



# ABERDEEN CITY COUNCIL

## Internal Audit Report

### Housing

## Building Services Procurement

**Issued to:**

Pete Leonard, Director of Communities, Housing & Infrastructure  
Richard Ellis, Interim Director of Corporate Governance  
John Quinn, Head of Land & Property Assets  
Steven Whyte, Head of Finance  
Craig Innes, Head of Procurement  
Graham Williamson, Operations Manager  
Pamela Cruickshank, Property Manager  
Anne MacDonald, Audit Scotland

## **EXECUTIVE SUMMARY**

The objective of this audit was to consider whether adequate controls are in place regarding procurement of materials by Building Services. During 2015/16, the Service procured £4.963 million of construction materials for the repair and maintenance of social housing.

In general, materials were procured from framework suppliers providing assurance over compliance with legal requirements regarding procurement. However, some materials were purchased from non-framework suppliers and the level of spend with certain suppliers, including framework suppliers, was not approved by Committee as required by the Council's own governance procedures.

The Service has agreed with recommendations made to address the issues identified.

## **1. INTRODUCTION**

- 1.1 In 2015/16, £4.963 million was spent on construction materials for the repair and maintenance of social housing. The letting of contracts is undertaken by the Building Services team within Communities, Housing and Infrastructure, supported by Commercial and Procurement Services (CPS).
- 1.2 The objective of this audit was to consider whether adequate controls are in place regarding procurement of materials. This involved a review of procedures and analysis of procurement spend by Building Services during the financial year 2015/16.
- 1.3 References to specific Financial Regulations are to the September 2014 version and references to the Standing Orders relating to Contracts and Procurement refer to the March 2014 revision. These were the governance documents in place at the time that the transactions tested were completed. A new set of Procurement Regulations was approved by the Finance, Policy and Resources Committee in June 2016 for immediate implementation.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with John Quinn, Head of Land & Property Assets, Graham Williamson, Operations Manager, Pamela Cruickshank, Property Manager and Carol Wright, Business and Procurement Improvement Manager.

## 2. FINDINGS AND RECOMMENDATIONS

### 2.1 Procedures & Written Guidance

- 2.1.1 The procurement of building materials is governed by EU Procurement Legislation and the Council's Financial Regulations and Standing Orders Relating to Contracts and Procurement.
- 2.1.2 Relevant staff were aware of the provisions of the above documents, and the Service has developed local procedural flowcharts which are both comprehensive and version controlled.
- 2.1.3 Financial Regulation 5.11.2 states that "Orders must be issued for all work, goods or services, or such other expenditure as the Head of Finance may approve." It is therefore required that an official Purchase Order is raised prior to instructing works and services or requisitioning goods from suppliers. 30 orders placed during the financial year 2015/16 were reviewed; all were raised in accordance with Financial Regulation 5.11.2.
- 2.1.4 It is good practice to ensure that requisitions are approved by a member of staff senior to the requisitioner, to protect staff from accusations of undue influence. The authoriser should also be someone within the Service that has the authority to incur expenditure on behalf of the Council, and who has knowledge of the budget availability. It was noted that this is not always the case, with some authorisers of orders on the same grade as the individuals creating the order. The Service advised that it was considered a necessity to have a number of people available to approve orders to prevent delays in the supply chain.

#### **Recommendation**

The Service should consider reviewing who has authority to approve purchase orders.

#### **Service Response / Action**

Agreed. A review will be undertaken of the approval process structure with a view to introducing key check points and drop down menus within the Total System to aid consistency and authorisation in the management of purchase orders.

#### **Implementation Date**

December 2016

#### **Responsible Officer**

Surveying Manager

#### **Grading**

Important within audited area

### 2.2 Contracts Monitoring

- 2.2.1 In order to comply with EU Procurement Regulations, most categories of supply with an estimated value exceeding specified thresholds must be publicly tendered; in 2015/16 the relevant threshold was £172,514. Section 3 of the Standing Orders Relating to Contracts and Procurement require EU compliant tender exercises to be completed in all instances where the estimated cost over the life of the contract is 10% less than these thresholds and above (thus, £155,263). Between £60,000 and this figure a non-EU tender exercise was required; up to £60,000 requires four competitive quotes.
- 2.2.2 Financial Regulations require the Head of Procurement to maintain a Contract Register for the monitoring of all contracts and framework agreements developed or in use across the Council, which should include the value and amount of each contract. Each Commissioning Service is responsible for ensuring that the prescribed information as detailed by CPS is communicated to them on an annual basis. The Service advised that they have assisted CPS in the provision of this information.
- 2.2.3 The Service does not maintain a Contracts Register since, rather than entering into contracts with suppliers, it uses external framework agreements for Timber and Building Materials, Trade Materials, Plumbing Supplies, and Electrical Supplies. Section 21(1) of the Standing Orders states that use of any specific external frameworks or contracts by

the Council must be approved in writing by the Head of Procurement and the Head of Legal and Democratic Services prior to the Council entering into such frameworks / contracts. The CPS confirmed that an exercise is underway to ensure all such contracts and frameworks in place have been approved.

