

\Procurement and Contract Audit

CIPFA's Risk based approach to planning audits and
the work of the Procurement and Contract Audit Forum [PACAF]

By : Ken Odgers

Overview

- Background to the birth of PACAF;
- Overview of the PACAF arrangements;
- The risk based approach to planning audit work;
- PACAF current work programme.

PACAF : Background

- CIPFA Audit Conference 2007;
- Meeting by open invitation at CIPFA, July 2008;
- PACAF set up from October 2008.
- Executive meets every 4 months.
- Network of 'interested parties'

PACAF: Terms of Reference

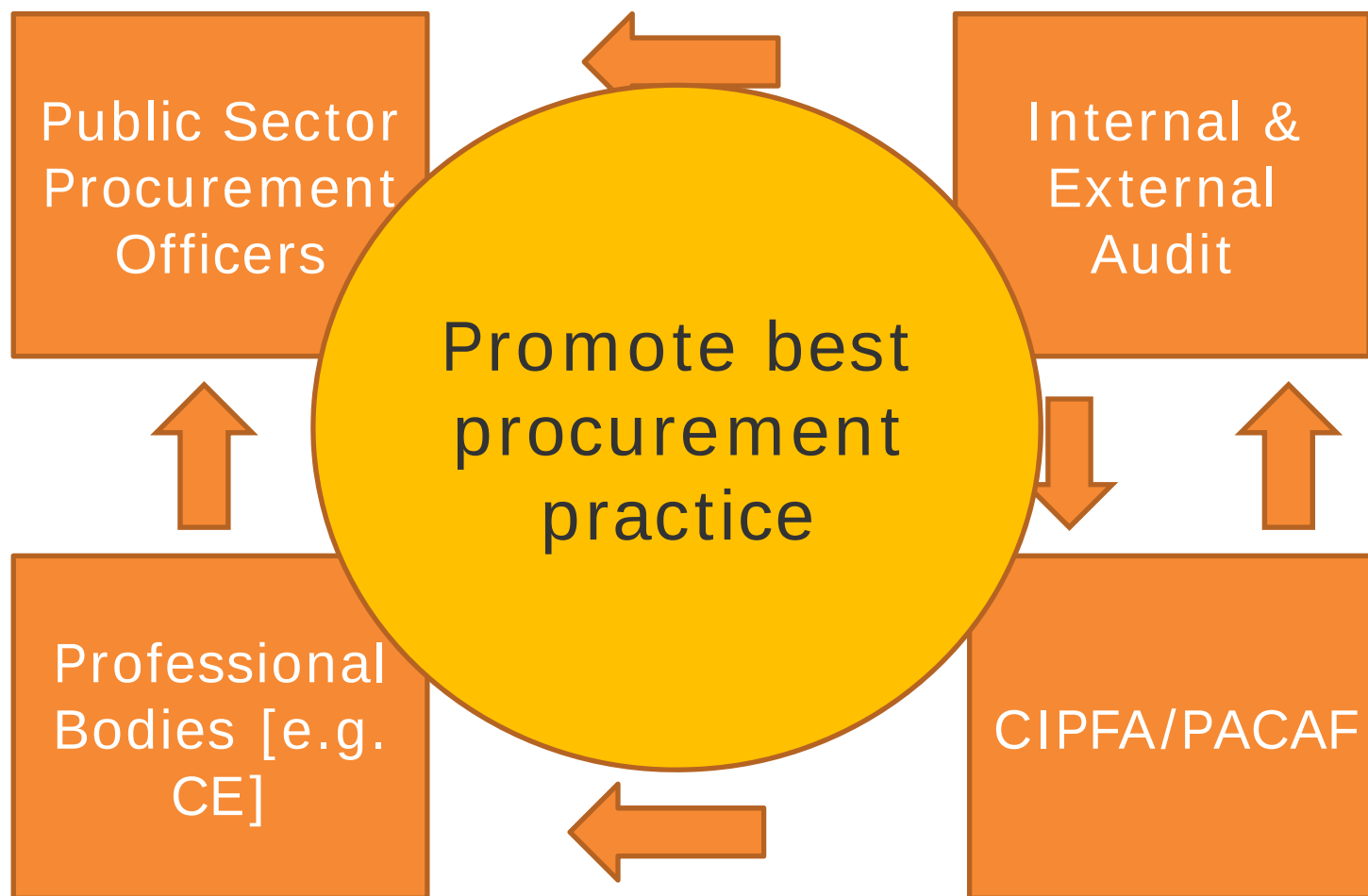
Mission Statement

“To facilitate the identification, development and widespread adoption of best practice in procurement and contract audit.”

