

Internal Audit - Follow Up Summary Report



Job: 07/0701 - Procurement and Contract Management 2007/08

Date of Final Report: 01 October 2008

Agreed By: Head of Financial Services

Date of Follow-Up: 25 June 2010

Assurance Opinion History:

Date of Assessment	Source	Level of Assurance Provided	Comments
01-Oct-08	Internal Audit - Final Report	 Limited	The opinion relates to the areas covered which were selected for review on the basis that they are areas where more work is required. It does not provide an opinion on corporate achievements relating to procurement. Clearly stated corporate procurement aims and objectives, corporate engagement and an effective means to monitor performance and progress are needed to raise the opinion to 'reasonable'.
11-Jun-10	Internal Audit - Follow-Up Review	 Limited	The opinion has remained at 'limited' for some time, the lack of progress being attributed to other work commitments such as the implementation of e-procurement arrangements. The publication of the revised procurement strategy, the finalising of the update of the Constitution and improved contract management and monitoring arrangements should result in a 'reasonable' level of assurance..

Headline Messages From Follow-Up:

- A revised procurement strategy which sets a clear framework for the Authority's procurement practices is in the process of being approved.
- Contract Procedure Rules are in the process of being reviewed and a review of the Constitution including Financial Regulations and Procedures is to follow.
- Work is ongoing to continually improve information available corporately on procurement but an effective system to record and collate it has yet to be implemented.
- Corporate contract monitoring and reporting procedures consistent with LAMP (Lancaster's Approach to Managing Projects) are still to be developed.
- The review of the Authority's procurement documentation will be completed during the development of the new contract monitoring and reporting arrangements which will take into account the revised Procurement Strategy and Constitution.

Commentary on Follow Up:

Progress has been made since the original audit and a revised procurement strategy is in the process of being approved. The new Strategy sets a clear framework for the Authority's procurement practices taking into account national, regional and local priorities and the Council's overall vision. It is also consistent with other policies and strategies. Roles and responsibilities are clearly defined and procurement principles, standards, policies and

procedures are well documented.

Contract Procedure Rules are in the process of being reviewed to reflect the revised Strategy but more work is required to take into account the current corporate restructuring which affects authorisation arrangements. Once complete, the Constitution and particularly Financial Regulations and Procedures need to be reviewed to ensure consistency.

The quality of information available to the corporate Procurement Section is limited by current systems and procedures. Work is ongoing to continually improve (e.g. the Procurement Section can now enforce orders be raised prior to invoices being paid, spending can be categorised to some extent etc.) but an effective system to record information on commitments and spend has yet to be established. Following a workshop with contract managers, information and supporting evidence relating to contracts is being provided more readily but again an effective mechanism to record and collate the information has yet to be developed. The recent filling of the Projects and Performance Officer post in the Community Engagement Service should have a positive impact on progress in that the officer will support the Procurement Manager in the development of new contract monitoring and reporting arrangements consistent with LAMP but proportionate to the size and complexity of contracts.

It is recognised any new systems would need to support collaborative working with the North West Improvement and Efficiency Partnership which is done through the Team Lancashire Procurement Hub. The Partnership is keen to promote the use of standard documentation throughout the region and the Authority is adopting it where appropriate. Some of the Authority's procurement documentation has been reviewed since the audit but a full review will be inherent in the development of the new contract monitoring and reporting arrangements which will take into account the revised Procurement Strategy and Constitution.

Managers' Comments:

The Accountancy Services Manager has commented as follows:

Whilst the assurance opinion is currently limited, progress is being made and actions are currently underway to achieve a reasonable level of assurance in the near future.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: Corporate Director (Finance and Performance)
Head of Financial Services
Accountancy Services Manager
Procurement Manager
Projects and Performance Officer
Members of Audit Committee
Audit Manager (KPMG)

Internal Audit Follow Up - Risk Opinion & Action Plan Exception Report

Job: 07/0701 - Procurement and Contract Management 2007/08

FUR/1

Risk: Strategic aims and objectives for procurement may not be achieved through ineffective leadership caused by a lack of clarity regarding executive member and overview and scrutiny member roles. (R003860)

