

M O P A C

MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

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Internal Audit Service to the GLA

REVIEW OF PROCUREMENT FRAMEWORK

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1. Background

- 1.1 This review has been carried out as part of the Greater London Authority (GLA) 2014/15 audit plan. The GLA has delegated procurement functions to Transport for London (TfL). TfL Procurement provide strategic direction, support and advice on the sourcing of all goods and services the GLA needs to carry out its day-to-day business and to obtain value for money.
- 1.2 At the outset of the review, the potential risks identified to achieving the objectives of the procurement framework were:
- Ineffective procurement governance framework
 - Non-compliance with internal procedures and legislative requirements
 - Ineffective partnership working
 - Unethical procurement practices
 - Inadequate performance monitoring
 - Failure to achieve value for money
- 1.3 We are looking to provide assurance that the key risks are being effectively managed.
- 1.4 A request for Mayoral Decision (MD376) was submitted in 2009 for the approval of the Mayor for GLA and TfL's entry into a shared service arrangement for TfL's discharge of the GLA's transactional and systems accounting and procurement functions. The request was approved by the Mayor in July 2009 and GLA's procurement function transferred to TfL as part of a shared service agreement.
- 1.5 The cost of the Procurement function prior to transfer to TfL was £232k which related to four GLA staff posts who provided a basic purchasing service only. Following the transfer of the procurement function, TfL now provide a full procurement service which includes sourcing products, providing strategic advice on where and how to procure goods and services, coordinating professional advice that may be required on the procurement process, managing relationships with major suppliers, identifying improvements in the procurement process and promoting best practice. Payments made to TfL for the procurement function are as follows:-

Procurement costs	2012/13	2013/14
	£	£
Procurement costs	463,006	463,006
Housing & Land Resourcing	178,781	155,520
Accommodation (re H&L procurement)	13,864	20,256
Complex OJEU	34,700	52,050
	690,351	690,832

- 1.6 Key Performance Indicators (KPI) submitted by TfL showed the total of shopping carts raised over the period April to June 2014 and that the percentage of KPIs met for April, May and June were 86%, 93% and 89% respectively.

2. Audit Assurance

Adequate

Key risks are being managed effectively; however, a number of controls need to be improved to ensure business objectives are met.

3. Areas of Effective Control

- 3.1 A Service Level Agreement (SLA) is in place with TfL for providing the procurement service to the GLA. Roles and responsibilities are shown in the SLA along with performance measures and KPIs. Guidance for undertaking procurement activities are in place and available to all personnel.
- 3.2 Adequate systems are in place for the procurement of goods and services which are compliant with the GLA Contracts and Funding Code, Scheme of Delegation and Financial Regulations. GLA shoppers (who can place orders) and approvers have been identified and the payment of invoices is undertaken by Financial Services Centre (FSC) at TfL.
- 3.3 Contracts are awarded following a tender process and the day to day monitoring of contracts is undertaken by GLA personnel. A record of all contracts is maintained by TfL and expiry dates are identified and action is taken to renew if applicable.
- 3.4 Details of the total purchase orders for the financial year 2013/14 had been submitted to the quarterly Procurement Integration Communications meetings held with GLA and TfL where the SLA and performance of TfL is discussed. Top 5 purchase orders and top 10 live contracts are also identified and reported on at GLA and TfL meetings.
- 3.5 The SLA between TfL and GLA is discussed at the quarterly Procurement Integration Communication Meetings. KPIs are submitted to meetings and issues identified are recorded and addressed. Reports showing orders over £250 are produced and submitted to the GLA quarterly budget monitoring sub-committee and are available to all personnel and the public.

4. Key Risk Issues for Management Action

- 4.1 Cost savings were identified prior to the Procurement function transferring to TfL. However, we found no evidence of any further reviews or confirmation

that savings have been received or whether value for money is being maintained by the current shared service arrangement.

- 4.2 Standard procurement strategies are completed and authorised for spending amounts over £100K. An overall procurement strategy however, is not in place.
- 4.3 KPI data has been identified within the SLA and reports are submitted to the quarterly TfL and GLA meetings showing the number of shopping carts raised and whether KPIs have been met, however, other performance indicators documented in the SLA were not included in the reports. These include for example, release of orders, incorrectly raised shopping carts and response times to general queries.

