

ABERDEEN CITY COUNCIL

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| <b>COMMITTEE</b>          | Audit, Risk and Scrutiny Committee                                    |
| <b>DATE</b>               | 29 September 2021   |
| <b>EXEMPT</b>             | No  |
| <b>CONFIDENTIAL</b>       | No  |
| <b>REPORT TITLE</b>       | Internal Audit Report AC2116 –<br>Vehicle Replacement and Procurement |
| <b>REPORT NUMBER</b>      | IA/AC2116   |
| <b>DIRECTOR</b>           | N/A   |
| <b>REPORT AUTHOR</b>      | Colin Harvey  |
| <b>TERMS OF REFERENCE</b> | 2.2   |

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on Vehicle Replacement and Procurement.

**2. RECOMMENDATION**

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

**3. BACKGROUND / MAIN ISSUES**

- 3.1 Internal Audit has completed the attached report which relates to an audit of Vehicle Replacement and Procurement.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from the recommendations of this report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

**6. MANAGEMENT OF RISK**

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

## 7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

| <b>Assessment</b>                | <b>Outcome</b>  |
|----------------------------------|---|
| <b>Impact Assessment</b>         | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| <b>Privacy Impact Assessment</b> | Not required  |

## 9. APPENDICES

- 9.1 Internal Audit report AC2116 – Vehicle Replacement and Procurement.

## 10. REPORT AUTHOR DETAILS

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## **Internal Audit Report**

### **Operations**

# **Vehicle Replacement Policy and Procedure**

**Issued to:**

Rob Polkinghorne, Chief Operating Officer  
Steven Whyte, Director of Resources  
Mark Reilly, Chief Officer – Operations  
Craig Innes, Head of Commercial and Procurement Shared Service  
Fraser Bell, Chief Officer – Governance  
Jonathan Belford, Chief Officer – Finance  
John Weir, Fleet Manager  
External Audit

## **EXECUTIVE SUMMARY**

### Background

Fleet procures all vehicles and plant in accordance with the requirements of Operations and other Council functions, and with support from the Commercial and Procurement Shared Service. Between April 2019 and February 2021, expenditure on vehicles was £8 million and plant £2 million.

### Objective

The objective of this audit was to provide assurance that the Council has an appropriate vehicle replacement policy, and that procurement complies with policy and procurement regulations/governance.

### Assurance

The Service has a Vehicle and Plant Replacement Programme covering 2016 – 2027 based on vehicles and plant being replaced based on their age. Data from the fleet management system is used to inform periodic updates to the Fleet Replacement Programme, with approval for planned expenditure sought in advance from the City Growth and Resources Committee. Where the documentation was available procurement has been made from framework suppliers per the Councils scheme of Governance with purchase orders subsequently raised. However, instances of insufficient supporting documentation for all the procurements sampled means a number of recommendations, including one graded Major at a Service Level, have been made to ensure the procurement journey is fully supported. The Service has agreed to all the recommendations made and has implemented changes to ensure adherence to the required legislation and Scheme of Governance.

### Findings and Recommendations

In order to comply with national procurement regulations the Council is required to publish a register of contracts awarded and to show the process has been undertaken fairly. This could not be demonstrated for all the sample tested in 2020/21. A recommendation graded as Significant within audited area was made that the Service should ensure all contracts entered into are recorded in the contracts register system.

In accordance with the Public Contracts (Scotland) Regulations 2015 all procurement in excess of £50,000 must be published on the Scottish Government's Public Contracts Scotland (PCS) online portal, promptly after contracts are awarded. Four such contracts were found to have not complied with this requirement. A recommendation graded Significant within audited area has been made that the Service should ensure all contracts awarded are published on Public Contracts Scotland.

Spend with two suppliers within the sample had exceeded the contract value recorded on the contracts register. Whilst there is no evidence (on a sample basis) to suggest Committee approved limits had been exceeded, values need to be to reflect the Council's current and planned spend, and to aid in monitoring against Committee, budget and Officer approvals. A recommendation graded Significant within audited area has been made that the Service should ensure recorded contract values are maintained up to date.

### Management Response

The Service has agreed to all recommendations made and has implemented changes to ensure adherence to the required legislation and Scheme of Governance.

