



Internal Audit Report
Education & Children's Services and Housing & Community Care
09/012 – ICT Purchasing
April 2010

Final Report

Chief Executive's Service
Perth & Kinross Council
2 High Street
Perth PH1 5PH

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Background and Introduction

This assignment forms part of the approved audit plan for 2009/2010.

The audit reviewed the Council's arrangements for the purchase of computer equipment and peripherals. At the time this review was initiated, the Council operated two Helpdesks; one provided a procurement service for the purchase of hardware, software and peripherals for the Council's (then) five Services and one provided the service for its Educational Establishments. The former was part of the Information Systems Technology (IST) Division of Corporate Services and the latter formed part of the Education Support Team (EST) in Education and Children's Services (ECS).

Subsequently, and in advance of the announced transfer of the management of IST to ECS from 01 January 2010 and re-designation as Information Technology (IT), both the IST and the EST Helpdesks merged to provide a shared service and single point of contact for the processing of orders in respect of IT purchases received from the whole of the Council. The order processing and purchasing operations of the newly created Helpdesk were not included in the scope of this review.

The Council maintain relations with a number of organisations for the purchase and procurement of goods and services, including IT hardware and software. The Council's Financial Regulations Clause 11.1.4 require that all supplies and works must be purchased from suppliers where a contract exists with, or has been approved by, the Tayside Procurement Consortium (TPC) as arranged by Scotland Excel, and the Office of Government Commerce (OGC).

Tayside Procurement Consortium (TPC)

Perth and Kinross Council has created a Central Procurement Team with Dundee City Council and Angus Council under the auspices of the TPC, which leads procurement within the partner organisations for the delivery of contract agreements for a wide range of goods and services. Contracts established by the TPC must be used by Council Services including educational establishments wherever possible, as failure to do so may expose the Council to the risk of legal challenge on the basis of breach of contract.

Scotland Excel

The Scottish Government formed Scotland Excel in April 2008 as a Centre of Procurement Expertise for Local Government and provides collaborative contracts for Councils across Scotland. Scotland Excel aims to deliver contracts in accordance with the Scottish Government's Strategic Sourcing Toolkit methodology and the contract award process which was established after consultation with local authority users and suppliers. Perth and Kinross Council is a full member of Scotland Excel and has a contractual obligation to use all contracts made available.

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This obligation is reflected in the Council's Procurement Procedures, which states that the use of Scotland Excel is mandatory and must be used by its Services and Educational Establishments wherever possible.

Office of Government Commerce (OGC)

The OGC is an independent office of HM Treasury established to help Government deliver best value from its spending, and which works with Central Government departments and other public sector organisations in the promotion and fostering of collaborative procurement across the public sector to deliver better value for money and better public services. Its role is to develop and implement procurement strategies for categories of commodities including IT hardware and software

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of relevant management and staff in Education and Children's Service, Housing & Community Care, Chief Executive's Service and the Tayside Procurement Consortium (TPC) during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved.

Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure there is an appropriate documented Council purchasing policy and procedures which are in accordance with the policy.	
Auditor's Comments: Policies and procedures have been developed for use by staff involved in the procurement of goods and services which are generally sound. The Corporate Procurement Policy, however, requires to be amended to include the category of "Supplies". The Council's Procurement Procedures also require to be updated to include reference to, and guidance for staff in the use of, Mini Competitions under the OGC Framework Agreements and the security of contract documents. Inconsistencies within corporate guidance for authorisation requirements need to be addressed. The Council's prime governance documents do not refer to the Council's relationships with, and the requirements of, the Tayside Procurement Consortium.	
Strength of Internal Controls:	Moderate

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Control Objective 2: To ensure the Service seeks to achieve “best value” in meeting its purchasing requirements in accordance with Council guidelines.

Auditor’s Comments:

Both Helpdesks have complied with the Council’s Procurement Procedures, and employed, where appropriate, the collaborative contracts arranged by TPC through Scotland Excel and / or the Office of Government Commerce for the purchase of IT hardware and software.

However, where collaborative contracts were not available, it was not possible to confirm that best value had been obtained in respect of some purchases made by the IST Helpdesk as the vendors’ quotation documentation was not available for examination.

In addition, the requirement of the Contract Rules to report quarterly on all successful tenders over £5000 has not been systematically applied.

