



# Carlisle City Council

## Report to Audit Committee

### Report details

Meeting Date: 08 July 2022  
Portfolio: Finance, Governance and Resources  
Key Decision: Not applicable  
Policy and Budget Framework: YES  
Public / Private: Public  
Title: Internal Audit Report – Procurement (Counter-Fraud)  
Report of: Corporate Director Finance & Resources  
Report Number: RD17/22

### Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of Procurement (Counter-Fraud)

### Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

### Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

## **1. Background**

1.1. An audit of Procurement (Counter-Fraud) was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 1 high and 7 medium-graded recommendations.

## **2. Risks**

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

## **3. Consultation**

3.1 Not applicable

## **4. Conclusion and reasons for recommendations**

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1

## **5. Contribution to the Carlisle Plan Priorities**

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

### **Contact details:**

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### **Appendices attached to report:**

- **Internal Audit Report – Procurement (Counter-Fraud) – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

### **Corporate Implications:**

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

# Audit of Procurement (Counter-Fraud)

Draft Report Issued: 14 April 2022  
Director Draft Issued: Day Month 2020  
Final Report Issued: Day Month 2020



## Audit Report Distribution

<b>Client Lead:</b>	Procurement & Insurance Officer
<b>Chief Officer:</b>	Corporate Director Finance & Resources Chief Executive
<b>Others:</b>	Head of Financial Services Head of HR & Payroll
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 8 July 2022 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 counter-fraud audit of Procurement. This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15<sup>th</sup> March 2021.
- 1.2 Procurement fraud relates to fraudulent activity in relation to the provision of goods and services to the Council, which can occur at both the point of contract award (price fixing / bribery / corruption) and during provision of services (inflated prices / provision of deliberately inferior materials). The cost of fraud within local government is estimated at £2.2B per year, of which £876M is assigned to procurement fraud.
- 1.3 It is essential the Council remain vigilant against attempts to defraud via provision of goods and services, especially as the Covid-19 pandemic has seen a dramatic increase in this type of fraud.

## 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 was the Procurement and Insurance Officer and 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:
  - The council is exposed to procurement fraud prior to award of contract
  - The council is exposed to procurement fraud post award of contract/order/delivery of services.
- 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 B** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current counter-fraud controls operating within Procurement provide **reasonable assurances**.

*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 C**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. <b>Management</b> - achievement of the organisation’s strategic objectives achieved (see section 5.1)	-	3
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	1	4
3. <b>Information</b> - reliability and integrity of financial and operational information (N/A)		
4. <b>Security</b> - safeguarding of assets (N/A)	-	-
5. <b>Value</b> – effectiveness and efficiency of operations and programmes (N/A)	-	-
<b>Total Number of Recommendations</b>	<b>1</b>	<b>7</b>

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 authority has an internal control framework in place that includes the robust financial management over the procurement of goods and services. Controls have been well established and are in line with expectations for any public organisation.

However, there is limited horizon scanning in place to maintain awareness of developments within the procurement fraud risk environment, increasing the Council’s exposure to not being able to prevent or detect new types of procurement fraud. There is a need to ensure responsible officers monitor the risk environment to maintain a general awareness and the Council’s approach to managing risk should be formally

reviewed as part of the risk management framework to ensure regular update and review of mitigating controls.

There is a need to update and review all associated regulations, policies and procedures to ensure they align with the risk environment.

Training and awareness should be focussed on individuals with fiscal responsibility, who should also be reminded of the requirement to declare any potential conflicts of interest. Consideration should also be given as to whether such posts should also receive a CRB/DBS check.

There is also a need to ensure a consistent approach is adopted to adherence with financial and recruitment policies. While the majority of high usage suppliers were found to be compliant with standing orders, a number of issues were identified where the Council has used the same supplier for a number of years, resulting in a potential breach of the Standing Orders. This poses significant risk to the Council in terms of ensuring value for money is in place and also exposes the Council to risk of exposure to challenge from competitors and a lack of up to date contractual arrangements limits assurances that regulatory requirements are adhered to.

