

INTERNAL AUDIT

FINAL REPORT

**COMPLIANCE AUDIT
ON**

THE BEST VALUE ACTION PLAN

FOR

PROCUREMENT

CORPORATE REVIEW

AUDITOR: ANU NEWTON
DATE: DECEMBER 2015

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EXECUTIVE SUMMARY

1. Introduction

- 1.1 The Secretary of State issued Directions to London Borough of Tower Hamlets on 17th November 2014, which required drawing up a strategy and action plan for securing the Authority's compliance with its best value duty, following the publication of the PwC report.
- 1.2 The Council developed the following Best Value plans to comply with the Directions:-
 - Procurement Action Plan;
 - Grants Action Plan;
 - Property and Disposal Action Plan;
 - Communications Action Plan;
 - Organisational Culture Action Plan;
 - Recruitment of Statutory Officers – timeline; and
 - Elections – update and plan.
- 1.3 The above action plans were agreed by Cabinet on 4th March 2015.
- 1.4 In approving the 2015/16 Internal Audit Plan, the CMT agreed that a programme of compliance testing should be carried out by Internal Audit to ensure that the actions within the BV Improvement Plans for Procurement, Grants, Property and communications are effectively implemented.
- 1.5 This report presents the findings of the compliance audit undertaken by Internal Audit on the Procurement Action Plan.

2. Audit Objectives

- 2.1 This audit will provide assurance to management that the actions agreed within the Best Value Improvement Plan for Procurement have been implemented and that appropriate controls are in place so that the Council can be confident of compliance and that reports to the Commissioners and the Secretary of State on progress against the Action Plans are accurate.

3. Scope of the Audit

- 3.1 Compliance testing was undertaken on the key actions contained in the Procurement action plan. Only those actions were tested which triggered 100% by December 2015.

4. Summary of Findings

- 4.1 Our testing showed that a total number of fourteen action points were raised within the Best Value Improvement Plan for Procurement. Of the fourteen action points, 10 actions were due to trigger by December 2015. We carried out compliance testing on these ten action points. Detailed findings of this compliance test are contained in Appendix A of this report. The remaining four action points contained in Appendix B have deadlines post-December 2015 and therefore, have not been tested yet by Internal Audit.
- 4.2 Appendix A shows that a total number of seventeen milestones under the ten action points were tested to ascertain progress and verify their implementation. Our testing found

that sixteen (94%) of the seventeen milestones were fully implemented. The milestone of implementing a new operation model for central monitoring of contracts and compliance to Council's procurement procedure under the Organisational Development theme was not fully operational and the target date needed to be revised. We would also like to point out that the milestone to improve Finance and Procurement controls to increase compliance under the Governance theme has been progressed, but the compliance escalation framework needed to be embedded effectively to achieve Council objectives.

Audit Opinion

Our opinion is provided to enable all our stakeholders¹ to assess the control environment within the area subject to audit. In addition, it enables the Head of Internal Audit to construct an annual opinion on the control environment. The opinion is based on the results of the audit work carried out, the scope of which is defined by the Audit Objective and Scope of Review stated above.

In view of the findings at 4.2 above, we have assigned **Substantial Assurance** to this audit as significant progress has been made in implementing the action points agreed within the Best Value Improvement Plan to ensure that the Authority complies with its best value duty. It was evident during the audit that progress was being made in implementing the outstanding action points.

Definition of four levels assurance is as follows:-

Full Assurance - *There is a sound system of control designed to achieve the systems objectives and from our testing the controls are being consistently applied.*

Substantial Assurance - *While there is basically a sound system there are weaknesses which put some of the control objectives at risk and from our testing there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.*

Limited Assurance - *Weaknesses in the system of controls are such as to put the systems objectives at risk and from our testing the level of non-compliance puts the systems objectives at risk.*

Nil Assurance - *Control is generally weak leaving the system open to significant error or abuse and from our testing there were significant non-compliance with basic controls leaves the system open to error or abuse.*

