

Cumbria Shared Internal Audit Service

Internal Audit Report for Cumbria Constabulary & OPCC



Audit of Commercial Solutions - Procurement

Draft Report Issued: **30th October 2019**
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Audit Resources

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Audit Report Distribution

For Action:	Barry Leighton (Head of Commercial Solutions)
For Information:	Stephen Kirkpatrick (Director of Corporate Support) Roger Marshall (Joint Chief Finance Officer)
Audit Committee	The Joint Audit Committee which is due to be held on 18 th March 2020, will receive the report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Cumbria Shared Internal Audit Service



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Executive Summary

1. Background

- 1.1. This report summarises the findings from the audit of Commercial Solutions - Procurement. This was a planned audit assignment which was undertaken in accordance with the 2019/20 Audit Plan.
- 1.2. Procurement is important to the organisation because it contributes to the efficient use of resources to support operational policing needs and the delivery of the objectives in the Police and Crime Plan for Cumbria 2016-20. Effective procurement, in line with the organisation's constitution and legislation is necessary for the Constabulary to be able to demonstrate that funds are used and managed in a manner that is accountable and displays both probity and value for money.
- 1.3. The Commercial Strategy 2019-2022 states that the Constabulary has an annual budget in the region of £95 million with annual contract spend of around £23 million spread over approximately 120 contracts. This accounts for 80% of procurement expenditure.
- 1.4. An audit of procurement was previously carried out in 2016/17. Based on the evidence provided at that time, the audit concluded that the controls in operation around procurement provided **partial** assurance. The recommendations and agreed improvements arising from this review were followed up in 2017/18 and although some improvements had been made the audit opinion remained unchanged and provided **partial** assurance.
- 1.5. Since the previous internal audit review in 2017/18 there has been renewed commitment to developing and improving procurement arrangements. Actions taken include new appointments within the Commercial Department, a review and update of the Joint Procurement Regulations, publication of a Commercial Strategy 2019-2022 and the inclusion of a Contracts Award Board in the governance structure.

2. Audit Approach

2.2. Audit Objectives and Methodology

- 2.2.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.3 **Audit Scope and Limitations**

- 2.3.1 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Director of Corporate Support. The agreed scope of the audit was to provide assurance over management’s arrangements for governance, risk management and internal control around the updated Commercial Strategy and Joint Procurement Regulations. The review also included detailed testing covering procurement activity on behalf of Cumbria Constabulary and the Cumbria Office of the Police and Crime Commissioner.
- 2.3.1 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3 Assurance Opinion

- 3.3 Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.
- 3.4 From the areas examined and tested as part of this audit review, we consider the current controls operating within the Commercial Department - Procurement provide **reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4 Summary of Recommendations, Audit Findings and Report Distribution

- 4.3 There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.
- 4.4 There are **five** audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation’s strategic objectives (see section 5.1.)	-	-	2

2. Regulatory - compliance with laws, regulations, policies, procedures and contracts.	-	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.2)	-	1	-
4. Security - safeguarding of assets.	-	-	-
5. Value - effectiveness and efficiency of operations and programmes (see section 5.3)	-	1	1
Total Number of Recommendations	-	2	3

4.5 **Strengths:** The following areas of good practice were identified during the course of the audit:

- An up to date and approved Commercial Strategy is in place which was fully consulted on and has clear links to strategic policing priorities as set out in the Police & Crime Plan 2016-2020 and Cumbria Vision 2025.
- Constabulary and OPCC strategic risk registers both capture and assess the risk around lack of capacity and skills in the procurement function for ongoing management and review by Chief Officers. A number of actions are being taken to mitigate the risk and progress is now being made to reduce dependence on the Head of Commercial Solutions as the department moves forwards with strategy implementation.
- Arrangements are in place to keep the Commercial Department fully informed of future procurement activity at the earliest opportunity for effective forward planning. Regular meetings are held with Heads of Service and the OPCC and there is ongoing involvement in project boards and strategic groups across the Constabulary to ensure good visibility is maintained.
- A number of staff within the Commercial Services Department have commenced a formal procurement apprenticeship programme to address identified gaps in skills.
- A Contract Award Board has been introduced into the governance structure to strengthen arrangements for the scrutiny and challenge of procurement decisions.
- Arrangements are in place to ensure appropriate approval is obtained for contracts (dependant on value).
- Appropriate approval is granted for any exemptions from normal procurement procedures prior to the order for goods, works and services being placed.
- Spend information is openly published on the OPPC's website for public scrutiny.
- The Joint Procurement Regulations now provide guidance on professional indemnity insurance requirements. New supplier forms reinforce requirements and capture details of insurance cover.

