



Internal Audit Report
Housing and Community Care
Spend Profiling - Assignment No. 13-15
March 2014

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Background and Introduction

This audit was carried out as part of the audit plan for 2013/14, which was approved by the Audit Committee on 27 March 2013. The Internal Audit Terms of Reference provides for a consultancy role to assist Services by providing advice where controls are required for new or changed processes and this audit was approved as a consultancy assignment by the Audit Committee.

Procurement describes the framework of processes governing purchasing of goods, works and services. It covers a range of practices including identifying a need and a budget, selecting suppliers and establishing and managing contracts. It is a mechanism for securing Best Value. Spend profiling refers to the analysis of purchasing patterns to identify requirements and to determine how to best meet the organisation's objectives.

The Procurement Reform (Scotland) Bill was introduced at the Scottish Parliament in October 2013. The Bill will lead to the creation of a legal framework for public contracts below EU thresholds. The Bill proposes duties on contracting authorities to provide regular public reports, formalises sustainable procurement duties and improves the transparency of decision-making. As this will result in changed processes within the Council this imminent legislation became the focus of the audit.

Work Done

Background information was provided by the Corporate Procurement Manager identifying the key requirements and resultant impacts to working practices of the Bill. Further information was gained from other sources including the Procurement Reform (Scotland) Bill and the Public Contracts (Scotland) Regulations 2012; the current Tayside Procurement Consortium Strategy; Procurement Capability Assessment information and reports relating to procurement in other local authorities.

The likely date of the Procurement Reform (Scotland) Bill (the Bill) being passed into law is April 2014 with the anticipated implementation date being April 2015. The legislation would require relevant authorities to publish a Procurement Strategy and Annual Report linking procurement activity to approved budgets and corporate plans and objectives.

The Bill requires that each contracting authority's Procurement Strategy should be prepared before the start of each financial year and reviewed and revised as appropriate where significant contracting activity is anticipated. The Strategy should describe how procurement activity will be carried out and how it will be used in pursuit of the achievement of the organisation's objectives, thereby delivering value for money and, directed by duties, treating economic operators fairly, transparently and proportionately. Under the legislation, Perth & Kinross Council is a 'contracting authority'.

The provisions of the Bill also require that an Annual Procurement Report will be published as soon as is reasonable after the end of a financial year. This will provide a summary of regulated procurements that have been completed during that year, a review of how these procurements complied with the authority's procurement strategy (or an explanation where non-compliance is noted and any anticipated remedies to ensure future compliance) and a summary of regulated procurements which the authority intends to commence in the subsequent two years. Regulated

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procurements are contracts let by those parties which are subject to the Public Contracts (Scotland) Regulations and which are above £50,000 for supplies and services or £2,000,000 for works. The legislation supplements requirements for procurements under EU legislation.

Current Arrangements within Perth & Kinross Council

Current arrangements in the Council for Procurement and Contracting are described in the Scheme of Administration which delegates responsibility to the Chief Executive and Executive Directors to enter into contracts on behalf of the Council, in accordance with the Council's "Contract Rules" and "Contract and Procurement Guidance". Executive Directors also delegate responsibilities to other officers through written Schemes of Delegation.

In addition, under the Scheme of Administration, the Executive Director (Housing and Community Care) has delegated authority to exercise the functions of the Council in relation to the operation of Tayside Procurement Consortium and the Head of Legal Services is the named Lead Officer for the Council's "Contract Rules and Guidance".

Organisationally, Corporate Procurement reports to the Head of Finance and Support Services in Housing & Community Care but has a cross-service responsibility to lead and support the procurement reform programme. The Council is part of the Tayside Procurement Consortium together with Dundee City Council and Angus Council and is a member of Scotland Excel, along with all other Scottish Local Authorities allowing the Council to make use of collaborative contracts and the economies of scale they provide.

Annually, the Council's procurement activity undergoes an external assessment to determine its capacity and capability to ensure continuous improvement and the promotion of efficiency and effectiveness. The most recent assessment was carried out in November 2013 and the performance was scored at 59% (from the previous 54%), recognising Continued Improvement.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Council's Corporate Procurement Manager, Chief Accountant, Heads of Democratic Services, Legal Services and Finance and Support Services during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that preparations are being made to provide for a corporate process for the capture of information to provide an Annual Procurement Strategy and Annual Report in accordance with the provisions of the Procurement Reform (Scotland) Bill.
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Auditor's Comments: The Council is in a good position to comply with many of the
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requirements of the Bill, having demonstrated continuous improvement through the annual Procurement Capability Assessment in 2013/14, and with a culture of good practice being embedded throughout the organisation.

Procurement activity is dependent on contractual arrangements being in place. The Council's current arrangements are consistent with existing EU and UK legislation and the Council's and its partners' commitment to best practice is demonstrable. The Head of the Tayside Procurement Consortium has provided assurances that the requirements of the legislation to provide an Annual Procurement Report and a Procurement Strategy will be met in accordance with the legislative timetable.

Changes are required to ensure that the organisation is able to provide the necessary information when it is required. These include:

- Senior Management sponsorship of the Procurement Reform agenda and the legislation;
- An addition to the Scheme of Administration to ensure clear reporting lines and political accountability.