RESULTS OF AUDIT TESTING ON BEST VALUE IMPROVEMENT PLAN FOR PROCUREMENT

APPENDIX A

No.	Title/Action	Milestone	Assigned to	Deadline	Audit Findings
	STRATEGY AND VISION				
1.	New Procurement Strategy	New 3 years Procurement Strategy to go live from Jan 2016	Zena Cooke/ Zamil Ahmed	Dec 2015 revised from Sept 2015	The new Draft Procurement Strategy has been developed and was reviewed by the Council's Strategic Competition Board on 01/09/2015. It is understood that the Commissioning and Procurement workshop was agreed with the Mayor to take place in November 2015 to inform the new strategy and provide training.
2.	New Supplier Ethical Code of Conduct	New Ethical Code of Conduct to be updated to reflect legislative changes, Council policies and procurement best Practice.	Zena Cooke/ Zamil Ahmed	Sept 2015	The New Ethical Code of Conduct has been developed and cleared through the Strategic Competition Board and the CMT. This was subsequently ratified by Cabinet on 3 rd November 2015.
3.	Leadership and strategic alignment of procurement with Finance Director/ S151 officer, Executive and elected member champion for procurement.	1. An annual procurement report to senior managers, Cabinet and Overview and Scrutiny on procurement practices, outcomes and developments across the organisation. 2. New procurement training programme for elected members.	Zena Cooke/ Zamil Ahmed	Sept 2015 Dec 2015	1. The annual procurement report was reported to the Cabinet on the 3 rd November 2015 following approval by the Competition Board and CMT. 2. Procurement training for CMT and Cabinet members was held on 17 th November 2015.
	ORGANISATIONAL DEVELOPMENT				
4.	Central monitoring of contracts and compliance to council's Procurement Procedures.	1. Business case for increasing compliance through procurement re-organisation to be developed. 2. New operating model to go live from September 2015.	Zena Cooke/ Zamil Ahmed	Oct 2015 revised from Sept 2015 (70% complete)	1. The post covering the functions for monitoring contracts centrally and ensuring compliance with the Council's procurement procedures was created. The vacancy was advertised internally and will be advertised externally in due course. 2. The new operating model will be implemented once the post has been filled, however the target date needs to be revised.
5.	New procurement training programme to develop procurement knowledge and skills across the organisation.	1. New procurement training programme to be launched to build better procurement competencies across the organisation by ensuring staff are equipped with the knowledge,	Zena Cooke/ Zamil Ahmed	Sept 2015	1. Targeted training programme was implemented in July 2015. A total number of 9 training sessions spread across directorates have been completed. The Competition Board agreed training to be mandatory for all relevant officers.

No.	Title/Action	Milestone	Assigned to	Deadline	Audit Findings
		<p>training and practical skills needed to derive maximum benefit from procurement practices.</p> <p>2. Completion of training to be mandated for all officers with procurement and commissioning responsibilities.</p>			<p>2. Human Resources (HR) informed senior managers and relevant officers with procurement and commissioning responsibilities of the training provided by Procurement. The training was also publicised on the intranet to ensure that officers were made aware of it. The training was based on Introduction to Procurement, Legal Framework, Procurement Procedures, request for quotes for supplies and services below £25,000. For procurement of supplies and services over £25,000, training was based on Legal framework, EU regulations, Framework Agreements, Works and Construction Line, Tender Documentation and Contract notice.</p>
	GOVERNANCE, SYSTEMS AND PROCEDURES				
6.	A central register for all contracts	1. New central contracts register linked to contract award being developed to capture contracts above £25,000, including all RCDA and linked to spend to increase compliance and minimise use of RCDA.	Zena Cooke/ Zamil Ahmed	April 2015	A central contract register linked to contract award to capture contracts above £25,000, including RCDAs and legacy contracts has been implemented and minor changes are being carried out to ensure that the system is fully effective.
7.	Reconciliation of contracts listing to financial data	<p>1. Implementation of directorate Procurement dashboards to identify opportunities for collaboration and identify drive further savings from Councils third party spends.</p> <p>2. Improve Finance and Procurement controls to increase compliance and transparency of spend across the organisation.</p>	Service Head Finance and Procurement	May 2015	<p>1. The dashboard has been implemented and the report is comprehensive. It gives details of all spend through various method of procurement, e.g. total summary , off contract cumulative, level 1 and level 2 summary, purchase card details, RCDAs, contracts on central register, detailed spend report and projects spend. This information is used to identify opportunities and drive further savings from council's third party spend.</p> <p>2. A compliance Framework has been implemented to align with financial regulations and procurement procedures. Compliance escalation process has been agreed with Financial Strategy Group and communicated to Finance Managers.</p>
8.	Delegation and appropriate Member Engagement	<p>1. New guidelines and executive member engagement in contracts award to be presented to MAB.</p> <p>2. New procurement training, reflecting new guidelines, programme for executive members (as per timescale</p>	Zena Cooke/ Zamil Ahmed	April 2015	It is understood that new guidelines will be developed following the procurement training held on 17 th November 2015.

