

Aberdeen City Council

Procurement Controls Out With PECOS

Internal Audit Report
2014/2015 for Aberdeen
City Council

November 2014

	Target Dates per agreed Internal Audit Charter	Actual Dates	Red/Amber/Green and commentary where applicable
Terms or reference agreed 4 weeks prior to fieldwork	21 July 2014	21 July 2014	Green
Planned fieldwork start date	18 August 2014	18 August 2014	Green
Fieldwork completion date	29 August 2014	29 August 2014	Green
Draft report issued for Management comment	15 September 2014	29 September 2014	Red – auditor was on leave immediately after fieldwork however follow up questions were required after manager review
Management Comments received	13 October 2014	06 October 2014 07 November 2014	Green – initial comments received by Library & Information Services Manager. Follow up required however due to October holiday this has been delayed.
Report finalised	14 November 2014	07 November 2014	Green
Submitted to Audit and Risk Committee	20 November 2014	20 November 2014	Green

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This report has been prepared solely for Aberdeen City Council in accordance with the terms and conditions set out in our engagement letter [update with new date of EL]. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive Summary

Report classification	Total number of findings					← Section 3 →
Low		Critical	High	Medium	Low	Advisory
	Control design	-	-	1	3	-
	Operating effectiveness	-	-	-	-	-
	Total	-	-	1	3	-

Summary of findings

1.01 The scope of our review was to consider the design and operating effectiveness of the key procurement controls in place over the Consilium (Building Services) and Capita (Library Services) systems. Our testing covered each of the key sub-processes and control objectives as set out in the agreed terms of reference (Appendix 2).

1.02 Based on our review of the controls implemented we have identified one medium risk and three low risk finding:

Medium

- Staff within Library Services who approve purchase orders are not on the Council's approved delegation of authority list.

Low

- The Capita system used by Library Services does not have functionality to enforce segregation of duties when approving and receipting orders. As a result, there is a risk that orders may be subject to theft on receipt.
- In a sample of 57 purchases, we identified 3 items which should have been purchased through PECOS, not Capita. The value of these items was £3,584.
- The Buildings Maintenance team do not obtain quotes or have a framework agreement in place for ordering goods for housing repairs requested through the contact centre. Purchases of this nature accounted for £7,811 (4%) of all items tested.

Management comments

Library Services - We welcome this review of our procurement process via our CAPITA Library Management System and will work to address the actions determined as a result of this review within the agreed timescales. It has been helpful at this time as we tender progress the tender for a new LMS and we will ensure that these recommendations are implemented in whichever system is selected.

Building Services - We welcome this review of our procurement process via the Consilium System and are pleased that only one low risk finding has been raised. We will work to resolve this issue as a matter of priority.

2. Detailed findings and recommendations

2.01 Purchase order approval out with authorisation limits – Library Services - Operating Deficiency

Finding		
The Council maintains an authorised signatory list which details individuals and their value limits for raising or approving purchase orders. In a sample of 57 Library Services purchase orders using Capita, in all 57 cases the person inputting and approving the order was not on the authorised signatory list or was designated as not having authority. These orders were placed by 3 individuals.		
Risks		
There is a risk that without appropriate authorisation, inappropriate items may be purchased.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	Library Services will work alongside Finance to create a scheme of delegation for the Capita system and ensure the appropriate staff are included.	Fiona Clark / Library & Information Services Manager Brian Dow / Finance Partner
		Target date:
		31 December 2014

2.02 Lack of segregation during procurement– Library Services – Control design

Finding		
<p>In 2013/14 there was c. £500,000 worth of goods purchased via the Capita system used by Library Services. Segregation of duties is a key control for ensuring that only legitimate orders are raised, approved and receipted/paid. A purchase order should be raised, approved and receipted by separate individuals.</p> <p>The Capita system used by Library Services does not have functionality to enforce segregation of duties. In a sample of 57 orders there were 38 instances where the same person authorised the purchase order and receipted the items. On discussions with management it was highlighted that the problem stems from deliveries and invoices being consolidated from a number of orders. This may result in a member of staff having to receipt a delivery which includes an element of an order they had previously approved. Due to the limited number of staff, it is unlikely that there is someone available to receipt the delivery that is completely independent from the approving process.</p>		
Risks		
Due to a lack of segregation between approving and receipting items, there is a risk that orders may be subject to theft on receipt.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	<p>The following management checks will be performed on a quarterly basis:</p> <ul style="list-style-type: none"> • Items receipted but not in stock; • Items in stock not in transit or accepted by the location; and • Items remaining in transit over 1 week. 	Fiona Clark / Library & Information Services Manager
		Target date:
		31 December 2014

