

# **Internal Audit report: Compliance with Contract Standing Orders**

**Audit Committee**

**Date: 5<sup>th</sup> June 2018**

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Author: Head of Internal Audit

Wards: None

Parishes Affected: None

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## **1. Purpose and Reasons**

- 1.1 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating effectively.
- 1.2 Members requested that at least one individual audit report be presented to each meeting of the Committee. The Internal Audit report on *compliance with contract standing orders*, was selected to be presented to this Committee meeting.
- 1.3 The initial report was finalised in January 2018.

## **2. Recommendations**

The Committee is recommended to:

- 2.1 It is recommended that Audit Committee note the report.

## **3. Detail**

Background

- 3.1 Contract Standing Orders set out the requirements, including the EU Procurement Regulations that must be upheld to ensure that the Council's procurement arrangements are legal. These form part of the Council's constitution.
- 3.2 The revised (October 2016) Contract Standing Orders have rationalised and simplified the financial thresholds at which tenders are required. For services and supplies the tender limit has been aligned to the EU Procurement limit of £164,176 but for works a tender limit has been set at a level below the EU limit i.e. £500,000.
- 3.3 Compliance with Contract Standing Orders will ensure that the Council meets the legal requirements of the EU Procurement Regulations.
- 3.4 Internal Audit carried a review of a sample of payments made through the Council's finance system to ensure that they were in compliance with Contract Standing Orders

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## Key findings

- 3.5 Audit testing of works, services and supplies paid via the Oracle Financial system, found eleven of thirteen suppliers were procured in breach of Contract Standing Orders and eight of these were also in breach of the EU Procurement Regulations. In these instances there were no contracts or best value justifications in place to support the procurement.
- 3.6 A survey by the auditor of officers involved at different stages of the above procurements was carried out and 22% of these Officers rated their knowledge of Contract Standing Orders as good. However, the findings above demonstrate a low level of compliance which exposes the Council to the risk of legal and commercial challenge, financial penalty and reputation damage. This also compromises the Council's ability to demonstrate value for money.
- 3.7 Guidance and training has been and continues to be made available to commissioners in procuring works, services and supplies. Procurement Surgeries (comprising of officers representing Procurement, Finance and Legal functions) have been introduced and are run twice a week (subject to there being a need). Officers advised that they found the new surgeries helpful in dealing with both exemptions to Contract Standing Orders including single source specialists, unforeseen emergencies and the formal approval of contract extensions. However, the terms of reference for the Procurement Surgeries do not require escalation of any procurement non-compliance with Contract Standing Orders and EU Procurement Regulations, to the relevant Head of Service or Director of Law and Democratic Services. There is also a lack of a monitoring of decisions made at the Procurement Surgeries to ensure that any actions agreed to address emerging risks and issues have been discharged.
- 3.8 A report of total spends by supplier and financial period is available from the Oracle Financial System from which to monitor compliance with approved values of spend (Form C/Procurement Authorisation Document) and the EU Procurement Regulations. However, due to a lack of Procurement team resource this check is not performed on a regular basis to provide assurance regarding compliance. The current release of the Oracle Financials System, Accounts Payables, used by the Council does not include a commitment accounting function. There are no automatic alerts reported to highlight spend which is nearing the approved Procurement Approval Document value or where this may have been exceeded.
- 3.9 The auditor concluded that stronger rigour is needed around the basic principles of procurement practice and recommends mandatory training in the Procurement Toolkit for all commissioning officers.

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## **4. Alternative Options**

4.1 Not applicable

## **5. Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

5.1 There are no direct financial implications arising from this report.

### Legal and Human Rights Implications

5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

### All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 None

### Diversity Impact Assessment

5.4 None

### Risk Management

5.5 Potential risks to the Council are identified in the individual audit report attached as Appendix 1.

## **6. Consultees**

6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

6.2 The following officers were consulted on the Internal Audit report attached:

Corporate Director: Resources and Growth; Procurement Manager; Principal Solicitor; Corporate Director: Children Services; Director: Human Resources and Organisational Development; Head of Corporate Programmes and Innovation

## **7. Background Papers**

7.1 None

## **8. Appendices**

8.1 Appendix 1: Internal Audit report – Compliance with Contract Standing Orders

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