



Procurement

North Yorkshire Fire and Rescue Service

Internal Audit Report 2019/20

Business Unit: Estates, Transport and Logistics
Responsible Officer: Head of Estates, Transport and Logistics
Service Manager: MD of Enable North Yorkshire
Date Issued: 09/12/2020
Status: Final
Reference: 45525/002

	P1	P2	P3
Actions	0	3	0
Overall Audit Opinion	Limited Assurance		

Summary and Overall Conclusions

Introduction

North Yorkshire Fire and Rescue Service (NYFRS) currently has 73 contracts on its contract register with a disclosed total estimated lifetime value of £1.5 million. Managing spending using contracts and having effective procurement offers the potential to significantly improve financial performance with lower prices and a reduction in operating costs. However there are a number of risks related to procurement including a failure to deliver the intended aims and needs, a failure to secure value for money and proper procedures not being followed.

NYFRS' contract and procurement regulations are set out in the Financial Management Framework which sets out the arrangements under which Directors, Section Heads and Budget Managers should procure goods and services. A contract is also in place with North Yorkshire County Council (NYCC) Procurement service to provide support, advice and guidance on their procurement exercises.

Governance and oversight of NYFRS is now part of the responsibilities of the North Yorkshire Police, Fire and Crime Commissioner. Work is ongoing to maximise efficiencies and improve joint working with North Yorkshire Police. This work includes combining business support service functions from Fire and Police as part of the Enable North Yorkshire initiative to provide high quality, efficient business support services for both bodies. Procurement is one of the areas which Enable North Yorkshire will have a focus on.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls ensure that:

- Detailed and sufficient policies and procedures are in place and are being consistently followed.
- Contracts are in place to manage expenditure and are recorded in line with policy.
- Spend is tendered/quoted where necessary and sufficient evidence is retained.

Key Findings

NYFRS' contract regulations are contained within the Financial Management Framework. However, there are currently no comprehensive internal guidelines or internal assurance frameworks to help support consistent application of the contract regulations and procurement rules.

The regulations do stipulate what processes should take place, but there are no guidelines on documenting decision making or retaining appropriate evidence. There is also no supporting guidance to help ensure best value is considered and achieved.

There is currently no dedicated internal resource for procurement at NYFRA to provide oversight on these processes and ensure they are being consistently followed. NYCC Procurement staff provide advice and support on procurement exercises when requested. In conversation with

them, they highlighted some areas for improvement, including lack of sufficient notice being given to them for projects and some lack of forward planning and engagement. NYFRS management are aware of these concerns.

The Service has a contract register which the Central Administration Office (CAO) has responsibility for updating. New and amended contracts are communicated via a standard form, which requests a signed copy of the contract. A monthly reminder email is also sent to responsible officers. All contracts with a total accumulative value of £10,000 or more should have a written contract and a record on the contract register.

Payments made by the service between April 2018 and August 2020 were reviewed. We found a high number of high value payments made without a recorded contract in place to manage expenditure effectively. In addition, a number of suppliers with a recorded contract were found to have received no payments in the period reviewed. As information is incomplete, the contract register cannot be used as an active, contract management tool to oversee current spend and plan for future procurement exercises.

A significant number of suppliers had received payments of £10,000 or more during the period. Of the 151 suppliers in this bracket, only 24% had a recorded contract in place. The majority of these suppliers received less than 50 individual payments in the period, which would suggest the initial procurements were of a high value and would likely meet thresholds specified in the contract regulations.

9 suppliers who received high value payments in the period without a recorded contract were discussed with responsible officers. None of these arrangements had a documented, agreed contract in place. No evidence could be provided that procurement procedures had been followed for any of the 9 suppliers. In some cases officers explained they had carried out this process, but decision making processes were not documented.

Around £450,000 has been paid to these suppliers in the period without formal contracts in place. 6 received payments between £50,000 and £10,000 so should have had 3 recorded quotes. The remaining 3 were paid above £50,000 so a tendering procedure should have been followed. All should have a written, recorded contract in place. There is no assurance for the service that best value has been achieved for these arrangements. The lack of recorded contracts may hinder management of arrangements and issues with these suppliers.

The majority of suppliers received lower value payments in the period, less than the £10,000 threshold for a written contract and inclusion on the register. Based on the information reviewed, these arrangements would not require a contract or inclusion on the register but may qualify over the lifetime of the arrangement.

Analysis of subjective codes used in the period identified a high quality of spend outside of recorded contracts. Of the 81 subjective codes used were a contract would be appropriate, only 10 were only applied to suppliers with recorded contracts. The majority of codes were utilised for payments outside of recorded contracts. In addition, a notable number of codes were used only for non-contracted suppliers.

Overall Conclusions

Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Limited Assurance.

1 Procurement Guidelines

Issue/Control Weakness

There are currently no comprehensive internal guidelines or internal assurance frameworks to help support consistent application of the contract regulations and procurement rules.

Risk

Non-compliance with Contract Regulations. There is poor guidance available which may result in best value not being achieved by the service.

Findings

Contract regulations are contained within the Authority's Financial Management Framework. This contains guidance on carrying out procurement exercises based on lifetime value of the procurement.

There is currently no comprehensive, internal guidance in place to ensure compliance to the contract regulations. The regulations contain no reference to documenting or retaining evidence of procurement processes or ensuring best value is achieved. There is no assurance framework or dedicated internal resource for procurement at NYFRA to provide oversight on these processes and promote compliance.

