



Audit of Procurement (Counter-Fraud)

Draft Report Issued: 20 October 2022
Director Draft Issued: 09 November 2022
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Audit Report Distribution

Client Lead:	Senior Manager – Programme Office Senior Specialist – Procurement Senior Business Support - Procurement
Chief Officer:	Assistant CE – Innovation and Commercial Chief Executive
Audit Committee:	The Audit Committee, which is due to be held on 28 th November 2023 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1 This report summarises the findings from the audit of Procurement (Counter-fraud). This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 25th July 2022.
- 1.2 Procurement fraud has been recognised as a significantly growing area of fraud, particularly following COVID 19 where fraudsters have taken advantage in changes in ways of working and high demand for services such as PPE.
- 1.3 With the cost of local government fraud estimated at £2.2b with £890m accounted for procurement fraud it is essential the council remains vigilant to any attempts of fraud which could happen before a contract commences (price fixing, bribery or corruption) or post contract (provision of inferior goods, mandate fraud or false/duplicate invoices).

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review were the Senior Manager – Programme Office and Senior Advisor - Procurement. The agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
 - Procurement frauds not prevented or subsequently detected as a result of weaknesses in the internal control framework (Pre/Post contract award).
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).
- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Procurement provide **reasonable level**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation’s strategic objectives achieved (see section 5.1)	-	2
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	6
3. Information - reliability and integrity of financial and operational information (N/A)	-	-
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	-	8

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 Findings Summary (good practice / areas for improvement):

The Council has robust procedures in place for the financial management over the procurement of goods and services. Controls are well established and ensure accountability as you would expect from a public organisation.

However, there is limited awareness of procurement fraud and its development as a risk which could increase the Council's exposure to not being able to detect or prevent procurement fraud. There is a need to update and review relevant regulations, policies and procedures to ensure they align with this risk environment. Responsible officers should continue to monitor this risk environment to ensure general awareness is maintained within the Council.

Consideration should also be given to managing the risk of procurement fraud more formally as part of the risk management framework to ensure controls are regularly reviewed and updated when required.

Training and awareness should be provided to individuals who hold a fiscal responsibility with consideration given to the requirement of a DBS check for such posts with reminders provided to ensure conflicts of interests remain up to date.

During the pandemic, staff were quick to identify the requirement of sourcing equipment quickly so worked hard to ensure additional controls were in place to mitigate any risks as the financial control of purchase orders could not be in place.

Comment from the Assistant CE – Innovation and Commercial

I am pleased to note the findings of strong performance, robust procedures and reasonable systems of internal control with regard to procurement functions. I note also the comments and recommendations to increase awareness of the potential for procurement fraud and risk management.

Thanks to the pro-active and efficient work of colleagues within the Procurement team, many of the recommended actions have already been completed, including updating the Procurement Code to specifically address procurement fraud, updating conflict of interest checks, working with colleagues to ensure the contracts register is fully updated, and issuing guidance to Members on cyber-security. Additional work is planned to address the outstanding actions.

The findings are of a corporate nature with potential impact across many services rather than being the sole responsibility of the Procurement team. As such, the Procurement team will continue to work alongside colleagues from across the Authority to provide assurance, manage risks and make improvements to control frameworks.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1 The Council's constitution includes the financial regulations which are an integral part of the overall financial framework ensuring guidance is provided on incurred expenditure being genuine along with the requirement of strong financial management.
- 5.1.2 The Constitution also includes the Contract Procedure Rules (CPRs) which sets the minimum expenditure levels a procurement exercise is to be carried out and authority requirements from officers.
- 5.1.3 The CPR's were last reviewed in 2021 when changes were approved at full council however as yet the Constitution has not been updated to reflect this change. It is advised relevant updates are made to ensure consistency. The changes are reflected throughout the procurement policy code and are sent to all budget holders undertaking any procurement exercise.
- 5.1.4 The Constitution also sets out the code of conduct expected by all staff and members and supports a zero-tolerance approach to fraud, bribery and corruption.
- 5.1.5 Part of the responsibility for encouraging an anti-fraud culture within Allerdale is with Internal Audit, so it is not possible to provide independent assurances. Grant Thornton, external auditors, confirmed in their 2021/22 annual report there were no concerns to be raised and activity is being undertaken following appointments within the Internal Audit team. Senior Management may want to consider if they require additional assurances in this area from external resources (this has been raised with Senior Managers outside the scope of this review).
- 5.1.6 The council has a range of counter-fraud policies including counter fraud policy, whistleblowing policy and fraud response plan which are readily available to staff on the Council's intranet and, where appropriate are public documents on the Council's website.
- 5.1.7 The timeliness and ownership of review of these policies is unknown as no version numbers, dates or authors are documented.
- 5.1.8 A Procurement Code is available for all staff to access and clearly sets out the steps to follow when engaging with any activity along with documents issued by the team depending on the type of contract to be awarded. Due to the changing environment around procurement fraud, policies and procedures would benefit from regular reviews from the responsible officer to reflect such changes.