Objectives include:-

- Raising the profile of procurement and contract audit;
- Identifying and addressing procurement and contract audit issues;
- Facilitating knowledge sharing and networking;
- Maximising training and development opportunities; and
- Promoting best practice skills/knowledge to all auditors.

PACAF : Interactions



PACAF: Definitions

Procurement

“those processes within an organisation that are associated with the acquisition of goods, works and services”.

Such processes span the whole life cycle from initial concept and definition of business need through to the end of the useful life of an asset or end of a services contract.

PACAF: Definitions

Procurement audit (or contract audit)

“involves the review of those risk management processes, control systems, accounting records and governance arrangements within the organisation that are associated with the acquisition of goods, works and services”.

The review processes include the commissioning of services and acquisitions that are delivered:-

- ‘in-house’,
- through innovative funding arrangements (e.g. PFI/PPP), and
- through partnerships with other bodies.

CIPFA Statement on the Role of the HIA

HIA must ensure the internal audit strategy reflects risk management best practice.

HIA will:-

- Review the organisation's strategic objectives and how it plans to achieve these;
- Review how the risks [to not achieving these objectives] are captured in risk registers and the action plans that are in place;
- Draw on the risk register when drawing up the internal audit strategy and plans.

The extent to which he/she does this will depend on the risk maturity of the organisation (i.e. in identifying key risks and taking appropriate action to mitigate against them and their effects).

What is Risk?

Risk can be defined as

“the chance of something happening that will have an impact on objectives”

‘It’s a Risky Business’ CIPFA 2005

£2m new library has everything – except the books

By Simon de Bruxelles

THE new £2 million public library built for the residents of Emerson's Green near Bristol is standing empty — because nobody thought it

stated: "The most significant items omitted from the tender document are the costs associated with the fitting out of the library, which have consistently been reported to members



The Times 5 March 2003



news

New leisure centre faces demolition

Hackney LBC's disastrous Clissold Leisure Centre may be demolished if this proves cheaper than carrying out repairs, the council has said.

The centre cost £31m to build, against an original £20m budget, and was open for less than two years before faults forced Hackney to close it last autumn.

It was built with support from the national lottery and was among the largest council leisure projects of recent years.

Guy Nicholson, cabinet member for regeneration, told a scrutiny hearing: "It is the mayor's view that there will be a Clissold leisure centre on this site, whether or not it is this centre."

Mayor Jules Pipe (Lab) has insisted that Hackney can meet refurbishment costs without depending on the outcome of litigation, a council spokesperson said.

Hackney has sued architect Hodder Associates and cost consultant David Langdon Everest over the cost overruns.

It will not decide whether to take action against any company over the defects until it receives a report from consultants in September on the nature and extent of the faults.

The council compiled a list of 40 defects, the most serious of which included leaks from the swimming pool on to electrical equipment in the basement.

LGC 11 June 2004

Procurement: Key Risks

- Contracts not delivered on time or within budget;
- Failure to fulfil the need and/or meet stakeholders' expectations;
- Fraud;
- Failure to secure value for money;
- Failure to reflect best practice;
- Failure to adhere to legislation or adequately accommodate equality and diversity;
- Organisation fails to improve;
- Damage to reputation/image.

Procurement: The Scale

- Total spend measured in £100Ms;
- 100,000s of transactions each year;
- 10,000s of suppliers, contractors and service providers;
- Range from relatively few large value contracts to high volume/low value purchases.
- From inception to use/disposal (days to decades)
- 100s of people involved – defining requirements, writing specifications, issuing orders, accepting quotes/tenders, authorising invoices etc. [Including stakeholders, technical officers etc];
- Dozens of ‘independent’ departments/sections.

