



# Core Financial Controls: Procurement

**Guildford Borough Council**

KPMG Governance, Risk & Compliance Services

December 2021

Overall rating:	
	Significant assurance
>	Significant assurance with minor improvement opportunities
	Partial assurance with improvements required
	No assurance

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Corporate Governance and Standards  
Committee

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Standards Committee: 20 January 2022

# Executive summary

# 01

## Conclusion

We reviewed the design and effectiveness of processes and controls for procurement at Guildford Borough Council ('the Council') and provide 'significant assurance with minor improvement opportunities (amber-green). This is in line with management's anticipated assurance rating. Our rating is driven by good practice in areas such as governance with the Corporate Procurement Board, newly introduced electronic template forms and the clear categories for exempt good and services being outlined in the procurement procedure rules documentation. Our findings are around formalising the process for updating service plans and the contracts register and introducing review controls and ensuring that there is regular monitoring and reporting on the strategic objectives outlined in the Procurement Service Strategy 2020-23.

The Council has implemented and approved a Procurement Service Strategy 2020-23, outlining the procurement strategic objectives around key areas. This drives the procurement processes, with the procurement procedure rules being updated, to bring them in line with the strategy. However, the Council could not evidence that the strategic objectives outlined in the Procurement Strategy 2020-23 have been subject to consistent and regular monitoring and reporting throughout the Council governance structure.

The Council's processes for identifying the need for procurement activity and updating service plans and the contracts register accordingly are not formally documented with clear review and approval controls.

The Council has broadly well designed procurement and tendering processes, with clear rules to follow regarding specific thresholds for purchases and contract amounts.

We selected samples to test the operating effectiveness of the formal controls identified throughout the procurement process. Our testing found no issues and for the samples selected the Council provided evidence of the formal controls operating as designed.

## Summary

Overall rating:	Significant assurance with minor improvement opportunities	
Priority rating:	Control design	Operating effectiveness
High	0	0
Medium	2	0
Low	0	0

## Acknowledgements

We thank the following individuals for their contribution during this internal audit:

- Claire Morris – Director of Resources, Executive Sponsor
- Faye Gould – Senior Specialist Procurement

# Executive summary

## Areas of good practice

- ✓ The Corporate Procurement Board is well represented with officers from Legal, Procurement and Finance to provide a complete overview of tenders being awarded.
- ✓ Template electronic forms have been introduced for Procurement Instruction, Exemptions, Direct Awards and Procurement Award Recommendation Report.
- ✓ Categories for exempt goods and services are clearly outlined within the Procurement Procedure Rules.
- ✓ Procurement Service Strategy 2020-2023 outlines strategic priorities for the Council for the coming years including training and making use of technology.
- ✓ Threshold for engaging with Procurement has been reduced from £10,000 to £1,500.
- ✓ Threshold for mandatory e-advertisement on Contracts Finder has been reduced from £100,000 to £25,000.

## Summary of key findings

### Identifying need for procurement activity

- 2.1** There are no formal review and approval controls for the quarterly update to the Council's contracts register. The process for procurement officers updating the register and also for service plan monitoring and updates is not formally documented.

### Monitoring and reporting on strategic procurement objectives

- 2.2** The Council could not evidence that the strategic objectives outlined in the Procurement Strategy 2020-23 have been subject to consistent and regular monitoring and reporting throughout the Council governance structure.

## Out of scope

Our work is limited to the design and testing of processes and controls as set out in the scope extract.

# Findings and management actions

02

## 2.1 Monitoring and updating service plans and contracts register

Medium

There are no formal review and approval controls for the quarterly update to the Council's contracts register. The process for procurement officers updating the register and also for service plan monitoring and updates is not formally documented.

Expiring contracts and new contractual requirements are extracted manually from the Contracts Register and Service Plans at service level to form the pipeline of Procurement work.

There is a risk that there is an error in extracting data from these sources. However, the Council has confirmed that it is looking to automate this process through the introduction of the Project & Programme Governance (PPM) tool in December 2021.

We recommend that the Council formally documents the processes and ensures that there are review and approval controls to ensure that contracts register updates are subject to review prior to being published.

## 2.2 Monitoring and reporting on strategic procurement objectives

Medium

The Council could not evidence that the strategic objectives outlined in the Procurement Strategy 2020-23 have been subject to consistent and regular monitoring and reporting throughout the Council governance structure.