Recommendation 1 - The Council should regularly review all relevant policies and procedures to ensure they reflect changes around procurement fraud.

5.1.9 There is currently no specific training in place for procurement fraud however there are a number of compulsory training modules for all staff to complete on a yearly or bi-yearly basis including:

- Information security
- Fraud Prevention
- Induction policy for new starters incorporates the staff handbook which includes information around code of conduct and the whistle blowing policy.

5.1.10 Audit testing shows not all staff are up to date with online training modules around fraud prevention and information security. Service Managers should ensure staff complete online training to ensure they maintain awareness in necessary areas.

5.1.11 Although risk training has previously been provided to budget holders by the procurement team, specific training around procurement fraud has not been delivered with supplier bundles issued to staff and available policies not currently reflecting the risk of procurement fraud. Any training provided to Allerdale employees needs to be proportionate to the risk.

Recommendation 2 - Proportionate training or provision of relevant guidance should be provided to budget holders to ensure they are aware of the risk of procurement fraud.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 Audit testing indicated procurement fraud is not currently considered an operational risk with the appropriate corporate risk register not including any reference.

Recommendation 3 - A process should be in place to monitor the risk procurement fraud presents at an operational level with consideration given to inclusion on the Council's risk register.

5.2.2 Procurement officers are aware of the risk of fraud and advised meetings take place with other local authorities include discussions around patterns of behaviour and issues with suppliers; however, were unable to provide any documented minutes, but indicated any incidences of fraud would be discussed if an incident took place. The team also feel that due to their length of service worked in the department and due diligence checks completed, the risk of a procurement fraud is minimal.

- 5.2.3 During COVID, procurement identified the need for additional controls due to the immediate requirement of low value goods and services such as PPE equipment so additional checks put in place to mitigate the fraud risk.
- 5.2.4 The council participates with the National Fraud Initiative exercise which identifies potential cases of fraud including payments to creditors where a conflict of interest could exist. All cases identified have been reviewed and gave no cause for concern.
- 5.2.5 Any cases of procurement fraud would be investigated by Internal Audit. No investigations undertaken within the last 5 years however Internal Audit provided advice around any concerns raised over COVID grant fraud, giving assurance any such investigations would be completed.
- 5.2.6 The Counter-fraud policy requires all Council officers to declare any conflicts of interest to their line manager. As Allerdale is a small district, there is an increased risk that Council officers have close ties to potential suppliers of goods and services to the Council. Procurement have advised they used to send out conflict of interests forms on a regular basis however this ceased due to the small amount returned.

Recommendation 4 - A regular reminder sent out to staff who hold fiscal responsibility to update conflict of interest to their line manager.

- 5.2.7 Documents issued for tender include compulsory questions around conflict of interest which must be answered for the application to progress. Each publication includes a point of contact meaning tenderers can send a notification question to confirm staff involvement if they believe there is a potential risk.
- 5.2.8 During audit testing, one sample provided advised a separate written confirmation should be included with the Instructions to Tender document to advise how potential conflicts of interest would be resolved should they occur however nothing was held on file to support this point.

Recommendation 5 - Consider if a specific conflict of interest document should be included within the Instructions to Tender to clarify tenderers position.

- 5.2.9 Controls are in place to help reduce the risk of price fixing with each tender submission including an estimated budget allowing for inflation; to benchmark against each submitted document. High Value contracts are subject to early market engagement allowing all factors of a project to be considered with realistic budget set.

5.2.10 Most procurement exercises are completed via The Chest, which is an online tendering portal allowing contracts to be available to all suppliers reducing the risk of contracts being controlled by a handful of firms. Each application includes a non-collusion agreement which is a basic check the evaluation panel consider before allowing the contract to proceed any further.

5.2.11 When procurement exercises are completed, contracts are updated on the contract register by the owner of the contract to ensure contract management is completed. This is not always the case with Procurement staff having to complete on the owners behalf.

Recommendation 6 - A process should be in place to ensure owners of contracts update the register upon completion of a procurement exercise.

5.2.12 CPRs ensure procurement activity is completed with the correct authority at pre-determined thresholds.

5.2.13 An analysis of expenditure within the council's financial system confirmed adherence to the CPRs is in place, with appropriate tendering exercises (or separate framework agreements.) carried out where necessary

5.2.14 All spending activity is reported on the Allerdale website by the Procurement team including all purchase orders, however since the migration to a new finance system in March 2022, this information is yet to be published due to an issue with the software.

5.2.15 Adherence to financial regulations, including appropriate authorisation of payments and checks to prevent fraudulent changes to bank accounts is included in Internal Audit's review of Creditor Payments (due to be delivered during 2022/23).

