

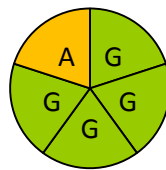
## Internal Audit



## Procurement

September 2015

## Report Assessment



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## **Introduction**

NHS Lothian procures a wide range of goods and services, including architecture, construction, medical equipment and training. NHS Lothian has a dedicated procurement function in place called Lothian Procurement. Lothian Procurement aims to provide comprehensive procurement, logistics and storage services for all functions across NHS Lothian. Its role includes providing advice to improve effectiveness and value for money on supplies expenditure.

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 NHS Lothian's 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**

We assessed the application of NHS Lothian procurement policies and initiatives to achieve savings. This review is linked to our audit of expenditure and payables to ensure we cover the entire procurement to expenditure cycle.

## **Acknowledgements**

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

## Executive Summary

### Conclusion

NHS Lothian has strong procurement controls and processes in place, most of which are operating effectively. However, we have identified seven areas where the existing procurement framework can be improved.

### Summary of Findings

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

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	NHS Lothian has a procurement strategy and policies in place which define the objectives and principles of the organisation's procurement activities.	Green	-	-	2	-
2	Roles and responsibilities for procurement activities are clearly documented and individuals are aware of their duties.	Green	-	-	1	1
3	NHS Lothian's procurement activities comply with all relevant legislation and guidelines.	Green	-	-	-	1
4	All contracts comply with NHS Lothian's own internal policies, such as the Standing Financial Instructions and Scheme of Delegated Authority.	Green	-	-	-	-
5	There is adequate and regular reporting on procurement activity within NHS Lothian, including savings generated.	Amber	-	1	1	-

## Control Objective Ratings

Action Ratings	Definition
<b>Red</b>	Fundamental absence or failure of controls requiring immediate attention (60 points and above).
<b>Amber</b>	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points).
<b>Green</b>	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less).

## Main Findings

A new act relating to procurement comes into effect from 1 April 2016, the Procurement Reform (Scotland) Act 2014 (the Act). NHS Lothian must ensure it has mechanisms in place so that it can demonstrate effective compliance with the Act.

We noted a number of areas of good practice during the review. NHS Lothian has a Procurement Strategy in place which sets out the vision and mission for NHS Lothian's procurement activities. The Strategy also sets out measurable objectives for improvement, such as projects that will support NHS Lothian's Efficiency & Productivity Programme. The Strategy is supported by a number of procurement policies to ensure that NHS Lothian's procurement activities are complying with national guidance and legislation. However, we have identified some gaps in the Strategy, primarily in relation to the new Act, as set out below.

The Procurement Team has recently undergone a restructure, and this has provided more clarity over roles and responsibilities and the procurement management structure. Each individual is aware of their role through detailed job descriptions.

The Scottish Government and NHS Scotland coordinate an annual independent Procurement Capability Assessment (PCA) for a sample of public sector bodies. NHS Lothian was last subject to the PCA in December 2012, where it was awarded "superior" status. As a result of this NHS Lothian was exempted from the PCA for the following two years. NHS Lothian is scheduled to partake in the next PCA in December 2015. The assessment regime has been updated to help organisations meet the requirements of the Procurement Reform (Scotland) Act and changes in EU Legislation. NHS Lothian has worked closely with National Procurement in developing the new PCA throughout 2014 and 2015 to maintain its 'superior' status.

NHS Lothian is made aware of changes or updates in guidance and legislation via the Scottish Procurement Policy Notes (SPPN) and Scottish Procurement Action Notes (SPAN), which are issued periodically by the Scottish Government. In addition, the procurement management team hold weekly business assurance sessions which focus on areas such as NHS Lothian's compliance with the updated requirements of the PCA, changes to procurement legislation, procurement risks, and a range of procurement key performance indicators.

NHS Lothian's procurement processes follow the Scottish Government's Procurement Journey, which supports all levels of procurement activity. The Procurement Journey allows the Procurement Department to focus on higher value, higher risk areas in which they can deliver value for money, through providing a clear decision matrix for each procurement which leads to an overall rating and takes account of the risk involved; different procurement journeys are then followed depending on the overall rating. We performed testing over a sample of five contracts and found that each of them had followed the Procurement Journey. We also confirmed that those contracts had been fully authorised in line with NHS Lothian's Standing Financial Instructions (SFIs) and Scheme of Delegation.

There is monthly reporting on procurement activity to the Efficiency & Productivity Group, with reports focusing on savings generated from procurement activities. In addition, a Procurement Local Reinvestment Plan (LRP) Committee was established in March 2015 as a sub-committee of the Efficiency & Productivity Group. It is chaired by the Chief Officer and planned to meet monthly to support the delivery of NHS Lothian's LRP Plan. However, we noted that meetings have not taken place monthly; management is planning to review this to determine whether monthly meetings are required, and we have raised an important point below regarding this.