2.03 Items which should be ordered through PECOS– Library Services – Control design

Finding		
<p>Library Services use a procurement system known as Capita for ordering media that will be lent to the public. All other items should be ordered using PECOS. From our sample of 57 purchases, 3 purchases to the value of £3,584 were incorrectly ordered through Capita. These items related to a website subscription, book wallets and book binding.</p> <p>Please note, the purchase with the highest value (£2,268) was historically purchased through Capita due to the terms of the contract, however this has since changed and management are in agreement that it should now be procured through PECOS.</p>		
Risks		
<p>The Council have invested significantly in PECOs given the enhanced control environment and quality of management information available. Not utilising PECOS when appropriate increasing the risk of inappropriate purchases and lessens the quality of management information available.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	<p>Management shall remind staff that all non-media purchases should be ordered via PECOS.</p> <p>Management should review purchases on a quarterly basis to ensure compliance.</p>	<p>Fiona Clark / Library & Information Services Manager</p> <hr/> <p>Target date:</p> <hr/> <p>31 December 2014</p>

2.04 Goods ordered for Building Maintenance– Building Services – Control design

Finding

To ensure the Council obtains value for money each Service is required to obtain the best price as part of the ordering process. This may take the form of using suppliers on an agreed framework, putting the work out to tender or obtaining multiple quotes from suppliers. Where not performed, a FR18 form is to be signed by the Head of Service to authorise an exemption.

The Quantity Surveying team put large contracts to tender and require quotes for all other items regardless of value. It was noted however, that the Buildings Maintenance team do not obtain quotes or have a framework agreement in place for ordering goods for housing repairs requested through the contact centre. On discussions with management it is understood that due to the high volume of items and the short time frames in which goods are required, it would be inefficient to obtain individual quotes. Consideration has been given to ensuring all items are under a framework agreement, however it has been highlighted that the delivery model for the store within Building Services is currently under review and it is not preferable to action this until the outcome is known.

Please note that this finding has been rated as low as the value of items purchased through the Building Maintenance team is significantly lower than other areas within Building Services. From the sample of purchases tested, Building Maintenance accounted for £7,811 (4%) of the total value.

Risks

There is a risk that items housing repair purchases may not be value for money.

Action plan

Finding rating	Agreed action	Responsible person / title
Low	<p>At the time of reporting it had not been possible to hold a meeting between the Operations Manager and the Head of Procurement to determine a way forward. A meeting will be held as a matter of priority to discuss the following options:</p> <ul style="list-style-type: none"> • Re-designing the delivery model of the store in an appropriate timeframe so that a framework agreement is not required; • Re-designing the delivery model of the store and putting in place a framework agreement in the interim due to timeframes for implementation; • Implementing a framework agreement and not re-designing the deliver model of the store; or • Another appropriate action agreed by both Building Services and the Head of Procurement. 	<p>Kiemon Stewart / Operations Manager, Building Services</p> <p>Craig Innes / Head of Procurement</p> <hr/> <p>Target date:</p> <p>31 December 2014</p>

Appendix 1 – Background and scope

Background

- 2.01 Aberdeen City Council uses PECOS which is a “Purchase-to-Pay” system. PECOS is used by approximately 100 Scottish public sector organisations from across central government, local government, NHS boards, universities and colleges.
- 2.02 PECOS encompasses the steps required for ordering a product or service, through the authorisation process, to sending the supplier the purchase order and ultimately to receiving the products/services and paying the suppliers invoice. Using PECOS to automate this process helps to achieve a sound control environment and deliver greater efficiencies.
- 2.03 A number of services within the Council use other procurement systems. Management should have assurance that the control environment out with PECOS is fit for purpose, working effectively and that value for money can be clearly demonstrated. This report reviews the effectiveness of the key procurement controls in place over the Consilium (Building Services) and Capita (Library Services) systems.