5.2.16 ICT Manager has confirmed the Council holds a number of controls to reduce the risk of cyber fraud with officers subject to bi-annual training around information security with reminders sent out automatically from the system when staff need to complete.

5.2.17 Democratic Services have confirmed no cyber training has been arranged for Members since 2019 and she believes only a handful attended however no attendance list is available to confirm. As a result of Local Government Reorganisation (LGR) arranging training now maybe inefficient due to the reduction in Member numbers however is something that should be considered as part of unitary authority. Given that cyber-security risks are so significant, it would be beneficial to provide Members with information in relation to avoiding cyber-security, such as how to avoid phishing attacks. Suitable guidance is available on the NCSC website, that could easily be issued to Members.

Recommendation 7 - Members should be provided with information to support maintenance of cyber-security controls, such as how to avoid phishing attacks.

- 5.2.18 A gifts and hospitality register is in place to ensure all staff and members declare any gifts from 3rd parties. Clear guidelines exist for members along with an established reminder process in place from Democratic Services.
- 5.2.19 The Staff Handbook which is issued to every new staff member clearly states all gifts are to be refused with “exemption of small gifts or a promotional nature” with a clear explanation of the rules around hospitality located in the Code of Conduct.
- 5.2.20 A recruitment policy is in place to prevent employing individuals with a history of fraudulent or unethical behaviour with checks including references from previous employers and ensuring gaps in employment history are explained.
- 5.2.21 Audit testing confirmed references are collected for all new staff covering the previous two years employment history and should this not be available, personal references from professional individuals are requested covering at least five years.
- 5.2.22 The Head of Human Resources confirmed basic DBS checks are carried out for staff working with vulnerable adults, working in a direct customer facing role or accessing Department of Work and Pensions systems. Currently, a role with fiscal responsibility does not require DBS clearance with research suggesting it should be a requirement.

Recommendation 8 - Consider if disclosure checks should be requested for roles involving a degree of fiscal responsibility.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
1 - The Council should regularly review all relevant policies and procedures to ensure they reflect changes around procurement fraud.	Medium	No guidance to officers and members on how to prevent fraudulent activity.	Procurement Code to be updated and include a section specifically on Procurement fraud.	Senior Manager – Programme Office	Completed - November 2022
2 – Proportionate training or provision of relevant guidance should be provided to budget holders to ensure they are aware of the risk of procurement fraud.	Medium	Responsible officers unaware of risks within environment.	Procurement workshop to be held with guidance on Procurement fraud provided. Procurement Code to be updated and include a section specifically on Procurement fraud.	Senior Manager – Programme Office	January 2023 Completed - November 2022
3 - A process should be in place to monitor the risk procurement fraud presents at an operational level with consideration given to inclusion on the Council’s risk register.	Medium	Responsible officers unaware of developing risks within this area.	Risk register workshops are due to be completed prior Local Government Organisation to ensure all relevant risks are captured within each service area.	Senior Manager – Programme Office	January 2023

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
4 - A regular reminder sent out to staff who hold fiscal responsibility to update any conflict of interest to their line manager.	Medium	Conflict of interest.	Email to be sent to all staff advising any changes to conflict of interests are to be reported to the individuals line manager.	HR Manager	January 2023
5 - Consider if a specific conflict of interest document should be included within the Instructions to Tender document.	Medium	Leaves the Council open to accusations of corruption and favouritism.	Procurement checklist has already been updated for all staff involved in the procurement process needing to declare any interests with a signed a conflict of interest form to be completed and held on file.	Senior Manager – Programme Office	Completed - November 2022
6 - A process should be in place to ensure owners of contracts update the register upon completion of a procurement exercise.	Medium	Risk of contract mismanagement.	Procurement staff to email contract owner to ensure register is updated. Annual governance statement requests Heads of Service to confirm that all their department contracts are added to contracts register with consideration for Internal Audit to undergo spot checks to ensure all are included.	Senior Manager – Programme Office	Completed - November 2022

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
7 - Members should be provided with information to support maintenance of cyber-security controls, such as how to avoid phishing attacks.	Medium	Risk of cyber-attack resulting in compromised systems and loss of confidential information.	Members will be provided with information from the Local Government Association on the National Cyber Security Strategy supported by a Councillors Guide to Cyber Security.	Senior Specialist – Democratic Services	Completed – November 2022
8 - Consider if disclosure checks should be requested for roles involving a degree of fiscal responsibility.	Medium	Individuals with previous fraudulent or unethical behaviour are employed.	Disclosure checks to be carried out for new staff holding a fiscal role.	HR Manager	Completed - November 2022

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.3	Ensure CPR's are updated within the Constitution
5.1.9	Ensure Service Managers issue reminders to staff around completion of mandatory online testing.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).