

GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

COMMITTEE SUMMARY

Item 6(b)

3rd August 2022

Title of the Audit: Corporate Review – Procurement: Non-Contract Spend

1. Introduction

1.1 As part of the agreed Internal Audit Plan, we have carried out a review of Non-Contract Spend across the Council. Local authorities are bound by legislation and regulations regarding public procurement. The Council's Standing Orders Relating to Contracts is the main internal governance document which should be complied with.

1.2 There can be occasions where Services may have justifiable reasons for using non-contracted providers. However, procuring goods or services from non-contracted suppliers can potentially expose the Council to various risks, including using suppliers who have not been subject to financial vetting processes, or who may not have sufficient capability or capacity to provide the volume or quality of goods/services required. Other risks may include value for money not being achieved, suppliers with insufficient insurance cover could leave the Council open to liabilities or no form of recourse should anything go wrong, and a lack of proper governance could lead to perceived or actual conflicts of interest between Council officers and suppliers.

1.3 The purpose of the audit was to gain assurance that expenditure with non-contracted suppliers is minimised, and, where this does take place, that there are valid justifiable reasons, and processes are carried out in accordance with the Standing Orders and Corporate Procurement Manual. The scope of the audit included:

- Reviewing various sources of purchasing information to identify potential areas of non-contract spend for further analysis.
- Selecting a sample of non-contract spend for review to confirm appropriate action has been taken by the Corporate Procurement Unit (CPU) and Services to ensure compliance with the Council's Standing Orders and Corporate Procurement Manual, and
- Reviewing current policies, procedures and supporting documents to ensure they are up-to-date and relevant.

2. Audit Opinion

2.1 Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements and three recommendations which management should address.

3. Main Findings

3.1 We found that some key controls are in place and operating effectively. Documented policies, procedures and guidance relating to procurement activity are readily accessible to relevant staff. Revisions, additional guidance or updates to regulations are received by the CPU and communicated as appropriate. Non-contract spend paid through the accounts payable master vendors system is regularly analysed by the CPU, who collate Spend Opportunity Analysis Reports

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(SOARs) and issue these to nominated Service contacts quarterly for review.

3.2 Procedural and system controls are in place within the accounts payable module of the financial system (SAP) to help ensure segregation of duties and prevent suppliers being added to the system without approval from CPU officers. We also established that monitoring arrangements are in place within Services for additional payments methods such as corporate credit cards and purchase cards and we did not identify practices which suggest these are used to bypass procurement processes.

3.3 Through our fieldwork we noted that there is an established process which is used if circumstances mean it is not feasible to invite bids or seek quotations for required goods, works or services. Based on our sample of nine such cases, all complied with the main requirements of the process.

3.4 However we identified examples of non-compliance and areas for improvement. We noted that in some instances, Services had not provided a response to the CPU on the cases of apparent non-compliance identified in SOARs. We performed an additional sample check of suppliers within SOARs for all Services, and found some further examples of non-contract spend, albeit we note that in most cases, explanations for this were reasonable due to operational requirements, were in response to Covid-related emergency requirements, or procurement opportunities had been identified and were being progressed. In some Services, we noted that there were suppliers with whom cumulative spend

exceeded procurement thresholds.

3.5 We reviewed a sample of expenditure made via the One Time Vendor (OTV) payment route to determine that this was not being used to bypass procurement rules. We found that the use of the OTV route was largely compliant with the strategy, with 11 of the 16 invoices checked adhering to the requirements. In the remaining cases, the OTV rules had not been fully followed, although some had mitigating explanations such as Covid-19.

3.6 We noted that the Standing Orders Relating to Contracts are currently under review and require to be updated to reflect changes in applicable procurement legislation and new procurement thresholds.

3.7 An action plan is provided at section four outlining our observations, risks and recommendations. We have made three recommendations for improvement. The priority of this is:

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Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	2
Low	Lower level controls absent, not being operated as designed or could be improved.	1
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

3.8 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.9 We would like to thank officers involved in this audit for their cooperation and assistance.

