

# ARGYLL & BUTE COUNCIL

## Internal Audit Section

### INTERNAL AUDIT REPORT

<b>CUSTOMER DEPARTMENT</b>	<b>CUSTOMER SERVICES</b>
<b>AUDIT DESCRIPTION</b>	<b>SYSTEM BASED AUDIT</b>
<b>AUDIT TITLE</b>	<b>Procurement &amp; Commissioning (Utilities)</b>
<b>AUDIT DATE</b>	<b>August 2014</b>

2014/2015



## **1 BACKGROUND**

This report has been prepared as a result of the Internal Audit review of Procurement and Commissioning (Utilities) within Customer Services as part of the 2014/2015 internal audit programme.

## **2 AUDIT SCOPE AND OBJECTIVES**

The audit covered the arrangements in place for securing Utility services including Electricity (including street lighting), Heating Oils, Gas and Water. We reviewed the internal controls and governance arrangements. The areas reviewed were:

- Relevant compliance with Public Contracts (Scotland) Regulations 2006
- Relevant compliance with Utilities Contracts (Scotland) Regulations 2006
- Roles and Responsibilities including contractual delegations and thresholds
- Contract specification and tendering protocols
- Information/Data Systems
- Monitoring Arrangements

## **3 RISKS IDENTIFIED**

- Council fails to secure best value
- Failure to meet public procurement rules
- Failure to have robust information and monitoring protocols resulting in reduced ability to identify poor performing sites and potential mis-reporting

#### 4 AUDIT OPINION

The level of assurance given for this report is substantial.

Level of Assurance	Reason for the level of Assurance given
<b>High</b>	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
<b>Substantial</b>	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Limited</b>	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
<b>Very Limited</b>	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p><b>High</b> - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p>
<p><b>Medium</b> - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p>
<p><b>Low</b> - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>

## 5 FINDINGS

The following findings were generated by the audit:

- 5.1 The Council has a documented procurement manual which clearly outlines the procurement process. It provides documented procedures to be followed, including tendering protocols. Services are required to adhere to the process outlined in the manual. Scottish Procurement provides the Council with updates through Scottish Procurement Policy update notifications. The procurement board considers any changes or updates. The procurement manual is updated on a regular basis to reflect any legislative changes or new EU guidance.
- 5.2 The responsibilities of the procurement team are outlined in the procurement manual with purchasing officers identified to support the departments.
- 5.3 The department has noted that the Public Contracts (Scotland) Regulations 2006 and the Utilities Contracts (Scotland) Regulations 2006 have been replaced by the Public Contracts (Scotland) Regulations 2012 and Utilities Contracts (Scotland) Regulations 2012.
- 5.4 The Council is signed up to the National Energy Procurement Contract administered by Scottish Procurement. The main benefit to Council in this collaborative approach is that it achieves the best average market rate and economies of scale. National contracts are in place for electricity, natural gas, fuel oils and water.
- 5.5 Public bodies who participate in the national contract are obliged to provide Scottish Procurement with site data including annual consumption. As required, the Council maintain an ongoing dialogue with Scottish Procurement and follow the defined process for adding/deleting sites and updating their individual portfolio consumption when requested.
- 5.6 Spot purchases of heating oil are made, generally as a result of severe weather preventing the main contractor getting to a particular site. The standing orders of the Council allow departure from the procurement manual and from the constitution if certain conditions are met. There is a written procedure which details the process to be followed in relation to spot purchases of fuel oil in these circumstances. It was found that spot purchases adhered to this process.
- 5.7 The Council take advantage of a discount by paying in advance the annual Invoice for Scottish Water Business Stream. The discount for advance payment for the financial year 2012/2013 was £84,000. Paying in advance creates minimal exposure to overpayments being made, however, this is mitigated by reconciliations of accounts on an ongoing basis and at the year end.
- 5.8 Electricity billing is reliant on a mix of real time auto reading and manual meter reading and or estimated bills. This process is relatively time consuming particularly when calculating year end accrual entries.

5.9 Monitoring arrangements for energy consumption were found to be manually intensive and time consuming. The Council is currently undertaking a procurement process to purchase an electronic based monitoring recording database. This will provide accurate, timely information and should assist with consumption monitoring and allow for comparisons across sites.

## **6 CONCLUSION**

This audit has provided a substantial level of assurance. There is one recommendation for improvement identified as part of the audit set out in Appendix 1. This is a low recommendation which will not be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

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