

INTERNAL AUDIT SERVICES
REPORT REF No S/015/19 (Nov 2018)

**Loch Lomond & The Trossachs
National Park Authority
Procurement Audit**



West Dunbartonshire ~ from the banks of Loch Lomond to the shores of the Clyde



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Personnel associated with this report :

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1. EXECUTIVE SUMMARY

General

An audit was conducted on Procurement.

The review covered:

- Review of procurement strategy and policies;
- Compliance with the procurement policies including single tender, non-competitive actions, quotes, tendering and ensuring best value was achieved; and
- Contract management.

The review highlighted the following areas of good practice:

- The newly updated procurement strategy which sets out The Park Authority's Authorities vision and objectives in regards to procurement is a robust well developed document; and
- Throughout The Park Authority there is a drive and willingness to obtain the best value possible from procurement.

The review also highlighted that opportunities exist to strengthen internal controls and enhance the service provided, the most important of which are listed below;

- Update to the current policies and procedures;
- Review of the current contracting practices;
- Better understanding of the procurement policies and how these should be applied; and
- Improved document retention policies.

Full details of these opportunities and any other points that arose during the audit are included in the Action Plan, which forms Section 3 of this report.

2. MAIN REPORT

2.1 INTRODUCTION

2.1.1 An audit was carried out on Procurement as part of Internal Audit's Planned Programme of Audits.

2.2 SCOPE AND OBJECTIVES

2.2.1 The auditor used the CIPFA Systems Based Auditing Control Matrix to confirm the systems in place, with particular emphasis on the following:

- Policies and procedures;
- Application of policies for procuring goods and contracts.

2.2.2 The control objectives tested for the above in relation to transaction recording and processing were: authority, occurrence, calculation, timeliness and regularity.

2.2.3 An audit launch meeting was held with Andrew Jump.

2.2.4 The following testing was performed

- Review of policies and procedures;
- Review of procurement method used for a sample of goods and contracts and the application of the procurement policies;
- Confirmation an appropriate contract was/is in place; and
- Review of contract management

2.2.5 Internal Control Questionnaires (ICQs) were completed to ascertain the systems in place by independently questioning Andrew Jump.

2.2.6 Compliance testing was carried out on the systems to confirm the responses given in the ICQs and that the control objectives were being met.

2.3 FINDINGS

2.3.1 The findings are based upon evidence obtained from stratified sampling/substantive testing.

2.3.2 The audit was conducted in conformance with the Public Sector Internal Audit Standards (PSIAS).

2.3.3 This report details all points arising during the audit review, full details of which are included in the Action plan contained within Section three of this report. We stress that these are the points arising via the planned programme of work and are not necessarily all of the issues that may exist.

2.3.4 The authority and responsibilities of employees within The Park Authority was reviewed, there is one employee dedicated to procurement, given the scale of the organisation this is deemed appropriate. There are clear lines of authority and designated responsibilities in regards to procurement.

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Everyone that Internal Audit spoke to was clear on their responsibilities and there was evidence of good collaborative working between teams and the procurement manager. Through discussion with team members it is clear that there is a drive to achieve best value in procurement.

- 2.3.5 There isn't a specific risk register for procurement; having a risk register is seen as good practice however, Internal Audit was able to determine that risks in procurement are considered at a management level. There is discussion throughout management in regards to particular projects and the risk when there isn't enough competition for the work or the bids are coming in over budget etc.
- 2.3.6 The procurement strategy has been recently updated and is comprehensive in its approach clearly setting out the objectives for The Park Authority in regards to procurement and how these align with The Park Authority's overall goals and vision.
- 2.3.7 The current procurement policy is a comprehensive document however it hasn't been updated since the procurement strategy was updated. The policy should be updated to reflect the updated procurement strategy taking into account what is reported in the annual report. Please see the action plan in section three for more details.
- 2.3.8 As a Scottish Public Body, The Park Authority is required to participate in the Scottish Government's Procurement & Commercial Improvement Programme (PCIP) which assesses their procurement capability and focuses on the policies and procedures driving procurement performance and more importantly, the results they deliver. An organisation the size of the Park Authority is required to have a "lite assessment" every two years. The Park Authority at the most recent PCIP review received generally positive comments with most areas reviewed being "green" although it should be noted that this style of health check is specifically intended to form the basis for conversations about the organisation's procurement capability and is not an assessment that is scored or graded. The last PCIP health check was in September 2016 therefore the next assessment is due now. In addition to mandatory requirements the Park Authority produces an annual report detailing the performance of procurement. The annual report enables The Park Authority to clearly analyse their procurement performance. Internal Audit believe that this annual report could be enhanced with the application of specific performance measures developed in line with the procurement strategy,
- 2.3.9 Internal Audit undertook detailed testing on a sample of goods and contracts that had been procured in the previous financial year (2017-2018). The testing covered specifically the procurement method used and whether it was appropriate for the level of spend, the application of aggregation, where appropriate that there was a contract in place and the level and formality of contract management.
- 2.3.10 As per the procurement policy the level of spend dictates the method of procurement that should be applied, i.e. direct acquisition, a minimum of three quotes or full tender etc. In most instances the correct procurement

