

# Argyll and Bute Council

## Internal Audit Report

August 2020

FINAL

# Education Procurement

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	0	1	0	1

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## 1. Executive Summary

### Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to Education Procurement.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

### Background

4. All purchasing must take place in accordance with the Council's statutory duty to secure best value under the Local Government in (Scotland) Act 2003. This requires the Council to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost.
5. Public procurement is the process by which public bodies acquire goods, services and works from third parties to meet customer and service user needs. Effective procurement arrangements can make significant and positive contributions to a wide range of areas including the local economy, voluntary sector, community involvement and environmental issues as well as delivering value for money.
6. Procurement within the Council closely follows the Scottish Government's Procurement Journey (the Journey), a tool developed and promoted since 2011 as part of the Public Procurement Reform Programme. This tool has been adapted to provide detailed guidance which supports the Council's policies and objectives. The Journey is intended to support all levels of procurement activity where there is not already a contract in place.
7. Procurement guidance is provided to staff in the procurement manual and a flowchart is available that details the procurement steps to be taken depending on the value of the transaction.
8. Six full time equivalents support the Council's corporate procurement needs led by a Category Management Officer responsible for more complex procurement requirements.
9. In October 2015 the Council launched a two year education purchasing team pilot to provide centralised purchasing support to education. Given the relatively modest level of savings against the cost of the team members (£48,227 staff budget for financial year 2017/18 would be required), and the fact that it conflicted with the future vision for the Education Service in terms of governance, the recommendation was to end the pilot after the two years and not roll it out on a permanent basis.

## Scope

10. The scope of the audit was to determine whether education services have effective procurement controls, whether they are complying with procurement procedures and assessing whether value for money is being achieved as outlined in the Terms of Reference agreed with the Executive Director with responsibility for education and procurement on 13 January 2020.

## Risks

11. The risks considered throughout the audit were:
  - **Audit Risk 1:** Failure to follow agreed procurement procedures
  - **Audit Risk 2:** Education procurement is not achieving value for money

## Audit Opinion

12. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
13. Our overall audit opinion for this audit is that we can take a reasonable level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

## Recommendations

14. We have highlighted one medium priority recommendation and one value for money recommendation where we believe there is scope to strengthen the control and governance environment and one recommendation where we believe achieving value for money may be improved. These are summarised below:
  - measures should be taken to ensure headteachers, and other appropriate education officers are provided with training and guidance on established procurement processes
  - consideration should be given to identifying a way to differentiate between 'influenced' and 'non-influenced' expenditure on non-catalogue purchases.
15. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

## 2. Objectives and Summary Assessment

16. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

### Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Schools are complying with the Purchasing Methods flowchart for purchases not exceeding £20,000	Audit Risk 1	Limited	Procurement procedures, including the purchase method flow chart are readily available to headteachers and the procurement team proactively offer training. However there is a general lack of compliance with the procedures across the school estate.
2	Purchases exceeding £20,000 are being managed by the procurement team	Audit Risk 2	Reasonable	Purchases exceeding £20,000 are generally beyond the budget of most schools therefore it would be unusual for a school to make a purchase of this value. However, analysis of a headteacher survey indicated 33% were unaware of the process that should be followed if a purchase of that value was required.
3	PECOS refresher training is offered and available to any staff who request it	Audit Risk 1	Reasonable	PECOS training is available on request and the procurement team offer refresher training to education staff. When a new headteacher commences employment it is their responsibility to contact procurement for guidance and training rather than it being provided as part of an induction programme.
4	Purchasing activity is delivering best value and generating savings	Audit Risk 2	Limited	Limitations on the ability to analysis non-catalogue expenditure restricted the extent to which conclusions can be drawn on whether purchasing activity was delivering best value however the lack of awareness of, and compliance with, established purchasing processes suggests savings may be generated through more efficient purchasing.