**Comment from the Corporate Director Finance & Resources**

A good and welcomed audit review. It is pleasing to note the reasonable assurance provided and that procurement fraud is not a significant issue for Carlisle due to the level of internal controls currently in place. However, it is right and proper that all officers with fiscal responsibilities receive relevant information to ensure that they are aware of developments in the procurement fraud risk environment. All policies and procedures should reflect these developments too, and processes put in place to ensure full compliance with the suite of procurement policies.

It is also recognised that improvements can always be made and as such, all of the recommendations have been accepted as set out in the appendix.

Regarding the CPR's and the opening of tenders – it was a conscious decision during a review to leave them in simply to capture a procedure which could be used should the electronic method fail for whatever reason. An effective risk management mitigation.

I have also discussed the CPR financial limits with the Audit Manager and explained the rationale for the current limits, such as the level of internal control required, risk appetite, level of revenue and capital spend and key decision limits. There is no standard limit – it is up to the individual council based upon local knowledge and the advice of the S151 Officer to set their own limits.

## 5.0 Audit Findings & Recommendations

### 5.1 Management – Achievement of the organisation’s strategic objectives

- 5.1.1** The Council encourages an anti-fraud culture. The Corporate Director Finance & Resources is responsible for counter-fraud activity and encourages ongoing development of the Council’s response to fraud. This current audit review was specifically requested to obtain assurances the Council is adequately managing this significantly growing area of fraud.
- 5.1.2** The Council’s constitution includes the financial regulations, which provide guidance on how to ensure all incurred expenditure is genuine and offers value for money in line with strong financial management.
- 5.1.3** The financial procedure rules were reviewed by Internal Audit from a counter-fraud perspective in 2020, resulting in a list of suggested updates. It was originally intended to incorporate these changes as part of a larger planned review of financial regulations. However, this project has been suspended due to LGR. The suggested changes by Internal Audit were not significant and predominantly administrative, so would not add significant value to the management of fraud risks.
- 5.1.4** The Constitution also includes the Contract Procedure Rules (CPRs), which set the financial limits as to when the Council should obtain quotes or engage in tendering exercises. The CPR’s also provide guidance on how such exercises should be undertaken.
- 5.1.5** The CPRs were last formally recorded as updated in 2012 (though limits have been reviewed by the S151 Officer on a regular basis) and contains out of date information; for example, detailed guidance on opening tenders manually, whereas all tenders have been routed electronically through the Chest (a government approved e-tendering system) for many years.

**Recommendation 1 – The Council should ensure Contract Procedure Rules are updated on a regular basis.**

- 5.1.6** The Constitution also includes codes of conduct for both Officers and Members that help set a cultural tone of ethical behaviour and support a zero-tolerance approach to bribery and corruption.
- 5.1.7** All constitutional documents are available publicly via the Council’s website.

- 5.1.8** A scheme of delegation is in place for each Directorate that specifies those officers responsible for approving payments, including financial limits for each officer. A recent audit review of the schemes found them to be up to date and fit for purpose.
- 5.1.9** The Council has a suite of counter-fraud policies including the Counter-Fraud and Corruption Policy, confidential reporting policy and anti-bribery policy. The policies have not been reviewed since 2017, although Internal Audit are involved in a current exercise to update these policies.
- 5.1.10** The counter-fraud policies were previously available on the Council's intranet, though these have recently been removed as part of the intranet migration project to SharePoint. It is intended that the updated policies will be available to all officers and will be supported by a corporate communication informing officers of the update.
- 5.1.11** A Procurement Strategy is also in place setting out the Council's approach to procurement activity. The document is made available to any officer engaging in significant procurement exercises.
- 5.1.12** Current policies and procedures would all benefit from regular updates to ensure they reflect current issues in relation to procurement fraud. This would be assisted via improved horizon scanning by responsible officers to ensure they are aware of current issues in the procurement fraud risk environment (see rec 4).

**Recommendation 2 – The Council should regularly review all relevant policies and procedures against current developments within the procurement fraud risk environment.**

- 5.1.13** There is no specific training in place in relation to procurement counter-fraud, though the following mandatory training is in place for all officers:
- Mandatory anti-money laundering e-learning for officers with relevant fiscal responsibilities.
  - Mandatory cyber-security training for all officers with a network account.
  - Induction for all new starters includes reference to codes of conduct and confidential-reporting policy.
- 5.1.14** Annual training is delivered for both Procurement and Counter-Fraud as part of the ethical governance training programme. Courses are delivered face to face or via Microsoft Teams. However, neither course is well attended, with particularly limited numbers of officers with fiscal responsibility.