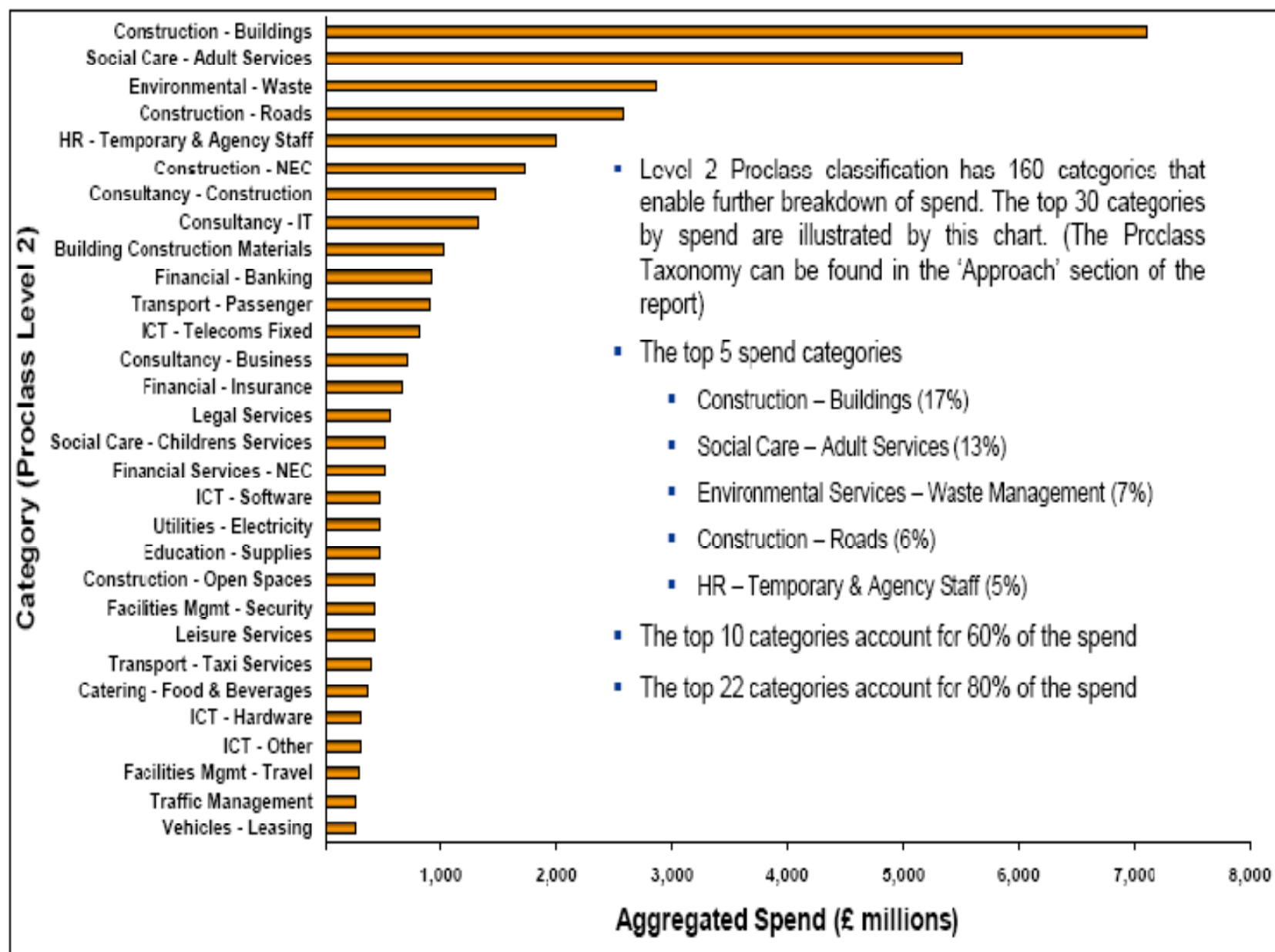
Procurement Spend Analysis

As a minimum, should include identifying:-

- What is the money spent on?
i.e. the full range of products, works and services that are purchased each year
- Who is it paid to?
i.e. the main providers to the organisation
- Who by?
i.e. Who is responsible for making the purchases

What is it spent on?

<u>MAJOR AREAS</u>	<u>VALUE</u>	<u>SUPPLIERS</u>
Social Services Care Contracts	£55.8M	235
Payments to Council DLO	£38.5M	
Waste Disposal	£19.4M	1
Capital Construction Contracts	£15.1M	56
School & College Transport	£9.9M	4
Supplies to Council DLO	£8.5M	180
School meals service contracts	£4.6M	3
Computer supplies (hardware)	£3.6M	85
Computer supplies (software)	£3.4M	45



How is it spent?