The Service will ensure that full detail of all procurements is captured in the contracts register system, which will then offer a true reflection of contracts when the detail is

extracted and reported in the Contracts Register as part of monthly Commercial & Procurement Shared Service reporting processes.

The Service will ensure that all spend over £50,000 on any specific contract will be updated in line with government guidelines. In addition, where any cumulative spend takes overall spend above this threshold, this will be reflected within PCS by the Service, to capture the actual amounts spent against any specific contract.

The Service acknowledges that going forward there is a need to monitor spend more closely against plans agreed at Committee as part of the Business Case and Workplan cycles, as well as for any other requirements as may arise over the course of a financial year and contract term. This will also allow for better monitoring of overall spend against budgets and will allow for better, more robust reporting with the opportunity for the Service to take proactive action if any further Committee approval is needed against a particular budget/contract area.

# **1. INTRODUCTION**

- 1.1 Fleet procures all vehicles and plant in accordance with the requirements of Operations and other Council functions, and with support from the Commercial and Procurement Shared Service. Between April 2019 and February 2021, expenditure on vehicles was £8 million and plant £2 million.
- 1.2 The objective of this audit was to provide assurance that the Council has an appropriate vehicle replacement policy, and that procurement complies with policy and procurement regulations/governance.
- 1.3 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with John Weir – Fleet Manager, and Craig Innes – Head of Commercial and Procurement Shared Service.

## **2. FINDINGS AND RECOMMENDATIONS**

### **2.1 Written Procedures**

- 2.1.1 The new Fleet Manager who took post on 1 April 2021 has ensured going forward all staff involved within the procurement process with Fleet Services have undertaken procurement training and are following the Commercial & Procurement Shared Service's procurement manual and the Council Scheme of Governance. This should help ensure any previous procurement deficiencies, as highlighted later in this report are addressed in new procurement journeys.
- 2.1.2 A Vehicle and Plant Replacement Programme covering 2016 – 2027 was available from the Service. The plan was developed based on vehicles and plant being replaced based on their age, for example HGVs at 7 years and vans at 5 years. Fleet management system reports are run based on registration dates and collated annually to identify vehicles possibly due for replacement. Each vehicle is then reviewed on an individual basis to ensure it actually requires replacing. Where the vehicle has low mileage or no ongoing mechanical issues it will be deferred to following years. Changes in technology are also referred to before deciding on replacement, i.e. should a diesel vehicle be replaced with similar, when an alternative fuelled vehicle might be available in the near future. All these considerations are used to inform periodic updates to the Fleet Replacement Programme, with approval for planned expenditure sought in advance from the City Growth and Resources Committee.

### **2.2 Procurement Process**

- 2.2.1 Internal Audit sought assurance over compliance with the procurement process, in respect of a sample of vehicle and plant purchases during 2020/21 including:
- Supporting records demonstrating business requirements for the purchase
  - Lease or buy option appraisals
  - Committee or delegated approvals
  - Cost estimates
  - Use of collaborative purchasing arrangements
  - Completeness of tender documentation and specifications
  - Compliance with competition and advertising requirements
  - Analysis and scoring of tender returns
  - Evidence supporting the selection process
  - Publication of award notices
  - Use of the Council's contracts register
- 2.2.2 Whilst management assurance was previously obtained that requirements had been complied with, following staffing and management changes within the Service it was not possible to obtain documentary evidence in support of each of these areas to support the identified sample of purchases made in 2020/21.
- 2.2.3 Supporting evidence of Service analysis of a selection of vehicles available from a national framework completed in 2017 was available for one procurement exercise, though it had not been updated to reflect whether there had been any changes since, and further detail to support the workings was not available.
- 2.2.4 In the absence of records demonstrating application of the relevant processes, there is a lack of evidence to clearly show the reason for award of specific contracts, which could pose risks in the event of contractual disputes or if the award of a contract is later subject to legal challenge. It may also impact on efficiency – as future procurement exercises will have to start without the benefit of previous documented knowledge of the process.

**Recommendation**

The Service should ensure procurement exercises are fully documented, and documentation is retained and maintained up to date.

**Service Response / Action**

Agreed. It is acknowledged that there is a lack of evidence available in respect of a limited number of contract awards as detailed.

