

APPENDIX 2



Internal Audit Report

FINAL

OPERATIONAL SERVICES DEPARTMENT

Review of Catering Procurement

JANUARY 2009

INDEX

SECTION		PAGE
1	Introduction	1
2	Audit Scope and Objectives	1
3	Risk Assessment	2
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	3
7	Audit Opinion	3
8	Acknowledgements	3
Appendix 1	Detailed Findings	
Appendix 2	Action Plan	
Appendix 3	Supporting Information	

1 INTRODUCTION

- 1.1 This report has been prepared as a result of the Internal Audit review of the Catering Procurement operations within Facility Services which are located within the Operational Services Department. Specifically, the audit of Catering Procurement replaces the planned audit of Catering Payroll set out in the audit programme for 2008 – 2009. The Payroll audit will now be undertaken in the next financial year, 2009 – 2010.
- 1.2 Facility Services provide a catering and cleaning service to the Council headed by an Operations Manager and supported by a Project Officer, with staff located at Argyll House, Dunoon and units throughout Argyll & Bute. The catering service have regular contact with 68 schools, 3 leisure establishments, 3 hostels and the restaurant facility located at Kilmory Head Quarters.
- 1.3 The annual budgeted spend on provisions and food is approximately, £1.190million. The service is delivered conforming to statutory requirements set by government (e.g. Nutritional Requirements for Food and Drinks in Schools Regulations 2008) and bodies like the Food Standards Agency.
- 1.4 The catering service supplies are procured using a number of annual contracts. These cover groceries, frozen food, fruit and vegetables, butcher meat, milk and bread and baking. Drinks, chocolate and confectionery are incorporated within the grocery contract.
- 1.5 These contracts have been put in place through the auspices of the ABC Buying Consortium which recently expanded to become Scotland Excel with the intention of achieving even greater buying gains for public sector bodies using this medium.
- 1.6 The brief for Internal Audit was to investigate ways in which the service could reduce its administrative effort without losing control and enhance procurement management information for decision making.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to:
 - Review current systems and procedures to establish whether there is effective control of procurement of catering supplies; and
 - Identify alternative approaches to procurement in order to reduce the level of administrative work at operating units, and improve the provision of procurement management information.
- 2.2 In order to satisfy the above objectives the processes involved in the procurement of catering supplies were reviewed for completeness and accuracy of information, and as there was a management perception that the implementation of a new grocery contract with Brakes through Scotland Excel had resulted in significant problems, we particularly targeted in the review the period pre and post introduction of the new contract.

- 2.3 A desk top exercise was begun to look at procurement solutions that could reduce administration and provide management with information to ensure proper ordering of the relevant products at the right price.

3 GOOD PRACTICE GUIDANCE

- 3.1 The recently issued Scottish Procurement Policy Handbook published in response to The Review of Public Procurement in Scotland provides an overarching statement of the fundamental rules, behaviours and standards applicable to public procurement in Scotland. The Handbook also refers to the Scottish Procurement Competency Framework which has been developed to complement staff development programmes.

4 CORPORATE GOVERNANCE

- 4.1 Catering and Procurement ensure that the Council meets all statutory requirements in relation to the provision of food to children.
- 4.2 The Review of Public Procurement in Scotland recommended that public sector organisations confirm annually that they comply with minimum standards of governance and accountability for procurement.

5 MAIN FINDINGS

- 5.1 Since the commencement of the Scotland Excel Contract the Contract Schedule has been updated by Scotland Excel on eight occasions. It is not clear if all of these were issued to the client authorities at the time.
- 5.2 An analysis of the issued updates shows that 36% were related to the issue of new product codes and 27% related to price increases. It was also noted that 69% of the changes occurred in Schedules 7 and 8 being some 2 months after the contract start.
- 5.2 It was found that in excess of 40% of grocery product lines ordered were for non core product lines.
- 5.3 In discussion with the e-procurement team it was explained that PECOS was not considered an appropriate system for the procurement of catering supplies. Other possibilities had been considered in particular a Purchasing Card option but this remained at an early stage.

6 ACTION PLAN and RECOMMENDATIONS

- 6.1 The action plan attached at Appendix 2 has been compiled with the co-operation and agreement of management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of

information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

- 6.3 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 fundamental, material or minor. The definitions for each classification are set out below:-

High - 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;

Medium - 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;

Low – Observations 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.

- 6.4 One recommendation of high priority was identified as a result of the audit. The recommendations are shown in the action plan set out in Appendix 2 and supporting information is provided in Appendix 3.

