Internal Audit

NHS Lothian

Procurement

October 2018

Internal Audit Assurance assessment:

Objective One	Objective Two	Objective Three	Objective Four	Objective Five
Moderate Assurance	Moderate Assurance	Moderate Assurance	Significant Assurance	Moderate Assurance

Timetable

Date closing meeting held: 11 September 2018

Date draft report issued: 12 October 2018

Date management comments received: 7 November 2018

Date Final report issued: 7 November 2018

Date presented to Audit and Risk Committee: 3 December 2018

Contents

1. Introduction

1.1 NHS Lothian procures a wide range of goods and services, including property and buildings, construction, medical equipment and training. NHS Lothian has a dedicated procurement function, referred to as "Lothian Procurement". Lothian Procurement aims to provide comprehensive procurement services for all functions across NHS Lothian. Its role includes strategic planning and advice where required to improve effectiveness and value for money on supplies expenditure.

1.2 Lothian Procurement utilises a range of tools in its procurement activities, including eProcurement and eTendering. There is also a sustainability policy in place, including an action plan for improving its sustainability performance with regards to procurement. With the ever increasing drive on generating savings, it is important that NHS Lothian obtains value for money from its procurement activities.

Scope

1.3 The objective of the audit was to determine if there are effective controls in place over procurement, in particular with regard to the achievement of value for money, and areas where some aspects of procurement activity have been devolved, e.g. eHealth. However, this audit did not cover areas where procurement has been wholly devolved, e.g. the purchasing of medicines by Pharmacy, where local department knowledge is used to achieve purchasing value for money.

Acknowledgements

1.4 We would like to thank all staff consulted during this review, for their assistance and cooperation.

2. Executive Summary

Summary of Findings

2.1 The table below summarises our assessment of the risks and the adequacy and effectiveness of the controls in place to meet each of the risk areas agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 1.

No.	Control Objectives	Assurance Level	Number of findings			
			Critical	**High**	**Medium**	**Low**
1	NHS Lothian has a procurement strategy and policies in place which define the objectives and principles of the organisation's procurement activities.	Moderate Assurance	-	-	1	-
2	Roles and responsibilities for procurement activities are clearly documented, are appropriate, and individuals are aware of their duties.	Moderate Assurance	-	-	1	-
3	NHS Lothian's procurement activities comply with relevant legislation and guidelines.	Moderate Assurance	-	-	1	1
4	Contracts comply with NHS Lothian's own internal policies, such as the Standing Financial Instructions and Scheme of Delegated Authority.	Significant Assurance	-	-	-	-
5	There is adequate and regular reporting on procurement activity within NHS Lothian, including savings generated, provision of quality, and security / sustainability of supply.	Moderate Assurance	-	-	1	-
TOTAL			**-**	**-**	**4**	**1**

Conclusion

2.2   The area under review comprised 5 control objectives, of which 1 received Significant Assurance and 4 received Moderate Assurance.

2.3   There is good overall control of purchasing and tendering within the organisation through the use of two key electronic systems (PECOS and PCS Tender), and by the use of a procurement strategy and related policies. Although the gifts and hospitality received by NHS Lothian staff appeared to be reasonable, control could be improved through better review of the gifts and hospitality register, and the development of a more comprehensive risk register.

Main Findings

2.4   A Procurement Strategy is in place, as are policies related to equalities, community benefits, and ethical procurement. Also, there is effective control of the purchasing and tendering through use of the electronic systems PECOS and PCS Tender respectively. In addition, the most recent Public Procurement Reform Programme's Capability Assessment gave NHS Lothian an overall rating of "A+". Our sample testing included the vetting of new suppliers, purchases initiated by NHS Lothian departments which have devolved purchasing responsibilities, the authorisation of contracts, and capital purchases.

2.5   We identified the following areas for improvement during the review:

2.5.1   A procurement strategy is in place covering the period 2016 to 2021, and includes directions for organisational procurement including strategic alignment with NHS Lothian's corporate objectives, sustainable procurement, and procurement standards. However, the strategy has not been presented to or approved by any committee within NHS Lothian

2.5.2   Procurement managers are not regularly reviewing the list of gifts and hospitality received by NHS Lothian Board members and non-Board members. Also, non-Board members are sometimes not using the correct procedure for registering hospitality received. In addition, the list of hospitality and gifts received by Board members is not being regularly updated on the internet

2.5.3   The Procurement department has a risk register, which includes entries relating to Brexit and the National Procurement workplan. However, it does not state the timescales for mitigating actions, or state the mitigating actions as SMART objectives, or state relevant KPIs

2.5.4   When NHS Lothian staff wish to add a supplier to the electronic purchasing system PECOS they must contact Procurement, and provide a justification for adding the supplier. However, a review of 20 suppliers added to PECOS in the past 12 months showed that 1 (5%) did not have a recorded email trail showing who requested that the supplier be added to PECOS, and the reasons why

2.5.5   The Procurement department has created a tracker which sets out expected and actual savings and benefits related to individual purchases and contracts. The document is designed to help determine if expected savings and benefits will be

realised. However, the tracker is not being provided regularly to any NHS Lothian committee.

