

Electoral Office for Northern Ireland

Audit fieldwork report 2008/09

Purchasing and procurement

23 November 2008

Ref: BC/PP/ab

Private and Confidential

D Bain Esq
Chief Electoral Officer
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2nd Floor
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23 November 2008

Dear Sirs

Re: Fieldwork visit – Purchasing and procurement

Introduction

1. We recently completed our internal audit fieldwork visit in respect of the 2008/09 financial year in relation to Electoral Office for Northern Ireland's ("EONI's") system for purchasing and procurement. This report summarises our findings.
2. We previously undertook a review of EONI's purchasing and procurement in October 2007 and determined that a "satisfactory" assurance rating was appropriate.

Background

3. The majority of payments relating to non-election expenses are processed by the Northern Ireland Office's ("NIO's") Financial Services Division ("FSD"). Payments relating to election expenses are processed by the Finance Section in EONI.
4. Discussions with EONI management indicated that responsibilities will be formally delegated for the procurement of some goods and services from EONI's Finance Section to the Local Area Offices during the 2008/09 year.
5. Non-election expenditure, including staff and travel costs, amounted to approximately £2.18 million during the financial year ended 31 March 2008. The actual expenditure incurred by EONI as at 31 August 2008 amounted to approximately £1.02 million.

Scope

6. In line with EONI's Strategic Internal Audit Plan, approved by the Management Board on 21 August 2008, the fieldwork visit focused on assessing the following control objectives in respect of the system for purchasing and procurement:
 - a) to ensure that a sufficient number of quotations are obtained;
 - b) to ensure that value for money is achieved and seen to be achieved;
 - c) to ensure that payments are complete, accurate, timely, bona fide, paid only once and appropriately authorised;

- d) to ensure that purchases are approved by an authorising officer;
- e) to ensure that purchases are made in accordance with the EONI purchasing guidelines; and
- f) to ensure that a management audit trail exists.

7. This report is addressed to the Chief Electoral Officer and as required by our terms of appointment, copies of all finalised reports are also issued to the NIO’s Head of Internal Audit, the Northern Ireland Audit Office and the Rights, Elections and Legacy Division (previously the Rights and International Relations Division) – the relevant sponsoring division within the NIO. No duty of care is accepted to any party other than those to whom the report is addressed. No responsibility is accepted for any reliance placed upon our report, should it be used for any purpose other than that stated above.

Basis of assurance

8. We conducted our internal audit work in accordance with the Government Internal Audit Manual (“GIAM”). Our work included an examination, on a test basis, of EONI’s system of internal control.

9. This review has been conducted within the context of an internal audit review process designed to address key risks on an annual basis. Only 3.5 days were allocated to this review and consequently there was a requirement to conduct a general assessment of the key aspects of the systems and then to focus on a limited number of specific areas. In these circumstances, this review should not be regarded as being an extensive and detailed review sufficient to test and assess all aspects of EONI’s purchasing and procurement activities.

10. We planned and performed our internal audit work to obtain reasonable assurance that the systems were operating as described and that the accounting records were not materially misstated on account of fraud or error. However, you should not rely on our work to identify all instances of fraud or error. The responsibility for these matters rests with management and the Chief Electoral Officer.

Findings

11. Our review identified a lack of integration in relation to the systems utilised by the Finance Section with regard to the management of the various purchasing processes. In particular, we noted that whilst a decision was taken by management to no longer use the SUN Accounting system, our review indicated that it continued to be used in the absence of a maintenance agreement. We also identified two instances where formal contracts for the provision of services had not been established and ongoing delays in the receipt of prompt payment reports from the NIO’s FSD.

12. We have attached the key findings identified in the course of our work at **Appendices A to D**. These appendices are broadly analysed by category of weakness as follows:

Area	Appendix
Review of procedures undertaken by the Finance Section	A
Review of compliance with procurement procedures	B
Delay in receiving prompt payment reports	C
Single tender actions	D

13. The findings included in this report were discussed with Mrs Margaret McMullen (Head of Corporate Services) and Mr Peter Mullan (Finance Officer) on 14 October 2008. A draft of this report was issued to EONI for management comments on 13 November 2008. Following subsequent discussions with management, an amended draft report was issued for client comments on 19 November 2008.

