

Internal Audit Final Report

Resources and Finance

Procurement Fraud Controls

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	4
Minor issues that are not critical but managers should address.	Low	1

Distribution:

Executive Chief Officer for Education and Learning
 Executive Chief Officer for Performance and Governance
 Executive Chief Officer for Communities and Place
 Head of Finance and Commercialism, Resources and Finance
 Strategic Commercial Manager, Commercial and Procurement Shared Service (CPSS)
 Head of Resources, Education and Learning
 Elections Manager, Performance and Governance
 Principal Waste Management Officer, Communities and Place

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Report Ref: HRF40/004
Draft Date: 28/04/2023
Final Date: 12/09/2023

1. Introduction

- 1.1 The objective of the audit was to ensure that the Council has effective arrangements to reduce the risk of procurement fraud; specifically in relation to: (i) Procurement Decision Making; and (ii) Contract Management. Procurement is recognised as an area of higher fraud risk due to the volumes and values involved.
- 1.2 The audit involved a review of the Council's policies and procedures to ensure that they contained appropriate controls to reduce the risk of fraud, as identified in the [Audit Scotland publication "Red Flags – Procurement"](#). This included a review of the proposed changes arising from the Council's Procurement and Contract Management Project.
- 1.3 A sample of supplier purchases were tested to assess whether they were supported by a contract award, which was being managed in accordance with the Council's anti-fraud measures. This includes procurement training and clear procedures for officers, appropriate checks on suppliers including the necessary declarations, robust tender arrangements and the subsequent contract awards, and controls over contract payments including any variations. The suppliers that were selected were:

Table 1: Integra Spend by Supplier 01/04/21 - 30/09/22

No	Supplier	Contract	Purchase	£000
1	Sea Bunkering	None	Marine Fuel	11,385
2	Salt Sales	Excel Framework	Salt	2,014
3	Seafield Park	Council	Skip Servicing	796
4	Clee Hill Plant	Excel Framework	Vehicle Hire	532
5	Taylor Davenport	None	Agency Staff	420
6	Biffa Waste	NHS Framework	Recycling	321
7	Egbert H Taylor	Excel Framework	Containers	256
8	Ormlie & Violets	Council	Transport	212
9	X M A	SG Framework	Web Devices	175
10	Sunbelt Rentals	Excel Framework	Vehicle Hire	152
11	Tivoli Group	Council	Garden Aid	135
12	Instock	Excel Framework	Janitorial	112
13	Anso Signs	Excel Framework	Signage	111
14	M & C Energy	NHS Framework	Analysis	102
15	Limelight	None	Events	92

2. Main Findings

2.1 Procurement Decision Making

The audit objective was substantially achieved. The publication of a Contracts Register provides stakeholders with information on the Council's current contracts and future procurement opportunities. At the time of the review, only one purchase (No. 3) was fully recorded and 2 (No. 11 and 14) were partially recorded in the Council's Contracts Register. (See Action Plan Reference: M1)

Most (73%) of the purchases were supported by a valid contract or framework agreement that had been procured in accordance with the Council's Contract Standing Orders. Three purchases (No. 1, 5 and 15) were not supported by a valid contract, which meant that compliance with the recommended procurement fraud controls was not identifiable. Action is already being taken to procure the Marine Fuel (see HIE08/002) and Agency Staff through Scotland Excel. (See Action Plan Reference: M2)

For the 2 Council contracts (No. 3 and 11 - procured more than 4 years ago) there was no evidence to confirm that officers involved in the procurement decision had declared any conflicts of interests or offers of gifts and hospitality. The Delegated Procurement procedure was revised in 2022 and requires all decision makers to declare any interests on the Procurement Fraud Risk Assessment Checklist.

Stakeholders (including potential suppliers) should be able to report procurement concerns for subsequent independent investigation. Whilst the Council has a "Report a Fraud" web address and the resources to independently investigate concerns, potential suppliers are not informed of the fraud reporting web address within the tender documentation. (See Action Plan Reference: L1)

The e-learning training courses provide advice on the prevention, identification and reporting of procurement irregularity. The Council's Delegated Procurement Authority (DPA) register identifies 198 officers with procurement authority and 191 (97%) have a valid current training record. No officers from the

Education and Learning Service were listed on the DPA or had completed the training. (See Action Plan Reference: M3)

2.2 *Contract Management*

The audit objective was substantially achieved. For the twelve procurements with a valid contract, the prices and quantities paid were checked to the agreement. This identified:

- 9 (75%) payments paid in accordance with the contract;
- 1 (8%) quantity difference that was corrected through the payment of a supplementary invoice (No. 6);
- 1 (8%) quantity difference that will be addressed in the next contract - due in June 2024 (No. 3); and
- 1 (8%) the unit prices paid were more than the framework pricing schedule (No. 13). (See Action Plan Reference: M4)

Table 1 above, shows total spend by supplier and not total spend by each procurement contract. This means that payments in excess of individual contract values are not easily identifiable. The project for the replacement of the Council's financial system – Integra – will consider options for the recording of procurement expenditure.