Strength of Internal Controls:

Moderately Strong

Control Objective 3: To ensure that purchases and acquisitions are reconciled to an inventory which is maintained up to date.

Auditor’s Comments:

An Inventory of Assets register was maintained by IST and Asset Registers for the educational establishments were maintained by EST.

Purchases for which delivery notes were not available were not included within IST’s Inventory of Assets.

Purchases made through the EST Helpdesk were recorded correctly on the Asset Register.

The registers maintained for the educational establishments, for which there is a programme of audits undertaken by EST, show evidence that these are not maintained accurately, with a high proportion of items documented as being held by the schools not being present when the checks were undertaken.

Strength of Internal Controls:

Moderately Weak

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Control Objective 4: To ensure there are appropriate and adequate procedures in place for receipt and distribution, security, insurance and disposal.	
Auditor's Comments: Audit findings confirm that receipt from suppliers and distribution to Council Services and ECS Educational Establishments of IT Hardware and Software by the Helpdesk staff have been administered in a professional manner and insured in accordance with the Council's procedures. The Council's terms and conditions for the disposal of obsolete and redundant IT equipment remain to be formally agreed with the new service provider. This will include the documented requirement to destroy hard drives.	
Strength of Internal Controls:	Moderately strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Irons, Depute Chief Executive

J Fyffe, Executive Director, (Education & Children's s Services)

J Walker, Depute Director, (Housing & Community Care)

K Lawrie, Head of IT

J Symon, Head of Finance

I Innes, Head of Legal Services

G Taylor, Head of Democratic Service

A Harrow, Head of Procurement (Tayside Procurement Consortium)

M Mitchell, Corporate Procurement Manager

P Dickson, Complaints & Governance Officer

M Kay, Senior Committee Officer

External Auditor

Authorisation

The auditor for this assignment was RL Cockwell. The supervising auditor was DA Farquhar.

This report is authorised for issue:

J Clark
Acting Chief Internal Auditor
Date: 30 April 2010

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Corporate Procurement Policy	Medium
2	Quotations	Medium
3	Use of Mini Competition Procedures	Medium
4	Award of Contracts	Medium
5	Sustainability – Financial Evaluation	Medium
6	Amendment of Prime Council Documents	Medium
7	Contract Register	Medium
8	Contract Authorisation – Corporate Guidance	Medium
9	Security Arrangements - Contract Documentation	Medium
10	Asset Management – Audit of IT Hardware	High
11	Disposal of IT Hardware	Medium

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Appendix 2: Action Plan

Action Point 1 - Corporate Procurement Policy

Audit's examination of the contents of the Council's current Corporate Procurement Policy dated 04 October 2005, revealed that according to Section 1.1 of the document, the policy relates to two categories of procurement namely "Services" and "Works". Audit was advised by TPC's Head of Procurement that the policy mistakenly excludes the category of "Supplies", which covers IT hardware and software items such as personal computers, laptops, printers etc.

Management Action Plan

The Council's Corporate Procurement Policy is now due for revision by Tayside Procurement Consortium's (TPC) Head of Procurement in accordance with paragraph 3.4 (Policy Review) of Section 3 of the policy. All three categories (Works, Services and Supplies) will be included in the revised policy.

Importance:	Medium
Responsible Officer(s):	J Walker, Depute Director
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	April 2010
Required Evidence of Completion:	Approved copy of updated Corporate Procurement Policy

Auditor's Comments

Satisfactory

Action Point 2 - Quotations

The Council's Procurement Procedures state that expenditure on equipment, supplies, goods, materials or services with a value of less than £5,000 require three auditable quotations while a "simplified tender process" applies to purchases between £5,000 and £50,000. This requires that a minimum of three formal written quotes are obtained and retained to support the reasons for selection of the suppliers or contractors used.

Audit carried out sample checks to confirm compliance as follows:

IST Helpdesk

Audit tested four purchases of IT hardware and software, representing 17% of the total value of orders in the last quarter of the financial year 2008/2009. While two orders were found to be adequately supported by quotations, the IST Infrastructure Manager was unable to provide the quotations for the remaining two, which had a combined value of approximately £36k.