Inherent Residual Target

Updated Risk Assessment

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Internal Audit Opinion



Measures are currently being taken to improve management of the risk

Outstanding Agreed Action(s)	Ref	Responsibility	Implementation Target Date	Status	Comments
1. A new procurement strategy is to be developed with the Procurement Group. The new Strategy will clearly define Member roles and responsibilities in relation to procurement by setting out: - the corporate expectations of the Member Champion; and - the arrangements for reporting procurement information to enable proper consideration of procurement aims and objectives in decision making and effective Member review of procurement performance.	013021	Procurement Manager	31-Dec-08		A new procurement strategy has been drafted and following a review by management team is to be amended to reflect corporate aims to support economic regeneration in the area. The amended version is to go back to management team prior to being presented to members for approval. The new strategy clearly sets out member roles and responsibilities and reporting arrangements per the agreed action.

Risk: Achievements could be limited through a lack of clarity or promotion of the aims and objectives of the procurement. (R003863)

Inherent Residual Target

Updated Risk Assessment

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Internal Audit Opinion



Measures are currently being taken to improve management of the risk

Outstanding Agreed Action(s)	Ref	Responsibility	Implementation Target Date	Status	Comments
<p>2. The new Procurement Strategy (c.f. Ref. 013021) will document the Authority's aims and objectives for procurement and how these are to be delivered. It will:</p> <ul style="list-style-type: none"> - clearly link corporate procurement aims and objectives to higher level objectives (i.e. community and regional (Team Lancashire)); - integrate the principles of the National Strategy as appropriate; - address, as far as possible, potential conflicting aims/objectives such as sustainability v. efficiency; - set and prioritise clear milestones and realistic targets for delivery against each aim/objective; - set out monitoring and reporting arrangements to include SMART performance measures where appropriate; and - clearly state the roles and responsibilities of officers and Members. <p>Arrangements will be put in place to ensure the Strategy is regularly reviewed.</p>	013030	Procurement Manager	31-Dec-08		The launching of the new Procurement Strategy will implement the agreed action. All elements of the agreed action are covered and whilst milestones and targets are not set out in the new strategy the strategy clearly sets out the arrangements for monitoring performance.

Risk: The Authority's reputation could suffer through poor procurement ethics and/or a failure to minimise fraud and corruption through a lack of clear policies. (R003861)

Inherent Residual Target

Updated Risk Assessment

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Internal Audit Opinion



Risk is inadequately managed

<i>Outstanding Agreed Action(s)</i>	<i>Ref</i>	<i>Responsibility</i>	<i>Implementation Target Date</i>	<i>Status</i>	<i>Comments</i>
3. The Constitution (including Financial Regulations and Procedures and Contract Procedure Rules) will be reviewed to take account of new procurement working practices (e.g. Procurement Cards), address known clarity issues and incorporate new EU Rules etc. Where a further update is required but not possible promptly through competing priorities readers will be alerted to the fact that a change is needed and they should seek further advice if necessary.	013041	Procurement Manager	31-Mar-09		The Procurement Manager has reviewed Contract Procedure Rules but the amendments have yet to be approved and published. Further changes will also be required to reflect the current corporate restructuring which affects authorisation arrangements. There is also a need to look at how the changes impact on the rest of the Constitution.
4. Procurement documentation (policies, forms etc.) is to be revised based on the knowledge of the Procurement Section and feedback from Services (a workshop with contract managers is scheduled for 22 September 2008). A new plan setting out the documents to be updated and the timescales for completion will be incorporated into the new procurement strategy. Documentation will be updated in accordance with the timescales set in the new plan.	013043	Procurement Manager and Procurement Assistant	28-Feb-09		The Authority works in collaboration with the North West Improvement and Efficiency Partnership through the Team Lancashire Procurement Hub. The partnership is keen to promote standard documentation throughout the region and the Authority is using this where appropriate. Procurement user guides and guidance in respect of the use of Authority Financials have been updated. Standard documentation in respect of contract management has yet to be reviewed, the review to follow the publication/promotion of the new procurement strategy and revised Constitution.

