



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
6 APRIL 2006**

Report of the Head of Audit and
Risk Management

ITEM 8

Audit Report – Schools Procurement

RECOMMENDATION

- 1.1 To note the report from the Assistant Director Resources and Strategic Planning.

SUPPORTING INFORMATION

- 2.1 At its meeting on 8 December 2005, the Committee requested that it wished to have the opportunity to review in greater detail the audit report on School Procurement and discuss the findings of the report with the managers responsible for the service.
- 2.2 Appendix 2 is a report from Simon Longley, Assistant Director Resources and Strategic Planning which provides Members with his comments on the key control weaknesses raised and the suggested recommendations from internal audit to address these weaknesses. It also briefs Members on the actions taken since the publication of the audit report, in particular the progress that has been made on actions to address the control weaknesses raised in the audit report.
- 2.3 From the information provided by Assistant Director Resources and Strategic Planning, the Head of Audit and Risk Management is satisfied that progress has been made to address those issues raised. The Committee will be informed of future progress in respect of this audit in the Head of Audit and Risk Management's Quarterly Internal Audit reports.

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Background papers:	Final Internal Audit Report
List of appendices:	Appendix 1 – Implications Appendix 2 – Report from Assistant Director Resources and Strategic Planning

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. None directly arising.

Report of Simon Longley, Assistant Director

School Procurement – Internal Audit Review

Following an internal audit review of the above service, we agreed to implement 6 recommendations. Progress to date on the implementation process is shown in Table 1 at the end of this report.

The internal audit report made 7 recommendations which resulted from wide-ranging control weaknesses identified in their testing. The following issues were considered by internal audit to be the key control weaknesses:

- The lack of use of corporately arranged contracts, using the Council's combined purchasing power.
- Schools general non-adherence to the Council's Internal Rules in relation to procurement.
- The use of various recruitment agencies not under contract with the Council.
- The unsystematic use of professional quantity surveyors to conduct tendering processes.

The second and the fourth key weaknesses above are accepted. However, the recommendations to address these weaknesses - more explicit guidance and a programme of training – are unlikely to achieve the desired state of control. More thought needs to be given to realistic monitoring strategies – especially taking account of the high level of school autonomy, and the ability of schools to completely sidestep controls as they are not required to use the Council's financial systems. Issues in these areas arise from the tensions faced by all local authorities in dealing with the nationally determined autonomy of schools. The Council's audit programme needs to include appropriately prioritised and targeted monitoring. New national requirements to certify compliance with the DfES Financial Management Standard will require new mechanisms within the Council.

The report's conclusion that greater effort should be made corporately to establish agreed contracts is accepted. However, in commenting on schools' current procurement practice it is important to note

- For many areas of spend there are no approved lists
- Many of the major suppliers are 'non-negotiable' – for example examination boards, specialist journal for recruiting teachers
- Some of the most used 'suppliers' are in fact purchasing organisations formed by consortia of local authorities to achieve best value

It would have been much more helpful if the report had focused on the generic steps which could (and are) being taken by the Council as a whole to improve value obtained through procurement, and how the benefits could then be 'sold' to the autonomous schools market, where the Council is not legally able to restrict schools to the use of approved suppliers.

The issue raised in recommendation 5 was not accepted. In considering the use of recruitment agencies, the report does not take sufficient account of the legal status of schools as employers. 20 of the schools maintained by the Council are foundation or voluntary aided schools. In these schools, the governing body is the employer and there can be no question of the Council attempting to restrict their freedom to recruit in whatever

way they choose. In the remaining schools, the Council is the nominal employer, but regulations explicitly give the power of making appointment decisions to the governing body. Unlike most LAs, Derby City Council has established its own agency for supplying temporary teaching staff to schools. This agency functions as a sold service, and it is already recommended to schools. In these circumstances, it is unlikely that we could also negotiate a competitive contact with a commercial agency.

Most of the original agreed action relates to a new training programme. This has been developed in partnership with the University of Derby, and links to the new national approach to a Financial Management Standard and Toolkit (see <http://www.dfes.gov.uk/valueformoney/index.cfm?action=financeManagement.Default&ContentID=70>). The combination of self-assessment by schools against the standard and the use of targeted external assessment will provide the necessary accountability and evidence trail.

All the recommendations for accepted issues are on track for full implementation by July 2006.

Table 1 - Summary Of Progress Made In Implementing Audit Recommendations

Rec No	Original Recommendation	Details of Actions to address weaknesses	Current Status
1	<p>Rating: Significant</p> <p>Corporate monitoring and analysis of the spends made by schools is not undertaken as a matter of course, to ensure that value for money is sought from combined purchasing power.</p> <p>We recommend that an annual analysis of schools' expenditure with suppliers is undertaken. Where there is any indication of an opportunity to take advantage of the economies of scale through a combined purchasing capability, the relevant information should be passed to the Head of Procurement for further action.</p>	<p>Original Agreed Action</p> <p>Already happening, but note we do not have information about chequebook schools.</p> <p>We are now receiving reports outlining spending by supplier for schools using the Council's financial systems and are passing these to the Head of Procurement. This will not, however, include roughly a quarter of schools spending which is by schools with their own chequebook. The comment about only 6 of the top 50 companies being on the Council's approved list of suppliers is not particularly relevant – my understanding was that there were no approved lists in many areas. The apparently non-approved suppliers include Severn Trent and BT. In addition, according to the Head of Procurement, "there is still evidence that the schools are benefiting from formal contracting arrangements. This is through use of YPO and ESPO who specifically cater for the education market and are grouping requirements over a number of authorities and should therefore be demonstrating value for money." Also, for IT expenditure, there are no corporate contracts available to schools because of our outsourcing to Capita.</p>	Implemented
2	<p>Rating: Significant</p> <p>Schools are not adhering to the Council's Internal Rules despite having received guidance i.e. the Finance Manual.</p> <p>We recommend that the Education Service should</p>	<p>Original Agreed Action</p> <p>Training programme for schools being developed in conjunction with the Head of Procurement. Reminders about the manual will be issued when it is updated (see below).</p>	Being Implemented