EST Helpdesk

Audit testing of four purchases, representing 9% of the total value of orders in the last quarter of the financial year 2008/2009, confirmed they were supported by quotations, which enabled Audit to confirm that best value had been achieved, including compliance with Procurement Procedures.

Management Action Plan

New Helpdesk Procedures and arrangements, ensuring that quotations in support of purchases of IT hardware and software are retained in accordance with the Council's Procurement Procedures, will be reinforced at the IT Operations meeting to ensure all team leaders are aware of the new procedure.

Importance:	Medium
Responsible Officer(s):	K Lawrie, Head of IT
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	June 2010
Required Evidence of Completion:	Copy of updated procedure and minute of IT Operations meeting.

Auditor's Comments

Satisfactory

Action Point 3 – Use of Mini Competition Procedures

In the course of testing, the auditor noted that the TPC tendered, on behalf of ECS, for the supply of an internet threat database, on the basis of "Mini Competition under an Office of Government Commerce (OGC) Framework Agreement".

While the Council's Procurement Procedures contain a link to the OGC website which provides details of potential suppliers, they provide no reference to or guidance for Council staff on how to apply the process of "Mini Competition under OGC Framework Agreements" or how to obtain the services of the TPC to apply the process.

Management Action Plan

Guidance for Council staff on how to apply the process of "Mini Competition under OGC Framework Agreements" or how to obtain the services of the Tayside Procurement Consortium to apply the process will be included in the revised Corporate Procurement Procedures which will be published in March 2010.

Importance:	Medium
Responsible Officer(s):	J Walker, Depute Director
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	April 2010
Required Evidence of Completion:	Approved copy of updated Corporate Procurement Procedures

Auditor's Comments

Satisfactory

Action Point 4 – Award of Contracts – Reports to Committee

The Council’s Contract Rules require that “each Executive Director shall submit to the appropriate Committee or Sub-Committee a report....detailing all tenders over £5,000....accepted by the Service during the preceding three months”. This has not been systematically applied.

From the sample selected from IST, there was one purchase with a value of £58k with a tendering procedure applied and from EST there were two such contracts. The award of the contract from IST was not reported to any Committee and only one of the two from EST had been reported.

The Head of IT acknowledged quarterly compilation of details of successful tenders over £5,000, for reporting to the appropriate committee has not, to date, been recognised practice. She added that reporting items over such a low figure would result in lengthy reports.

The Head of Legal Services has, however, confirmed the requirement for the consistent application of the Contract Rules throughout the Council.

Management Action Plan

The Head of Legal Services will discuss with the Services the issue of non compliance with the Contract Rules requirement to report details of all accepted tenders over £5,000 quarterly to ensure that an adequate and effective level of control is maintained over tendering activity.

Importance:	Medium
Responsible Officer(s):	I Innes, Head of Legal Services
Lead Service:	Chief Executive’s Service
Date for Completion (Month / Year):	July 2010
Required Evidence of Completion:	Minutes of meeting agreeing the controls

Auditor’s Comments

Satisfactory

Action Point 5 – Sustainability – Financial Evaluation

The auditor checked an EST and an IST purchase for approximately £27,000 and £58,000 respectively, to ensure that the tendering companies had been the subject of financial evaluation in accordance with the Council's Procurement Procedures.

The tender documentation (Invitation To Quote) employed by TPC on behalf of the EST Helpdesk for the £27,000 purchase, revealed that the supply was obtained by Mini Competition under OGC Framework Agreements. The Council's Corporate Procurement Manager advised that checking the sustainability and financial standing of all contractors listed by OGC is OGC's responsibility.

Chief Executive's Finance staff confirmed that Dun & Bradstreet reports on the financial and economic standing had been obtained for the relevant tendering companies and provided to IST's Software Engineer in respect of the £58,000 purchase. They had, however, not been requested to carry out a financial evaluation in accordance with the Council's Procurement Procedures,

The Head of IT explained that staff thought they had been following the requirements of the Procurement Procedures. She agreed, however to review the respective roles in this area of procurement and update procedures as necessary.