Risk: Policies may not be complied with and value for money may not be achieved through inadequacies in procedures, guidance and/or advice. (R003862)

Inherent Residual Target

Updated Risk Assessment

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Internal Audit Opinion



Risk is inadequately managed

See No. 4 (013043) and No.8 (013078)

Risk: The Procurement Section may be unable to justify its existence, could fail to improve and value for money may not be achieved if its effectiveness cannot be demonstrated. (R003864)

Inherent Residual Target

Updated Risk Assessment

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Internal Audit Opinion



Measures are currently being taken to improve management of the risk
See No. 2 (013030)

Risk: The Authority may fail to achieve value for money, decision-making could be flawed and/or inefficiencies may result if management information relating to procurement is inadequate or not fit for purpose. (R003865)

Inherent Residual Target

Updated Risk Assessment

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Internal Audit Opinion



Measures are currently being taken to improve management of the risk

Outstanding Agreed Action(s)	Ref	Responsibility	Implementation Target Date	Status	Comments
5. The information needs of the Procurement Section are to be reiterated in the workshop with contract managers (c.f. 013069). The best way of meeting those needs is to be established through the workshop and consultation with the Projects and Performance Officer in Corporate Strategy and Accountancy staff. A means of collating the information is to be developed.	013068	Procurement Manager	31-Mar-09		A workshop was held with contract managers and work is ongoing to review documentation. Whilst contract managers are now providing information and evidence more readily, a corporate mechanism to record/collate information has yet to be established. There is still no system for monitoring contract commitments. Possibilities have been identified (e.g. a contract monitoring module on Civica) but there are difficulties to overcome in that any solution will need to support collaborative working with the region.

Risk: Time and cost overruns and/or poor quality may result through inadequacies in contract management. (R003866)

Inherent Residual Target

Updated Risk Assessment

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Internal Audit Opinion



Risk is inadequately managed

Outstanding Agreed Action(s)	Ref	Responsibility	Implementation Target Date	Status	Comments
6. The Procurement Manager is to facilitate a workshop with contract managers which aims to gain a better understanding of contract management arrangements in Services and any problems experienced, with a view to: - sharing good practice and developing a corporate approach through standard documentation where appropriate; - clarifying the role of contract managers (corporate procedures and guidance to be updated where appropriate); and - informing the development of new contract monitoring and reporting arrangements consistent with LAMP (Lancaster's Approach to Managing Projects) but appropriate to contracts (c.f. Ref. 013078).	013069	Procurement Manager	31-Mar-09		The agreed action is partially implemented in that a workshop was held but there has been limited progress in reviewing documentation and implementing improved contract monitoring arrangements. (see also Refs. 013043 and 013068)
7. Currently the Authority only allows capital schemes to progress once funding has been secured and is in place; this arrangement arose from a Public Interest Report made by the District Auditor some years ago. Since then, however, the Prudential Borrowing framework has been introduced and this presents the Council with alternative options for managing its capital funding position. In light of this, and current issues surrounding the Capital Programme, consideration will be given to introducing a risk based approval scheme, which should enable projects to progress sooner where risks are considered acceptable (e.g. potential capital receipts are likely to be realised in a given timeframe). This was reported into Cabinet at the end of July and a proposal will be incorporated into a Capital Investment Strategy Update to be reported to Cabinet for referral on to Council.	013070	Head of Financial Services	31-Oct-08		The Capital Investment Strategy (incorporated into the Medium Term Financial Strategy) has been updated to provide flexibility in progressing schemes, if necessary, through increasing underlying borrowing. However the agreed action is considered only partially implemented as there is a need to increase understanding of the approval process ensuring the details and purpose of schemes are properly documented and associated risks are identified. Arrangements should be in place by September to feed into the budget process.

Risk:

8.	<p>A new approach to contract management is to be developed consistent with the principles of LAMP but appropriate to contracts (i.e. proportionate to the size and complexity of contracts). New arrangements will ensure:</p> <ul style="list-style-type: none">- sufficient resources, including knowledge and expertise, for the management of a contract are identified up front;- potential risks are identified at the start and throughout the life of the contract so that adequate arrangements (including resources) can be put in place to manage them;- accountability is clear (contractor, contract manager etc.) and the Council exercises its rights per the contract as appropriate when things go wrong;- effective and proportionate contract monitoring and reporting arrangements are in place;- a post contract review is carried out and reported to the Procurement Section to inform future working practices. <p>The new approach will be compulsory, all contract managers to sign up to it.</p>	013078	Procurement Manager and Projects and Performance Officer	30-Sep-09		<p>The post of Projects and Performance Officer has been vacant for some time and has only recently been filled (01/06/10). The new post holder is to work alongside the Procurement Manager in order to implement the agreed action.</p>
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