Though there is a contract register for the service, this was found to contain inaccurate and incomplete information. There are a significant number of arrangements without a recorded contract in place (which is discussed further in Finding 2). We also identified a number of recorded contracts that had not been utilised in the period reviewed. As information is incomplete, the contract register cannot be used as an active, contract management tool to oversee current spend and plan for future procurement exercises.

Procurement support is provided by NYCC Procurement, however NYCC officers highlighted weaknesses related to this arrangement. In particular, concerns around timescales and notice given for projects, lack of forward planning and engagement were raised. NYFRS management are aware of these concerns.

The lack of clear, comprehensive guidelines and oversight of these processes result in inconsistent application of the contract regulations and procurement rules. There is a risk that responsible officers are not aware of their obligations when procuring goods and services, leading to non-compliance and best value not being achieved.

Agreed Action 1.1

- Introduce suitable procurement management and support capacity to provide day to day oversight of procurement activity.
- Address the lack of procedures by adapting and adopting North Yorkshire Police procedures which already have been tested against procurement compliance and have in built gateways.
- Align gateways with order processes within the FRS.

Priority

2

Responsible Officer

Head of Assets

Timescale

31 March 2021

- Include procurement governance for fire and rescue through the joint Strategic Commercial Board, to include performance review to better measure compliance by contract managers in the future.



2 Expenditure outside of recorded contracts

Issue/Control Weakness

The contracts register is inaccurate and incomplete. There is a significant proportion of spend made outside of recorded contracts.

Risk

Non-Compliance with the Contract Regulations. High value expenditure may not be managed effectively. Issues with arrangements or providers cannot be addressed effectively.

Findings

NYFRS' Contract Regulations state written contracts with suppliers should be in place for all arrangements with a cumulative, lifetime value of £10,000 or more. These contracts should be recorded on the authority's contract register and published via their website.

Payments made by the Service to all relevant suppliers and individuals between April 2018 and August 2020 were obtained, reviewed and compared to the contents of the current contract register. We identified a significant number payments made without a recorded contract in place. 151 suppliers received payments of £10,000 or more during the period. Only 36 of these suppliers had contract recorded on the contract register.

Aggregated spend for the 115 suppliers without a recorded contract paid over this threshold was also reviewed. The majority of these suppliers received a small number of individual payments in the period. This would suggest that the initial procurements were of a high value and likely met the £10,000 procurement threshold. The majority of suppliers were paid below the £10,000 threshold during the period and contracts were found to be place for some of these suppliers. Based on the information reviewed these should not recorded on the register. However, it is likely that the total value paid to some of these suppliers over these arrangements could be worth over £10,000.

Subjective codes used to pay these suppliers were also analysed and compared to recorded contracts. Of the 81 subjective codes used, only 10 were used just for suppliers with a recorded contract in place.

Though it is possible contracts are in place for some of these suppliers (as they are not recorded centrally on the contract register) this cannot be confirmed. From the data reviewed, it is reasonable to conclude that high value arrangements are in place with suppliers without a formal, agreed contract and a significant proportion of spend is made outside of established contracts.

Agreed Action 2.1

- Introduce suitable procurement management and support capacity to provide day-to-day oversight of procurement activity.
- Increase the effectiveness of monthly reminders and introduce procedures (as per finding 1) above which will bring gateways into the process to prevent progressing to expenditure without contract and contract register entry and align procurement

Priority

2

Responsible Officer

Head of Assets

Timescale

30 June 2021

activity with financial processes.

- Increase use of online portal by all contract managers (including appropriate training and licencing) to include register of contracts, live procurement activity and future pipeline.



3 No evidence of tendering or quotes for high value expenditure

Issue/Control Weakness

Goods and Services spending in excess of Fire Service thresholds is not following procurement rules and do not have contracts. There is a lack of documented decision-making.

Risk

Non-compliance with Contract Regulations and procurement guidelines. No assurance that best value has been achieved. Lack of recorded contracts may hinder management of arrangements and issues with providers.

Findings

The Services' Contract Regulations contain guidance on carrying out procurement exercises based on lifetime value of the procurement. As identified in Finding 2, a number of high value arrangements did not have a documented contract in place.

We identified and tested 9 suppliers who were paid high value payments between April 2018 and August 2020 and did not have a contract recorded on the contracts register. The suppliers covered Clothing & Uniforms, Vehicle Parts & Maintenance and Training. In all 9 cases, no contract with the supplier was in place.

No evidence could be provided that procurement procedures had been followed (such as evidence of 3 quotes or best value consideration) for any of the 9 suppliers. In some cases officers explained they had carried out this process but it had not been documented. For one of the sample the responsible officer have since left the authority so we were unable to discuss arrangements.

Approximately £450,000 has been paid to these suppliers without a contract or evidence of compliance with procurement procedures between April 2018 and August 2020. 3 suppliers were paid >£50,000 so a tendering procedure should have been followed. 6 of these suppliers received payments of between £10,000 and £50,000 so should have had 3 recorded quotes.

Agreed Action 3.1

- Introduce suitable procurement management and support capacity to provide day to day oversight of procurement activity.
- Review long standing contract arrangements across the Service undertaking a detailed audit of all contracts on a risk basis.
- Develop a programme of contract renewals where issues identified.
- Increase monitoring through the introduction of procedures and approval gateways. Increase training for budget holders and contract managers to help ensure compliance with procedures.

Priority

2

Responsible Officer

Head of Assets

Timescale

30 June 2021

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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