**5.1.15** No specific mandatory training or information is provided to budget holders in relation to procurement fraud.

**Recommendation 3 – Training and/or information should be provided to budget holders to help maintain awareness of current procurement fraud issues.**

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

**5.2.1** Audit testing indicated procurement fraud is not considered as a potential operational risk and associated risk registers do not include any references to procurement fraud.

**5.2.2** It is clear officers are aware of the need to prevent fraud and an internal control framework is in place to mitigate the risk of fraud; however no horizon scanning is in place to develop awareness of changes in the procurement fraud risk environment, so there is increased risk exposure to new risks. The Procurement and Insurance Officer was provided with CIPFA's Managing the Risk of Procurement Fraud as a starting point for best practice in managing this risk.

**Recommendation 4 – A process should be put in place to ensure the procurement fraud risk environment is closely monitored and consideration should be given to including management of this risk within the Council's operational risk registers.**

**5.2.3** All incidences of procurement fraud identified through confidential reporting are investigated by Internal Audit. Two investigations specifically relating to procurement fraud have been undertaken in the last five years, both of which upheld allegations made, resulting in disciplinary action.

**5.2.4** The Council also participates in the biennial National Fraud Initiative exercise, which identifies potential fraudulent activity, including duplicate payments and conflicts of interest. No significant findings have been made as a result of reviews of match reports.

**5.2.5** The Council has recruitment policies in place to prevent employing individuals with a history of fraudulent or unethical behaviour, including ensuring gaps in employment history are explained and references are obtained from previous employers.

**5.2.6** Audit testing identified that references are not always collected. The Head of HR and Payroll also identified it would be more secure to ensure references cover the previous three years of employment as a minimum and intends to introduce this a policy.

**Recommendation 5 – Recruitment processes should be adhered to, including the collection of appropriate references.**

**5.2.7** Certain Council posts are subject to either basic disclosure checks or CRB clearance; however, this only relates to individuals working with vulnerable people or responsible for processing sensitive information. Fiscal responsibility is not currently considered as part of the process though some posts within Accountancy Services are subject to such checks.

**Recommendation 6 – The Council should consider whether posts attracting a degree of fiscal responsibility should be subject to disclosure checks.**

**5.2.8** The CPRs ensure appropriate checks are applied to the procurement of goods and services that surpass stated thresholds.

**5.2.9** There is no monitoring of spending levels within the authority to determine any non-compliance with the CPRs. Attempts have been made to address this with the production of regular monthly cumulative spend reports; however, due to workloads it has not been possible to investigate further. An additional resource for procurement has now been appointed and it is intended that this review of cumulative spend be undertaken by this appointee.

**5.2.10** An analysis of expenditure within the Council's accountancy system confirmed adherence to the CPRs was in place for the majority of high value expenditure, which had either been subject to a tendering exercise (by the Council or as part of a separate framework agreement) or were exempt from standing order rules (for example payments to neighbouring authorities).

**5.2.11** However, there were instances identified where providers have been used for a considerable length of time, resulting in potential breaches of the CPRs limitations. This issue has been identified in a number of other Internal Audits. This increases the risk the Council is being over-charged for services (though not necessarily fraudulently).

**5.2.12** Non-compliance to CPRs also exposes the council to a number of other risk areas, including value for money concerns, potential challenges from competitors and limited assurances over regulatory compliance due to an absence of up to date contractual agreements.

**Recommendation 7 – Adherence to contract procedure rules should be monitored and challenged on a regular basis.**

**5.2.13** Controls are in place to help reduce the risk of price fixing. The Council benchmarks tender submissions to an anticipated budget and performs basic checks on all submitted tender documents. The Council also encourages a culture of open application, meaning any organisation can submit a tender, reducing the risk of the market being controlled by a handful of providers. All organisations submitting a tender via the e-tendering portal are required to sign a certificate of non-collusion.

**5.2.14** Adherence to financial regulations, including appropriate authorisation of payments and checks to prevent fraudulent changes to bank accounts is included in Internal Audit's regular review of Creditor Payments (due to be delivered during 2021/22).

