



Internal Audit Report
Corporate / Housing & Community Care
Contracts & Tendering
Assignment 12-06
May 2013

Final Report

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

Background and Introduction

This assignment forms part of the Internal Audit plan for 2012/13 approved by the Audit Sub-Committee on 27th March 2012. The plan records the scope of the audit as, “to provide assurance regarding the processes in place for awarding contracts and tenders”.

Contract and tendering activity determines how a substantial proportion of the Council's budget is spent and how – directly or indirectly – a substantial proportion of the Council's services are delivered. Responsibilities for contract and tendering activity are widely distributed across and within Council Services. Operational and financial control personnel in all Services engage in contract and tendering activity. In addition the Council has delegated an important role to the Tayside Procurement Consortium.

The audit included interviews with responsible officers in Services, a review of guidance made available to staff via the Council's intranet (ERIC) and documentation held by Housing & Community Care's Corporate Procurement team. Tendering and contract award activity was examined on a sample basis, beginning from the point at which the Service decided to procure goods or services and ending at the award of a contract. The audit focussed on the arrangements for implementing the Council's rules on tendering including the security of receipt and storage of tendered bid documents; record-keeping for invitations to tender issued and bids received and written analysis explaining the choice of successful bid. The audit examined the processes applied in the cases of contracts covering a range of values and durations for banking services (Chief Executive's Service), transport of school pupils (The Environment Service), project consultancy (Education & Children's Services) and Sheriff Officer services (Housing & Community Care). The audit did not examine Services' rationale for obtaining the relevant goods or services nor did it examine contract implementation, monitoring or review.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Corporate Procurement Manager in Housing & Community Care, and staff in all Services engaged in contract and tendering activities for their assistance 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.

Internal Audit Report

Control Objective: To ensure that appropriate guidance is available to Services for procuring the goods / works / services required.	
Internal Auditor's Comments: The Corporate Procurement team provide formal and informal advice to operational staff across the Council and participate actively in a range of inter-Service collaborative groups to communicate good practice in procurement methods and procedures. This support is complemented by extensive written guidance made available on ERIC. Audit found the guidance offered to be generally comprehensive and up to date. The gaps in provision identified in this report are relatively minor.	
Strength of Internal Controls:	Moderately strong

Control Objective: To ensure that staff involved in tendering and contract award activities are appropriately trained.	
Internal Auditor's Comments: Audit found that Service staff applying the Council's contract and tendering procedures generally had a good understanding of their roles and responsibilities based on appropriate training. The review identified weaknesses in one Service's handling of a small contract. However, procedures have since been revised and the problem found by audit should be addressed by the agreed action.	
Strength of Internal Controls:	Moderately strong

Control Objective: To ensure that tendering and contract award activities are carried out in accordance with legislation, Council policy and procedures and best practice.	
Internal Auditor's Comments: Services are carrying out tendering and contract award activities in accordance with legislation. Services are generally following Council policy and documented best practice guidelines, which are closely based on current Scottish Government guidance.	
Strength of Internal Controls:	Moderately strong

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.

Internal Audit Report

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.

Distribution

This report has been issued to:

B Malone, Chief Executive
D Burke, Executive Director, Housing and Community Care
J Fyffe, Executive Director, Education & Children's Services
J Valentine, Executive Director, The Environment Service
J Walker, Depute Director, Housing and Community Care
I Innes, Head of Legal Services, Chief Executive's Service
J Symon, Head of Finance, Chief Executive's Service
A Taylor, Head of Support Services & Finance, Housing & Community Care
M Mitchell, Corporate Procurement Manager, Housing & Community Care
G Boland, Service Manager (Contracts & Financial Management), Education & Children's Services
G Taylor, Head of Democratic Services
P Dickson, Complaints & Governance Officer, Chief Executive's Service
External Audit

Authorisation

This audit was carried out by R D Watt supervised by D Farquhar.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 10 May 2013

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1.	Corporate Supervision	Medium
2.	The “Contract & Procurement Guidance for PKC”	Medium
3.	Service implementation: evidencing internal control	Medium
4.	Post Tender Negotiation (PTN) Guidance	Medium

Appendix 2: Action Plan

Action Point 1 - Corporate Supervision

Contract and tendering activity in Services takes place within a policy and guidance framework. The Head of Legal Services is responsible for the Council's Contract Rules and Guidance and the Head of Finance is responsible for the Financial Regulations. The Corporate Procurement Manager provides practical guidance to all Services on contract and tendering activities.