- Fraud risks are captured on the Corporate Support risk register for ongoing consideration and management and Commercial Department staff have received ethics training. The training raises awareness of potential fraudulent practices and supports understanding of expectations around individual professional and ethical behaviour. The formal procurement apprenticeship programme includes a module on ethical procurement.
- During the audit review it was noted that the procurement team display a professional manner and are demonstrably committed to their own personal development, improvement activity and progressing strategy implementation.

4.6 **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.6.1 *High priority issues: none identified.*

4.6.2 *Medium priority issues:*

- Arrangements for the supervisory review of work within the procurement team and the evidencing of this are not in place.
- Spend analysis is not undertaken on a regular basis to highlight opportunities for savings and efficiencies and to inform negotiations around approved supplier lists. Approved lists of suppliers have not been developed in accordance with the Joint Procurement Regulations.
- Post completion reviews are not undertaken to identify good practice and areas for improvement in procurement activity.

4.6.3 *Advisory issues:*

- The Joint Procurement Regulations and Procurement Guidance handbook do not reflect Contract Award Board arrangements as part of the procurement process.
- Plans to hold roadshows across the Force to further strengthen awareness and understanding of the commercial strategy have not taken place.

Comment from the Director of Corporate Support:

I am very pleased that the recent audit review of Commercial (Procurement) Solutions has demonstrated the significant progress made and has moved from partial to a **reasonable** level of assurance. This audit has recognised that there are generally good systems of internal control in place although it is recognised there are some areas where the controls still need more effective application and/or further development.

The Commercial Solutions department provide a wide range of procurement and contract management services for both the Office of the Police

& Crime Commissioner and the Constabulary. This audit recognises that the team is providing a good and improving service to both organisations.

I am pleased to note that the number of recommendations made within this report are significantly reduced from previous reviews which is, again, a testament to the hard work of all involved.

The report notes a number of strengths including an established strategy, strong governance and working practices and improved management of the procurement work streams. Without being complacent, I am also pleased to note that the report identifies no high priority areas for development. The small number of medium and advisory recommendations are welcomed and will be addressed by the team within the timescales agreed.

The Head of Commercial and his team are committed to continue on this positive trajectory in order to ensure that the positive progress recognised within this report is maintained and built on.

Management Action Plan

5 Matters Arising / Agreed Action Plan

5.1 **Regulatory** - compliance with laws, regulations, policies, procedures and contracts.

● **Advisory issue**

Audit finding	Management response
<p>(a) Joint Procurement Regulations & Procurement Guidance Handbook</p> <p>A Contract Award Board has been operating since February 2019, the Joint Procurement Regulations and Procurement Guidance handbook do not refer to the Contract Award Board as part of the approval process for awards above £25k or include this stage in the procurement map.</p> <p>The Joint Procurement Regulations state that the document will be reviewed annually and the next scheduled review will take place in November 2019. This will provide an opportunity to ensure that the regulations accurately reflect current arrangements.</p>	<p>Agreed management action:</p> <p>The Joint Procurement Regulations and Procurement Guidance handbook have been updated to reflect Contract Award Board arrangements.</p>
<p>Recommendation 1:</p> <p>The Joint Procurement Regulations and Procurement Guidance handbook should be updated to reflect Contract Award Board arrangements as part of the next scheduled review.</p>	<p>Responsible manager for implementing:</p> <p>Head of Commercial Solutions</p> <p>Date to be implemented:</p> <p>19/11/2019</p>
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Inadequate authorisation for procurement activity because of a lack of clarity around approval arrangements and responsibilities. Inefficient procurement activity arising from reduced challenge and scrutiny of proposals. 	