- 2.2.4 The Service has created a “Suppliers Dashboard” for use by staff when placing orders. This is drawn from the framework agreements and includes supplier information and the dates over which the agreements are valid. It was reviewed and was up to date. However, no information on kitchen suppliers was included despite there being a framework / contract available for the provision of kitchen materials. The Service has advised that this information will be added to the Dashboard; a recommendation is added to track progress. In addition, no information was included about alternative trading names or subsidiary companies used by framework suppliers; this is further discussed below.

**Recommendation**

Kitchen suppliers’ information should be added to the Suppliers Dashboard.

**Service Response / Action**

Agreed. The Service will extend the scope of the Supplier Dashboard to cover not just Scotland Excel tenders (which was its original purpose), but also other selected tenders, that would benefit from being communicated to staff within the Service. The contract register has already been put in place, following a request from CPS in May 2016, and the Service will continue to maintain the register.

**Implementation Date**

December 2016

**Responsible Officer**

Surveying Manager

**Grading**

Important within audited area

**2.3 Suppliers**

*Framework Suppliers*

- 2.3.1 Whilst staff are encouraged to refer to the Supplier Dashboard before ordering, there is no control within Total Consilium to prevent the use of other suppliers, and there are a number of apparent non framework suppliers included on the system. A number of these suppliers are subsidiary companies for suppliers named in the framework agreements. This is not evident within Total Consilium.

**Recommendation**

An exercise should be undertaken to improve supplier data available within the Total Consilium system and restrict available suppliers to framework suppliers and non-framework suppliers awarded contracts in accordance with Standing Orders Relating To Contracts and Procurement.

**Service Response / Action**

Agreed. The Service will investigate introducing key checkpoints and drop down menus in the Total System, together with adding relevant data for Scotland Excel supplier subsidiary companies. There may be a cost implication, due to Total making charges for these types of system changes. We will continue to direct any orders towards framework suppliers, although compliant ordering from non-framework suppliers is permitted.

**Implementation Date**

December 2016

**Responsible Officer**

Surveying Manager

**Grading**

Important within audited area

- 2.3.2 The majority of procurement of building materials was from framework suppliers. However, of the top 30 suppliers, 5 were identified as non-framework suppliers. During the financial year 2015/16, £70,150 of orders were placed with these suppliers as shown below:

Supplier 1	£4,700
Supplier 2	£8,800
Supplier 3	£45,800
Supplier 4	£2,600
Supplier 5	£8,250
<b>Total</b>	<b>£70,150</b>

2.3.3 Per Standing Order 6, a written contract is required for this level of expenditure, following the receipt of 4 quotes to ensure best value. Since these suppliers were not part of a framework agreement, and no contract was in place, these orders were placed in breach of Standing Orders Relating to Contracts and Procurement.

2.3.4 The Service advised that orders were no longer being placed with Supplier 4. The Service also advised that three of the suppliers (1, 2 and 5) had, until recently, been framework suppliers. Some orders had been placed during a transitional period while systems were updated.

**Recommendation**

To reduce the risk of breaching the Council's procurement rules, the Service should ensure that systems are updated as soon as possible after framework agreements are renewed. This is to ensure that only current framework suppliers and suppliers with contracts compliant with Standing Orders Relating to Contracts and Procurement, are shown.

**Service Response / Action**

Agreed. There are significant limitations of the Total system, when updating suppliers and prices, and there could be a staff cost for updating these systems. An element of a transition period will always be unavoidable, due to the way that these contracts operate. This transition period will be minimised as much as possible. We will continue to direct any orders towards framework suppliers, although compliant ordering from non-framework suppliers is permitted.

**Implementation Date**

December 2016

**Responsible Officer**

Surveying Manager

**Grading**

Significant within audited area

2.3.5 In other cases the Service advised it was necessary to continue using the suppliers in order to maintain consistency with goods previously supplied, or because the framework suppliers were not able to meet the needs of the Service. In such cases the Service should work with Commercial and Procurement Services to ensure that correct procedures are followed, considering estimated spend, with regards to obtaining quotes or putting the requirement out to tender.

**Recommendation**

The Service should ensure that it complies with Standing Orders Relating to Contracts and Procurement and Financial Regulations. This should be done in partnership with Commercial and Procurement Services.

Product quality or compatibility issues should be raised with Commercial and Procurement Services who can address as part of the contract management process.

**Service Response / Action**

Agreed. Building Services and CPS have arranged regular meetings to work closer together on interpreting the Financial Regulations, and in discussing examples of how to implement the regulations in practice. CPS will also be creating a form for notifying them of any instances of requiring to purchase materials from a non-framework supplier.

