Glasgow City Council Internal Audit Section
Committee Summary
Corporate Review - Procurement - Non-Catalogue Spend

Item 3(b)

20th March 2024

1 Introduction

1.1 As part of the agreed Internal Audit plan, we have carried out a review of the arrangements in place to monitor and review expenditure on non-catalogue goods and services.

1.2 When suppliers are awarded a contract with the Council, details of the goods and services and the contracted prices may be uploaded onto the PECOS system by the Corporate Procurement Unit (CPU). This forms the agreed E-catalogue of items which the supplier has been contracted to supply. Purchases outwith the agreed catalogue (non-catalogue spend) should only be made where no alternative catalogue item is available. Services are responsible for identifying a suitable contracted supplier and for confirming prices prior to placing a non-catalogue order.

1.3 The CPU manage 98 E-catalogue suppliers on PECOS with total order value of £72.4m covering the period April 22-September 2023. E-catalogue order value equated to £36m (50%) and non E-cat order value is £36m (50%) .

1.4 The purpose of the audit was to ensure that expenditure on non-catalogue goods and services is effectively managed and where this does take place, there are valid justifiable reasons. The scope of the audit included:

- Identification of non-catalogue spend.
- Compliance with relevant policies and procedures.
- Approval of non-catalogue purchases.
- Staff training arrangements.
- Audit trail and supporting documents.
- Reviewing the accuracy of catalogues.

1.5 The audit fieldwork included reviewing instances of non-catalogue spend across the following services:

- Neighbourhoods, Regeneration and Sustainability (NRS)
- Financial Services (FS) – Catering and Facilities Management (C&FM)
- Education Services (ES)

2 Audit Opinion

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

3 Main Findings

3.1 We are pleased to report that a number of key controls are in place and generally operating effectively. Documented PECOS procedures are readily available and accessible to relevant staff. The procedures are regularly reviewed, and arrangements are in place to ensure revisions are communicated to all relevant users. Details of key contacts who are available to provide guidance or support on placing orders are also readily available.

3.2 There are appropriate arrangements in place for adding new catalogue suppliers and new catalogue items to PECOS. These arrangements ensure all relevant staff across the Council are notified whenever there are changes to contracted suppliers and when the Contract Award page on Connect, which provides information on the commodities and suppliers used by the Council, is updated.

3.3 However, we noted that there are some areas where improvements could be made. Spend reports to highlight non-catalogue spend are not currently produced or reviewed. Such reports would identify where action can be taken in relation to non-catalogue spend.

3.4 Detailed User Guides and training are provided to requisitioners prior to accessing PECOS. However, the Requisitioner User Guide includes reference to a Supplier Matrix which no longer exists. Additionally, neither the Approver User Guide or training available to approvers provide guidance on issues to consider or checks which should be undertaken in relation to non-catalogue expenditure.

3.5 Evidence to confirm the rationale for using non-catalogue spend and to confirm prices agreed with suppliers prior to orders being placed were not consistently retained within any of the services reviewed.

3.6 Due to the volume of transactions C&FM do not require orders under £1,000 to be authorised. However, arrangements to periodically review these orders to ensure any unexpected or unauthorised spending patterns are identified are not currently in place.

3.7 There are a number of contracted suppliers who have adapted their website specifically for Council use. These suppliers are responsible for uploading and updating catalogues for use by the Council. Orders placed through these catalogues are referred to as External Market Place or punchout orders. Prices on these catalogues are however not periodically reviewed to enable any unauthorised price changes to be identified and resolved.

3.8 There are a number of legacy, non-contracted suppliers which are available on PECOS and could therefore be used when making non-catalogue orders. Arrangements to review and, where appropriate, remove these suppliers have not been fully established.

3.9 An action plan is provided at section four outlining our observations, risks and recommendations. We have made six recommendations for improvement. The priority of each recommendation is:

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.	6
Low	Lower level controls absent, not being operated as designed or could be improved.	0
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

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

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

3.12 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.