Management responses

14. We have attached an implementation table at **Appendix E** for management to record their responses and implementation dates for each of the audit recommendations. Responses should confirm if each recommendation is accepted, partially accepted or not accepted and, if accepted, management should provide details of their strategy for implementing each recommendation.

Assurance rating - Satisfactory

15. In our opinion, there are a number of improvements which could be incorporated within EONI's internal control system for purchasing and procurement, particularly in relation to the efficiency of the processes used by the Finance Section. However, the existing controls in place within EONI are basically sound and provide **satisfactory** assurance regarding the effective and efficient achievement of EONI's objectives in relation to purchasing and procurement.

16. We have attached a definition of our assurance ratings at **Appendix F**.

Other matters

17. We would like to take this opportunity to thank EONI's management and staff for their assistance and co-operation during the course of this assignment.

18. If you have any queries in relation to this correspondence, please do not hesitate to contact Brian Clerkin or Pauline Poots.

Yours faithfully

ASM Horwath

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Review of procedures undertaken by the Finance Section

A

Weaknesses

A1. Our discussions with management identified that a number of methods are currently being used for the management of the purchasing process. These can be summarised as follows:

- a) *recording of quotations:* a Microsoft Excel spreadsheet is utilised to record the number of quotations provided in relation to a number of purchasing exercises where a quotation is required (for Headquarters and each Area Office). In addition, this spreadsheet also records a “unique reference number” which links the purchase order to the spreadsheet (this is not the purchase order number), the nominated supplier and the reason for selection.
- b) *purchase orders:* the Finance Section utilises a Microsoft Access database to generate the next sequential purchase order number. The access database is also used to record the following:
 - i) the purchase order reference number;
 - ii) the nominated supplier; and
 - iii) the cost of the purchase; and
- c) *recording of purchases and authorisation for payment:* we understand that a decision was taken by EONI management that, with effect from 31 March 2008, the SUN accounting system would no longer be used and that EONI would rely on the NIO’s FSD to provide monthly management information.

However, we note that, despite this decision being taken and the expiry of the maintenance contract for the SUN accounting system, the Finance Section continues to utilise the SUN accounting system as a database to populate boxes on the authorisation for payment templates for approval by EONI management and subsequent issue to the NIO’s FSD.

Effects

A2. Lack of integrated working practices for the management of the purchasing process increases the likelihood of inefficient working practices emerging across the Finance Section.

A3. Continuing reliance on the SUN accounting system increases the likelihood that the system may become increasingly unstable. Failure to ensure that an alternative to the SUN accounting system is developed increases the reliance on an unstable and lack of maintained record system.

Recommendation

A4. We recommend that management discontinue the use of the SUN accounting system with immediate effect and consider a more efficient method by which to manage the key aspects of the purchasing process.

Review of compliance with procurement procedures

A

Weaknesses

B1. Our review of EONI's purchasing procedures identified that they were last reviewed and amended in July 2007. Our discussions with management indicated that they are currently undertaking a review of the Financial Procedures manual and that the purchasing procedures will be revised as part of this review.

B2. Whilst undertaking our detailed testing, we selected and reviewed a sample of fifteen purchases we noted the following:

- a) in two out of the fifteen instances reviewed, contracts had not been formally established for the provision of services. We noted that these instances related to the provision of cleaning services and waste disposal services. The relevant details can be summarised as follows:
 - i) *cleaning services:* our discussions with management identified that whilst a number of the Area Offices utilise the NIO contract for cleaning services, the remaining Area Offices cleaners are on EONI permanent staff payroll and St Anne's utilise "stand alone" cleaning services; and
 - ii) *waste disposal services:* we also note that the Headquarters and the majority of Area Offices utilise the respective Local Councils for the disposal of waste. However, in the instance selected for review, we noted that a local, external provider was being used. We understand that the external provider was considered to offer better value for money.

B3. At the time of preparing this report, November 2008, we understand that management is undertaking a review of the existing contracts throughout EONI under the auspices of the "Continuity of Contracts review".

Effects

B4. A lack of consistent approach to the procurement of goods and services throughout the organisation and the formal development of contracts increases the risk of inconsistent practices emerging throughout the organisation. This may lead to personnel adopting their own methodologies and practices thus resulting in a lack of quality checks being applied and a lack of value for money being received.