● Advisory issue

Audit finding	Management response
<p>(b) Communication</p> <p>The Commercial Strategy, Joint Procurement Regulations and Procurement Guidance Handbook were updated and published in April 2019 on the commercial and stores pages of SharePoint. This was brought to the attention of all staff via a Force wide bulletin explaining key changes within procurement processes and the move to a more commercial approach. Links were provided within the publication to the new supporting documents.</p> <p>Reference was made in the bulletin to plans to hold roadshows across the Force to further strengthen awareness and understanding of the commercial strategy. A work tracker maintained by the Head of Procurement shows that a project to develop the roadshows has been allocated to a Commercial Officer. This action has not yet been progressed.</p> <p>Roadshows will provide an opportunity for all staff involved in procurement to better understand recent developments, their role within the updated approach and the overall direction of the service.</p>	<p>Agreed management action:</p> <p>The planned roadshows will take place before the end of Mach 2020.</p>
<p>Recommendation 2:</p> <p>Action should be taken to progress roadshow plans.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Priorities are not achieved because staff do not understand and contribute to strategy implementation. • Sanctions and reputational damage arising from non-compliance with procurement regulations. • Poor performance because staff are unclear of their roles and responsibilities. 	<p>Responsible manager for implementing: Commercial Business Partner (Operations, Fleet & Estates)</p> <p>Date to be implemented: 31/03/2020</p>

5.2 Information - reliability and integrity of financial and operational information.

● Medium priority

Audit finding	Management response
<p>(a) Management oversight</p> <p>Arrangements are now in place for regular 1:1 supervision sessions, team huddles and team meetings within the Commercial Department to improve oversight of procurement activity. However arrangements for the day to day supervision of work within the procurement team are not fully established and evidenced.</p> <p>During the course of the audit review there were some instances where steps in the procurement process were not evidenced. For example instances were noted where framework contract call-offs had not been recorded on the Blue Light Procurement Database, contract variation forms had not been fully signed and quotations were not available for review. Whilst these issues were resolved at the time of the audit review the Head of Commercial Solutions cannot be assured that procurement activity is being undertaken consistently and effectively, in compliance with the Joint Procurement Regulations.</p> <p>The development and use of a Contract Check List by one of the Business Partners for procurements over £100k was noted during the audit. The check list ensures all required steps of the chosen procurement route are actioned per requirements and evidenced. There is an opportunity to further develop this example of good practice for use across the department and for other procurement routes.</p> <p>Recommendations were made in the previous two audit reports around arrangements for supervisory checking of work at key stages of the procurement lifecycle and for evidencing this. At the time it was considered that there was limited capacity and expertise within the procurement team to undertake supervisory checking. A Senior Business Partner has now been appointed and a number of staff in the department are undertaking a formal CIPS (Chartered Institute of Purchasing and Supply) apprenticeship programme. These actions will help to address skill and capacity</p>	<p>Agreed management action:</p> <p>An acceptable balance has now been achieved between supervisory and process checking. The number of errors / omissions is expected to fall and this will be monitored. Linked to this is the creation of a Commercial Assurance Lead from 1st April 2020.</p>

issues.	
<p>Recommendation 3: Management should define, document and communicate requirements around supervisory checking at key stages of the procurement lifecycle. Responsibility for supervisory checking should be clearly allocated.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Sanctions and reputational damage arising from non-compliance with procurement regulations. • Strategic policing priorities are not achieved. • Poor performance because opportunities for improvement are not identified and acted upon. 	<p>Responsible manager for implementing: Head of Commercial Solutions</p> <p>Date to be implemented: 01/04/2020</p>