<u>Transaction Value</u>	<u>Total Value</u>	<u>Number</u>	<u>Average</u>
Under £1,000	£59M	314,984	£187
£1,000 - £2,000	£19M	15,433	£1,231
£2,000 - £5,000	£31M	10,219	£3,033
£5,000 - £10,000	£18M	3,116	£5,776
£10,000 - £20,000	£20M	1,459	£13,708
£20,000 - £40,000	£9M	390	£23,076
Over £40,000	<u>£111M</u>	<u>825</u>	<u>£134,545</u>
TOTALS	<u>£267M</u>	<u>346,426</u>	<u>£770</u>

[16,535 suppliers]

Creditor Name	Creditor No	Invoices (No.)	Sum Payments
Kier Eastern	40714	9	£1,011,749.51
John O'Conner	53280	157	£803,898.69
Specialist Fleet Services	152084	57	£488,166.28
Willmott Dixon Construction Ltd	103813	6	£440,487.58
Nott Pybus & Associates	123615	27	£355,105.81
Faithdean Plc	318310	2	£346,184.38
Mansell Construction Services Ltd	46679	3	£309,318.76
BSG Property Services Ltd	294117	307	£219,573.51
BP Oil (UK) LTD	193467	24	£209,851.79
Regency Building Services Ltd	340003	3	£204,151.55
Zurich Insurance	79507	6	£179,231.18
Goodman Nash Ltd	342250	16	£172,696.19
HBG Construction Southern Ltd	127624	127	£172,260.57
Prime Interaction Limited	281120	10	£164,827.85

County Council: Revenue Budget 2011/12

	£000s
Adult Services	144,555
Children's Services	236,412
Environment	98,468
Finance & Resources	64,772
Cultural Services	30,349
Strategy & Governance	15,077
Corporate Budgets	158,664
TOTAL GROSS EXPENDITURE	£748,297

County Council: Revenue Budget 2011/12

	£000s
Employees	258,986
Third Party Payments – Contracted Services	119,028
Supplies and Services	62,812
Support Services – Central Support Services	61,625
Premises (Includes repairs & mtnce, fixtures, fittings etc)	36,733
Transport (Including direct and hired transport)	19,277
Other (Including transfer payments, capital financing & contingencies)	189,836
	£748,297

Total potential contract related expenditure = £237.85M

Capital Expenditure

Spending is classified as 'capital' (rather than 'revenue') if the item or asset purchased has a life of more than one year.

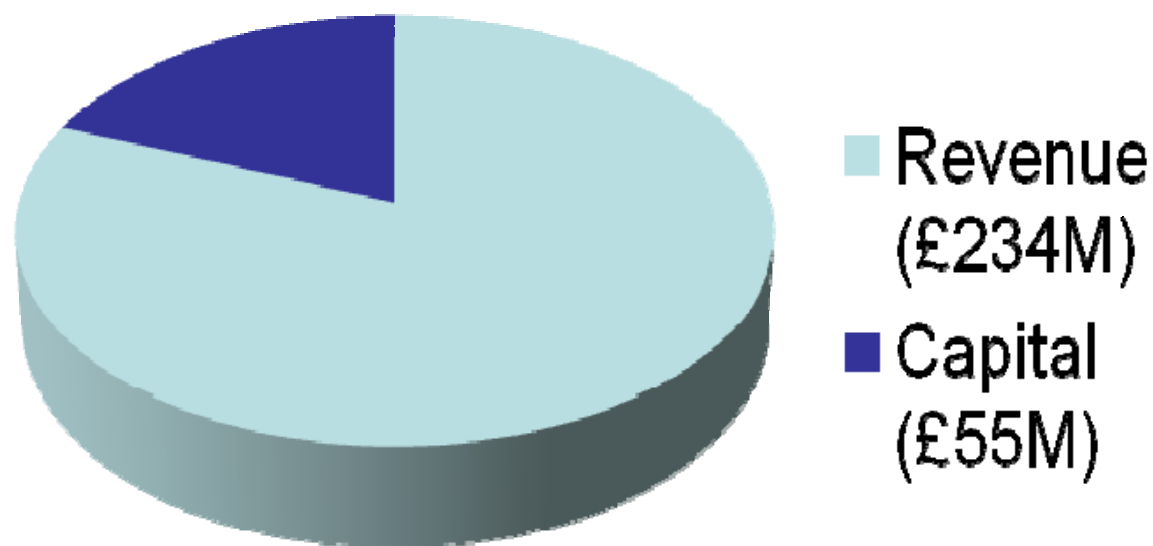
Examples include:-

- ☐ Purchase of land;
- ☐ Constructing and improving buildings and roads; and
- ☐ Buying vehicles, plant and machinery.