4 Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Non-catalogue expenditure is regularly reviewed, and appropriate action taken where high levels or inappropriate use is identified.				
1	We were advised that the CPU currently plans to generate, and issue non-catalogue spend reports to Commodity Owners who are responsible for managing contracts and catalogues for specific commodity types. However, at the time of the audit fieldwork, this had not yet commenced. At present, Commodity Owners can request spend reports from the CPU Development Team on an ad hoc basis including when new contracts are being tendered, when price increases are due or as part of ongoing contract management. However, we noted there is no set frequency or consistent approach for obtaining and reviewing spend reports. Additionally, none of the Services reviewed had arrangements in place which enabled them to consistently identify, and where necessary take action in relation to, inappropriate or unnecessary use of non-catalogue items.	CPU management should regularly generate and distribute reports detailing non-catalogue spend to Commodity Owners and Services. Service management should review the reports provided to enable high levels, or patterns of non-catalogue spend, to be identified and appropriate action taken, if required. This review should also include areas where classifications and descriptions are consistently not being entered and/or are being entered incorrectly.	**Medium**	**Response:** CPU – Accepted. We will adopt a similar approach to the SOAR process which will involve quarterly updates on cat v not cat ordering patterns. This will only focus on contracted suppliers with an e catalogue. NRS – Accepted. ES – Accepted. This would from an additional element of the quarterly SOAR report and be reported to ES SMT as part of the quarterly update. C&FM – service management will establish appropriate arrangements to review the reports to enable high levels, or patterns of non-catalogue spend, to be identified and appropriate action taken, if required. This will include areas where classifications and descriptions are consistently not being entered

No.	Observation and Risk	Recommendation	Priority	Management Response
	From review of reports detailing orders placed between April 2022 and September 2023, we noted a significant number of occasions where the commodity classification code had not been completed, was not accurate, or did not relate to the goods or services ordered. From review of a sample of 30 purchase orders for non-catalogue items as well as eight suppliers, where the majority of expenditure incurred was non-catalogue we noted: • two orders where the rationale for using non-catalogue was not clear and where, from discussion with the CPU, it would appear alternative catalogue items were available. • two suppliers where there was no clear rationale which explained the level of non-catalogue spend. Where non-catalogue spend is not reviewed and/or where there is inappropriate use of non-catalogue purchasing, there is an increased risk that best value will not be achieved. Where classifications are not consistent or are incorrectly recorded, it may be difficult to accurately identify trends or patterns in non-catalogue spend.			and/or are being entered incorrectly. This action is dependent on CPU colleagues supplying suitable reports. **Officer Responsible for Implementation:** CPU - Procurement Development Manager NRS – Client Procurement Officer ES – Support Services Manager C&FM – Head of Facilities Management **Timescales for Implementation:** CPU – 31 July 2024 NRS - Subject to CPU establishing the reporting process. ES - Dependent on issue of reports by CPU. C&FM – 30 September 2024

o.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Procurement procedures and training arrangements are up-to-date and cover all expected aspects of non-catalogue procurement.				
2	PECOS User Guides for both Requisitioners and Approvers are available on Connect. Requisitioners and Approvers are also required to undertake appropriate training prior to being given access to PECOS. The Requisitioner User Guide and training include detailed guidance on how to place both catalogue and non-catalogue orders. However, neither the Approver User Guide or training include specific guidance in relation to non-catalogue spend, including ensuring or reviewing whether non-catalogue spend is appropriate prior to authorisation. The Requisitioner User Guide includes reference to a Supplier Matrix which we were advised no longer exists. Requisitioners would instead be expected to refer to the Contract Award page to identify suitable suppliers for non-catalogue spend. A lack of consistent procedures increases the risk of orders not being appropriately reviewed and as a result opportunities to reduce levels of unnecessary non-catalogue spend may be missed.	CPU should provide relevant information, and where necessary work in conjunction with CED Management to ensure the Approver User Guide and training are reviewed and updated to provide guidance to authorisers on non-catalogue orders including any additional checks which should be undertaken prior to authorisation to consider whether non-catalogue is appropriate. CED Management should ensure the Requisitioner User Guide is updated to direct requisitioners to the Contract Award page and a link to the Contract Award page included to facilitate access to this where required. Once updated, revised guidance should be circulated to all Services highlighting any changes in the requirements.	**Medium**	**Response:** Accepted. CPU will provide the relevant information to CED Officers responsible for PECOS user guides and training to be updated. CED will review and update the relevant end user guidance as required and in line with the recommendations and information supplied by CPU. **Officer Responsible for Implementation:** CPU – Procurement Development Manager CED – Corporate Governance and Planning Manager **Timescales for Implementation:** 31 July 2024

