

# Glasgow City Council Internal Audit Section

## Committee Summary

### Corporate Review – Procurement - Non-Contract Spend

## 1 Introduction

### Item 6 (f)

18th September 2024

- 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 The Corporate Procurement Unit (CPU) produce quarterly Spend Opportunity Analysis Reports (SOARs) to highlight non-contract spend across all council services and seek to obtain explanations for significant expenditure outwith contracts. These 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 scope of the audit was to ensure there are sufficient and appropriate controls in place to ensure that expenditure with non-contracted suppliers is minimised and where this does take place, there are valid justifiable reasons, and this is carried out in accordance with the Standing Orders and Corporate Procurement Manual. The scope of the audit included:
- Roles and responsibilities.
  - Various sources of purchasing information including SOARs, One Time Vendor reports, and purchase card payments to identify areas of non-contract spend.
  - Comparing data on SOAR reports to procurement exercises undertaken by the CPU and required procurement documentation.
  - Selecting a sample of non-contract spend for review to check that appropriate action has been taken by the CPU and Services to ensure compliance with the Council's Standing Orders and Corporate Procurement Manual.
  - Current policies, procedures and supporting documents.
  - Record keeping arrangements.

## 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 some scope for improvement in the existing arrangements and three recommendations which management should address.

## 3 Main Findings

- 3.1 We found that some key controls are in place and generally operating effectively. Documented policies, procedures and guidance relating to procurement activities are available and readily accessible to relevant staff. Revisions, additional guidance, or updates to regulations are received by the CPU and communicated as appropriate. There are also adequate controls in place for the management of PCards.
- 3.2 Non-contract spend paid through the accounts payable module of the financial system (SAP) is regularly analysed by the CPU, who also collate the SOARs and issue these to nominated service contacts on a quarterly basis for review. Procedural and system controls are in place within SAP to help ensure segregation of duties and prevent suppliers being added to the system without approval from the CPU. However, responses to SOAR reports from services are not always returned to the CPU.
- 3.3 We also found other examples of non-compliance and some areas for improvement. The One Time Vendor (OTV) process allows services to pay a supplier up to five times, and reports are issued by Financial Services Account Payable (AP) to Services so that use of this process can be monitored. We identified some instances where the reports were not being issued to the correct contacts, due to the distribution list held by AP requiring updating. Occasions were also noted where vendors were being paid more than five times.
- 3.4 Sole supplier justification (SSJ) requests are submitted to the CPU where there is only one supplier who can provide the goods or services required. A register is maintained by the CPU of all requests, both approved and rejected. Although services are completing the SSJ forms as required and using the supplier for the agreed purpose and within the approved spend, we noted through sample testing that evidence of approval is not always maintained or readily available.
- 3.5 An action plan is provided at section four outlining our observations, risks and recommendations. We have made three recommendations for improvement. The priority of each recommendation is:

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

- 3.6 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.7 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.8 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
<b>Key Control:</b> 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.				
1	<p>We noted one instance where a service had not provided a sufficient response to the CPU on the cases of non-compliance identified in SOARs.</p> <p>In addition, we performed a sample check of suppliers within SOARs for all Services, and found some further examples of non-contract spend. In most cases, explanations for this were reasonable due to operational requirements, or procurement opportunities had been identified and were being progressed. However, it was noted that within CED there was a lack of awareness of responsibilities. This was due to changes in personnel of the officers involved in this role. We also noted that SOAR reports do not highlight where contract opportunities had already been identified and on the upcoming workplan.</p> <p>In some Services, an analysis of SOAR data showed there were non-contracted suppliers with whom cumulative spend had exceeded procurement thresholds, compounding initial non-compliance with</p>	<p>Service Management should remind all relevant staff of their responsibility to engage with the SOAR process and work with the CPU to reduce and address non-contract spend. Where there has been a change in personnel management should ensure that staff are aware of their roles and responsibilities.</p> <p>The CPU should notify senior service management of instances of continuous use of a non-contracted vendor.</p> <p>The CPU should consider amending their reports to highlight where contract opportunities are being explored.</p>	Medium	<p><b>Response:</b></p> <p>SWS – Accepted. An all HSCP communication to be sent out reminding staff of their roles &amp; responsibilities.</p> <p>FS (CFM) – Accepted. CFM Management will remind all relevant staff of their responsibility to engage with the SOAR process and work with the CPU to reduce and address non-contract spend. Where there has been a change in personnel, management should ensure that staff are aware of their roles and responsibilities.</p> <p>Weekly scheduled meetings with CPU colleagues take into account the SOAR report issues. Contractual gaps identified and request placed to add tender process to CPU work plan.</p> <p>FS – Accepted. All relevant FS managers will be issued with an email reminding them of their</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
	<p>procurement rules. Repeat non-contract spend is included in the Procurement reports issued to services but there is no specific separate reporting of repeat non-contract spend to senior management.</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>responsibility to engage with the SOAR process and work with CPU.</p> <p>CED – Accepted. Service management will provide reminder to all relevant section leads in relation to both SOAR process and the need to complete IPA following SOAR process if required.</p> <p>CPU will engage with the service areas to identify senior management recipients and will be provided information of continuous use of non-contracted vendors, this will be shared via the SOAR Power BI Dashboard on a quarterly basis.</p> <p>CPU will look to update our process to capture any contract opportunities within the quarterly SOAR dashboard.</p> <p>NRS – Accepted. NRS are very engaged in the SOAR process. Although Management do recognise the service could benefit from an escalation process to ensure that the non-contract spend is addressed as quickly as possible. This will be done via either the NRS Procurement Forum which meets quarterly or SMT meetings, whichever comes first.</p>

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				<p>ES – Accepted. The Quarterly SOAR will continue to be a standing agenda item on directorate meetings and at the AFA business meetings. AFAs approve all orders and can reject non-contract orders. The clerical induction will be strengthened to include additional guidance on the management of non-contractual spend. Pecos Requisitioner Guide has been updated to refer to the Contracts Awards Pages</p> <p><b>Officer Responsible for Implementation:</b></p> <p>SWS - Principal Officer, Finance HSCP</p> <p>FS (CFM) – Operations Support Manager</p> <p>FS – Head of FS Governance &amp; Change</p> <p>CED (CPU) - Procurement Development Manager</p> <p>CED – Governance and Planning Manager</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
				<p>NRS – NRS Client Procurement Officer</p> <p>ES – Support Services Manager (Operations)</p> <p><b>Timescales for Implementation:</b></p> <p>SWS - 30 August 2024</p> <p>FS (CFM) – 30 August 2024 FS – 30 September 2024</p> <p>CED (CPU) – 31 October 2024 CED – 31 October 2024</p> <p>NRS – 31 December 2024</p> <p>ES – 31 December 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
<b>Key Control:</b> OTV payments are not used to bypass or undermine procurement rules.				
2	<p>OTV reports are issued to Services by FS, Accounts Payable (AP) to allow the use of the function to be monitored. However, we found that for both CED and FS the named officers responsible for receiving the reports where no longer employed in this role, but the reports were still being issued to these staff members and the expenditure through OTV was therefore not being monitored.</p> <p>Of a sample of 20 transactions, we found that the use of the OTV route was largely compliant with the strategy and with procurement rules, with only one where the OTV rules had not been fully followed. In addition to this, four of the 20 had been incorrectly classed as commercial.</p> <p>AP also issue periodic and annual reports to services containing OTV transactions. This report highlights the number of times vendors are used. From review of this, we identified occasions where vendors are being used more than five times.</p> <p>The current arrangements increase the risk that OTV process is not appropriately monitored, and it may be used to make payments to non-contracted suppliers which would not be detected by the SOAR process.</p>	<p>AP management should review their distribution list to ensure it is up-to-date and being distributed to appropriate officers.</p> <p>AP should issue separate reports to a senior finance officer within each service, which outline the details where vendors are used more than five times per year and ask them to take appropriate action.</p> <p>AP management should also issue reminder of the OTV process to all Service representatives, highlighting that this should not be used to evade procurement requirements and the correct classification should be used.</p> <p>Service management should remind all officers of the importance of reviewing the reports when received.</p>	Medium	<p><b>Response:</b></p> <p>FS – Accepted. CBS Management will review distribution list to ensure it is up to date and being distributed to appropriate officers.</p> <p>CBS Management will issue an email to service management to remind all officers of the importance of reviewing the reports when received.</p> <p>CBS will update content of email to include narrative that officers should take appropriate action for vendors used more than 5 times as detailed in the report.</p> <p>SWS – Accepted.</p> <p>CED – Accepted.</p> <p>NRS – Accepted. NRS are engaged in the OTV process. Although Management do recognise that there is a role for Senior officers to interject if required to ensure no repeat instances. An internal process will be developed and shared with the SMT via NRS Procurement Forum.</p>