Procurement Procedures

Library Services

- 2.04 When Library Services require media, a member of staff will complete an order catalogue or print a saved online shopping basket from an approved supplier. Another member of staff will input and save the order as authorised on the Capita system. A signed copy is retained and the order submitted. If a new supplier is required, a standard form and supporting evidence is submitted to the Accounts Payable team to add to the eFinancials system.
- 2.05 The main supplier, Bertram Library Services within Scotland Excel Framework), offers an interface with Capita when the shopping basket is submitted, all order information imports overnight into Capita which then raises the purchase order automatically. This automates order input, with approval, and the rest of the process as detailed above.
- 2.06 Items received have their barcodes scanned into the system and their status changed from pending to being in stock. Upon being invoiced each item is checked against the PO and checked whether receipt has occurred and, if so, is marked as approved for payment. An overnight interface then extracts all approved invoices into the eFinancials ledger for payment to proceed. Payment is automatically blocked if the interface provides a supplier not in the eFinancials system.

Building Services

- 2.07 Building Services operate a contact centre for repairs and maintenance. The member of staff takes the tenant through a diagnostic tool which determines the trade required and creates a job on Consilium. Purchase orders may then be raised against the job code. Authorisation workflow was implemented in May 2014, so the system automatically enforces that separate individuals raise and approve the order. This authorisation workflow agrees with the Council’s authorised

signatory list. It should be noted that sample testing of items purchased prior to May 2014 did highlight instances of the same person raising and approving the order. However, as the system now enforces segregation of duties a finding has not been raised.

- 2.08 Orders are printed with electronic signatures and mailed to the supplier. When the goods or services are confirmed as delivered, the order is marked as received on the system. Consilium automatically prevents payment authorisation if the item has not been receipted.
- 2.09 When the invoice is received, the creditors team matches items against the order and authorises payment. The team collates a batch of invoices and attaches a signed form stating they have been processed. The team leader then reviews the batch and signs the form as authorised, sending an email to the Development team as notification. At the end of the working day, the systems team manually instigates the automated interface, and all approved invoices upload to a server. The Development team then checks the upload against the notification email before importing into eFinancials.
- 2.10 Where there has been a tendered contract, the supplier receives automated emails from Consilium for every job raised against the contract. The contract serves as authorisation so individual POs are not raised for each job. The supplier then periodically provides a listing of completed jobs; these are matched against the system and confirmed as completed, before the invoice is signed as authorised and passed to creditors for processing.

Procurement System

Library Services

- 2.11 Library Services use a procurement system known as Capita for ordering media that will be lent to the public. All other items should be ordered using PECOS and through discussions with management it was highlighted that every effort is made to use PECOS when appropriate. A listing of what can and cannot be ordered via each system is formally defined in documented procedures.
- 2.12 Capita is a Library Management System and the ordering process feeds directly into its stock management function. Ordered items appear in stock as pending and require the item barcode to be scanned into Capita before being classed as stock. Barcode scanners are used for each transaction with the public, and the system automatically updates stock and manages whether items are overdue for return.
- 2.13 Capita is also used to maintain the library catalogue. When an item is scanned into the system its catalogue data can be imported from an external database of media records. The system interfaces with servers owned by the company behind Capita, and this company hosts the online catalogue where the public can search for and reserve media.
- 2.14 PECOS is unable to provide a stock management function and would not be able to provide a library catalogue or manage transactions with the public.

Building Services

- 2.15 Building Services use a procurement system known as Consilium for all work and repairs related orders. All other items are ordered using PECOS. Although the definition of what can and cannot be ordered via each system is not formally documented, it was noted that a purchase via PECOS was rare and related to items such as office furniture. On enquiry, members of staff were able to confirm this and through sample testing, we highlighted no exceptions to this.