5. Review Objectives

- 5.1 Our overall objective was to review the adequacy of the control framework in place for procurement. In particular, we sought to give an assurance that:
- Service objectives, deliverables, roles, responsibilities and accountabilities have been clearly defined, documented and agreed with TfL.
 - A defined procurement strategy is in place that supports the GLA's strategic objectives.
 - Procurement of goods and services is compliant with the Contracts and Funding Code, Scheme of Delegation, Financial Regulations and where applicable, EU Procurement legislation.
 - Contracts have been agreed for the supply of goods and services and there are robust contract management arrangements in place.
 - Supplier and category spend are regularly monitored and arrangements are in place for achieving economies of scale and savings to ensure value for money.
 - Accurate and timely management information is produced and regularly reviewed, monitored and reported.

6. Scope

- 6.1 We reviewed the effectiveness of the control framework in place for the GLA's procurement function. We examined the arrangements in place with TfL for delivery of the service and the mechanisms by which service performance is monitored by the GLA. We reviewed a sample of recent procurements to assess if these were compliant with internal and legislative requirements, supported GLA objectives and were appropriately authorised. We also reviewed the effectiveness of contract monitoring processes and the arrangements in place for ensuring value for money is being obtained.

7. Service Objectives, Deliverables, Accountability, Roles and Responsibility

- 7.1 Request for Mayoral Decision (MD376) – Finance and Procurement Shared Services requested approval for the transfer to TfL the GLA's procurement and some finance functions. The project was identified to address the limitations of the GLA finance and procurement systems and to lay a foundation for further shared services development. The MD was authorised by the Mayor in July 2009. The procurement function is more comprehensive than previously provided in-house and is designed to deliver more efficient and better value in purchasing goods and services. However, the service now provided is more expensive than the previous in-house provision.
- 7.2 A business case (Appendix A attached to MD376) detailed the proposal for changing the current finance and procurement system and the delegation of certain accountancy and procurement functions to TfL. The business case

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identified a number of cost savings by transferring the function to TfL which included staffing cost savings £0.6m p.a., supply chain savings of £0.4m p.a., other costs estimated at £0.4m p.a. including ICT support. Non-cashable benefits included improved invoice payments, reporting and data analysis capability.

- 7.3 We found no evidence that any further savings had been identified and reported on as per the original business case. There is a risk that without analysis of performance data regarding savings made that the GLA may not be receiving value for money from the new arrangements.

Recommendation

The shared service arrangement is regularly reviewed to identify any further savings and to ensure value for money is being obtained, as per the original business case. This should include the cost of the service provision.

- 7.4 A Service Level Agreement (SLA) between GLA and TfL is in place and clearly shows the responsibilities of Group Procurement (TfL) and Client Responsibilities (GLA). The SLA also contained details relating to KPIs and Group Procurement Performance Measurers which included creation of purchase orders, release of orders, and identification of incorrectly raised orders, response times, contracts register, and notice of contract expiry. Reports had been submitted to GLA by TfL showing the number of shopping carts raised by GLA and whether KPIs had been met. However further reporting on other performance measures for the release of orders, incorrectly raised shopping carts, response times to general queries were not located. There is a risk that the performance of the procurement function is not being fully reported and monitoring of the contract is not undertaken.

Recommendation

Reports are produced on all performance measures and submitted to the GLA on a regular basis for monitoring purposes.

- 7.5 Roles and responsibilities of GLA and TfL are contained in the SLA. TfL is responsible for processing raised shopping carts and identifying any issues with those, releasing purchase orders within the timeframe specified in KPI and reporting performance as specified in the KPIs. GLA are responsible for raising shopping carts, ensuring compliance when raising carts, ensuring budgetary approval and that all relevant and correct information is provided and monitoring takes place.
- 7.6 TfL Commercial Services are responsible for the procurement and management of contract services for GLA including providing advice on procurement, quotations and tender processes. Organisational structures are in place for the TfL Commercial Services and clearly showed category managers and their area of responsibility. Further contact details are contained on the GLA web site which is accessed by all GLA personnel.