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				<p>ES – Accepted. ES will review the reports regularly with reminders going out to the appropriate officers.</p> <p><b>Officer Responsible for Implementation:</b></p> <p>SWS – Principal Officer, Financial Compliance Team</p> <p>FS – Operations Manager, Finance Service Centre</p> <p>CED – Governance &amp; Planning Manager</p> <p>NRS – NRS Client Procurement Officer</p> <p>ES – Account Manager</p> <p><b>Timescales for Implementation:</b></p> <p>FS – 30 September 2024</p> <p>SWS – 30 August 2024</p> <p>CED – 31 October 2024</p> <p>NRS – 31 December 2024</p> <p>ES – 30 September 2024</p>

No.	Observation and Risk	Recommendation	Priority	Management Response
<b>Key Control:</b> Services have adequate procedures in place for sole supplier justification requests.				
3	<p>Sole supplier justification (SSJ) requests are submitted to the CPU where there is only one supplier who can provide the goods or services required. A register is maintained by the CPU of all requests, both approved and rejected.</p> <p>Although services are completing the SSJ forms as required and using the supplier for the agreed purpose and within the approved spend, we noted through sample testing that evidence of approval is not always maintained or readily available.</p> <p>This increases the risk of non-compliance with the Councils standing orders if procedures are not adhered to and an appropriate audit trail is not maintained.</p>	Service management should remind all relevant staff of the importance to retain the approval emails along with the SSJ forms as per the requirements of the Councils Standing Orders.	Low	<p><b>Response:</b></p> <p>SWS – Accepted. An all HSCP communication to be sent out to remind staff of their responsibilities in relation to Sole Supplier Justification.</p> <p>FS (CFM) – Accepted. CFM Management will remind all relevant staff of the importance to retain the approval emails along with the SSJ forms as per the requirements of the Councils Standing Orders.</p> <p>FS – Accepted. All relevant FS managers will be issued with an email reminding them of their responsibility to engage with the SOAR process and work with CPU. This would include the process for any SSJ requests.</p> <p>CED – Accepted. Service Management will be reminded to ensure an adequate audit trail is retained for SSJ process.</p> <p>NRS – Accepted. NRS officers will be reminded of the SSJ internal process, via the NRS procurement forum with emphasis on ensuring</p>

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				<p>that all approval documentation is received and retained.</p> <p>ES – Accepted. Reminder will be issued to all HQ Staff, Heads of Establishments and clerical staff in schools. The clerical induction will also be updated for all new staff.</p> <p><b>Officer Responsible for Implementation:</b></p> <p>SWS - Principal Officer, Finance HSCP</p> <p>FS (CFM) – Operations Support Manager</p> <p>FS – Head of Governance &amp; Change</p> <p>CED - Governance and Planning Manager</p> <p>NRS – NRS Client Procurement Officer</p> <p>ES – Head of Resources</p> <p><b>Timescales for Implementation:</b></p> <p>SWS – 30 August 2024</p>

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				FS (CFM) – 30 August 2024 FS – 30 September 2024  CED – 31 October 2024  NRS – 31 December 2024  ES – 30 September 2024