method had been applied. There was however evidence that the correct procurement threshold hadn't been applied in some of these cases - this was due to aggregation please see paragraph 2.3.12. However there were also some instances where the procedures hadn't been applied appropriately for example only obtaining two quotes rather than a minimum of three, or not re-tendering once a contract had expired. Please see the action plan in section three for further details.

- 2.3.11 There were also instances where the appropriate evidence hadn't been retained to show that the correct procedures had been applied, albeit in all of these cases the employees concerned could detail the procurement method used.
- 2.3.12 Aggregation should be considered as part of the procurement process. Contracts should be considered in aggregate to ensure where possible any purchasing leverage through aggregated spend is utilised. In addition it is not permitted to deliberately divide any procurement exercise if the intention in doing so is to avoid the application of any financial thresholds. There was evidence in some instances that aggregation had not been applied when it should have been, this is likely due to employees not understanding all the circumstances when aggregation should be applied rather than deliberately trying to avoid procurement rules. Although in most of these instances lack of aggregation wouldn't affect the overall procurement approach in some cases the incorrect procurement method has been applied. Please see the action plan in section three for further details. Because aggregation wasn't applied it has also meant in some instances the procurement manager wasn't involved in the procurement because it wasn't appreciated that after aggregation the procurement was for values over £10k.
- 2.3.13 In certain instances the procurement policies allow for the Park Authority to seek permission from the Scottish Government to procure without competition. In all four cases where this type of permission had been sought Internal Audit understood and agreed with the Park Authority's decision to seek this permission. In one case only a verbal permission was given Internal Audit would recommend that written permission be sought and this evidence is retained. In two instances the procurement extended beyond what had been requested, if the level and time frame of the procurement needs to change from what was originally requested new permissions should be sought. Please see the action plan in section three for further details.
- 2.3.14 In regards to contracts Internal Audit sought to review evidence of the existence of a contract. There were instances where parts or all of a contract hadn't been retained. There were also some instances where there wasn't a contract at all or the contract that was in place had expired. Please see the action plan in section three for further details.
- 2.3.15 Internal Audit sought to understand the level and formality of contract management. There is very little formal contract management. Most Officers stated that they have good relationships with their contractors and were in regular contact with them. Although in many cases the lack of formality isn't likely to be a problem if there is a performance issue the lack of formal

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contract management makes it very difficult for The Park Authority to deal with.

In two instances there had been numerous problems with performance, in both cases, although there has been communication throughout the contract, there was no specific contract management meetings to discuss performance. It has therefore been difficult for The Park Authority to deal with these problems. In addition with both of these contracts there have been issues with determining where responsibility lies when subcontractors are involved. For larger scale projects with multiple contractors the contracts need to include specific details on the roles and responsibilities for all who are involved. Please see the action plan in section three for further details.

- 2.3.16 The factual accuracy of this report has been verified by the officers involved in the audit.
- 2.3.17 Internal Audit would like to thank all staff involved in the audit process for their time and assistance.

3. Action Plan: National Park - Procurement 2018/19 S.015.19						
Ref. No.	Finding	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
1.	<p><u>Permissions from the Scottish Government</u> There were instances where permission was sought from the Scottish Government to procure work for a length of time or for a particular value without competition. This permission was given however the resulting procurement was different from what the permission was given for. Evidence of permission was not always obtained in writing but rather sought verbally.</p>	<p>If permission is given by the Scottish Government for a particular type/level of procurement without competition then only that should be procured. Thought should be given to including tolerances within the permissions sought. If The Park Authority wishes to change their procurement outwith of any tolerances agreed with the Scottish Government then new permission should be sought. Permission should always be sought in writing/email and this should be retained as per retention policies.</p>	Medium	<p><u>Accepted</u> As part of any infrequent requests for approval for a Non Competitive Action we will include tolerances as part of the submission.</p>	Finance & Procurement Manager	Immediate
2.	<p><u>Formality of Contract management and complexity of contract</u> Although there are good relationships with most contractors and there is regular contact between The Park Authority and the contractors there is very little formal contract management, e.g. meetings to discuss performance. In addition where there are multiple contractors and subcontractors the contracts don't always clearly state where responsibility lies.</p>	<p>Contract management should be formalised especially in regards to long standing and/or high value contracts. When developing the contracts there needs to be clear lines of responsibility detailed within the contract.</p>	Medium	<p><u>Accepted</u> Formal Contract Management documents will be designed and training provided to appropriate staff who manage a contract. The level of contract management applied to each contract will be scaled to each contract based on risk, value and the contract commodity.</p>	Finance & Procurement Manager	March 2019
3.	<p><u>Retention of Documentation</u> There were cases where the</p>	<p>The Park Authority should ensure</p>	Medium	<p><u>Accepted</u></p>	Finance &	December