The Service will ensure adherence to procurement guidelines for all procurement exercises going forwards; the Service will ensure that all procurement exercises are fully documented and will evidence that all necessary steps have been taken to ensure adherence to the corporate guidance. All relevant documentation will be retained and will be continually updated with any relevant and ongoing Contract Management updates.

**Implementation Date**

Implemented

**Responsible Officer**

Fleet Manager

**Grading**

Major at a Service Level

2.2.5

Contracts, once in place and awarded through a competitive process, must be recorded on the Council's contracts register – in order to comply with national procurement regulations requirements to publish a register, and Council requirements to evidence the procurement process undertaken. For three of the ten cases reviewed, there were no records on the Council's contracts register system. In a fourth case a contract registered on the system had expired prior to the purchase being made. Where records were available on the system, supporting documentation did not adequately demonstrate compliance with the procurement process as discussed above.

**Recommendation**

The Service should ensure all contracts entered into are recorded in the contracts register system.

**Service Response / Action**

Agreed. Missing documentation has now been updated in BOrganised. Going forward the Service will ensure that full detail of all future procurements is captured in BOrganised which will then offer a true reflection of contracts when the detail is extracted and reported in the Contracts Register as part of the Monthly CPSS reporting processes.

**Implementation Date**

Implemented

**Responsible Officer**

Fleet Manager

**Grading**

Significant within audited area

2.2.6

In accordance with the Public Contracts (Scotland) Regulations 2015 all procurement in excess of £50,000 must be published on the Scottish Government's Public Contracts Scotland (PCS) online portal, promptly after contracts are awarded. In the six cases where contracts were included on the Council's contracts register system, tenders were completed through the establishment of framework agreements by collaborative purchasing groups (e.g. Scotland Excel), exempting them from this requirement. However, there was no evidence of this having been carried out for the remaining four cases.

**Recommendation**

The Service should ensure all contracts awarded are published on Public Contracts Scotland.

**Service Response / Action**

Agreed. The Service will ensure that all spend over £50,000 on any specific contract will be updated in line with government guidelines. In addition, where any cumulative spend takes overall spend above this threshold, this will be reflected within PCS by the Service, to capture the actual amounts spent against any specific contract.

**Implementation Date**

Implemented

**Responsible Officer**

Fleet Manager

**Grading**

Significant within audited area

**2.3 Purchasing to Payment**

2.3.1 Documentation was obtained including (where available) quotes / tenders received, purchase orders and invoices. In one case a direct award had been made in the absence of competitive quotes, which had been documented and approved. As noted in section 2.2 above there was limited further information to demonstrate the appropriate quotation or tendering exercises had taken place in the remaining cases. Purchase orders had been prepared and authorised in each case, covering the invoiced costs.

2.3.2 Where contracts had been registered on the Council's contracts register system, contract values were recorded. However, in two cases spend with the suppliers during the contract period exceeded the contract values recorded on the system – in one case by 47% / £1.8 million, and in the other by 289% / £40,000. Whilst there is no evidence (on a sample basis) to suggest Committee approved limits had been exceeded, values need to be updated on the contracts register to reflect the Council's current and planned spend, and to aid in monitoring against Committee, budget and Officer approvals.

**Recommendation**

The Service should ensure recorded contract values are maintained up to date.

**Service Response / Action**

Agreed. The details highlighted by the audit have now been updated.

The Service acknowledges that going forwards there is a need to monitor spend more closely against those agreed at Committee as part of the Business Case and Workplan cycles, as well as for any other requirements as may arise over the course of a financial year and contract term. This will also allow for better monitoring of overall spend against budgets and will allow for better, more robust reporting with the opportunity for the Service to take proactive action if any further Committee approval is needed against any particular budget/contract area.

**Implementation Date**

Implemented

**Responsible Officer**

Fleet Manager

**Grading**

Significant within audited area

**AUDITORS:** C Harvey  
G Flood  
D Henderson  
R Brand

## Appendix 1 – Grading of Recommendations

| GRADE                                  | DEFINITION   |
|--|--|
| <b>Major at a Corporate Level</b>      | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.   |
| <b>Major at a Service Level</b>        | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>   |
| <b>Significant within audited area</b> | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| <b>Important within audited area</b>   | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.   |