Recommendations

B5. We recommend that current purchasing procedures are revised and updated as soon as possible. We recommend that these procedures are distributed to all staff.

B6. We also recommend that, following the completion of the "Continuity of Contracts review" that contracts are established in accordance with purchasing procedures.

Delay in receiving prompt payment reports

C

Weakness

C1. Our previous review of EONI's purchasing and procurement systems, undertaken in October 2007, identified that prompt payment reports had only been obtained from the NIO's FSD from July 2006. Our previous review of these prompt payment reports indicated that the report received in July 2006 was inaccurate and therefore our review was restricted to consideration of the report received in August 2006.

C2. Our recent discussions with management identified that the issue of delay in receiving prompt payment reports continues. Our review of correspondence from the NIO's FSD identified that on 13 October 2008, the NIO provided prompt payment information relating to September 2008. However, we noted that information relating to the months of April to August 2008 remained outstanding.

Effect

C3. Lack of timely management information in relation to prompt payments increases the risk that EONI may not monitor their performance.

Recommendation

C4. We recommend that management continue to discuss the timely receipt of prompt payment reports directly with the NIO.

Single tender actions

D

Weakness

D1. Whilst our review of the purchasing processes identified that the use of single tender actions are minimal, we note that a Northern Ireland Assembly Public Accounts Committee (“PAC”) report in respect of the *“Use of Consultants”* (January 2008) highlighted concerns in respect of awarding contracts in the absence of undertaking a competitive tendering process. The PAC report recommended that any decisions to procure without undertaking competitive tendering above a minimal threshold should be reported to the respective Audit Committee. We note from our review of the DFP’s Memoranda of Reply to the Northern Ireland Assembly in response to the PAC recommendations that the above recommendation was accepted.

Effect

D2. In the absence of undertaking competitive tendering there is a risk that EONI fail to demonstrate the achievement of value for money.

Recommendations

D3. We recommend that any procurements undertaken as single tender actions above an agreed threshold e.g. £10,000 should be reported to EONI’s Management Board for formal consideration and approval. We recommend that the revised purchasing procedures refer to this best practice guidance.

Summary of recommendations and implementation schedule

E

Reference	Recommendation	Management response	Action taken / to be taken	Implementation date
A4.	We recommend that management discontinue the use of the SUN accounting system with immediate effect and consider a more efficient method by which to manage the key aspects of the purchasing process.	Not Accepted. The SUN Accounting System is currently only used as a database to populate boxes on the NIO Authorisation for Payment (AFP) template. The alternatives are the creation of another database using Microsoft Access or typing invoice details on to a Word Document AFP template.	N/a	N/a
B5.	We recommend that current purchasing procedures are revised and updated as soon as possible. We recommend that these procedures are distributed to all staff.	Accepted	The Finance Procedures Manual is currently being reviewed and will include revised purchasing procedures which can be viewed by all staff on TRIM.	31 December 2008
B6.	We also recommend that, following the completion of the “Continuity of Contracts review” that contracts are established in accordance with purchasing procedures.	Accepted	Robust process now implemented.	Fully implemented
C4.	We recommend that management continue to discuss the timely receipt of prompt payment reports directly with the NIO.	Accepted	Ongoing negotiations with NIO	Fully implemented
D3.	We recommend that any procurements undertaken as single tender actions above an agreed threshold e.g. £10,000 should be reported to EONI’s Management Board for formal consideration and approval. We recommend that the revised purchasing procedures refer to this best practice guidance.	Accepted that any procurement by single tender whatever its value should be reported to the attention of the Board but approval is for the CEO not the Board.	To be documented in the revised purchasing procedures	31 December 2008

Assurance rating and prioritisation definitions

F

Substantial – There is a robust system of risk management, control and governance which should ensure that objectives are fully achieved.

Satisfactory – There is some risk that objectives may not be fully achieved. Some improvements are required to enhance the adequacy and / or effectiveness of risk management, control and governance.

Limited – There is considerable risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.

Unacceptable – The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Urgent action is required to improve the adequacy and effectiveness of risk management, control and governance.