

# **Purchase of Building Maintenance Supplies**

**City of York Council**

**Audit 2007/08**

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## Background

- 1 The Council has entered into a Service Level Agreement (SLA) with St Gobain (Jewson Ltd), for the provision of buildings maintenance supplies for a five-year period from September 2007.
- 2 The terms of the SLA state that the Council is required to spend a minimum of £800,000 per financial year with Jewson Ltd, and management estimates indicate that spending is likely to be around £1.2 million in any one year.
- 3 In addition to the terms of the SLA, the Council has agreed to lease warehouse premises to Jewson Ltd on a peppercorn rent basis (£5 per annum).
- 4 Jewson Ltd was selected through the OGC (Office of Government Commerce) procurement route. The OGC was formed by the government to help local authorities deliver savings by improving their purchasing power by agreeing national framework contracts with suppliers which have been through the OJEU tendering process.
- 5 Officers believe that by entering into this agreement for Jewson Ltd to supply all the Council's building materials, they will deliver savings in respect of the price paid for materials; time previously spent sourcing materials from a variety of suppliers across the city; and administrative savings in terms of the processing of invoices.
- 6 We have carried out a review of the Servitor Buildings Maintenance system as part of our routine work on the council's financial systems. As a result of this work we have produced this report to assist the council to strengthen the control framework.
- 7 Internal Audit has not carried out any work with regard to the implementation of the Jewson contract. Discussions between the Finance Manager for Neighbourhood Services and Internal Audit are taking place with regard to a specification for an audit review to be carried out in quarter 1 of the 2008/09 financial year.

## Findings and conclusions

### Invoicing arrangements

- 8 The Council receives a weekly invoice from Jewson Ltd for the goods that it has booked out of the Jewson Ltd store in the preceding week. The value of this invoice is usually between £20,000 and £30,000 per week and contains several hundred lines of materials that have been booked out. The invoice is authorised for payment by The Assistant Director (Maintenance Services).
- 9 The controls in place to provide assurance to the Assistant Director for him to authorise the invoice are not robust and do not provide sufficient assurance that the invoice is an accurate reflection of the materials used by the Council. There are controls in place that provide limited assurance to the Assistant Director.

- 10 The first of these is a random sample of jobs that are reviewed on a weekly basis by supervisors (around 60 jobs per week). As part of this review, each supervisor ensures that the materials that have been booked against the job have actually been used. This control was implemented in mid-February 2008. There are weaknesses in the operation of this control in that:
- no target has been set in relation to the percentage of materials purchased from Jewson Ltd to be reviewed in any given week. Thus jobs selected for review may not contain any materials purchased from Jewson Ltd. As assurance can only be gained from those jobs that contain materials purchased from Jewson Ltd, this control provides only limited assurance as to the accuracy of the Jewson invoice; and
  - the control has not been operating for the period September 2007 to February 2008. As such, no assurance as to the accuracy of the invoices received in that period can be gained from this control.
- 11 The second control that officers report is operating is a reasonableness check of the interface file from the Jewson stores system to the Council's Servitor system. This check involves reviewing the file for any obvious or high value errors. This control is not evidenced and as such officers cannot demonstrate that:
- the control is operating as intended; and
  - it is effective in identifying errors.

### **Price of materials**

- 12 The Council has not put in place adequate controls to gain assurance that the prices charged by Jewson Ltd are in line with those readily obtainable on the open market.
- 13 Under the SLA entered into as part of the OGC Framework Agreement procurement route, OGC Buying Solutions have agreed to monitor the prices charged by Jewson Ltd for a basket of goods to ensure that those prices offer value for money.
- 14 The Council has not formalised arrangements with OGC Buying Solutions and this price monitoring has not yet commenced. Officers have indicated to us that an agreement as to how this will happen will be reached in the near future.
- 15 By not ensuring that Jewson Ltd are charging the Council competitive prices there is a risk that they are not ensuring value for money with respect to the purchasing of building maintenance supplies.
- 16 Officers report that there is a system in place for obtaining refunds from Jewson Ltd where overcharges have been identified. This includes overcharges that relate to materials that have been previously invoiced. However, as highlighted above, the arrangements for identifying overcharges are not formalised.

- 17 The SLA states that Jewson Ltd shall achieve a 6 per cent return on sales to the Council within a financial year. Any surplus above 6 per cent shall be repaid to the Council, and any deficit under 6 per cent will be payable to Jewson Ltd by the Council. On this basis, a refund will be provided to the Council for any overcharges which are identified at any stage during the course of the financial year.
- 18 The Council receive a summary profit statement from Jewson Ltd on a monthly basis that indicates their direct costs, indirect costs and income from the Council. The reported return is compared to the 6 per cent limit and any surplus or deficit on this figure is shown.
- 19 However, the Council have not yet audited the profit statements received from Jewson Ltd to test their accuracy and completeness. Until this takes place the Council is relying on the financial information received from Jewson Ltd to highlight any return above or below the 6 per cent return on sales.

### **Contractual arrangements**

- 20 As at the 20 March, the Council's legal officers report that contracts in relation to the SLA and the granting of the lease of warehouse premises to Jewson Ltd have not been signed and executed by both parties.
- 21 Although legal officers report that the risk to the Council with regard to the contract not having been executed is minimal as the contents of both documents have been agreed by both parties, the contracts should be signed as soon as practicable in order to remove any risks.

## **Recommendations**

- 22 Officers are aware of the weaknesses that exist in relation to the Jewson contract and are putting in place measures to try and improve the overall control environment. The introduction of a random sample of inspections in February is evidence of officers taking steps to achieve this.

### ***Recommendation***

*R1 Formalise the arrangements for weekly inspections of work, to provide sufficient assurance to management in terms of:*

- *the number of reviews to be carried out;*
- *the percentage of materials to be reviewed;*
- *the process to be followed to provide sufficient assurance to management; and*
- *the process to be followed where errors are identified.*

- 23 Officers have recently met with representatives from OGC Buying Solutions with a view to ensuring the prices charged by Jewson Ltd for a basket of goods are competitive.

**Recommendation**

*R2 Formalise arrangements with OGC Buying Solutions for ensuring that the Council are being charged a reasonable price for the materials they purchase from Jewson.*

- 24 Arrangements for signing and executing the SLA and lease contract are ongoing. The risks relating to these contracts being unsigned is deemed to be minimal by Council legal office.

**Recommendation**

*R3 Execute the Service Level Agreement and lease contract as soon as possible to ensure the Council is not subject to any risks in this regard.*

## Appendix 1 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Formalise the arrangements for weekly inspections of work, to provide sufficient assurance to management.	2	Assistant Director (Maintenance Services)	Yes	Weekly inspections have taken place since February based on a random selection of 60 jobs generated by a report. Inspection sheets are signed off and submitted to management each week. The intention was to evaluate the percentage of materials this generates after a short period of time and determine whether this is a reasonable sample level based on test results. Errors identified are reported but it is accepted that it would be beneficial to formalise the procedure. Officers are meeting in April to confirm the appropriate percentage sample and ensure that procedures are robust.	April 2008
6	R2 Formalise arrangements with OGC Buying Solutions for ensuring that the Council are being charged a reasonable price for the materials they purchase from Jewson.	2	Assistant Director (Maintenance Services)	Yes	Officers met the OGC on 3 March and a follow-up meeting is arranged for 12 May to agree the arrangements for benchmarking goods.	May 2008
6	R3 Execute the Service Level Agreement and lease contract as soon as possible to ensure the Council is not subject to any risks in this regard.	1	Assistant Director (Maintenance Services)	Yes	None.	May 2008