Management Action Plan

The Head of IT will review and clarify the arrangements, with input from Financial Services/Procurement as necessary, for evaluating the financial and economic standing of tendering companies, to ensure they are in accordance with the Council's Procurement Procedures. These procedures require that *"the financial evaluation will be carried out by a member of the finance dept"* but *"where the supplier is a new company or without sufficient proof, it is the procurer's responsibility to take up references or to ask for credit checks as appropriate"*. An update on the new procedures will be given at the IT Operations Meeting.

Importance:	Medium
Responsible Officer(s):	K Lawrie, Head of IT
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	June 2010
Required Evidence of Completion:	Revised procedures and minute of meeting.

Auditor's Comments

Satisfactory

Action Point 6 – Amendment of Prime Council Documents

A report was submitted by the (then) Executive Director (Corporate Services) to the Strategic Policy and Resources Committee on 06 February 2008 setting out the proposed strategy for the TPC including the recommended structure and governance of the centralised procurement model.

The committee agreed the proposals and resolved that, “at the first suitable juncture,” the necessary amendments should be made to the Council’s Scheme of Administration, Financial Regulations and Contract Rules “reflecting the establishment of the consortium and its operating arrangements.” It also resolved that the Executive Director (Corporate Services) be authorised to approve and sign, on behalf of the Council, the Memorandum of Understanding (MOU) which sets out the respective commitments of the Councils to one another.

While the MOU was signed in May 2008, the relevant amendments to the Council documents have yet to be made.

Management Action Plan

[1] The Service will ensure that required changes to the Contract Rules will be identified and implemented reflecting the establishment of the Tayside Procurement Consortium and its operating arrangements, in accordance with the minute of the Strategic Policy and Resources Committee of 06 February 2008.

[2] The changes to the Contract Rules will facilitate the required changes to be made to the Scheme of Administration and Financial Regulations.

Importance:	Medium
Responsible Officer(s):	[1] I Innes, Head of Legal Services [2] G Taylor, Head of Democratic Services & J Symon, Head of Finance
Lead Service:	Chief Executive’s Service
Date for Completion (Month / Year):	[1] July 2010 [2] December 2010
Required Evidence of Completion:	Updated Contract Rules, Scheme of Administration and Financial Regulations

Auditor’s Comments

Satisfactory

Action Point 7 – Contract Register

The Council's Procurement Procedures require staff in Council Services and Educational Establishments to record details of all contracts entered into on the Central Contract Register within one month of acceptance, to assist in identifying potential savings and obtaining best value.

Comparison of sample contracts selected for audit testing with entries in the Council's Contract Register revealed, in respect of both IST and EST, that not all contracts awarded by the respective management teams, have been recorded in the Central Contract Register.

The TPC's Commodity Manager who maintains the Register confirmed that there is an issue with the Services' non compliance to ensure the Register is updated.

Management Action Plan

A new procedure for contacting the Tayside Procurement Consortium's Commodity Manager to update the Central Contract Register with details of new contracts within one month will be established. This requirement will be reinforced at the IT Operations meeting.

Importance:	Medium
Responsible Officer(s):	K Lawrie, Head of IT
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	June 2010
Required Evidence of Completion:	Copy of procedure and minute of meeting

Auditor's Comments

Satisfactory

Action Point 8 – Contract Authorisation –Corporate Guidance

There are discrepancies within the Council’s corporate guidance documentation regarding the officers authorised to award tenders / contracts, as illustrated below:

Council Document	Tender / Contract Value	Authority
Procurement Procedures	Exceeds European Union Threshold (currently) £156,442	Head of Legal Services
“ “ “	Less than £156,442	Chief Officer
Contract Rules and Corporate Guidance Supplementing Contract Rules	No value stated	Executive Director

Management Action Plan

The Service will ensure that there is consistency within the corporate documentation and that section 6.6.5 of the Procurement Procedures is amended to reflect that the Head Of Legal Service’s advice is required rather than his authorisation.

Importance:	Medium
Responsible Officer(s):	I Innes, Head of Legal Services
Lead Service:	Chief Executive’s Service
Date for Completion (Month / Year):	July 2010
Required Evidence of Completion:	Amended Procurement Procedures

Auditor’s Comments

Satisfactory

Action Point 9 – Security Arrangements – Contract Documentation

Whilst the Council’s Contract Rules and Corporate Guidance (Supplementing the Contract Rules) state that principle contract documents and allied papers should be kept in a safe and secure location, they do not provide staff with further guidance on appropriate internal controls on how to ensure the physical security of such commercially sensitive and confidential information. e.g. the operation and use of key registers and access logs by staff

Management Action Plan

The Council’s Contract Rules and Corporate Guidance (Supplementing the Contract Rules) will be updated to provide guidance on physical security and access arrangements for principle contract documents such as the operation and use of key registers and access logs.