No.	Title/Action	Milestone	Assigned to	Deadline	Audit Findings
		set out in action 2).			
	CATEGORY MANAGEMENT				
9.	Review of third party and commissioned spend	<p>1. Complete spend analysis to identify key categories of third party spend and have a clear category management strategy in place to ensure Value for Money(VFM) for these categories of spend, reduce costs and oversupply.</p> <p>2. Directorate and corporate spend dashboards to be developed to support savings challenge programme.</p>	Zena Cooke/ Zamil Ahmed	Sept 2015	<p>1. Detailed third party spend analysis has been completed for FY13/14 and FY 14/15. A number of cross directorate procurement saving opportunities are being progressed, including new security services framework, training, removals etc. The spend analysis review resulted in a number of contracts being put in place, e.g. Security contract.</p> <p>2. The dashboard has been implemented and the report is comprehensive. It gives details of all spend through various method of procurement, e.g. total summary , off contract cumulative, level 1 and level 2 summary, purchase card details, RCDAs, contracts on central register, detailed spend report and projects spend.</p>
	COMMERCIAL, CONTRACTS AND RISK MANAGEMENT				
10.	Supply Chain Risk Management to be integrated into Procurement Process.	<p>1. High value and strategic contracts to be identified and monitored centrally to minimise failure of Council's supply Chain.</p> <p>2. Supply Chain resilience risk (pre and post appointment) to be introduced and monitored through Competition Board.</p>	Zena Cooke/ Zamil Ahmed	March 2015	<p>High value and strategic contracts have been identified. A web based Supplier Risk Management Tool (DNBi) has been implemented and is presented as part of the dashboard at the Competition Board meetings. This tool is used to monitor performance of top suppliers spend for each Directorate. Instant alerts are received for any change in suppliers' circumstances. In future, Contract Managers will receive instant alerts on supplier financial ratings and payment performance.</p>

MILESTONES TRIGGERING AFTER DECEMBER 2015 (OUTSTANDING ACTIONS)

APPENDIX B

No.	Title	Milestone	Assigned to	Deadline	Audit Findings
	GOVERNANCE, SYSTEMS AND PROCEDURES				
1.	Clear audit trails in place for all procurement activity in accordance with the Procurement Procedures.	<ol style="list-style-type: none"> 1. Review of existing Procurement thresholds to comply with Transparency Code requirements. 2. Automate all procurement over £5k through the e-tendering portal and publish as part of Transparency Code 3. Link to central contracts register. 4. Declaration of Interest from staff involved the procurement process centrally captured. 	Zena Cooke/ Zamil Ahmed	March 2016	Not tested yet.
2.	Availability of signed contracts	<ol style="list-style-type: none"> 1. Undertake a review of the current status on signed contracts. 2. Explore the possibility to deliver contracts by electronic means (e-tendering) to create a central repository of signed contracts. 	Legal Services/ Procurement	Jan 2016	Not tested yet.
	COMMERCIAL, CONTRACTS AND RISK MANAGEMENT				
3.	Partnering and Collaboration	1. All significant procurements are assessed pre-procurement to identify the optimum route to market.	Competition Board/ Zamil Ahmed	April 2016	Not tested yet.
4.	Develop a corporate approach to contract management to ensure best value and effectiveness from supply chain through better relationship management.	<ol style="list-style-type: none"> 1. Integrate contract management within the Councils procurement and commissioning models. 2. Implementation of a contract management procedures/toolkit to facilitate contract monitoring to ensure consistency on contract management, performance and raise the standard of contract management across the Council. 	Zena Cooke/ Zamil Ahmed	Jan 2016	Not tested yet.

Priorities assigned to recommendations are based on the following criteria:

High – Fundamental weaknesses and issues where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures.

Medium – Significant weaknesses and issues where action is considered necessary to avoid exposure to significant risk.

Low – Issues that merits attention/where action is considered desirable.

Report Distribution List

The following officers have received a copy of the draft report for comments

Name of officer	Title
Zamil Ahmed	Head of Procurement
Louise Russell	Service Head for Corporate Strategy and Equality

The final report will also be copied to:

Name of officer	Title
Zena Cooke	Director of Resources
Barry Scar	Interim service Head, Finance Corporate Director and Procurement

Statement of Responsibility

Internal Audit is responsible for this report; however, the findings and conclusions that have been reached are on the basis of the following:

- Responsibility for internal controls lies with managers and officers within the services – implementation of the recommendations in this report will improve the service’s control environment. By making these improvements, the level of risk attached to this system or service should reduce and as a result reduce the frequency of our audit visits within the five year strategic audit plan;
- the matters raised in this report are only those which came to our attention during the course of our audit work;
- the scope of the audit work carried out was defined in the terms of reference, which was agreed with the client officer prior to the start of the audit;
- our audit work is carried out with regard to the possibility of fraud or irregularities, however, it should not be considered as a substitute for management controls; and
- The findings and conclusions are based on the results of testing carried out within a limited time period and is stated in the Audit Objectives and Scope of Review.