Committee report

SPT

Regularity audit of procurement contract award administration

Committee	Audit and Standards

Date of meeting 8 June 2018   **Date of report** 23 May 2018

Report by Assistant Chief Executive

1. Object of report

To advise the committee on the findings of a regularity audit of procurement contract award administration. This engagement is included in the annual Internal Audit plan for 2017/18.

2. Background

Procurement is the process of acquiring goods, services or works. The process spans the whole life cycle of whatever is being purchased from identification of needs, formation of a sourcing strategy; to options and supplier appraisal; through to the end of the contract or the useful life of an asset.

All contract notices for procurement with aggregated values in excess of the EU thresholds must be published throughout the EU via the Official Journal of the European Union (OJEU).

An assessment of the nature, scope of goods/services/works being procured and supplier market will determine which tender type is to be used. Procurement staff provide professional advice to services on the compliance and most appropriate procurement route.

The Scottish Government administer the Public Contracts Scotland portal. The purpose is to deliver an electronic national contracts advertising portal which contains details of contract opportunities with Scottish Local Authorities, NHS Scotland, the Scottish Government; Agencies and other public bodies. The portal delivers the following objectives:

- increase competition and support 'Best Value';

- provide valuable free contract information to suppliers;

- support public sector to achieve a transparent tendering process to EU rules;

- quick quote can be used to obtain competitive quotes for low value/low risk procurement exercises or for mini competitions within framework agreements;

- build stronger communication links with buyers and suppliers; and

- stimulate growth in Scotland.

All Scottish public sector organisations are required to use this portal as their main tool for advertising contract notices.

<u>SPT procurement arrangements</u>

Each contract (or Purchase Order placed) in SPT should comply with the Standing Orders Relating to Contacts; Financial Regulations, Scheme of Delegated Functions and Committee Terms of Reference; and relevant legislation.

The objective of this engagement was to review and evaluate procedures and monitoring arrangements in place for corporate procurement, from identification of procurement through to award (across the various procurement routes).

This engagement tested elements of the internal controls and mitigation against SPT 22: Governance arrangements, as identified in the Corporate Risk register.

3. Outline of findings

The Governance Manual (including Standing Orders Relating to Contracts and Scheme of Delegated Functions) provides the internal structure for the procurement function. In addition, the Procurement Manager has put in place a file plan structure which contributes towards adherence to the regularity framework.

Training has been provided to designated officers/operational managers on the procurement process/journey.

Engagement testing (February 2018) found a requirement to include a standard clause in SPT contracts in relation to Cyber security resilience requirements.

The engagement also identified a requirement to review records management arrangements to enhance the internal quality monitoring process.

There are areas for improvement, and these areas have been addressed by five audit recommendations. Finance & HR (Procurement) management have agreed to implement these recommendations, which are currently being actioned.

4. Conclusions

The Audit and Assurance team has undertaken a regularity audit of procurement contract award administration. Five recommendations have been agreed from this engagement.

Key controls exist but are not applied consistently and effectively in the areas tested in this engagement.

Reasonable assurance can be taken from the areas covered in this engagement with the exception of records management arrangements.

5. Committee action

The committee is asked to note the contents of this report and agree that the Audit and Assurance Manager submits a follow-up report on the implementation of the recommendations to a meeting in approximately six months.

6. Consequences

Policy consequences	*None*
Legal consequences	*None*
Financial consequences	*None*
Personnel consequences	*None*
Social Inclusion consequences	*None*
Risk consequences	*As detailed in the report*

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Name   Gordon Maclennan

Title   **Assistant Chief Executive**

Title   **Chief Executive**

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Agreed action plan: regularity audit of procurement contract award administration

No.	Recommendation	Priority	Action Proposed	Lead Officer	Due date
1.	Procedures and practices Documented procedures should be enhanced and communicated to all procurement staff. Procedures should include guidance on adherence to the following: • procurement file plan(s); • recording of reasoning for selecting procurement journey type; • use of template forms; • retention of documentation including specifications and evaluation criteria; tender receipting and opening, evaluations sheets, vetting checks, declarations of interest, authorisations and any explanatory notes in relation to Standing Orders relating to Contracts; • requirement for client department and procurement staff to declare any conflict(s) of interest for each procurement exercise; • extent of reliance placed on Procurement Contracts Scotland (PCS) supplier declarations and requirement for additional checks; • requirement for full transaction history and quality control.	Medium	Documented procedures will be enhanced and communicated to all procurement staff. A digital solution (Microsoft SharePoint) will be used to regulate arrangements with the Procurement Manager undertaking quality assurance. **Note:** The auditor advised that information security requirements must be met, in relation to storage and access of documentation, particularly in relation to the use of Microsoft SharePoint/OneDrive.	Procurement Manager	June 2018
2.	Cyber security Management should consider the inclusion of a standard clause in SPT contracts in relation to Cyber security resilience requirements.	High	Contract documentation is currently subject to review to reflect changes to General Data Protection Regulations and Cyber security arrangements.	Procurement Manager/ Senior Legal Advisor/ Digital Manager	May 2018

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3.	**Tender evaluation sheets** For evidential purposes, Procurement management should review the retention arrangements for *'e-signed'* and *'e-dated'* final version of the electronic tender evaluation scoring sheets. **Note:** if contracts relate to external funding there is a requirement to ensure any conditions (of grant) are adhered to, particularly in relation to documents retention.	High	A digital solution (Microsoft SharePoint Forms functionality) will be used to capture date, time and individual and combined user evaluations. These forms are *'edit'* protected. **Note:** The auditor advised that information security requirements must be met, in relation to storage and access of documentation, particularly in relation to the use of the above digital solution.	Procurement Manager	May 2018
4.	**Records management** A full transaction history of procurement process must be available from digital solutions (i.e. Procurement Contracts Scotland and internal digital systems), including: • a final copy of all pertinent records and documents appropriately named and filed (i.e. quotations, authorised purchase orders); • a quality control regime should be put in place to ensure that all procurement requirements, related records, decisions and authorisations have been recorded and retained prior to awarding contracts.	Medium	A digital solution (Microsoft SharePoint) will be evaluated to facilitate enhanced records management and agile working.	Procurement Manager	June 2018
5.	**Single source forms (Appendix 5)** Where no competitive process has been conducted, a single source form must be completed by the client department. The justification recorded on the form must be detailed as required in the Standing Orders relating to Contracts clause 12.	High	A briefing note will be issued to all designated staff and procurement staff to remind them of the requirement to fully complete supporting documentation.	Procurement Manager	May 2018

High – A fundamental control that should be addressed as soon as possible;
Medium – An important control that should be addressed as a priority;
Low – An issue which is not fundamental but would improve overall control.