Importance:	Medium
Responsible Officer(s):	I Innes, Head of Legal Services
Lead Service:	Chief Executive’s Service
Date for Completion (Month / Year):	July 2010
Required Evidence of Completion:	Updates to the Council’s Contract Rules and Corporate Guidance (Supplementing the Contract Rules)

Auditor’s Comments

Satisfactory

Action Point 10 – Asset Management – Audit of IT Hardware

Audit testing of IST hardware purchases in the last quarter of 2008/2009, highlighted that £36k of IST hardware purchases had not been entered in the Inventory of Assets in accordance with the Council’s Information Security Policy. The IST Infrastructure Manager explained this was due to inability to trace the vendor’s delivery notes required to update the register.

To assist Heads of education establishments meet their responsibility to maintain an ICT asset register, a revised ECS ICT audit process was introduced from 2006/07. Outcomes from the 4 year rolling programme of these on-site audits by EST staff, covering 25% of establishments each year, were reported to the ECS Senior Management Team (SMT) in May 2007 and May 2008. The ECS Service Manager - ICT Support explained absence of key staff, other operational priorities and team re-organisation, have delayed moderation and submission of the 2008/2009 findings.

The report findings for 2006/2007 – 2008/2009 reflect that 9.3%, 8.4% and 8.5% of items audited were unaccounted for in each respective year, The 2008/2009 draft report also features results of self audits by schools. A number of establishments were reported as having not carried out self audits. The ECS Service Manager-ICT Support explained that the majority of items unaccounted for were older items. He added that items over four years old, recorded as “not found”, are likely to have been kept by establishments beyond replacement timeframes and subsequently disposed of without notification and update to their IT Asset register. The majority of “modern” (i.e. under 4 years old) items, he stated, would be accounted for by establishments on further investigation. He also considers a high proportion of items categorised as “not found” arises because of educational establishments’ lack of capacity to adequately resource completion of the audit process.

Management Action Plan

(1) New procedures have been established to ensure that all vendors’ delivery notes are retained securely and utilised to update the Inventory of Assets register.

(2).The ICT Audit Report 2008/2009 will be issued to the ECS Senior Management Team containing appropriate recommendations for effective ongoing liaison between IT and the educational establishments towards the maintenance of an accurate and up to date ICT Asset Register for the Service, and impressing on Heads of educational establishments, their responsibilities in this regard.

Importance:	High
Responsible Officer(s):	K Lawrie, Head of IT
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	(1) Complete (2) April 2010
Required Evidence of Completion:	(1) N/A (2) SMT report

Auditor’s Comments

Satisfactory

Action Point 11 – Disposal of IT Hardware

When EST’s contract for disposal of obsolete and redundant IT equipment came due for renewal, Perth & Kinross Council’s ICT Management Team, in August 2009 agreed to appoint a contractor other than the existing contractor to dispose of both IST and EST equipment in a “joint arrangement which would offer a best value, secure, comprehensive service to all PKC areas.”

EST and IST Officers were tasked by the ICT Management Team to conclude an appropriate service agreement with the contractor subject to review no later than 01 August 2010. This agreement has yet to be prepared.

The Council does not remove data from hard drives before passing its obsolete and redundant computers to the service provider on the basis that there is a verbal agreement that the service provider destroys the hard drives in computers which cannot be reused, and provides certificates to the Council certifying destruction.

There is a risk, that in the absence of a formal service agreement, if sensitive information was to enter the public domain from a re-used computer, the Council may be exposed to adverse publicity and financial penalties, while the service provider denies responsibility.

Management Action Plan

The Service will obtain written confirmation from the company that the Council’s requirement is that all its hard drives are destroyed, to reinforce the current verbal agreement.

Importance:	Medium
Responsible Officer(s):	K Lawrie, Head of IT
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	April 2010
Required Evidence of Completion:	Copy of written confirmation

Auditor’s Comments

Satisfactory

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