17. Further details of our conclusions against each control objective can be found in Section 3 of this report.

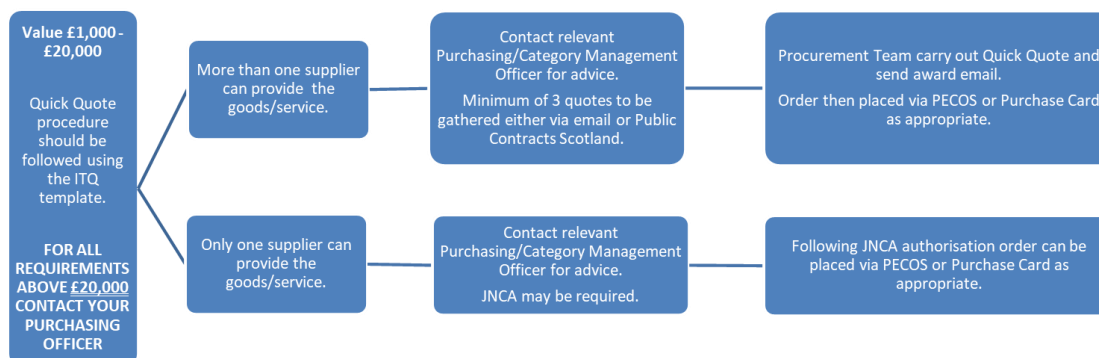
### 3. Detailed Findings

#### Schools are complying with the Purchasing Methods flowchart for purchases not exceeding £20,000

18. Procurement guidance is provided to staff in the procurement manual which was last updated in 2019. Specific guidance for education is provided in a document called 'Education A Guide to Buying Using PECOS.' The documents are readily available on the HUB.

19. The education guidance incorporates a flowchart which sets out the processes to be followed when making purchases with a value of £0 to £999, £1,000 to £20,000 and for purchases above £20,000. Exhibit 2 is the flowchart for purchases between £1,000 and £20,000.

Exhibit 2 – Purchasing Method Flow Chart for Purchases between £1,000 and £20,000



20. Framework agreements for public sector bodies have been established by Scotland Excel for the supply, delivery and installation of goods and services. Framework agreements are classed as catalogue items and all catalogue items are available on PECOS, the Council's purchasing portal. PECOS should always be checked for catalogue items when purchases are required. Exhibit 3 summarises education expenditure spend for the period April to September 2019.

Exhibit 3 – Education Expenditure – April to September 2019

Value of Purchase	Total	Catalogue	Number of Transactions	Non-Catalogue	Number of Transactions	% of Total Spend on Non-Catalogue
£0 - £999	£1,014,032	£214,756	7,896	£799,276	8,699	79%
£1,000 - £20,000	£1,909,139	£14,939	10	£1,894,200	424	99%
Over £20,000	£805,668	0	0	£805,668	18	100%
<b>Totals</b>	<b>£3,728,839</b>	<b>£229,695</b>		<b>£3,499,144</b>		<b>94%</b>

21. The non-catalogue expenditure in exhibit 3 includes some expenditure which the Council have no influence over. This is expenditure the procurement team cannot influence/add any value to from a procurement process. Examples include memberships to professional bodies, exam fees and statutory payments.
22. However not all non-catalogue expenditure is expenditure that can't be influenced. Transactions are recorded on PECOS as either 'catalogue' or 'non-catalogue' through an established field. However there is no equivalent field to tag whether a transaction is 'influenced' or 'non-influenced'. As a consequence it has not been possible to break the 'non-catalogue' expenditure into 'influenced' and 'non-influenced.' This makes it difficult to determine the extent to which education are purchasing non-catalogue items in a manner which delivers best value for money. Procurement officers have advised that they can differentiate between some transactions using experience/cumulative knowledge however this would be a manual exercise rather than through a system driven report. As PECOS is a system used by multiple public sector bodies the Council have no control over the fields which require to be populated so it isn't possible to simply add a field (for example a check box) to indicate where a non-catalogue item is 'non-influenced'.

**Action Plan 2**

23. The purchasing flowchart allows for purchases from the open market where a supplier is not available on PECOS, however achieving best value must always be considered. This must consider quality as well as price. We issued a survey to the headteachers of the 87 primary and secondary schools asking them how they making purchases of value between £1,000 and £20,000. 60 schools responded representing a 69% response rate. 29 (49%) of the 60 headteachers are not complying with the flowchart. In particular they are not obtaining three quotes and are not consulting with procurement staff prior to making purchases.

**Action Plan 1**

24. 46% of the responding headteachers were unaware of the process to be followed when making purchases between £1,000 and £20,000. Examples of comments received are:
- *Any larger purchases are shared with staff and parents where possible to ensure a shared agreement in the spend.*
  - *Liaise with management staff and discuss with Administration and Finance Assistant (AFA).*
  - *Large purchases are sourced and requested by headteacher, If supplier not on PECOS request is made to add them.*
  - *Obtain at least two quotes and then forward to AFA for authorisation*
25. We selected 30 transactions with a value between £1k and £20k and asked headteachers to detail the process they followed to make the purchase and provide any supporting documentation (quotes) for these transactions. Only 3% of the returns demonstrated compliance with the purchasing flowchart by obtaining three quotes. A further 67% of the returns either provided one or two invoices/quotes. The outstanding 30% were either out of scope as they were 'non-influenced' spend (13%) or the school did not respond to the request (17%). Given the level of non-compliance from those who did respond we did not feel it necessary to further pursue the outstanding 17%.