8. Procurement Strategy

- 8.1 The TfL Commercial Service Mini Guide states that Procurement Strategies must be completed for orders over £100K. A standard template has been made available on the GLA web site and requires information for the scope of the requirement, Estimated Value, Savings and Pricing, Market Considerations, Routes to Market – Options, Approach / Supplier Selection, Risk Assessment, terms and conditions, signature and approval. Completed procurement strategies were located for our sample of contracts where required.
- 8.2 An overall TfL procurement strategy is in place, produced by TfL Commercial Services, but this does not currently include reference to the specific GLA aims and objectives. Without these details there may be a risk of a lack of direction and of objectives not being achieved. The procurement strategy was, however, being reviewed and updated at the time of our audit review.

Recommendation

The overall TfL procurement strategy refers to the GLA aims and objectives in this area.

9. Procurement of Goods and Services

- 9.1 The GLA Contracts and Funding Code, Scheme of Delegation and Financial Regulations document the processes to be adhered to in relation to the procurement of goods and services. All documents are available to GLA and TfL personnel and are updated on a regular basis.
- 9.2 All goods and services are procured via the SAP Financial system. Separation of duties are in place with allocated shoppers raising shopping carts following approval from Budget Managers (cost centre managers). Purchase orders are raised by Commercial Services at TfL, goods and services are received by GLA and confirmed on the SAP system and invoices and payments are processed by the Financial Services Centre at TfL.
- 9.3 Our testing of a sample of payments from the current financial year were all located on the SAP system and contained adequate supporting documentation for the purchase. Shopping cart history is shown on the SAP system including shopper, approver, goods receipt and payment. Separation of duties in relation to placing orders, approving and payments has been previously reviewed in detail within the Creditors and Financial Control Framework audit reviews undertaken in 2013 and access and separation of duties were found to be adequate and therefore, we did not undertake any further testing in this area as part of this review. We also found that the procurement of goods and services was in line with Contracts and Funding Code, Scheme of Delegation and Financial Regulations.

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10. Tender and Award

- 10.1 Three quotations are required for orders up to £10K if a call-off from a suitable framework is not possible and are attached to shopping carts. The purchasing process is managed by TfL Commercial Services via the eTendering portal. For orders between £10K to £150K, a full tender process is required and this is fully managed within Commercial Services via the eTendering portal. Requirements over £150K, tender processes are carried out in compliant with the Public Contracts Regulations 2006.
- 10.2 We found from our testing of a sample of contracts, tender processes had been undertaken by TfL and GLA and signed contracts had been awarded.
- 10.3 TfL maintains a contracts registers which shows all contracts in place, period of contract and nature of the contract. The register also alerts TfL when a contract is due to expire and details are submitted to the quarterly meetings held by GLA and TfL. Our sample of contracts showed that two were due to expire in May and July with one contract having been granted an extension and the other for ICT suppliers containing a clause to provide support for a further year. Day to day monitoring of contracts is undertaken by GLA personnel.

11. Supplier and Category Spend

- 11.1 Supplier registration guidance is available and located on the GLA and TfL web site. Registration is undertaken online on the Bravosolution IT system by Suppliers with mandatory fields being completed. Username and passwords are issued by the system. New vendors are required to submit on headed paper their company bank details with a signature. Checks are undertaken by TfL on contact details, bank details, VAT and Companies House numbers. A check list had been completed by TfL and attached to all new vendor details. New vendors had been entered onto SAP by TfL.
- 11.2 The same vendors are used by both TfL and GLA so it was not possible to show all vendors used by GLA only. TfL maintain a list of spend against each vendor for their records. Monthly reports are produced and located on the GLA web site showing all orders over £250. Reports are also submitted to the quarterly Budget Monitoring Sub-Committee. Management Account reports are also produced by the GLA Finance and discussed with individual Directorates and Lead Accountants. Any issues with the Management Accounts are identified, documented and addressed.

12. Management Information

- 12.1 Procurement Integration Communications Meetings are held with GLA and TfL on a quarterly basis to discuss the SLA and Procurement functions. Minutes of the meetings showed attendance by representatives from TfL by the Head of Commercial Services and Category Managers and GLA representatives of

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Executive Director of Resources, Assistant Director of Finance, Head of Financial Services and Chief Accountant. Reports showed updates on the procurement service, the top ten contracts planned, expiring and awarded in the last six months, procurement issues, grants, funding mechanism, resources and shared services.