The strategy is subject to ongoing monitoring by the senior specialist (procurement) and objectives are managed by individuals responsible for actioning progress. We note that the Overview and Scrutiny (O&S) Committee have requested an annual report on progress of Procurement Savings, due in 2022. However, outside of the CPB, the strategic objectives have not been formally reported through the governance structure since approval in May 2020. There is a risk that there is no formal and central oversight of the strategic objectives identified in the strategy and therefore a risk that there are no assurances being sought as to whether there is progress against the objectives. It is suggested therefore that updates on objectives are contained within the same report to O&S on Procurement Savings.



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### Risk:

Inconsistent approaches are taken to the updates to service plans and the contract register.

Inaccurate information is included in contract register updates.

Council does not have business-critical goods and services when required.

### Agreed management actions:

Ensure automated reports generating contracts close to expiry and new contractual requirements are implemented.

### Evidence to confirm implementation:

Updated Procurement Procedure Rules.

Automated reports generated from the Project & Programme Management tool.

### Responsible person/title:

Faye Gould – Senior Specialist, Procurement

### Target date:

30 June 2022

### Risk:

There is no oversight of the progress of strategic objectives.

### Agreed management action:

The strategic objectives set out in the Procurement Strategy 2020-23 will be subject to annual monitoring and reporting to O&S Committee as part of the Procurement Savings report which is scheduled for 2022.

### Evidence to confirm implementation:

Updated reporting to O&S Committee.

### Responsible person/title:

Faye Gould – Senior Specialist, Procurement

### Target date:

30 June 2022

## Appendix A

# Detailed findings – design of controls

Below we set out our understanding of the processes and controls for procurement at GBC as well as our commentary on the design of the process.

Process	Control	KPMG Commentary
<p><b>Identifying the need for procurement activity and (re)procurement</b></p> <p>Procurement officers maintain the Contract Register on an ongoing basis as contracts are finalised. The Contracts Register is published on the Council’s website quarterly.</p> <p>Service Leaders maintain Service Plans which includes new and existing workstreams and contracts. These are extracted by the Procurement Team to inform the pipeline of work.</p> <p>Both the Service Plans and Contracts Register are manually monitored on an ongoing basis to identify expiring contracts requiring (re)procurement.</p>	<p>No formal controls identified.</p>	<ul style="list-style-type: none"> <li>✓ The Council has introduced a Procurement Service Strategy 2020-2023 which outlines procurement strategic objectives around key areas including use of technology in procurement processes, saving and efficiencies strategies and introduction of spend analysis from Business World. The strategy was approved by Executive in May 2020.</li> <li>• The Council could not evidence that the strategic objectives outlined in the Procurement Strategy 2020-23 have been subject to consistent and regular monitoring and reporting throughout the Council governance structure. <b>Action 2.2.</b></li> <li>• Currently, the monitoring of expiring contracts requiring (re)procurement is carried out manually which increases the risk that business-critical goods or services are not available when needed. However, the Council has confirmed that this is due to be automated with the introduction of the Corporate Project &amp; Programme (PPM) Governance tool in December 2021. <b>Action 2.1.</b></li> <li>• The maintenance of the Contracts Register by the procurement officers, and the service plans monitoring, is performed manually and on an ad-hoc basis. The process for this is not formally documented and there is no requirement for a formal review and approval prior to the register being published on the Council website. <b>Action 2.1.</b></li> </ul>



## Appendix A

# Detailed findings – design of controls

Process	Control	KPMG Commentary
<p><b>Procurement and tendering</b></p> <p><i>Purchases below £1,500</i></p> <p>There is no requirement to seek procurement advice. Officers are able to directly requisition a purchase on Business World subject to approvals in line with the scheme of delegation.</p> <p><i>Purchases above £1,500</i></p> <p>Service Leaders must seek procurement advice on route to market to demonstrate best value and initiate tendering if required. A specific responsible Procurement Lead is identified.</p>	<ol style="list-style-type: none"> <li>1. Service leaders complete procurement instruction forms capturing material information relating to procurement requirement.</li> <li>2. The identified procurement lead authorises to ensure no current contracts satisfy the procurement need.</li> <li>3. Budget holders authorise to ensure spend falls within Council's budgetary limits.</li> </ol>	<ul style="list-style-type: none"> <li>✓ Threshold for seeking procurement advice has been lowered from £10,000 to £1,500 as part of the Procurement Strategy in line with the Council's objectives to deliver significant savings and efficiencies.</li> <li>✓ Procurement Procedure Rules introduced in April 2021 contains detailed internal guidance on responsibilities of Procurement Service and Service Leaders, tendering thresholds and evaluation criteria of tender responses.</li> <li>✓ Template procurement forms include detailed entries required for project specific details, business critical justification and detailed budgetary requirements. This ensures that Procurement and Finance has sufficient details of each procurement requirement to make an informed decision.</li> </ul>
<p>Tenders are advertised and responses received electronically.</p>	<ol style="list-style-type: none"> <li>4. Contracts estimated to be valued over £25,000 after April 2021 must be advertised online on Contracts Finder.</li> <li>5. Commercial and technical evaluations are carried out by Procurement and Service Representatives.</li> <li>6. Procurement Award Recommendation report is completed after moderation by Procurement.</li> </ol>	<ul style="list-style-type: none"> <li>✓ Opportunities valued over £25,000 must be advertised on Contracts Finder. This is reduced from the previous threshold of £100,000 to allow a larger number of businesses exposure to contracting opportunities with the Council. This promotes value through a process of fair and open competition.</li> </ul>