County Council: Capital Programme 2011/12

	£000s
Adult Services	24,815
Children's Services	10,403
Environment	11,632
Finance & Resources	5,769
Corporate Items	1,750
Cultural Services	1,060
TOTAL CAPITAL EXPENDITURE	£54,799

County Council Contractual Spending 2011/12



Total £289M

Procurement Relative Spend/Risk

Risk/Exposure	HIGH	<u>Strategic Security</u> - long term contracts	<u>Strategic Critical</u> -excellent negotiation, robust documentation, good relationships, best supplier in the market.
	LOW	<u>Tactical Acquisition</u> -secure long term contract, reduced resource input	<u>Tactical Profit</u> -short contract duration, standard goods/services.
		LOW	HIGH
		Annual Spend	

Audit Assurance

HIAs needs to provide assurance, on an annual basis, that their organisations are managing all significant risks (including procurement risks).

Annual audit plans should be prepared after examination of the organisation's risk registers which should identify:-

- Areas of spend (contracts) considered to be of strategic importance;
- Any important projects planned for the near future;
- Policies associated with procurement that are related to the organisation's key objectives (e.g. Sustainability, local economy etc)
- Any 'flagship' projects that could have serious repercussions for the image of the organisation should they fail.

Contract Fraud: Audit Approach

- Superficially examine as many contracts as possible and select samples for detailed checks;
- Cover all departments and sections, to review events (e.g. absences, workloads etc) and basic processes;
- Review new arrangements on a timely basis.

Look for indicators of potential fraud that could merit further investigation.

PACAF: Work Programme

CIPFA Publications

- Contract Audit Toolkit (2009);
- Risk based approach to the audit of procurement (2010);
- Audit of PFI Agreements (due early 2011);
- Collaborative Procurement (due 2011).

PACAF: Work Programme

Procurement and Contract Audit Training Modules

- Fundamentals of Contract & Procurement Auditing [2 days];
- Strategy, Governance and Control [2 days];
- Project Management [2 days] ;
- Managing Operational Risks [2 days];
- Partnering Arrangements [2 days];
- Capital Management & Monitoring [1 day];
- PPP/PFI Contracts [1 day].

PACAF: Work Programme

Standard Audit Programmes [due early 2011]

- To start with, will address five high-level topics:-
 - Procurement strategy
 - Project Management
 - Capital Programme Management;
 - Operational Risk Management;
 - Purchasing Goods.
- Each focusing on the key issues/risks;
- Guidance as to number of audit days.
- Freely available

PACAF: Work Programme

Annual Conference

- Crowne Plaza Hotel, Birmingham [21-Sep-10]
 - Themes of sustainability and VFM. Speakers included Don Ward (CE); Peter Glynne (OGC); Tim Banfield (NAO) and Dr Kay Williams (DEFRA)
- 2011 Conference to be held at Burlington Hotel, Birmingham on 21st September 2011

PACAF: Benefits of the ‘network’

- To raise and discuss key issues with a wider audience;
- Obtain information to help with forthcoming reviews;
- To keep up to date with new developments;
- Opportunity to have important issues raised at appropriate level;
- Possible co-ordination of audit plans.

PACAF : Executive Membership

Ken Odgers	Contractauditline Ltd & CIPFA Audit Panel		
David Catterall	CEAC	Chris Harris	RSM Tenon
Diana Melville	CIPFA Business Services [Better Governance Forum]	Jennifer Bayliss	National Audit Office
Jacqueline O'Brien	Northern Ireland Audit Office	Gordon Mattocks	CIPFA Audit Panel
Martyn Kenyon	Wigan MBC . [Greater Manchester Contract Audit Group]	Gary Haythorne	Conwy CBC [North Wales Procurement & Contract Audit Group]
Sandra Wheatley	Transport for London	Mike Taylor	Birmingham City Council. [Midlands Audit (Contract-Sub) Group]
Janine Wilson	Angus Council	Steve Wood	Capital & PFI Audit & Consultancy
Neil Hunter	Leeds City Council		

PACAF : How to join in

- Executive meets every four months.
- Minutes are circulated to all 'interested parties'.
- Its continued success depends on the involvement of auditors in the field!
- Always open to the receipt of ideas!
- To become involved, send an email to:-

ken@cal.org.uk

Audit Assurance: Key Questions

- My organisation's Audit Committee is aware of the key contract and procurement risks facing it.
- Risk registers at my organisation include adequate references to contract and procurement issues.
- I know my organisation has effective arrangements in place to minimise the risks and achieve good VFM from its procurement expenditure.
- We provide suitable assurance statements regularly to our Audit Committee regarding the risks associated with contract and procurement activities.

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