2.6 Details of these 4 Medium findings and 1 Low finding are set out in the Management Action Plan.

3. Management Action Plan

Finding 1	
Control objective 1: NHS Lothian has a procurement strategy and policies in place which define the objectives and principles of the organisation's procurement activities. **Associated risk of not achieving the control objective: The Procurement Strategy has not been approved by a senior committee.**	**Medium**

Observation and risk
The Procurement Strategy for NHS Lothian is in place covering the period 2016 to 2021, and includes directions for organisational procurement including strategic alignment with NHS Lothian's corporate objectives, sustainable procurement, and procurement standards. However, the Strategy has not been presented to or approved by any committee within NHS Lothian. If the Strategy is not presented to or approved by a senior NHS Lothian committee then there is a reduced likelihood that the Strategy is comprehensive and will further overall organisational objectives.

Recommendation
The Procurement Strategy should be provided to a senior NHS Lothian committee for review and approval, e.g. the Finance & Resources Committee.

Management Response
Agreed. The Management Action Future versions of the Procurement Strategy will be provided to a senior NHS Lothian committee for review and approval.

Responsibility: Andy Hay, Procurement Planning Manager	Target date: 31 December 2019

Finding 2	
Control objective 2: Roles and responsibilities for procurement activities are clearly documented, are appropriate, and individuals are aware of their duties. **Associated risk of not achieving the control objective: A comprehensive list of hospitality and gifts is not being reviewed by Procurement**	**Medium**

Background

NHS Lothian policies set out what types of gifts and hospitality provided by non-NHS organisations that non-Board members are permitted to accept, and also set out whether they should be declared and recorded in a register. Board members must adhere to the Board Members Code of Conduct (the "Code").

Board members may accept both gifts and hospitality in line with the Code, which must be declared and recorded in a register which is maintained by the Chief Executive's office. Non-Board members should not accept gifts (except for relatively low value items such as those provided by patients), but can accept hospitality which is "modest, normal and reasonable in the circumstances"; any hospitality provided should be recorded on a form which should then be forwarded to the Finance Directorate administrative staff. Both of these registers should be reviewed by Procurement so that any possible conflicts of interest with regard to tendering and purchasing can be identified.

Observation & risk

However, during the past 3 years the Finance administrative staff has only received a handful of forms from non-Board members registering hospitality received. The register maintained by the Chief Executive's office contains significantly more entries from non-Board members, including some related to gifts which non-Board members do not need to declare.

The complete list of gifts and hospitality held by the Chief Executive's office (and stated on the internet) is not being reviewed by the Procurement team, although Procurement do review the incomplete list held by Finance Directorate administrative staff.

This list maintained by the Chief Executive's office is periodically provided to the Communications Team who then upload it to the internet. However, at the time of the audit, the list of hospitality and gifts stated on the internet did not include the 25 items covering the period 28 June 2017 to 28 August 2018. However, the list on the internet has since been updated.

If complete lists of gifts and hospitality received by both Board members and non-Board members are not regularly reviewed by Procurement there is a reduced likelihood that any potential conflicts of interest are identified.

Recommendation

Procurement managers should regularly review the list of gifts and hospitality received.

NHS Lothian staff should be reminded that they should notify all hospitality received to the Finance Directorate admin team and not to the Chief Executive's office, and that they do not need to declare any gifts received.

The list of hospitality and gifts received by NHS Lothian staff which is stated on the internet should be updated regularly, for example monthly.

Management Response

Agreed.

The Management Actions

Procurement managers will regularly review the list of gifts and hospitality received.

A message will be included in the Team Brief to remind staff of the process to follow.

The Hospitality Register will be submitted to the Communications Department to upload onto the internet on the 1st day of the month. This will be implemented even if there have been no changes to the register.

Responsibility:	Target date:
Andy Hay, Procurement Planning Manager	31 December 2018
Alan Payne, Head of Corporate Governance	31 January 2019
Georgia Sherratt, Chief Executive's Office	1 November 2018

Finding 3	
Control objective 3: NHS Lothian's procurement activities comply with relevant legislation and guidelines. **Associated risk of not achieving the control objective: Procurement's risk register does not contain all relevant information**	**Medium**

Observation and risk

Risk registers should include all risks affecting an organisation or department and should also state, for each risk, the person charged with managing it, what mitigating actions are in place and related timescales, and any relevant SMART objectives and KPIs.

