

Schools Themed Audit- Procurement

City of York Council

Internal Audit Report 2015/16

Business Unit: Adults, Children & Education,
Responsible Officer: Assistant Director Education & Skills
Service Manager: Headteachers
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	P1	P2	P3
Actions	0	0	10
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

Procurement is the process whereby schools acquire goods and services required to conduct their business. Schools have responsibility for their own purchasing and effective financial management within a framework set out in the local Scheme for Financing Schools and Contract Procedure Rules established by the Local Authority. This framework is reflected in local, school-specific Schemes of Delegation. This means that schools are responsible for exercising control and taking responsibility for their spending decisions, with the Local Authority responsible for the overall framework.

Compliance with these arrangements is essential to ensure schools can demonstrate effective procedures for purchasing goods and services that meet legal requirements, demonstrate probity and appropriate use of public funds and achieve value for money. Purchasing and demonstrating value for money is also one of the key assessment criteria of the DfE's School Financial Value Standard (SFVS).

Responsibility for financial management including decision making in relation to purchasing and procurement is usually delegated to a finance committee or equivalent although for the highest value purchases approval is sought from the full governing body. In most schools the head teacher is delegated responsibility for purchasing below the level of the finance committee and has responsibility for assuring the operation of purchasing controls and ensuring value for money in purchasing activity. Schools also have operational financial management resources which range from a senior, qualified, business manager, at a high school or larger primary school, to a finance manager or a finance officer at smaller primary schools.

Objectives and Scope of the Audit

The purpose of the audit was to provide assurance to management that the controls schools have put in place to manage procurement were effective, and that schools complied with the Council's Financial Regulations and Scheme for Financing Schools.

The key objectives of the audit were to ensure:

- Appropriate controls were in place for raising orders, confirmation of receipt of goods or services and approval for payment.
- Compliance with the Council's Financial Regulations and Scheme for Financing Schools for higher value procurement (in excess of £5k)
- Adequate controls were in place to achieve value for money
- leasing arrangements complied with Council requirements.

A sample of seven schools was selected for this audit

Key Findings

The key findings of this audit were:

- Authorised official orders were not always raised in accordance with Financial Regulations;
- Inappropriate cheque signatories were in place at one school;
- Procurement guidance to schools had not been updated since 1999 to account for changes in the Councils Contract Procedure Rules;
- Schools had not set clear levels of delegated authority for decision making in relation to procurement
- There had been no procurement training at schools for a number of years;
- Contracts valued in excess of 5K had been let without competitive procurement;
- Contracts had been extended for several years beyond the original contract end date without market testing;
- Schools had not considered the use of existing local or national framework agreements;
- Controls over the opening of returned tenders and quotations were inadequate;
- External contractors may not be suitably insured or have adequate DBS clearance where required;
- Details of contracts and spend had not been published in accordance with ICO and Public Contract requirements;

All findings relating to individual schools were reported to the school at the end of the audit visit. Overall it was found that for the majority of the schools selected there was evidence to confirm an effective purchasing system was in place and there were reasonable controls in operation to manage the procurement process.

Overall Conclusions

It was found that the arrangements for managing risk were satisfactory with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance

1 Purchasing Procedures

Issue/Control Weakness

Schools had not followed purchasing procedures specified in the Council's Financial Regulations and Scheme for Financing Schools.

Risk

Purchases may be made that are not authorised, are not accounted for when monitoring the budget and may be subject to duplicate payment. Additionally the school may incur costs in the event of fraudulent payments being made.

Findings

Purchasing procedures were reviewed and a sample of expenditure tested at each school. The following issues were identified;

- Several schools visited had initial problems with raising orders through the new the new Civica Purchasing system. In some cases this had resulted in expenditure normally covered by an official order being ordered by telephone or e-mail only. These problems appear to have been largely resolved. However, it still appeared that on a number of occasions official orders were not raised where appropriate.
- One school had authorised cheque signatories that were not members of staff but were Governors at the school. It was confirmed by the school that these Governors had not actually signed cheques. Governors should not be involved in the day to day management of the school and are not covered by the school's Fidelity Guarantee Insurance. The school was advised to remove them from the bank mandate.

Agreed Action 1.1

Schools will be reminded to follow the procedures for raising purchase orders through the schools business bulletin. The launch this autumn of the school bus plus web site will provide schools with easy access to our Financial Regulations, policies and guidelines.

It will be confirmed with the relevant school that the issue of Governors being cheque signatories has been addressed.