**5.2.15** The Counter-fraud policy requires all Council officers to declare any conflicts of interest to their line manager. As Carlisle is a relatively small populace, there is an increased risk that Council officers have close ties to potential suppliers of goods and services to the Council.

**5.2.16** A related party transactions declaration is in place for some senior officers to complete, but this process is designed to ensure compliance with accountancy standards and therefore only requests any realised conflicts, rather than potential. Additionally, only certain officers are required to complete these forms and does not include all officers with fiscal responsibility.

**5.2.17** Some departments have formal friends and family policies in place, but this is currently at the discretion of the Service Manager.

**5.2.18** It would be repetitive and potentially inefficient to require all officers with fiscal responsibility to fill in additional forms. The best approach would be for officers to receive regular reminders to declare any potential conflicts of interest to their line manager.

**Recommendation 8 – A Regular reminder should be issued to all staff with fiscal responsibility to declare potential conflicts of interest to their line manager.**

**5.2.19** A gifts and Hospitality register is in place to ensure all officers and members declare any gifts received from third parties. The process is well established and is working well. The number of entries in the register has significantly reduced as a result of the pandemic, as less face to face time is in place between council representatives and third parties, reducing the ability to provide gifts and hospitality.

## Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – The Council should ensure Contract Procedure Rules are updated on a regular basis.	Medium	CPRs do not reflect processes in place.	Contract Procedure Rules will not be updated for the City Council due to LGR. New CPR's for Cumberland Council will be developed in line with a new constitution. Issues identified in audit will be passed to officers responsible for preparing new rules.	Head of Financial Services	31 March 2023
Recommendation 2 – The Council should regularly review all relevant policies and procedures against current developments within the procurement fraud risk environment.	Medium	No policy to manage contemporary issues within risk environment.	A review process will be established to ensure any risks that are highlighted for procurement fraud can be measured	Head of Financial Services	30/09/22
Recommendation 3 – Training and/or information should be provided to budget holders to help maintain awareness of current procurement fraud issues	Medium	Responsible officers unaware of current developments and issues within risk environment	A process will be investigated to determine how best to disseminate information of current procurement fraud issues to service managers	Head of Financial Services	30/09/22

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 4 – A process should be put in place to ensure the procurement fraud risk environment is closely monitored and consideration should be given to including management of this risk within the Council’s operational risk registers	Medium	Limited awareness and failure to manage new and emerging risks	Inclusion of procurement fraud in the operational risk register for finance will be considered	Head of Financial Services	30/09/22
Recommendation 5 – Recruitment processes should be adhered to, including the collection of appropriate references.	Medium	Council employs individual previously engaged in unethical or fraudulent behaviour.	To revisit process with team and instigate monitoring with immediate effect. Additional resourcing to be identified to support role.	Head of HR and Payroll	25/05/22
Recommendation 6 – The Council should consider whether posts attracting a degree of fiscal responsibility should be subject to disclosure checks.	Medium	Council employs individual previously engaged in unethical or fraudulent behaviour.	All new employees offered roles from 1 <sup>st</sup> June will be subject to basic disclosure checks as minimum.	Head of HR and Payroll	1/06/22

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 7 – Adherence to contract procedure rules should be monitored and challenged on a regular basis.	High	Value for money not attained / challenge from competitors / failure to meet legal & regulatory obligations	A process will be put in place whereby aggregated spend with suppliers is monitored on a regular basis and compared to the contracts register. Where no contract exists, the manager will be informed and asked to consider whether a formal procurement process is required	Head of Financial Services	30/09/22
Recommendation 8 – A Regular reminder should be issued to all staff with fiscal responsibility to declare potential conflicts of interest to their line manager	Medium	Conflicts of interest	A reminder will be issued to all staff with budget responsibility to report any conflicts of interest to their line manager	Procurement and Insurance Officer	30/06/22

## Appendix B - Audit Assurance Opinions

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

	Definition:	Rating Reason
<b>Substantial</b>	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>
<b>Reasonable</b>	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>
<b>Partial</b>	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>
<b>Limited/None</b>	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 C

### 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:
<b>High</b>	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	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).