3.10 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

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No.	Observation and Risk	Recommendation	Priority	Management Response
<p>Key Control: Expenditure with non-contracted suppliers is identified and monitored, and appropriate action taken by the CPU and Services to ensure compliance with procurement legislation and the Council's Standing Orders.</p>				
<p>1</p>	<p>We noted that in some instances, Services had not provided a response to the CPU on the cases of apparent non-compliance identified in SOARs.</p> <p>We performed an additional sample check of suppliers within SOARs for all Services, and found some further examples of non-contract spend, albeit we note that in most cases, explanations for this were reasonable due to operational requirements, were in response to Covid-related emergency requirements, or procurement opportunities had been identified and were being progressed.</p> <p>In some Services, we noted that through analysis of SOAR data there were non-contracted suppliers with whom cumulative spend had exceeded procurement thresholds, compounding initial non-compliance with procurement rules.</p> <p>The use of non-contracted suppliers increases the risk that the Services use suppliers who have not been subject to financial vetting processes, that value for money may not be achieved, or a lack of proper governance could lead to potential conflicts of interest between Council officers and suppliers.</p>	<p>Council Services should be reminded of the requirement to engage with the SOAR process and work with the CPU to reduce and address non-contract spend.</p>	<p>Medium</p>	<p>Response:</p> <p>CEX – In progress.</p> <p>CPU - The CPU will remind staff of the importance of the SOAR process via the quarterly SOAR communications; the response rates of Service Areas will also be shared with Service Heads as part of their Annual Added Value Reports and will also be covered at the next meeting of the Asset Board.</p> <p>ES – Accepted. Better working relationships between ES and Corporate Procurement Unit to review spend highlighted within the SOAR reports. To strengthen this arrangement 6-weekly meetings now take place between CPU and ES to discuss items within the report and to assess opportunities and areas of non-compliance.</p> <p>FS – Accepted</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
				<p>NRS – Accepted</p> <p>SWS – Will issue reminders to staff in conjunction with SOAR communications from CPU.</p> <p>Officer Responsible for Implementation:</p> <p>CEX – Head of Policy & Governance</p> <p>CPU – Operational Procurement Manager, Head of Corporate Procurement</p> <p>ES – Business Manager</p> <p>FS – Head of Service Development and Head of Catering & FM</p> <p>NRS – Divisional Director</p> <p>SWS – Principal Officer</p> <p>Timescale for Implementation:</p> <p>CEX – August 2022</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
				CPU – July 2022 ES – August 2022 FS – June 2022 NRS – June 2022 SWS – August 2022

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: OTV payments are not used to bypass or undermine procurement rules.				
2	<p>We reviewed a sample of expenditure made via the OTV route to determine that this was not being used to bypass procurement rules and that the strategy was being adhered to. We found that the use of the OTV route was largely compliant with the strategy and with procurement rules, with 11 of the 16 invoices checked adhering to the requirements. In the remaining cases, the OTV rules had not been fully followed, although some had mitigating explanations such as Covid-19.</p> <p>However, given that the Covid-19 pandemic has moved on from the initial crisis period, and with a return to business as usual arrangements, there is a risk that practices which emerged during the pandemic could continue and increase the possibility that OTV is used to make payments to non-contracted suppliers which would not be detected by the SOAR process.</p>	A reminder of the OTV process should be issued to all Service representatives, highlighting that this should not be used to evade procurement requirements.	Medium	<p>Response:</p> <p>CEX – In progress.</p> <p>ES – The OTV process will be recirculated to all service representatives.</p> <p>FS – Accepted</p> <p>NRS – Accepted</p> <p>SWS – Accepted</p> <p>Officer Responsible for Implementation:</p> <p>CEX – Head of Policy & Governance</p> <p>ES – Business Manager</p> <p>FS – Head of Service Development and Head of Catering & FM</p> <p>NRS – Divisional Director</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
				SWS – Principal Officer Timescale for Implementation: CEX – August 2022 ES – June 2022 FS – June 2022 NRS – June 2022 SWS – June 2022

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Procurement policies, procedures and supporting documents are up-to-date and accessible to all relevant staff.				
3	<p>The Standing Orders Relating to Contracts are currently under review and require to be updated to reflect changes in applicable procurement legislation and new procurement thresholds.</p> <p>This increases the risk that officers may not be aware of the correct regulations/thresholds.</p>	<p>A timescale should be agreed for the revision and publication of the Council's Standing Orders Relating to Contracts.</p>	Low	<p>Response:</p> <p>Revised Standing Orders were approved by Council on 19th May 2022.</p> <p>Officer Responsible for Implementation:</p> <p>Director of Legal and Administration</p> <p>Timescale for Implementation:</p> <p>May 2022 – Complete</p>