- 12.2 KPIs had been submitted and reported on at the procurement integration communications meeting. KPIs showed the total of shopping carts raised over the period April to June 2014 and that the percentage of KPIs met for April, May and June were 86%, 93% and 89% respectively. No further KPIs were evidenced (see point 7.4)
- 12.3 From a review of reports from the procurement integration meetings, issues had been identified and recommendations made and recorded. Recommendations had been addressed in relation to aligning thresholds and ensuring TfL and the GLA are aware of each other governance structures and TfL hosting monthly workshops for new GLA staff and reviser for current staff. Outstanding recommendations related to improvement towards transparency, reducing turnaround of processing shopping carts from 5 days to 3 day, pipeline/ contract expiry needs to be improved from both parties and where efficiency savings are created, to highlight this to the GLA and make suggestions where savings could be achieved were ongoing and outstanding.
- 12.4 Orders over £250 are published on the GLA web site and are submitted to the quarterly Budget Monitoring Sub-Committee. Reports from the Committee in July and March 2014 showed that for quarter 3 (Oct – Jan 2014) and quarter 4 (Jan-March 2014) a total of £109.8m and £196.5m had been spent respectively. Reports are published on the GLA website and are available to the public.

RISK AND AUDIT ASSURANCE STATEMENT – DEFINITIONS

Overall Rating	Criteria	Impact
Substantial	There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.	There is particularly effective management of key risks contributing to the achievement of business objectives.
Adequate	The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.	Key risks are being managed effectively, however, a number of controls need to be improved to ensure business objectives are met.
Limited	The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.	Some improvement is required to address key risks before business objectives can be met.
No Assurance	A control framework is not in place to mitigate key risks. The business area is open to abuse, significant error or loss and/or misappropriation.	Significant improvement is required to address key risks before business objectives can be achieved.

RISK RATINGS

Priority	Categories recommendations according to their level of priority.
1	Critical risk issues for the attention of senior management to address control weakness that could have significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to: <ul style="list-style-type: none"> • The efficient and effective use of resources • The safeguarding of assets • The preparation of reliable financial and operational information • Compliance with laws and regulations.
2	Major risk issues for the attention of senior management to address control weaknesses that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
3	Other recommendations for local management action to address risk and control weakness that has a low impact on the achievement of the key system, function or process objectives ; or this weakness has exposed the system, function or process to a key risk, however the likelihood is this risk occurring is low.
4	Minor matters need to address risk and control weakness that does not impact upon the achievement of key system, function or process or process objectives; however implementation of the recommendation would improve overall control.

Ref.	Findings and Risk	Priority	Recommendations	Accepted	Management Response and Responsibility	Target Date
7.3	We found no evidence that any further savings had been identified and reported on as per the original business case. There is a risk that without analysis of performance data regarding savings made that the GLA may not be receiving value for money from the new arrangements.	2	The shared service arrangement should be regularly reviewed to identify any further savings and to ensure value for money is being obtained, as per the original business case. This should include the cost of the service provision.	Yes	Savings made by TfL in the procurement process on behalf of the GLA are recorded. Many are non-cashable but add value to the GLA. TfL have also worked to become more efficient and as part of their Commercial Transformation Programme have centralised all SAP activity and e-tendering activity into a Procurement Operations Team. The charging mechanism was also reviewed and agreement has been made to do a more fundamental review when we have 6 months data from the Procurement Operations Team and to consider a charging mechanism more akin to the FSC. The shared service will continue to be regularly	January 2015

Ref.	Findings and Risk	Priority	Recommendations	Accepted	Management Response and Responsibility	Target Date
					reviewed to identify any further savings and to ensure value for money continues to be obtained. Head of Financial Services	
7.4	Reporting on other performance measures for the release or orders, incorrectly raised shopping carts, response times to general queries were not located. There is a risk that the performance of the procurement function is not being fully reported and monitoring of the contract is not undertaken.	2	Reports should be produced on all performance measures and submitted to the GLA on a regular basis for monitoring purposes.	Yes	Performance measures will be discussed and agreed with TfL. Head of Financial Services	December 2014
8.2	An overall TfL procurement strategy is in place, produced by TfL Commercial Services, but this does not currently include reference to the specific GLA aims and objectives. Without these details there may be a risk of a lack of direction and of objectives not being achieved. The procurement strategy was, however, being reviewed and updated at the time of our audit review.	3	The overall TfL procurement strategy should refer to the GLA aims and objectives in this area.	Yes	A procurement strategy is in the process of being produced by TfL and will incorporate details relating to the GLA. Head of Financial Services	December 2014