**Action Plan 1****Purchases exceeding £20,000 are being managed by the procurement team**

26. The process for making purchases over £20,000 is that the purchasing officer must be contacted. As part of our survey we asked *'If you needed to make a purchase in excess of £20,000 would you do anything differently?'* This is in relation to the previous question: *"When making purchases between £1,000 and £20,000 how do you source items?"* Generally purchases exceeding £20,000 are beyond the budget of most schools and therefore it would be very rare that a school would be making purchases of this value, however the answers provided by 33% of the responding headteachers indicated they were unaware of the process they would follow when making purchases over £20,000.

**Action Plan 1****PECOS refresher training is offered and available to any staff who request it**

27. PECOS training is offered and available to staff members on request. Staff must undertake PECOS training before being provided with PECOS log in details. Currently, when a new headteacher commences employment it is their responsibility to contact procurement for

guidance and training. In addition, the purchasing team proactively offer refresher training to education staff.

**Action Plan 1**

28. Following the end of the education purchasing team pilot in October 2017, an email was circulated to all education staff attaching handouts providing guidance on procurement to ensure that schools had all the information they needed to effectively procure goods and services and achieve value for money. Updates on procurement are circulated by the procurement team on an ongoing basis.

Purchasing activity is delivering best value and generating savings

29. Whilst this analysis is relatively high level and there were challenges identifying the true expenditure on non-catalogue item expenditure, it does suggest the Council could potentially generate savings through more effective purchasing. This requires the delivery of training to ensure headteachers understand and follow agreed procurement processes. The education service should explore this further by looking at more effective ways to deliver procurement training to new and existing staff members.

**Action Plan 1**



## Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	<p><b>Purchasing Processes – Training and Compliance</b></p> <p>There is a general lack of awareness amongst headteachers of the processes to follow when making purchases over £1,000 and sample testing confirmed a lack of compliance with those processes.</p> <p>Training and guidance is available but the onus is on new headteachers to request it rather than it being provided as part of any induction programme.</p> <p>Measures should be taken to ensure headteachers, and other appropriate education officers, are provided with training and guidance on established procurement processes and a reminder issued of the need to comply with them.</p>	Purchases made by education staff may not be achieving best value for money	Refresher training to be delivered remotely to headteachers directly focusing on procurement thresholds, quote process, use of frameworks and PECOS.	Procurement and Contract Management Manager  31 March 2021

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Value for Money	2	<p><b>Differentiating Non-Catalogue Expenditure</b></p> <p>Approximately 94% of education purchasing is on non-catalogue items. This is split between 'influenced' and 'non-influenced' expenditure.</p> <p>Non-influenced expenditure is where the procurement team cannot add any value to the procurement process. Influenced expenditure is where there may be scope to generate savings through more effective procurement processes. There is no way of differentiating between influenced and non-influenced transactions on PECOS. Procurement officers advised they can differentiate between some transactions using experience however this would be a manual exercise rather than through a system driven report. This is not an effective long term solution.</p> <p>Consideration should be given to identifying a way to differentiate between the two categories of non-catalogue purchases. This would allow efficient analysis which may identify where savings could be generated.</p>	Areas where savings can be generated are not easily identifiable.	<p>This is not possible to do via PECOS electronically.</p> <p>Procurement are currently rolling out the use of software called Spikes to support the electronic system based analysis of spend. The team will use this software to aid in the identification of gaps in contract coverage and areas where potential savings could be made. Educations spend will be included in this analysis and procurement staff will work with Education to increase contracted spend.</p>	<p>Procurement and Contract Management Manager</p> <p>31 March 2021</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
<b>High</b>	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
<b>Medium</b>	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
<b>Low</b>	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
<b>VFM</b>	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the Council to achieve better value for money.

## Appendix 2 – Audit Opinion

Level of Assurance	Definition
<b>High</b>	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
<b>Substantial</b>	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Reasonable</b>	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
<b>Limited</b>	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
<b>No Assurance</b>	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.