Although the Procurement department has risk register, including entries relating to Brexit and the National Procurement workplan, it does not state the timescales for mitigating actions, or state the mitigating actions as SMART objectives, or state relevant KPIs.

If the Procurement department risk register does not include all relevant information for risks then there is an increased likelihood that they will not be effectively managed.

Recommendation

The Procurement risk register should be revised so that all risks have associated timescales for mitigating actions, state mitigating actions as SMART objectives, and have relevant KPIs.

Management Response

Agreed.

The Management Action

The Procurement risk register will be revised so that all risks have associated timescales for mitigating actions, state mitigating actions as SMART objectives, and have relevant KPIs

Responsibility: Andy Hay, Procurement Planning Manager	Target date: 31 December 2018

Finding 4	
Control objective 3: NHS Lothian's procurement activities comply with relevant legislation and guidelines. **Associated risk of not achieving the control objective: Not all relevant information is being retained when suppliers are added to PECOS**	**Low**

Observation and risk
When NHS Lothian staff wish to add a supplier to the electronic purchasing system PECOS they must contact Procurement, and provide a justification for adding the supplier. Procurement will then perform checks, for example to confirm that there is not an existing contracted supplier who can provide the same goods and services, and to obtain information from the supplier (for example bank details). A folder will then be created on the Procurement shared drive which contains all details related to the addition of the supplier on PECOS, including the original email from the person requesting the addition. However, a review of 20 suppliers added to PECOS in the past 12 months showed that 1 (5%) did not have an email trail showing who requested that the supplier be added to PECOS, and the reasons why. If incomplete information is held when suppliers are added to PECOS then there is decreased assurance that new suppliers have been added to the system for legitimate reasons.

Recommendation
All information received related to the addition of suppliers to PECOS should be held by Procurement, including the original request.

Management Response
Agreed. The Management Action All information received related to the addition of suppliers to PECOS will be held by Procurement, including the original request.

Responsibility: Andy Hay, Procurement Planning Manager	Target date: 31 December 2018

Finding 5	
Control objective 5: There is adequate and regular reporting on procurement activity within NHS Lothian, including savings generated, provision of quality, and security / sustainability of supply. **Associated risk of not achieving the control objective: Savings and benefits information is not being supplied to any committee**	**Medium**

Observation and risk
The Procurement department has created a tracker which sets out expected and actual savings and benefits related to individual purchases and contracts. The document is designed to help determine if expected savings and benefits will be realised. However, the tracker has not been provided to any NHS Lothian committee. The Procurement Planning Manager has stated that it will be provided to the Finance & Resources Committee before the end of 2018. If the savings and benefits tracker is not provided to a committee for review then there is an increased risk that expected savings and benefits will not be realised and so have a negative effect on the organisation's financial position.

Recommendation
The savings and benefits tracker should be provided at least quarterly to a senior NHS Lothian committee, so that any issues can be identified and resolved in a timely manner.

Management Response
Agreed. The Management Action A Procurement report will be provided at least quarterly to a senior NHS Lothian committee, so that any issues can be identified and resolved in a timely manner.

Responsibility: Michael Cambridge, Associate Director of Procurement	Target date: 31 July 2019

4.   Appendix 1 - Definition of Ratings

Findings and management actions ratings

Finding Ratings	Definition
Critical	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
High	A key control failure has been identified which could be either due to a failure in the design or operating effectiveness. There are no compensating controls in place, and management should aim to implement controls within a calendar month of the review.
Medium	A control failure has been identified which could be either due to a failure in the design or operating effectiveness. Other controls in place partially mitigate the risk to the organisation, however management should look to implement controls to fully cover the risk identified.
Low	Minor non-compliance has been identified with the operating effectiveness of a control, however the design of the control is effective

Report ratings and overall assurance provided

Report Ratings	Definition	When Internal Audit will award this level
No assurance	The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.	The controls are not adequately designed and / or operating effectively and immediate management action is required as there remains a significant amount of residual risk (for instance one Critical finding or a number of High findings)
Limited assurance	The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.	This may be used when: • There are known material weaknesses in key control areas. • It is known that there will have to be changes that are relevant to the control objective (e.g. due to a change in the law) and the impact has not been assessed and planned for. The controls are deficient in some aspects and require management action (for instance one 'high' finding and a number of other lower rated findings)

Moderate assurance	The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied. There remains a moderate amount of residual risk.	In most respects the "purpose" is being achieved. There are some areas where further action is required, and the residual risk is greater than "insignificant". The controls are largely effective and in most respects achieve their purpose with a limited number of findings which require management action (for instance a mix of 'medium' findings and 'low' findings)
Significant assurance	The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective. There may be an insignificant amount of residual risk or none at all.	There is little evidence of system failure and the system appears to be robust and sustainable. The controls adequately mitigate the risk, or weaknesses are only minor (for instance a low number of findings which are all rated as 'low' or no findings)