5.3 Value - effectiveness and efficiency of operations and programmes.

● **Medium priority**

Audit finding	Management response
<p>(a) Supplier Spend & Approved Lists</p> <p>Regular spend analysis is not currently undertaken within the Commercial Department to fully understand procurement activities and expenditure and identify improvement opportunities. A report of annual spend with suppliers has been received from the finance team but it hasn't been reviewed due to other priorities within the department. The value of undertaking spend analysis is recognised by the team and included in improvement plans as part of the Commercial Strategy.</p> <p>Formal, approved supplier lists that operate in accordance with procurement regulations are not currently in place. This issue was raised at the time of the previous audit review in 2016 when it was suggested that approved lists should be reviewed and re-advertised on a regular basis to demonstrate the Constabulary's commitment to genuine competition as an integral part of ethical procurement activity. Following the previous review the procurement team worked closely with the</p>	<p>Agreed management action:</p> <ul style="list-style-type: none"> a) Joint working with the Corporate support Senior Leadership Team (SLT) to progress spend analysis as part of the improvement plan. b) Fully accepted and will be introduced by April 2020.

<p>estates team to award framework contracts and reduce dependencies on approved lists. More recently work has been undertaken to negotiate prices with suppliers in areas of recurrent types of lower value spend and ensure insurance and vetting arrangements are in place. However, the procurement team acknowledge that further work is required to maximise opportunities and comply fully with regulations.</p> <p>The introduction of spend analysis, supplier performance management and relationship management is planned as part of the ‘opportunity’ phase of the Commercial Strategy for implementation over the next 18 months. The Head of Commercial Solutions intends to oversee this work which has been allocated to a nominated Business Partner. It is acknowledged that the receipt and analysis of accurate, comprehensive spend data presents a number of benefits such as the ability to highlight opportunities to reduce costs, increase efficiency and improve supplier relationships. It could also help to identify potential suppliers for approved lists and better inform negotiations with the suppliers in respect of prices and terms. Once negotiated, approved supplier lists may improve relationships, introduce lower and more consistent rates, establish agreed terms and conditions and ensure regular review.</p> <p>These actions should now be advanced as the organisation moves into Phase 2 of the Commercial Strategy implementation to ensure agreed timescales are met and the benefits realised.</p>	
<p>Recommendation 4:</p> <p>a) Plans to introduce spend analysis, supplier performance management and supplier relationship management should be progressed, in accordance with the Commercial Strategy 2019-22.</p> <p>b) Approved lists of suppliers should be fully developed, to fully comply with the Joint Procurement Regulations.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Reputational damage arising from a failure to comply with Joint Procurement Regulations. • Failure to deliver the Commercial Strategy and contribute to strategic objectives. 	<p>Responsible manager for implementing: Head of Commercial Solutions Date to be implemented:</p>

<ul style="list-style-type: none"> • Poor value for money and inefficiency arising from a failure to identify opportunities for savings and improvements. • Challenge and reputational damage arising from a failure to demonstrate the exercise of genuine competition. 	<p>a) 01/04/2020 b) 30/09/2020</p>
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• **Advisory issue**

Audit finding	Management response
<p>(b) Lessons Learned</p> <p>Post completion reviews are not undertaken on a formal basis to identify good practice and areas for improvement in procurement activity that can be taken forward to strengthen future procurement exercises and inform training plans for the procurement team.</p>	<p>Agreed management action: Accepted and will be implemented as an opportunity to improve and add value.</p>
<p>Recommendation 5:</p> <p>Formal, documented post completion reviews should be undertaken in respect of key procurement exercises in order to identify any learning that can be taken forward as part of a commitment to continuous improvement.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Opportunities not taken to learn lessons and improve. • Failure to train and develop staff to provide a more efficient and effective procurement function. 	<p>Responsible manager for implementing: Head of Commercial Solutions</p> <p>Date to be implemented: 01/04/2020</p>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p> <p>Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.