3. Action Plan: National Park - Procurement 2018/19 S.015.19							
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	offer letter to the successful bidder had not been retained. The offer letter constitutes part of the contract therefore without it The Park Authority do not have a full copy of the contract. In addition there were instances where the appropriate evidence hadn't been retained to show that the correct procedures had been applied, without this documentation the Park Authority are unable to evidence that there was a robust procurement process.	that they follow document retention policies. In particular the keeping of offer letters as these constitute part of the contract and without them there isn't a proper contract in place.				Procurement Manager / Information Officer	2018
4.	<u>Consideration of Aggregation</u> There are some instances where purchases should be considered in aggregation. In some of these cases aggregating the procurement would result in the purchasing exceeding a threshold limit therefore requiring a more comprehensive procurement method.	More robust consideration needs to be given to aggregation. Consideration should be given to the training of budget holders on when aggregation may apply.	Medium	<u>Accepted</u> The revised procurement policy enhances the procedure around determining aggregation.	Finance & Procurement Manager	March 2019	
5.	<u>Missing or obsolete contracts</u> There were instances where there was no contract at all for the work being performed. There were also instances where contracts have expired but they haven't been re-tendered and/or renewed.	Consideration should be given in regards to the need for a contract. There should be a plan in place for ongoing work to ensure that if required contracts are re-tendered and/or renewed in a timely manner.	Medium	<u>Accepted</u> Improvements have already been put in place to ensure timely re-let of contracts and confirmation with budget holders of pipeline work at the approval of budget stage to confirm the requirement for a contract.	Finance & Procurement Manager	Immediate	

3. Action Plan: National Park - Procurement 2018/19 S.015.19						
Ref. No.	Finding	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
6.	<p><u>Incorrect procurement method applied or not applied properly</u></p> <p>There are instances where the incorrect procurement method was applied or the correct procurement method wasn't applied properly this resulted in quotes not being obtained or proper tenders not being held, the correct number of quotes not being obtained, being unable to demonstrate best value or not using Public Contracts Scotland when they should have done.</p>	In all instances the procurement policies should be followed including applying the correct thresholds and obtaining the correct number of quotes.	Medium	<p><u>Accepted</u></p> <p>The revised procurement strategy and policy reflect this requirement and training will also be provided to improve the knowledge of budget holders on the procurement requirements.</p>	Finance & Procurement Manager	March 2019
7.	<p><u>Update to Procurement Policy</u></p> <p>The procurement policy has not been updated since the recent update of the procurement strategy.</p>	The procurement policy should be updated in line with the new procurement strategy and details on the levels of procurement should be updated as per the Annual Report.	Low	<p><u>Accepted</u></p> <p>Following recent Procurement Strategy (August 2018) approval the Procurement Policy has been revised (October 2018).</p>	Finance & Procurement Manager	December 2018

Appendix 1. Priority Levels

Recommendations have timescales for completion in line with the following priorities.

Priority	Expected implementation timescale
High Risk: Material observations requiring immediate action. These require to be added to the risk register of a Service (Council context).	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
Medium risk: Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed.
Low risk: Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	Generally, complete implementation of recommendations within twelve months of action

Note: About this report

This Report has been prepared on the basis set out in the Memorandum of Understanding (MOU) between the National Park Authority as the Client and West Dunbartonshire Council (WDC) as the provider of Internal Audit services. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the MOU. This Report has been prepared for the benefit of the Client only. This Report has not been designed to be of benefit to anyone except the Client. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Client, even though we may have been aware that others might read this Report. This Report is not suitable to be relied on by any party wishing to acquire rights against WDC, other than the Client for any purpose or in any context. Any party other than the Client that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, the Environmental Information (Scotland) Regulations 2004 through the Client's Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, WDC does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Client. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Client alone, this Report has not been prepared for the benefit of any other public sector body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the public sector or those who provide goods or services to those who operate in the public sector.

You are correct that we undergo the PCIP health check every 2-3 years however the timescales are determined by the SG commercial directorate procurement division based on the annual procurement spend and therefore it does not seem appropriate to