## Appendix A

# Detailed findings – design of controls

Process	Control	KPMG Commentary
<p><i>Below national Gateway threshold of £4,733,252 for works and £189,330 for services</i></p> <p>Contract is awarded and implemented in line with the approved Procurement Award Recommendation Report.</p> <p><i>Above national Gateway threshold of £4,733,252 for works and £189,330 for services</i></p> <p>Gateway reports are prepared and signed off by the Corporate Procurement Board (CPB) before a contract is awarded.</p>	<p>7. Sign-off of gateway reports of awards above the national Gateway thresholds by the Corporate Procurement Board in line with the Public Contract Regulations 2015.</p>	<p>✓ The Gateway review process for each procurement activity is split into two stages: Commissioning and Procurement Strategy and Tender Evaluation and Contract Award. This allows for thorough vetting of high-value contracts.</p>
<p><b>Reporting</b></p> <p>Corporate Procurement Board (CPB) meets fortnightly.</p>	<p>8. Board oversight of new and ongoing procurement activities.</p>	<p>✓ The CPB consists of representatives from Procurement, Legal, Finance and chaired by the Director of Finance to ensure involvement of key corporate advisors in all significant procurement decisions.</p>
<p><b>Exempt goods/services</b></p> <p>Goods or services exempt from tendering and quotations requirements must be signed off before purchase.</p>	<p>9. Completed Procurement Exemption form with detailed justification for exemption.</p> <p>10. Corporate Procurement Board (CPB) sign-off before purchase takes place.</p>	<p>✓ Goods or services exempt from procurement procedures includes where prices are wholly controlled by trade organisations, the works are of a specialised nature or where there is an urgent need for the goods or services so as to preclude the invitation of quotations or tenders.</p> <p>✓ Procurement Procedure Rules clearly outlines that goods or services above the national Gateway thresholds cannot be exempted from procurement processes. This ensures that all high-value contractual requirements undergo full procurement processes.</p>

## Appendix A

# Detailed findings – operating effectiveness

Below we have set out a summary of the findings from our sample testing. We reviewed evidence to support the operation of controls identified.

Control	Results
1. Completed Procurement Instruction form capturing material information relating to procurement requirement.	<ul style="list-style-type: none"> <li>✓ We selected a sample of 20 tenders covering the period October 2020 – November 2021, with our sample including tenders that were initiated before and after the introduction of the procurement instruction form in April 2021, when the Procurement Procedure Rules were updated. We were able to evidence the controls in operation where procurement instructions forms were in place post April 2021. For those initiated prior to April 2021, we were able to evidence emails and help desk tickets showing that the previous process and controls were adhered to.</li> </ul>
2. Procurement authorisation to ensure no current contracts satisfy the procurement need.	
3. Finance authorisation to ensure spend falls within Council's budgetary limits.	
4. Contracts estimated to be valued over £25,000 after April 2021 must be advertised online on Contracts Finder.	<ul style="list-style-type: none"> <li>• Prior to April 2021, the threshold for mandatory advertisement on Contracts Finder is £100,000.</li> <li>✓ We identified seven samples below £100,000 tendered through a closed invite. Two samples below £100,000 were advertised on Contracts Finder despite no mandatory requirement to do so.</li> <li>✓ One sample above £100,000 was correctly advertised on Contracts Finder.</li> </ul>
5. Commercial and technical evaluations are carried out by Procurement and Service Representatives	<ul style="list-style-type: none"> <li>✓ We inspected moderation and evaluation notes for eight samples.</li> <li>✓ We confirmed that one sample received no submissions and hence, did not progress further and one submission is still in progress and has yet to be awarded.</li> </ul>
6. Procurement Award Recommendation report is completed after moderation by Procurement.	<ul style="list-style-type: none"> <li>✓ We inspected award recommendation reports for eight samples.</li> <li>✓ As above, we confirmed that one sample received no submissions and hence, did not progress further and one submission is still in progress and has yet to be awarded.</li> </ul>