- 2.16 Consilium is a job costing system centred around a costing ledger. All transactions, such as orders raised on the system populate the costing ledger so relevant costs against the job can be monitored. This includes monitoring of budgets, income, certified values, cash received, estimated versus actual quantities used and whether costs are committed or accrued.
- 2.17 Consilium also has a stock management module and a time keeping module. The former tracks quantities and the average price of each item in stock, while the latter enables workmen to record labour against assigned jobs. Average prices and labour used feed into the Costing Ledger.
- 2.18 PECOS is unable to provide a stock management function or record labour to charge against jobs.

Value for Money

- 2.19 To ensure the Council obtains value for money each Service is required to obtain the best price as part of the ordering process. This may take the form of using suppliers on an agreed framework, putting the work out to tender or obtaining multiple quotes from suppliers. Where not performed, a FR18 form is to be signed by the Head of Service to authorise an exemption.

Management Reporting

- 2.20 Business Objects reporting is used by both services to monitor costs. In Library Services those users with administrator privileges can run and customise reports on Capita data, and there is regular review of costs per budget code and location. In Building Services standard reports have been created and integrated directly into the online version of Consilium. Each user group has access to a different set of reports depending on their roles and privileges.
- 2.21 Both systems also allow direct querying to obtain costs per supplier, and this data may be exported for analysis.

Scope and limitations of scope

- 2.22 The agreed terms of reference and detailed scope of this review is set out in Appendix 2. We have undertaken a review of the design and operating effectiveness of the key procurement controls in place over the Consilium (Building Services) and Capita (Library Services) systems.

Appendix 2 – Agreed Terms of reference

Background

Aberdeen City Council uses PECOS which is a “Purchase-to-Pay” system. PECOS is used by approximately 100 Scottish public sector organisations from across central government, local government, NHS boards, universities and colleges.

PECOS encompasses the steps required for ordering a product/service, through the authorisation process, to sending the supplier the purchase order and ultimately to receiving the products/services and paying the suppliers invoice. Using PECOS to automate this process helps to achieve a sound control environment and deliver greater efficiencies including:

- ☐ Ensuring suppliers available for use are providing value for money;
- ☐ Increasing visibility of spending behaviours and patterns across an organisation;
- ☐ Develops insight and control over how items are ordered and invoices are processed;
- ☐ Automating the flow of transactions to release efficiencies and savings; and
- ☐ Provides management information to inform future procurement plans

Within number services it has been acknowledged that it may be impractical to use PECOS. As a result, management should have assurance that the control environment out with PECOS is fit for purpose, working effectively and value for money can be clearly demonstrated.

Scope

We will review the design and operating effectiveness of the key procurement controls in place over the Consilium (Building Services) and Capita (Library Services) systems. A review of controls in place over CareFirst (Social Care & Wellbeing) will be performed in November 2014. The sub-processes included in this review are:

Sub-process	Control objectives
Policy and Procedure	Guidance is in place governing the circumstances in which an order can be raised out with PECOS

Ordering and Receipting

For a sample of purchases ordered out with PECOS:

- There is an appropriate business case for the purchase being raised out with PECOS. The rationale is allowable (as per guidance), or the exception has been subsequently reviewed and approved by the Central Procurement Unit (CPU);
- The purchase has gone through a competitive tender process or an FR18 form has been signed by the Head of Service;
- The contractor is on the Council's central contract list, or the rationale for adding a new contractor to the system is justified and approved;
- A purchase order is raised for all purchases. Purchases are supported by a business need and approved in line with the delegated purchasing authority
- Goods/ services received are matched to an approved purchase order before receipt and payment; and
- There is segregation of duties between those who place orders, receive goods/services and authorise payment; and
- Value for money can be clearly demonstrated.

Monitoring

Management have adequate visibility of spending patterns across the service.

Approach

Our audit approach is as follows:

- ☐ Obtain an understanding of the procedures in place through discussion with key personnel and review of documentation.
- ☐ Identify the key risks in respect of the procurement cycle out with PECOS
- ☐ Evaluate the design of the controls in place to address the key risks.
- ☐ Test the operating effectiveness of the key controls on a sample basis.

Please see Appendix 3 for a summary of the limitations to the scope of our review, and a summary of the respective responsibilities of the auditors and management.

Appendix 3 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of procurement controls out with PECOS, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to procurement controls out with PECOS is as at June 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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