

Procurement
Peak District National Park Authority
Internal Audit Report 2017/18

Business Unit: Corporate
Responsible Officer: Director of Corporate Strategy and Development
Service Manager: Chief Finance Officer
Date Issued: 18 December 2017
Status: Final
Reference: 69147/001

	P1	P2	P3
Actions	0	0	2
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

Procurement encompasses policy and processes related to obtaining all materials, equipment, services and works which the organisation requires to be provided by external or internal suppliers on a competitive basis. Peak District National Park Authority has approximately £2.7 million contract spend annually and approximately £3.4 million total spend annually.

Managing corporate spending efficiently through a structured approach to procurement offers the potential to significantly improve financial performance with lower prices and a reduction in operating costs.

There are a number of statutory provisions and EU directives relevant to procurement. These are incorporated into the authority's procurement rules in the financial regulations.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- The tender process complies with the authority's procurement policies and directives on spend.
- All spend is tendered/quoted where necessary and tenders are recorded appropriately.
- The authority's procurement activities ensure best value.

The audit focussed on the processes around selecting and evaluating suppliers and will not include review of arrangements for managing contracts after they have been awarded.

Key Findings

The tender process performed by Officers at the Peak District National Park Authority was largely compliant with the authority's procurement policies, detailed in Standing Orders – Part 2: Contracts. Our testing on a sample of tenders and discussions with relevant officers identified a high level of awareness towards complying with the procurement policies and the importance of securing best value during procurement activities.

Testing identified that tenders of varied values followed the relevant procurement rules. All tenders tested in our sample correctly obtained the following: authorisation for spend, number of quotations, contracts present for all tenders above £25000, publication of invite for tender, publication of contract. The correct documentation was present for all tenders, including a tender specification, a tender return form, and a signed contract.

The Contract Register was up to date (as of 30 June 2017). All tenders in the testing sample were correctly stated on the Contract Register, following the authority's procurement rule 5.13. The Contract Register is updated and published every three months.

Budget managers have the responsibility to monitor cumulative spend using reports produced by FRED. However, based upon testing it appears that monitoring of aggregated spend across the organisation is not effective. Testing on the authority's spend per supplier identified there are a number of suppliers who have spending above £5000 between January and July 2017; no framework is in place, nor are the suppliers stated on an approved list. This could result in a breach of the authority's procurement rule 5.2.1.

The authority's procurement activities are supported by officers with a high awareness to ensure best value is achieved on the tenders procured. From the sample of ten tenders tested a range of methods and considerations were used to achieve best value. This is supported by the authority's procurement rules which detail a number of methods which can be adopted; ensuring best value is obtained where possible.

However, there is no scoring criterion to determine best value prior to tender invitation. This means the authority cannot quantifiably evidence their awarding of tenders, when the cheapest quote is not selected. The nature of the work, complexity of work, and timescale pressures, means the lowest value quote is not always tendered. It is best practice to have a pre-determined scoring ratio which outlines the balance between cost, quality, and timeliness of work to be completed in the tender specification. Due to the nature of the work completed by the authority, the ratio will be subject to change for every tender application. This will provide quantifiable evidence to support the awarding of tenders to suppliers.

Overall Conclusions

The arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Insufficient monitoring and management of aggregated spend

Issue/Control Weakness

Insufficient monitoring and management of aggregated spend of suppliers is performed.

Risk

Procurement is not monitored due to inadequate management decisions leading to poor procurement decisions and a potential breach of financial regulations.

Findings

The authority's contract procedure rules (5.2.1) state: 'Except where there is a suitable Framework Agreement or Approved List, if, in any 12 month period, two or more contracts below the value of £5000 are awarded to the same Contractor by the Authority with an aggregated value of £5000 or more, or the proposed contract takes the value over £5000, no further contract can be awarded to that Contractor without inviting at least 3 written quotations'

Budget managers currently have access to the following financial reports to monitor spend:

- Rolling 12 month period on individual transactions per supplier;
- Rolling 12 month period on monthly spend per supplier;
- Rolling 12 month report on total spend per supplier;

Testing on spend per supplier identified there are a number of suppliers who have spend above £5000, where there is no Framework agreement or are stated on the approved list. The analysis of spend has been provided to management to identify the current arrangements with all suppliers with spend above £5000.

Management do not directly monitor the money spent, per supplier. The responsibility is currently with the budget managers to monitor spending using the reports produced by FRED. These are not being used to manage spend effectively. It would be best practice to monitor the authorities spend on an authority wide level to ensure best value is achieved.

Agreed Action 1.1

The responsibility is correctly that of budget managers to use the FRED reports to identify aggregated spend and alter their procurement approach accordingly. However, the Finance Team will monitor these aggregated expenditures to ensure the rules are being followed, where resources allow. The Finance Team will also consider if alternative approaches to procurement would offer better value for money.

Priority

3

Responsible Officer

Head of Finance

Timescale

30 April 2018

2 Scoring of Best Value

Issue/Control Weakness

A scoring criterion to determine best value is not identified prior to tender or quotation invitation.

Risk

The authority cannot quantifiably evidence their awarding of tenders.

Findings

During the procurement process there are a number of considerations taken by the authority in achieving best value. Discussions with officers identified a high level of awareness in aiming to achieve best value when procuring services or goods. The lowest price may not always be the best overall value to the authority due to quality and other factors. Any tenders awarded to suppliers who did not quote the lowest value must be authorised by the Chief Executive or a relevant Director (rule 7.8.7).

Requirements for evaluating criteria and evaluation are contained in the Authority's Standing Orders. For procurement procedures over £25,000, invitations to tender must state the evaluation criteria to be adopted for the Contract which "must be capable of objective assessment, include price and other relevant factors, and be weighted by relative importance" (rule 7.2.2.14).

However there is no formal procedure to score best value for tenders or quotations under £25,000. No scoring ratio is currently stated in the tender specification prior to inviting tenders applications. There is a number of procurement activities valued under £25,000 where best value is not deemed lowest value, due to the reactive nature of the work the Authority performs. This could leave the Authority with insufficient evidence if the authority is challenged on their award of a tender.

It is best practice to have a pre-determined scoring ratio which outlines the balance between cost, quality, and timeliness of work to be completed in the tender specification for all tenders and quotation invitations. Due to the nature of the work completed by the authority, the ratio will be subject to change for every tender or quotation application. Criteria such as 'timeliness for completion' could potentially affect the quoted value and therefore is in the best interest of the Authority to state all relevant criteria in the tender specification. This will provide quantifiable evidence to support the awarding of tenders to suppliers.

Agreed Action 2.1

The legal team are currently trialling a more sophisticated scoring system to ensure that tender and quotation criteria are transparent and objectively evaluated and quantifiably evidenced with a view to rolling out the scoring system. Responsibility for applying evaluation criteria and scoring to individual procurement processes will remain with the Procuring Officer.

Priority

3

Responsible Officer

Senior Legal Officer

Timescale

30 April 2018

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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