish whether the procurement procedures ensure that areas of high spend are monitored appropriately, identifying opportunities for pooling of expenditure in order to achieve best value, and ensuring that joint purchasing arrangements are utilised where appropriate.

A sample of items of expenditure was selected from the financial ledger and tested to ensure compliance with the Board's Financial Regulations and Procedures.

## 6. Summary of Main Findings

### **Strengths**

- Purchasing / Procurement Procedures (and separate Tender Procedures) are in place which provide guidance for staff on the selection of approved suppliers, and procedures for varying procurement levels based on the anticipated value of goods or services.
- The Board's procurement guidance on quotes and tenders, together with those aspects Procurement Reform (Scotland) Act 2014 and The Procurement (Scotland) Regulations 2016 which are relevant to the Board, are being complied with.
- Where relevant opportunities exist, the Board makes use of Tayside Procurement Consortium contracts and Dundee City Council approved suppliers.
- Overall, we concluded that although the Board does not have a formal procurement strategy; given the type and volume of spending involved the Board's procedures support best value purchasing in relation to non-pay spend and the evidence from our testing supports this view.
- For a sample of 15 items of expenditure tested we found that in each instance the procurement process that had been followed was appropriate and in line with the Board's procedures.

### **Weaknesses**

- Within our sample of 15 purchases tested, we identified minor weaknesses which could increase the risk of unauthorised expenditure occurring, including: one order had not been authorised in accordance with the Board's procedures, with a Purchase Order having been approved where the value exceeded the member of staff's authorisation limit; three Purchase Orders did not record the value of the purchase requested; and in all cases the details of the staff member who had raised the Purchase Order were not recorded on the Purchase Order.

## 7. Acknowledgements

We would like to thank Board staff for the co-operation and assistance we received during the course of our review.

## 8. Findings and Action Plan

**Objective 1: The Board's Procurement Policy, Strategy and procurement guidance are comprehensive, kept up-to-date and in line with the Procurement Reform (Scotland) Act 2014 ('the Act') and The Procurement (Scotland) Regulations 2016 ('the Regulations').**

Any new or amended policies are drafted by the Assessor and then passed to the Clerk and Treasurer for review and input. The Board has a Service Level Agreement (SLA) with Dundee City Council (DCC) for legal, personnel and financial services. To ensure that new or amended policies are compliant with the latest legislation draft policies are passed to the relevant department within Dundee City Council for review. Policies are then presented to the Joint Board for approval before being made publicly available on the Board's website.

Copies of the latest policies and procedures are available to all staff on the Board's internal computer network.

The Board keep up to date with changes to legislation in a number of ways. The SLA in place with DCC includes procurement advice. Any changes to legislation in this area are notified to the Board by DCC and policies and procedures are updated accordingly, as detailed above.

Purchasing/Procurement Procedures and separate Tender Procedures are in place which provide guidance for staff on the selection of approved suppliers, and procedures for varying procurement levels based on the anticipated value of goods or services. All staff are expected to adhere to the procedures in order to achieve best value.

As part of our review we obtained copies of the policies and procedures which govern the Board's procurement arrangements and performed a high-level review of these to ensure that they are up to date and in line with the aspects of the Act and Regulations, which are relevant to the Board, and reflect generally accepted good practice. Our review confirmed that the policies appear adequate and reflect the Board's compliance requirements in terms of the Act and Regulations. We noted from our review that the Boards procurement related procedures were recently updated and approved by the Board in August 2017 as part of the Board's cyclical programme of policy and procedures updates. We understand that this recent update is intended to serve as a temporary update until Dundee City Council updates its own procurement procedures and guidance, which will then necessitate a future update of the Board's to bring them into alignment.

As the value of the Board's non-pay expenditure covered by regulated contracts in 2016/17 was below the £5 million threshold the Board is not required to produce a Procurement Strategy.

**Objective 2: Procurement procedures ensure that:**

- ◆ **areas of high spend are monitored appropriately;**
- ◆ **opportunities for pooling of expenditure are identified in order to achieve best value; and**
- ◆ **collaborative procurements and frameworks available to the Board are utilised where appropriate.**

A framework agreement is a purchasing agreement that sets out the price, quality and quantity under which supply contracts can be made over a defined period. The main advantage of such agreements is that the Board would not be required to go through a full tendering process where goods or services can be procured under an existing framework agreement, which can result in significant resource savings.

There are a number of existing frameworks available to the Board, including Scotland Excel (the Centre of Procurement Expertise for the local government sector in Scotland). Where relevant opportunities exist the Board also makes use of Tayside Procurement Consortium contracts, which can give the Board access to goods / services at a lower procurement cost by removing the need to conduct a separate tender exercise. From discussion with the Assessor and the Administration Manager we understand that the Board is aware of a number of existing frameworks and these are reviewed prior to incurring significant spend in order to identify any suitable frameworks which would provide opportunities for reducing costs and obtaining best value. At the time of our review further opportunities for accessing suitable frameworks was to be investigated by the Board and the procurement team at Dundee City Council was to be approached for assistance.