7 AUDIT OPINION

- 7.1 Based on the findings we can conclude that the controls in place in respect of Catering Procurement procedures are under strain due to administrative pressures. We further believe that these pressures existed previously but have been and will continue to be exacerbated as new expanded contracts are put in place.
- 7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

- 8.1 Thanks are due to all staff within the Catering and Cleaning Section of Operational Services at Argyll House, Dunoon. Thanks are also due to the

Argyll & Bute Council
Review of Operational Services – Catering Procurement

Exchequer Manager, ICT and Financial Services based within the Corporate Services Department.

- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

Action Plan no.	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	Appendix 1 1.2	Medium	Expansion has affected the administration requirements of customers and supplier alike. The supplier requires units when ordering to quote the product code number. Scotland Excel did not provide product codes with the first contract schedule. In the initial contract period some 26% of core contract lines ordered were supplied by an alternative product but not at the contract price as would have been expected.	Invoices issued since the commencement of the new grocery contract on 8 th September should be checked to identify products supplied where a core contract product existed but was not supplied and credit notes requested for the difference in price charged against the contract core product price.	Catering and Cleaning Manager, Facility Services.	31 March 2009

Argyll & Bute Council
Review of Operational Services – Catering Procurement

Action Plan no.	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	Appendix 1 1.3	Medium	Since the commencement of the Scotland Excel Contract the Contract Schedule has been updated by Scotland Excel on eight occasions. It is not clear if all of these were issued to the client authorities at the time. An analysis of the changes shows that 36% were related to the issue of new product codes and 27% to price increases. It was also noted that 69% of the changes occurred in Schedules 7 and 8 being some 2 months after the contract start.	<p>Scotland Excel should be formally advised of our dissatisfaction in the way that the new grocery contract was introduced. This should be done constructively indicating the shortcomings and provide suggestions to ensure that future contracts e.g. Frozen Food do not similarly suffer.</p> <p>This recommendation should be considered by the Shared Services & Procurement Board who should determine the appropriate level for the Council to express its concerns to Scotland Excel</p>	Head of Facility Services in conjunction with the Exchequer Manager	31 March 2009
4	Appendix 1 1.4	High	The increase in the number of product lines in the Brakes grocery contract via Scotland Excel has required management staff at Argyll House to review the contract schedules (note action point 3 above, 8 issues in 2 months) and amend these by reducing the number of product lines to suit the menu requirements of the units and other interested parties within	In reviewing the procurement procedures as recommended at 7 below consideration should also be given to methods of communication to ensure the prompt exchange of data among all parties in the supply chain.	Facility Services in conjunction with the Exchequer Manager.	31 March 2009

Argyll & Bute Council
Review of Operational Services – Catering Procurement

Action Plan no.	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			the Council. These are then posted to all units plus other interested services within Argyll & Bute Council.			
5	Appendix 1 1.5		Catering management have concerns that with an increasing frequency of issue of contract schedules delays are occurring in advising the operating units of changes as there are no computing facilities available within the units for the exchange of emails. Catering also notify contract changes to Community Services, Social Work department, who in turn notify their locations. This is done by email.	Management should review the requirement for making computing facilities available within units.	Facility Services in conjunction with the Exchequer Manager.	30 June 09
6	Appendix 1 1.6	<i>Medium</i>	In excess of 40% of grocery product lines ordered are for non core product lines.	The range of non- core lines being purchased should be investigated to determine if they can be either avoided or included as a core or nominated product thus ensuring the optimum buying price	Catering and Cleaning Manager, Facility Services.	30 June 2009

Argyll & Bute Council
Review of Operational Services – Catering Procurement

Action Plan no.	Paragraph	Grade	Weakness Identified	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
7	Appendix 1 1.7	High	In discussion with the e-procurement team it was explained that PECOS was not considered an appropriate system for the procurement of the catering products. Other possibilities had been considered in particular a Purchasing Card option but this remained at an early stage. The Government Procurement Card system was identified and with management reporting software developed by the banks promoting the card or an independent software house should be investigated as a procurement method for high volume, low value transactions.	In conjunction with the e-procurement team, Facility Services should investigate purchasing cards to identify suitability for catering product supply contracts as well as software requirements to provide management information promptly and in tandem with card use data processing. From a desk top review the Government Procurement Card would reduce unit staff time checking and reconciling invoices, and cut out the processing of approximately 25,000 invoices to something like 100 monthly statements. It was indicated that the checking of a monthly statement could be done by the e-procurement team. This would also meet the Scottish Procurement Policy Handbook requirement to collaborate with appropriate centres of expertise wherever possible.	Catering and Cleaning Manager, Facility Services in conjunction with the Exchequer Manager.	30 June 2009