Priority

3

Responsible Officer

School Business Support Manager

Timescale

October 2016

2 Procurement Guidance

Issue/Control Weakness

In accordance with the Council's Scheme for Financing Schools, schools are required to abide by the Council's Standing Orders and Financial Regulations in purchasing, tendering and contracting matters. The Council's Financial Regulations refer to the Contract Procedure Rules (CPRs) as supplementary guidance setting out the specific rules and procedures to be observed in contracting for the provision of works, goods and services. The Procurement Guidance being used in schools had not been updated to ensure it was in line with current CPRs.

Risk

Failure to comply with the Council's Financial Regulations and Contract Procedure Rules

Findings

It was noted that;

- The procurement guidance followed by schools was not up to date. Guidance was last issued to schools as part of the school's 2007 BAFS Manual. This guidance was dated December 1999. The Council's Financial Regulations and CPRs which provide the LA's framework with which the schools must comply have since been updated. Five of the schools tested were not aware of the updated CPR's.
- Compliance with the LA's purchasing tendering and contract requirements was specified in the current budget management policies at each of the schools tested, however for procurement issues schools did not clearly specify levels of delegated authority in decision making or when such authority and approval is necessary (in line with Council CPRs).

Agreed Action 2.1

The Contract Procedure Rules and Procurement Toolkit is available for all staff on the intranet. They will be made available to schools who will also be reminded of the need to adhere to them (see also item on training for recommendation 3 below).

Priority

3

Responsible Officer

Finance &
Procurement Manager

Timescale

September 2016

3 Procurement Training

Issue/Control Weakness

No general procurement training had been received at the schools for a number of years. Where available, suitable procurement training should be undertaken by key staff, and if schools consider that they do not have the resources to conduct effective procurement, alternative arrangements should be considered eg sharing staff expertise within cluster groups, using procurement services available through CYC, or alternatively for major procurement exercise, the use of an external consultants.

Risk

Staff may not feel confident to conduct significant procurement exercises and Schools may fail to comply with Financial Regulations and CPR's

Findings

It was found that, with the exception of one school in the test sample, none had received any recent procurement training (since 2012) and this had involved the School Business Manager only.

It was noted that the two schools in the sample undertaking an EU Procurement exercise used an external consultant to support the procurement process.

Agreed Action 3.1

The Contract Procedure Rules have recently been refreshed and a comprehensive training programme is being developed. This will include training for schools to ensure they are aware of and understand the rules. It will be made clear that all schools must follow the CPRs.

Priority

3

Responsible Officer

Finance & Procurement Manager

Timescale

Training programme to start in September 2016.

4 Compliance with Financial Regulations and Contract Procedure rules

Issue/Control Weakness

Schools had not fully complied with the with the framework set out in the local Scheme for Financing Schools and Contract Procedure Rules established by the Local Authority and with best practice principles when conducting their procurements.

Risk

Failure to comply with the Councils Financial Regulations and CPRs. Purchasing decisions may be challenged

Findings

Testing of higher value procurements and service contracts against the Councils' Financial Regulations, CPR's and Scheme for Financing Schools identified that;

- There were no records maintained of tender opening which with the exception of two schools had been undertaken by a single officer without witness. No schools had used the YORtender system which is required under the Council's CPRs (it is understood however that YORtender is not generally made available to schools).
- In two procurements exercises requiring tender evaluation scoring to be completed, there was no evidence of consensus of agreement on scoring completed by team. Original scoring documents either individually completed or completed as a team exercise had not been signed and retained to support the overall evaluation.
- For the cleaning contract procurement only one school had evidenced that they had directly confirmed with the Councils Legal Department that the form of contract signed by the contractor and the authorised officer was appropriate.
- A competitive tender or quotation process had not been applied for all procurements valued in excess of 5K. For one school a three year service contract valued in excess of 26K/annum had been re-let to the previous provider without competitive tender.
- There had been no report clearly setting out the reasons for the extension of contracts .Five out of seven schools tested had extended IT service contracts in excess of 6 years. One school had extended their Catering Contract for a similar number of years. These extensions were not consistently approved by Governors.
- Contracts in excess of 5K were not notified to the Chief Procurement officer for inclusion in the Council's contract register. The majority of schools however maintain their own contract schedule.

Agreed Action 4.1

Training will be provided to schools, including guidance on how to publish the required information on the contract register.

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Responsible Officer

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5 Framework Agreements

Issue/Control Weakness

As part of their procurement procedures schools did not generally consider the use of national framework agreements or CYC corporate contracts that have already been subject to competitive procurement.

Risk

Best value purchasing arrangements may not be in place.