We noted during our review that there has been no formal analysis of expenditure across the Board by value and supply type in order to: identify any significant value goods or services that are currently being procured from more than one supplier and which could potentially be consolidated; consider any instances of regulated spend where no contract is currently in place; and compare existing contracts against available framework agreements to gauge the Board's use of such frameworks. However, at current levels of non-pay expenditure activity, the limited number of goods and services procured and limited number of suppliers utilised by the Board we acknowledged that, with the exception of IT purchases, there is little opportunity for the Board to pool expenditure or make use of national frameworks. Overall we concluded that although the Board does not have a formal procurement strategy; given the type and volume of spending involved the Board's procedures support best value purchasing in relation to non-pay spend and the evidence from our testing supports this view.

**Objective 2: Procurement procedures ensure that:**

- ◆ **areas of high spend are monitored appropriately;**
- ◆ **opportunities for pooling of expenditure are identified in order to achieve best value; and**
- ◆ **collaborative procurements and frameworks available to the Board are utilised where appropriate (continued).**

Budgets are monitored by the Administration Manager. Staff seeking to make a purchase are required to check with their Section Head, who then checks with the Administration Manager before Purchase Orders (POs) are created. POs should then be approved in line with the authorisation limits, as set out in the Board's Purchasing / Procurement procedures, before the order is sent to the relevant supplier. When invoices are received, these should be agreed to the corresponding PO prior to payment being made, to ensure that the payment is appropriate and has been correctly authorised. We tested a sample of 15 purchases to ensure that POs had been correctly raised, authorised and processed in accordance with the Board's procedures.

Within our sample of 15 purchases tested, we found that one order had not been authorised in accordance with the Board's procedures. One PO was raised for the value of £10,526, which should have been authorised by the Assessor. Our review noted that the PO was authorised by the Administration Manager, despite their authorisation limit being restricted to a £10,000 threshold. Further discussions with the Assessor confirmed that the Assessor had verbally authorised the PO, however this had not been formally recorded. No other similar issues were identified from our detailed testing and after having discussed the matter with the Assessor we concluded that this was an isolated occurrence and therefore we have not raised a recommendation at this time.

**Objective 2: Procurement procedures ensure that:**

- ◆ areas of high spend are monitored appropriately;
- ◆ opportunities for pooling of expenditure are identified in order to achieve best value; and
- ◆ collaborative procurements and frameworks available to the Board are utilised where appropriate (continued).

Observation	Risk	Recommendation	Management Response		
Within our sample of 15 purchases, we noted that three POs had not been completed to show the value of the purchase requested. Discussion with the Administration Manager noted that these items related to supply of services from Angus Council, such as minor buildings repairs. Although the hourly rate could be obtained when requesting the work the exact cost could not be determined at the time the PO was raised. In each case the PO had been appropriately authorised.	Unauthorised and excessive expenditure may occur, and appropriate monitoring of budgets is compromised where the cost of goods / services is unknown at point of the PO being approved.	<b>R1</b> Ensure that in future Purchase Orders are fully completed to include the value of the order. Where the exact value is not known ensure that an estimate is provided based on the value of quotes obtained from the supplier.	Accepted, where appropriate, requests for an estimate will be made of Angus Council.  <b>To be actioned by:</b> Assistant Assessor, Angus Division  <b>No later than:</b> 30 November 2017  <table border="1" style="width: 100%;"><tr><td style="background-color: #4F81BD; color: white; text-align: center;"><b>Grade</b></td><td style="background-color: #76B82A; color: white; text-align: center;"><b>3</b></td></tr></table>	<b>Grade</b>	<b>3</b>
<b>Grade</b>	<b>3</b>				
In all cases we noted that details of the staff member who had raised the PO were not recorded on the PO. Whilst the authority to raise a PO is restricted to senior staff only, such as the Assistant Assessors and the Administration Manager, ensuring segregation of duties between raising and approving a PO acts as an additional control to ensure that expenditure is appropriate and is independently authorised.	There is a low risk that unauthorised expenditure could be incurred.	<b>R2</b> Consider amending the format of the Purchase Order form to ensure that it records the details of the staff member who has raised the order and to show the name of the staff member authorising the purchase order.	The process of raising purchase orders will be reviewed.  <b>To be actioned by:</b> Assessor  <b>No later than:</b> 31 December 2017  <table border="1" style="width: 100%;"><tr><td style="background-color: #4F81BD; color: white; text-align: center;"><b>Grade</b></td><td style="background-color: #76B82A; color: white; text-align: center;"><b>3</b></td></tr></table>	<b>Grade</b>	<b>3</b>
<b>Grade</b>	<b>3</b>				

**Objective 3: The Board's procurement guidance on quotes and tenders, together with the Act and Regulations, are being complied with**

The Board's Tender Procedures provide guidance to staff to ensure that compliant procurement procedures are followed, including the thresholds for obtaining quotes and conducting tenders.

For the sample of 15 items of expenditure tested we found that in each instance the procurement process that had been followed was appropriate and in line with the Board's procedures.

An analysis of the purchase invoices processed in the year to date noted that only a single item exceeded the £10,000 threshold where the Board's procedures would require that a formal tender exercise should be undertaken, or that a Quick Quote should be obtained using the Scottish Government's public procurement portal. For this item we found that a tender or Quick Quote procedure had not been carried out as the expenditure was incurred prior to these requirements being added to the Board's updated procedures, which were approved in August 2017. However, our audit testing found that for this item the requisite number of quotes had been obtained and the supplier was selected in accordance with the Board's procedures in place at the time the order was raised.