3. **Conclusion**

- 3.1 The Council has broadly effective arrangements to reduce the risk of procurement fraud. The changes proposed as part of the Procurement and Contract Management Project and the implementation of the audit recommendations in the attached action plan should further mitigate the risk of procurement fraud.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	Only 1 (7%) purchase (No. 3) was accurately recorded in the Council's "current" contracts register (dated 31/08/2022), 2 (13%) purchases (No. 11 and 14) were only partially recorded and 12 (80%) were not recorded at all.	Management should ensure that procurements are published in a regularly updated Contracts Register in accordance with Contract Standing Order 14.	Contract Management guidance and training is being revised and relaunch will include communication around Contract Register – how, when and why Contracts are to be recorded, with information on how to liaise with CPSS on actioning and recording contract extensions/variations etc.	Strategic Commercial Manager, CPSS	31/12/23
M2	Medium	The Council's Contract Standing Orders had not been observed for 3 purchases (No. 1, 5 and 15) and no formal contract was in place, which means that there is no evidence to confirm that the recommended procurement fraud controls have been observed.	Management should ensure that purchases of event services are procured in accordance with the Council's Contract Standing Orders. This will also ensure that procurement legislation is complied with.	The event service for the elections has been reviewed: - For by-elections going forward we will use our own equipment (sound equipment which in April 2023 has been made available to the election team from the education service) - For each Parliamentary and Local Government Election the service will be procured adhering to the standing orders through the quotation process.	Elections Manager, Performance and Governance	Complete
M3	Medium	The Council's Delegated Procurement Authority (DPA) register (as at 30/09/2022) identifies 198 officers with procurement authority and 191 (97%) had completed the procurement training courses. No officers from the Education and Learning have been listed as	Education Management should ensure that appropriate and regular training is provided to all procuring officers before they procure goods and services.	Following a review of the Head Teacher induction process, the Managers mandatory training on the Council's Financial Regulations is now included and new Head Teachers signposted to the course. Direction has also been provided to managers undertaking Head Teacher PRDs	Head of Resources, Education and Learning	01/08/24

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
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		having DPA or completing procurement training.		that they are directed to undertake the training.		
M4	Medium	<p>For eleven procurements, the prices and quantities being paid were checked to the agreed contract:</p> <ul style="list-style-type: none"> • 8 prices/quantities invoiced reconciled to the contract/approved variation; • 1 difference was corrected through a supplementary invoice (No. 6); • 1 quantity error to be addressed in the next contract (No. 3); and • 1 (No. 13) the prices paid were more than the framework schedule. 	Management should ensure that contract invoices are only paid when the prices/quantities payable are agreed to the contract and any approved variations.	<p>The issue (No. 6) identified by Internal Audit found that the supplier was under invoicing the Council for the servicing of one site. The service has in place procedures to provide updates to all relevant officers who undertake invoice reconciliations to make sure they are aware of the agreed awarded Price Schedule for new contracts, relevant quantities and to provide further updates for any variations occurring from price or quantify reviews. Management will act to reinforce these procedures and Integra approvers will act as a cross-check.</p> <p>As skip servicing (No. 3) was historically a function part performed by the Council, the contract strategy development for the 2018 Skip Servicing contract did not have the benefit of a recorded detailed history of skip movement on which to build a more accurate specification and contract value. The Seafield Park Skip movements have been closely monitored and recorded by the Service since January of 2020 to enable accurate reconciliation of invoices, but also to enable more accurate projections of service demand. Although operations, tonnages</p>	<p>Principal Waste Management Officer, Communities and Place</p> <p>Principal Waste Management Officer, Communities and Place</p>	<p>Complete</p> <p>Complete</p>

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
			Management should make purchasing officers aware of how framework agreements operate, ensure that they register for pricing information on the Scotland Excel website and where frameworks prices are not being honoured escalate to CPSS.	and locations can vary over time, these data sets will help to inform a more accurate picture for the next Skip Servicing tender, which will rectify the issue or forecast quantities identified by Internal Audit. A review of how information on SXL frameworks and pricing is to be undertaken and a suitable solution found to having this information available.	Strategic Commercial Manager, CPSS	31/12/23
L1	Low	No information is provided to existing and potential suppliers on how they can report concerns relating to the Council's procurement process.	Management should consider providing potential suppliers with details of the Council's Report a Fraud web address in the Information to Suppliers documentation.	Agreed, this will be added to tender documentation.	Strategic Commercial Manager, CPSS	31/12/23