Findings

Review of purchasing procedures at the schools identified that;

- No schools had considered the use of CYC corporate framework agreements as part of their procurement process.
- Only one school had considered the use of a national available framework for equipment purchase (but this had been unable to meet the schools requirement at that time).
- Although some limited joint purchasing had occurred within some schools cluster groups no local framework agreements had been set up.

Agreed Action 5.1

This will be covered in the training programme referred to in previous actions.

Priority

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Responsible Officer

Finance &
Procurement Manager

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Training to start in
September 2016

6 Contract Review

Issue/Control Weakness

Not all schools had clearly evidenced that they regularly reviewed their ongoing contractual arrangements. Although there is no set limit on the length of a contract a balance needs to be struck between regularly testing value for money against developing a supplier relationship and administrative costs.

Risk

Schools may be achieving poor value for money from their contract arrangements.

Findings

Procedures for contract review were tested and the period since the last procurement of significant externally provided service contracts was noted. It was found that;

- Three schools tested did not have a consolidated record of their contractual arrangements with contract values and end dates.
- Not all schools could clearly demonstrate these arrangements were reviewed on a regular basis and contracts market tested or programmed for competitive procurement at the end of the original contract period.
- Five out of the seven schools tested had extended existing contracts for a number of years (in excess of six years). In particular this applied to schools with IT managed service contracts.

Agreed Action 6.1

Each school will be given the tools to produce a contract register and provided with advice and support to ensure active contract management is in place.

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Responsible Officer

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Training to start in
September 2016

7 Benchmarking

Issue/Control Weakness

Not all schools had completed a full benchmarking exercise in the last 12 months and discussion of benchmarking had not been minuted in all cases.

Risk

Issues identified as part of the benchmarking exercise may not be followed up and best value may not be achieved at the school.

Findings

A review of benchmarking identified that;

- One school had not completed a benchmarking exercise in the last 12 months.
- For two schools there was no minuted reference to confirm that the results had been presented to Governors and that an action plan had been put in place where necessary.

Agreed Action 7.1

Schools will be reminded to complete a full benchmarking exercise at least annually which should be presented to Governors with the action plan minuted. Reference to requirement for and benefits of benchmarking will also be made in the Governor training sessions held in November and May.

Priority

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Responsible Officer

School Business
Support Offices

Timescale

November 2016

8 Contractor Checks

Issue/Control Weakness

Not all contractors providing services at the school had been checked to ensure they have adequate insurances in place.

Risk

Schools may incur costs if an incident or injury occurs as a result of a contractor working on school premises.

Findings

A review of checks to confirm the adequacy of insurance held by contractors at the school, completion of DBS checks and to confirm Health & Safety Registration where applicable identified that;

- For one school, contractors procured directly by the school but known to be used by the council had not been subject to checks to confirm the adequacy of insurance held before working at the school.
- Insurances were not always at the level required by the Council.
- When queried by one school DBS checks confirmed as held by the Contractor were not at the required level.

Agreed Action 8.1

Schools will be reminded through the school business bulletin of the importance of adequate insurance cover for contractors and of the importance of confirming contractors have enhanced DBS clearance.

Priority

3

Responsible Officer

School Business
Support Manager

Timescale

October 2016

9 Freedom of Information

Issue/Control Weakness

Details of contracts at the school and expenditure items in excess of £2k in value were not published in accordance with the requirements of the ICO's Publication Scheme for schools and Public Contract regulations.

Risk

Failure to comply with Freedom of Information and Public Contract Requirements.

Findings

It was found that;

- Schools had not published details of contracts at the school or expenditure items in excess of 2K as required under freedom of information requirements and as specified in the current Schools Publication Scheme and Guide to Information (required by the ICO to be adopted by the school).
- The majority of schools did not have an up-to-date copy of the Publication Scheme and associated Guide to Information on the schools website, and for those schools that had, information relating to contracts and spend was recorded as being available as hard copy from the school only.

Agreed Action 9.1

Schools will be issued with guidance on what details they should publish on their website.

Priority

3

Responsible Officer

School Business Support Manager

Timescale

December 2016

10 Leasing of Equipment

Issue/Control Weakness

Not all schools with leased equipment considered taking out a lease through CYC.

Risk

Schools may not obtain best value when leasing equipment.

Findings

Four schools had leased photocopier equipment, three had looked at a lease through CYC, however one school had not considered this as a lease option.

Agreed Action 10.1

As schools consider options to convert to an academy, entering into a lease through the Council may not be a suitable option, as the lease would need to be novated or terminated on conversion, either could result in excessive administration fees. Schools should consider entering into a lease directly, but will need to discuss options with the leasing company for novation in the event of conversion to an academy. Guidance will be drafted and issued to schools

Priority

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School Business Support Manager

Timescale

November 2016

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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