Rec No	Original Recommendation	Details of Actions to address weaknesses	Current Status
	remind all schools of the existence of the Finance Manual, perform the planned training on procurement in schools and make schools aware that, where necessary, they can be used as an advisory service on procurement.	<p>We are working closely with the Head of Procurement to design a training programme for schools.</p> <p>To be implemented by 31/3/06</p> <p>Actual Action taken/ to be taken</p> <p>A training programme has been developed with the University of Derby. This will be delivered during the Summer Term 2006.</p>	
3	<p>Rating: Merits Attention</p> <p>The current Finance Manual gives Governing Bodies complete discretion when setting their own tendering thresholds.</p> <p>We recommend that the Education Service should revise and issue the Finance Manual as soon as possible, to reflect that the Council's Internal Rules in relation to tendering should be strictly adhered to.</p>	<p>Original Agreed Action</p> <p>The section relating to thresholds on the website will be changed imminently; the manual as a whole needs revising generally, and this is in Education Finance's service improvement plan for the 2005/06 financial year.</p> <p>The manual needs to be revised in several areas, and this is part of Education Finance's service improvement plan for this year.</p> <p>To be implemented by:</p> <p>Website - 31/10/05</p> <p>Hard copy – 31/3/06</p> <p>Actual Action taken/ to be taken</p> <p>Website updated.</p> <p>No new hard copy is being produced, as the manual is now effectively superseded by the DfES toolkit, linked to the new national Financial Management Standard. Schools have copies of the internal finance rules of the Council in hard copy through the changed Scheme for Funding Schools.</p>	Implemented

Rec No	Original Recommendation	Details of Actions to address weaknesses	Current Status
4	<p>Rating: Merits Attention</p> <p>Not all schools have retained all necessary contract documentation for the requisite period of time.</p> <p>We recommend that the procurement training planned for schools specifically addresses the issue of retention of contract documentation in accordance with the Council's Internal Rules.</p>	<p>Original Agreed Action</p> <p>Training programme for schools being developed in conjunction with the Head of Procurement.</p> <p>We are working closely with the Head of Procurement to design a training programme for schools.</p> <p>To be implemented by 31/3/06</p> <p>Actual Action taken/ to be taken</p> <p>See recommendation 2.</p>	Being Implemented
5	<p>Rating: Significant</p> <p>There are no standard procedures for selecting how schools may obtain temporary staff. As a result there is no evidence of competition or that value for money has been achieved.</p> <p>We recommend that schools be encouraged to use the LEA pool in the first instance. The LEA should try and secure a competitive contract with a recruitment agency, which should be approached by schools when the LEA pool is unable to supply temporary staff.</p>	Not agreed	

Rec No	Original Recommendation	Details of Actions to address weaknesses	Current Status
6	<p>Rating: Significant</p> <p>Some schools have sought professional advice before entering into a tendering exercise whilst others have not. This has lead to the non-adherence to the Council's Contract Procedure Rules in respect of tendering.</p> <p>We recommend that for all building related capital works, schools should engage professional surveyors / advisors to produce the project specification and carry out the quoting/tendering process. The selection of the surveying /advisers service should also be in accordance with the Council's Internal Rules (i.e. quotes will be required from three companies if the value of the contract is to be over £1,000).</p>	<p>Original Agreed Action</p> <p>The Schools Finance Team are putting together a training package on procurement which will be presented to schools in the near future. It will cover on the building side of procurement and that professional advice needs to be sought prior to any capital project.</p> <p>Small roofing/ceiling jobs may be low in value, but can involve dealing with asbestos and would require professional advice.</p> <p>Schools need to refer to Section B of the Schools Premises Handbook outlining contacts for professional advice.</p> <p>To be implemented by 31/3/06</p> <p>Actual Action taken/ to be taken</p> <p>See recommendation 2.</p> <p>A revised system for approval of capital expenditure was introduced in autumn 2004. This ensures that approval for capital expenditure by schools is dependent on the submission of documentation showing independent professional advice has been obtained.</p>	Being Implemented

Rec No	Original Recommendation	Details of Actions to address weaknesses	Current Status
7	<p>Rating: Merits Attention</p> <p>Not all schools have adhered to the Council's Internal Rules in relation to obtaining, evaluating and accepting competitive quotes or tenders.</p> <p>We recommend that the procurement training planned for schools specifically addresses the issue of tendering thresholds and procedural requirements in accordance with the Council's Internal Rules.</p>	<p>Original Agreed Action</p> <p>Training programme for schools being developed in conjunction with the Head of Procurement.</p> <p>We are working closely with the Head of Procurement to design a training programme for schools.</p> <p>To be implemented by 31/3/06</p> <p>Actual Action taken/ to be taken</p> <p>See recommendation 2.</p>	Being Implemented