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Appropriate evidence to support non-catalogue orders is retained.				
3	Through testing of 30 non-catalogue orders sampled, we noted: • 27 occasions where, although through discussion the reasons for using non-catalogue spend appeared reasonable, evidence confirming the reasons had not been retained. • 16 occasions where the Service was unable to provide evidence which confirmed prices were checked with suppliers prior to placing orders. We also noted there is currently no guidance or procedures available which specify what, if any, evidence should be retained where non-catalogue orders are used. Where sufficient documentation supporting the rationale and agreed prices for non-catalogue orders are not retained there is an increased risk that, in the event of a dispute, it may be difficult to evidence what was agreed with suppliers and/or to confirm that there was a reasonable justification for using non-catalogue items.	Service management should ensure procuring managers retain the reasons for the use of non-catalogue orders and evidence of the agreed price with the supplier. In conjunction with recommendation 2, CPU should provide relevant information to support management to ensure existing guidance is updated to reflect the requirement that services should retain all appropriate documentation.	**Medium**	**Response:** CED – Accepted. Information will be cascaded to procuring managers in line with the recommendation. This includes the updating of existing guidance. NRS – Accepted. ES – Accepted. Random sampling will be carried out on the basis of the non-catalogue spend report. A reminder will be circulated to all ES requisitioners to retain sufficient evidence supporting the rationale and agreed prices for non-catalogue orders. C&FM - Service management will establish appropriate arrangements to retain the reasons for the use of non-catalogue spend and evidence the agreed price with the supplier. **Officer Responsible for Implementation:** CED – Corporate Governance and Planning Manager

No.	Observation and Risk	Recommendation	Priority	Management Response
				NRS – Client Procurement Officer. ES – Support Services Manager. C&FM - Head of Facilities Management **Timescales for Implementation:** CED – 31 July 2024 NRS - Dependent on CPU guidance. ES - Dependent on non-catalogue report provision. Reminder will be sent by April 2024. C&FM - 30 September 2024

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Purchase orders are subject to appropriate approval processes.				
4	PECOS requisitions are automatically sent to an approver with appropriate financial authority for review and authorisation prior to orders being submitted to suppliers. However, within C&FM, orders up to £1,000 are not authorised within PECOS due to the volume of orders and the need for prompt deliveries. We found that there are currently no arrangements within C&FM to retrospectively review orders under £1,000, on a periodic basis to identify unusual, unexpected or unidentified non-catalogue spend. Without periodic management reviews there is an increased risk of orders being placed which are not appropriate, or for unusual or unexpected expenditure patterns to go undetected.	C&FM management should establish appropriate arrangements to ensure orders under £1,000 are periodically reviewed to enable any trends or unusual spending patterns to be identified and appropriate action taken where necessary.	**Medium**	**Response:** Accepted – C&FM will establish appropriate arrangements to review PECOS orders from a range of suppliers to identify any unusual trends or spending patterns. This action will be dependent on CPU providing suitable 4 weekly reports to support the scrutiny for unusual spending patterns or trends. **Officer Responsible for Implementation:** Head of Facilities Management **Timescales for Implementation:** 30 September 2024

No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Arrangements are in place to review existing catalogues and suppliers to ensure these are accurate and up-to-date.				
5	External Market Place suppliers are responsible for updating catalogues on their websites for use by the Council. This includes adding all goods or services along with the prices which were detailed within contract tender documentation. Many of the supplier catalogues have significant numbers of items and it is therefore not possible to individually review and check all prices. However, we noted there are no arrangements in place to periodically undertake sample checking on the catalogues to ensure changes have not been made without authorisation or agreement from CPU. The current arrangements increase the risk that prices could be changed without appropriate authorisation resulting in the Council paying inflated prices for goods or services without this being identified and appropriate action taken.	CPU management should ensure appropriate arrangements are established to periodically review External Market Place catalogues and undertake sample checks on prices to ensure these are accurate and reflect agreed contract prices. Any identified issues should be addressed with suppliers in a timely manner.	**Medium**	**Response:** Accepted. CPU will implement a spot-checking process as part of the contract supplier management activity. **Officer Responsible for Implementation:** Procurement Development Manager **Timescales for Implementation:** 31 July 2024

No.	Observation and Risk	Recommendation	Priority	Management Response
6	From review of the purchase orders sampled we noted contracted suppliers had been used in all instances. However, we were advised that there are a number of legacy, non-contracted suppliers on PECOS and, although these suppliers should not be used, as they remain on the system, they are still available for officers to select when making a purchase. This issue has been reviewed by the CPU and arrangements for when PECOS is replaced as part of the Enterprise Resource Planning (ERP) Development Programme are currently being considered. The current arrangements increase the risk that suppliers who do not have a current contact with the Council may be used for non-catalogue orders. As a result, this increases the risk of value for money not being achieved.	CPU management should put in place a formal plan to ensure that non-contracted suppliers are removed from PECOS.	**Medium**	**Response:** Accepted. CPU to revisit mobilisation process to ensure suppliers are removed after new contracts are awarded. Review the SOAR process to highlight and remove Legacy non contracted PECOS suppliers were feasible. **Officer Responsible for Implementation:** Procurement Development Manager **Timescales for Implementation:** 31 October 2024