The Contract Rules, Financial Regulations and procurement guidance require Executive Directors to implement the corporate contract and tendering policies within their Services. Practical corporate oversight is also maintained by participation in inter-Service collaborative Groups. However, the Council has no formal control in place at corporate level to verify and report on Service compliance with procurement rules.

Management Action Plan

A protocol for reporting non-compliance with procurement rules will be developed by the Head of Finance & Support Services which will be endorsed by the Policy & Governance Group. This will then be uploaded onto ERIC.

Importance:	Medium
Responsible Officer:	A Taylor, Head of Support Services & Finance
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	July 2013
Required Evidence of Completion:	ERIC update

Auditor's Comments

Satisfactory

Action Point 2 -The Contract & Procurement Guidance for PKC

The Contract & Procurement Guidance For Perth and Kinross Council sets out the rules and procedures which staff should follow in order to adhere to Council policy on contract and tendering activities.

However, 37 of the 68 hyper-links to further sources of guidance are broken and those to the Council's Financial Regulations do not link to the current version.

In the absence of timely and comprehensive updating of the Contract & Procurement Guidance For Perth and Kinross Council, there is a risk of error and lack of consistency on the part of staff engaged in these activities.

Management Action Plan

Over recent months a major piece of work commenced to bring the Employee Resource Information Centre (ERIC) procurement content into the same format as the Scottish Government toolkit. The reorganisation of intranet pages to achieve this has resulted in a number of linked documents being moved. The operating platform of ERIC is currently being migrated to a new software format, meaning changes to ERIC at present are not retained. Revision of the links in the Contracts and Procurement Guidance will be completed when migration is concluded.

Importance:	Medium
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	July 2013
Required Evidence of Completion:	Appropriate and functional links

Auditor's Comments

Satisfactory

Action Point 3 - Service implementation: evidencing internal control

Audit of ECS tender receipt arrangements for one contract of modest scale (i.e. a one-off contract for less than £10,000) noted the absence of:

- a) clear instructions to potential tenderers on tender submission;
- b) contemporary evidence that some tenders received by e-mail / post / by hand were received by the bid deadline; and
- c) contemporary evidence that some tenders were held securely until opening.

Management Action Plan

With effect from June, all ECS contracts will be managed by staff appropriately trained and experienced in tendering and contract management and tender activity will be monitored by the ECS Contracts and Facilities Manager.

Importance:	Medium
Responsible Officer:	A Cook, ECS Contracts and Facilities Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	June 2013
Required Evidence of Completion:	Updated team remits

Auditor's Comments

Satisfactory

Action Point 4 - Post Tender Negotiation (PTN) Guidance

In respect of one substantial contract awarded by the Chief Executive's Service Internal Audit identified that after PTN with the preferred bidder the Service agreed, following legal advice, to replace a number of the Council's terms and conditions with those of the supplier.

The Corporate Procurement Manager explained that in the context of this PTN the market comprises only a few major suppliers and the Council's ability to impose terms and conditions is limited. Procurement guidance does not address this feature of tendering practice.

Management Action Plan

The Procurement Journey, Route 3 page entitled Developing the Commodity Strategy will be further developed to address the Council's ability to impose terms and conditions in a market featuring only a few major suppliers.

Importance:	Medium
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Housing & Community Care
Completion (Month / Year):	July 2013
Required Evidence of Completion:	The Procurement Journey, Route 3 page entitled Developing the Commodity Strategy will be updated.

Auditor's Comments

Satisfactory