## Appendix A

# Detailed findings – operating effectiveness

Control	Results
7. Sign-off of gateway reports of awards above the national Gateway thresholds by the Corporate Procurement Board in line with the Public Contract Regulations 2015.	✓ We reviewed a sample of five tenders above gateway thresholds and inspected evidence of review from Corporate Procurement Board minutes.
8. Board oversight of new and ongoing procurement activities.	✓ We reviewed a sample of five Corporate Procurement Board minutes and confirm that meetings are attended by representatives from Procurement, Legal and Finance. Sufficient oversight of the gateway process and exemptions were highlighted.
9. Completed Procurement Exemption form with detailed justification for exemption.	✓ We reviewed a sample of 10 exemptions. Nine of the exemptions had a completed procurement exemption form and were appropriately justified. One exemption did not progress so no evidence was retained.
10. Corporate Procurement Board (CPB) sign-off before purchase takes place.	✓ We confirmed that each of the 10 exemptions were signed off by the Corporate Procurement Board.

# Appendix B

## Scope extract

### Scope of internal audit

This is an annual review as we undertake our work on financial systems on a cyclical basis, reviewing separate systems each year to provide coverage across all systems across our internal audit strategy. In 2020/21 we undertook reviews encompassing the following areas: Income and Accounts Receivable and Expenditure and Accounts Payable. Our work this year revisited those controls as part of a compliance testing review, a review on Capital Management and this review on Procurement.

In 2019/20, £88m was incurred on non-pay expenditure, excluding property charges such as depreciation and impairment. Given the level of expense being incurred, there is potential for significant efficiencies to be achieved through effective procurement processes and controls.

The Council produced a 2020-23 procurement strategy and updated its Procurement Procedure Rules to improve and manage spending in line with the strategy.

Our review on Procurement covered:

- Review of the design of procurement and tendering processes and controls to assess whether they were sufficient to enable efficient and effective

procurement and provide assurance that fraud will not occur within procurement;

- Processes for identifying procurement activity to be undertaken, including the alignment to the strategy;
- How expiring contracts requiring (re)procurement are identified;
- Design of the tendering process to ensure that the supplier offering the most economically advantageous offer is appointed to contracts; and
- How the results of procurement activities are monitored to assess the financial and quality impact of tender awards.

### Our approach

Our work involved the following activities:

- Meetings with the key staff involved in the Council's Procurement team;
- Desktop review of documentation relating to the processes and controls around Procurement, such as policies and procedures; and
- Meetings with key staff/desktop review to evidence the operating effectiveness of the controls.

### Key risks identified

- 1 There are insufficient policies and procedures in place setting out key processes and controls for the financial systems identified.
- 2 Data and information held on financial systems is incorrect
- 3 There is insufficient information available to evidence the operating effectiveness of controls identified.



# Appendix C

## Ratings definitions

We have set out below the overall report grading criteria and priority ratings used to assess each individual finding.

Overall report rating	Definition
<b>Significant assurance</b>	The system is well designed and only minor low priority management actions have been identified related to its operation. Might be indicated by priority three only, or no management actions (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).
<b>Significant assurance with minor improvement opportunities</b>	The systems is generally well designed however minor improvements could be made and some exceptions in its operation have been identified. Might be indicated by one or more priority two management actions. (i.e. there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
<b>Partial assurance with improvements required</b>	Both the design of the system and its effective operation need to be addressed by management. Might be indicated by one or more priority one, or a high number of priority two management actions that taken cumulatively suggest a weak control environment. (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
<b>No assurance</b>	The system has not been designed effectively and is not operating effectively. Audit work has been limited by ineffective system design and significant attention is needed to address the controls. Might be indicated by one or more priority one management actions and fundamental design or operational weaknesses in the area under review. (i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).

Finding priority rating	Definition
<b>Low</b>	Issues arising that would, if corrected, improve internal control in general but are not management actions which could improve the efficiency and / or effectiveness of the system or process but which are not vital to achieving your strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.
<b>Medium</b>	A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on your reputation or for raising the likelihood of your strategic risks occurring.
<b>High</b>	A significant weakness in the system or process which is putting you at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of your strategic risks will occur. Any management action in this category would require immediate attention.





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