In addition to the specific actions detailed in Appendix 2, the Head of Legal Services is to provide information to the Executive Officer Team regarding the requirements of the legislation in May 2014.

Strength of Internal Controls:	Moderate
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Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

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Distribution

This report has been distributed to:

B Malone, Chief Executive

J Walker, Executive Director (Housing & Community Care)

A Taylor, Head of Finance and Support Services

I Innes, Head of Legal Services

G Taylor, Head of Democratic Services

J Symon, Head of Finance

A Harrow, Head of Procurement, Tayside Procurement Consortium

M. Mitchell, Corporate Procurement Manager

P Dickson, Complaints and Governance Officer

External Audit

Authorisation

The auditor for this assignment was A Gallacher. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 12 March 2014

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1.	Senior Management Sponsorship	High
2.	Scheme of Administration 1	Low
3.	Scheme of Administration 2	Low
4.	Tayside Contracts	Low

Appendix 2: Action Plan

Action Point 1 - Senior Management Sponsorship

At the time of writing this report, the legislation is anticipated to be passed into law in April/May 2014. Officers should be in a position to provide sufficient and accurate information for formal reporting as soon as possible after the end of the financial year 2014/15.

In order to ensure that the legislative requirements in respect of the reporting deadlines are met action is required to raise awareness throughout the Council of the impact of the new legislation on Services.

Management Action Plan

The requirements of the new legislation with regard to its impact across the Council will be promoted through chairing of Corporate Resources Group (CRG) and attendance at Corporate Management Group (CMG).

Importance:	High
Responsible Officer:	A Taylor, Head of Finance and Support Services
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	September 2014
Required Evidence of Completion:	Minutes of CRG Minutes of CMG

Auditor's Comments

Satisfactory

Action Point 2 - Scheme of Administration 1

The Scheme of Administration refers to Contracting, Tendering and Procurement under a number of sections: Part 2 General Provision relating to Committees, Part 3 Delegation to Officials and Appendix 1 Corporate Rules and Standards.

Themed Council Committees have delegated authority to consider matters regarding tenders and contracts and this is used by Services to meet the requirement of the Corporate Contract Rules for Services to report on a 6-monthly basis. In practice Strategic Policy & Resources Committee considers reports relating to the activities of the Corporate Procurement Team and Tayside Procurement Consortium without any specific delegated authority set out in the Scheme of Administration.

In order to provide a clearly accountable forum for the presentation of reports which will be required by legislation, and will require political approval, it would be appropriate to make changes to the current governance structures.

Management Action Plan

- a) An amendment will be made to the Scheme of Administration, regarding the basis of current reporting.
- b) A report on the required changes will be submitted to the Council's Policy and Governance Group on 2 May 2014. Future actions resulting from this report will be carried out in line with any approval granted at this Group and subsequently, on approval, to full Council.

Although the time line for submission of the report is short, the time to conclude on resulting actions is likely to be significantly longer and the completion date below reflects this.

Importance:	Low
Responsible Officer:	a) G Taylor, Head of Democratic Services b) M Mitchell, Corporate Procurement Manager
Lead Service:	a) Chief Executive's b) Housing & Community Care
Date for Completion (Month / Year):	a) March 2014 b) December 2014
Required Evidence of Completion:	a) Scheme of Administration b) Extract of minute from relevant Council meeting

Auditor's Comments

Satisfactory

Action Point 3 - Scheme of Administration 2

As noted in the previous Action Point, the Scheme of Administration refers to the Corporate Contract Rules and Guidance as part of the Corporate Rules and Standards framework listed in Appendix 1. Under Part 3 of the Scheme (Delegation to Officials) all officers are required to adhere to the terms of the Corporate Rules listed. Beside each of the Corporate Rules is the title of a Senior Officer noted as the "Lead Officer." However, the relationship between the named Lead Officer and their responsibilities with regard to the associated Corporate Rules and Standards is not made explicit in the Scheme.

Management Action Plan

The responsibilities of Lead Officers in relation to the Corporate Rules and Standards will be clarified in the Scheme of Administration.

Importance:	Low
Responsible Officer:	G Taylor, Head of Democratic Services
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	March 2014
Required Evidence of Completion:	Updated version of Scheme of Administration

Auditor's Comments

Satisfactory

Action Point 4 - Tayside Contracts

The Council is party to the Tayside Procurement Strategy 2011-15 which includes Perth & Kinross Council, Dundee City Council, Angus Council and Tayside Contracts. Under the Procurement Reform Bill the term “Contracting Authority” applies to two types of Local Authority bodies: Local Authorities and Joint Boards. Tayside Contracts is a joint committee of the three constituent Councils but is not constituted as a Joint Board.

The specific inclusion of Tayside Contracts as party to the Strategy may be inconsistent with the requirements of the Bill.

Management Action Plan

Once the Procurement Reform Bill is enacted the terms on which Tayside Contracts engages with the other parties to the Tayside Procurement Consortium will be reviewed and altered, if necessary, to ensure statutory compliance.

Importance:	Low
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	April 2015
Required Evidence of Completion:	Copy of advice given to inform Procurement Strategy.

Auditor's Comments

Satisfactory