<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
December 2016	Surveying Manager	Significant within audited area

### *Aggregate Spend*

2.3.6 The List of Delegated Powers permit Directors, in consultation with the relevant Conveners of Committees, to authorise spend up to £60,000 without the need to report to Council or Committee for approval, subject to the requirements of Standing Orders in relation to competitive quotes for supplies / services contracts below £60,000. Standing Order 3(2) mandates that aggregate value must be taken into account. The issues raised by listing the requirements of the Financial Regulations, Standing Orders relating to Contracts and Procurement and delegated powers separately, and by exception rather than rule, are discussed in Internal Audit report AC1605. However, officers have no documented delegated authority to approve spend in excess of £60,000 (£50,000 from 1 April 2016) and therefore such spend should be reported to Committee for approval in advance of tendering and committing expenditure. This also applies when orders are placed with a framework supplier.

2.3.7 The amount of money spent with each supplier in the Financial Year 2015/16 was reviewed. The five suppliers with the highest levels of spend are shown in the table below. The analysis was extended to consider the values spent with these suppliers over the preceding years. The Service confirmed that the aggregate spend was not considered and Committee approval was not sought.

Supplier	Spend in 2015/16	Spend over 3 year period (including 2015/16)	Spend over 4 year period (including 2015/16)
1	£854,800	£1,841,500	£1,955,200
2	£528,100	£1,648,500	£2,518,500
3	£324,200	£760,300	£855,000
4	£295,600	£1,062,000	£1,391,600
5	£260,600	£948,300	£1,063,700

2.3.8 The Service has highlighted that in the Draft Housing Revenue Account (HRA) 2015/16 to 2019/20 Budget presented to the Finance, Policy & Resources Committee on 4 December 2014 that it sought approval in item 2(a) for spend on Response Repairs and Maintenance as part of the proposed HRA budget. Estimated expenditure was set against subject headings within the Housing Repairs Draft Budget in Appendix 1 to the report. The Service therefore considers that overall estimated spend on Response Repairs and Maintenance has been reported to and approved by Committee. However, Standing Orders 1 (3) states that “the allocation of a budget as part of the Council’s budget setting process is insufficient”.

2.3.9 Internal Audit considers that the budget headings within the report are not specific enough to identify the relevant works and supplies to be procured. There therefore remains a risk that commitments may be entered into by the Service which the Council could not have anticipated, and may not have approved had the full details been made available in advance. A similar issue was considered in audit report AC1623 and is being addressed by CPS through new Procurement Regulations, section 4.1.1.4 of which states that: “Where it is expected that there may be multiple call-offs from a framework agreement that has been approved for use by the Head of Commercial & Procurement Services, then an initial report detailing requirements shall be submitted to the relevant Committee depending on the estimated total value of the call-offs and in advance of these being made ... Where such a report has been submitted and approved, then the procuring Service must advise the Committee on an annual basis of expenditure made within that year, and cumulative expenditure against initial estimate”.

**Recommendation**

The Service should work with CPS to ensure that staff are familiar with and follow new Procurement Regulations on approval of call-offs from framework agreements.

**Service Response / Action**

Agreed.

**Implementation Date**

December 2016

**Responsible Officer**

Surveying Manager

**Grading**

Important within audited area

**2.4 Financial Monitoring**

2.4.1 Budget monitoring information is discussed by the Accountancy team with the Service on a monthly basis. The period 12 budget monitoring statement for financial year 2015/16 provided by Accountancy was reviewed.

2.4.2 The Accountancy team advised that they had observed during analysis of their year end figures drawn from eFinancials that in some areas the reported spend differed significantly from the budget; for instance, in Response Repairs, spend on materials was 166% of the budget, whilst Payments to Outside Contractors was only 40% of the budget. The Service advised that their figures within Consilium did not show similar differences.

2.4.3 The Accountancy team advised that this could be explained by the mis-coding of invoices as materials rather than services, however could not confirm this as invoice data in eFinancials is limited to supplier, invoice number and value, and the codes input by the Service during processing through Total Consilium. As a result, the Accountancy team are not able to effectively monitor spend and identify miscoding, which in turn makes it more difficult to forecast spending accurately and establish appropriate budgets.

**Recommendation**

The Service should review the codes used when processing invoices to ensure that they are correct and accurately reflect the expenditure incurred. The Accountancy team should be advised of any errors, and a journal entry processed.

The Service should work with the Accountancy team to share data to allow for better forecasting and budget monitoring.

**Service Response / Action**

Agreed. The Service will continue to work closely with the Accountancy team. Regular meetings have been set up with our contact at the Accountancy team, and cost forecasting information will now come from the Quantity Surveyors team within the Service, instead of the Contract Managers, in order to provide more accurate budget forecasting.

**Implementation Date**

December 2016

**Responsible Officer**

Surveying Manager

**Grading**

Important within audited area

**AUDITORS:** D Hughes  
M Beattie  
L Jarvis

## 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.