We identified one significant area and four important areas for improvement during the review:

- Currently, there is no monitoring and reporting protocol in place to review and report progress against the objectives within the Procurement Strategy to the Board or one of its committees. Similarly, while the Procurement Strategy sets out that the Procurement LRP Committee will report into the F&R Committee annually, this has not happened.
- The current Procurement Strategy has not been updated to account for the new requirements of the Procurement Reform (Scotland) Act 2014. For example, the Strategy does not include reference to the Board's policy on the use of community benefit requirements and the procurement of fairly and ethically traded goods and services. In addition, the Strategy sets out that it will be reviewed annually and approved by the Procurement Programme Board, but we found no evidence that this process had occurred.
- We identified that three key procurement policies had passed their review dates; these were the Ethical Procurement Policy, the Anti Bribery Policy, and the Equalities in Procurement Policy. Also, we would expect NHS Lothian to have a corporate Anti-Bribery Policy which is applicable across the organisation, as opposed to the Procurement Department maintaining its own Anti-Bribery Policy.
- There are 27 members of staff in the Procurement Team. Of those, only four (15%) had their PDPs agreed in the last 12 months and only one (4%) had their eKSF review fully completed and signed-off within the last 12 months.
- We noted that the Procurement LRP Committee has not been meeting monthly as intended. Management is planning to review this to determine whether the Committee is still required or whether alternative arrangements are sufficient, such as monthly reporting

direct to the Chief Operating Officer. Management should consider what controls and oversight may be lost by discontinuing the Committee and whether suitable alternative arrangements are in place to provide the same level of control.

Further details of each of these points, as well as two minor issues, are set out in the Management Action Plan.

## Management Action Plan

**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.**

**1.1: The Procurement Strategy is incomplete and the Strategy review process is not effective**

**Important**

### Observation and risk

In June 2013, NHS Lothian published its Procurement Strategy 2013-18. A procurement strategy is a requirement of the Procurement Reform (Scotland) Act 2014 (the Act), which comes into effect from 1 April 2016, and is necessary in establishing Board level commitment and management of NHS Lothian's procurement deliverables. The Act also provides guidance on the content of an organisation's procurement strategy. We reviewed the Procurement Strategy and found that it was generally robust. However, we noted that the Procurement Strategy does not include statements on the following issues, as required by the Act:

- the use of community benefit requirements;
- consulting and engaging with those affected by its procurements;
- the payment of a living wage to persons involved in producing, providing or constructing the subject matter of regulated procurements;
- promoting compliance by contractors and sub-contractors with the Health and Safety at Work etc. Act 1974; and
- the procurement of fairly and ethically traded goods and services.

In addition, the Procurement Strategy states that it will be subject to ongoing review with a formal annual review by the Director of Finance and the Associate Director of Procurement. The Strategy also records that once updated, it will be submitted to the Procurement Programme Board for approval and then published on the procurement intranet site. However, we noted that:

- the annual review of the Strategy cannot be evidenced as the version control information within the current version of the Strategy is incomplete;
- we found no evidence that the Director of Finance and Head of Procurement have reviewed the Strategy or that the Procurement Programme Board / Procurement LRP Committee has approved the Strategy; and
- the Strategy is not available via the procurement intranet site.

There is a risk that NHS Lothian's Procurement Strategy does not set out how NHS Lothian will comply with the new requirements of the Act. There is also a risk that the Strategy review process is not effective.

### Recommendation

NHS Lothian should update the Strategy to ensure it is fully consistent with the Act, ensuring



that the gaps set out above are addressed.

If management decides that the Procurement LRP Committee will continue, then the Strategy should be updated to remove reference to the Procurement Programme Board and refer to the Procurement LRP Committee. If the Committee will be discontinued then management should put alternative approval mechanisms in place for the Strategy and reflect these new arrangements in the revised Strategy.

NHS Lothian should also review the Policy Management section of the Strategy to ensure the review process is effective; this should include ensuring the version control information is complete.

Finally, the Procurement Department should identify one individual to be responsible for ensuring all relevant information is published on the procurement intranet site.

Management Response and Action

Accepted. The Procurement Department will update the strategy to comply with the act as soon as the Act Guidance is published by the Scottish Government. The Strategy will be amended to reflect committee reporting line. The Policy Management section will be amended with version control. Internet and Intranet content will be maintained by Business Assurance Manager.

Responsibility: Procurement Planning Manager

Target date: March 2016

<p><b>1.2 Three procurement policies have passed their agreed review dates</b></p>	<p><b>Important</b></p>
<p><u>Observation and Risk</u></p> <p>The Procurement Department has four policies and procedures to provide guidance to staff on acceptable procurement practices. We reviewed these documents and found that three had passed their agreed review dates. These were the Ethical Procurement Policy, Anti-Bribery Policy, and Equalities in Procurement Policy. These were due for review between November 2014 and March 2015.</p> <p>In addition, while most policies have been created in response to national procurement legislation (such as the Equalities in Procurement and Community Benefits in Procurement policies), we would expect there to be an NHS Lothian corporate Anti-Bribery Policy which is applicable across the organisation, as opposed to the Procurement Department having to maintain its own policy in this area.</p> <p>There is a risk that the policies are out-of-date with legislative requirements, guidance, and current working practices. There is also a risk of inefficient practice if the Procurement Department is maintaining its own Anti-Bribery Policy when this should be a corporate policy applicable to the entire organisation.</p>	
<p><u>Recommendation</u></p> <p>Management should regularly review all key policies and procedures to ensure they remain up-to-date. Each document should be allocated an “owner” and formal review dates should be agreed to ensure this happens.</p> <p>These reviews should include an assessment of whether there are corporate policies already in place that address the requirements of the procurement policies. Procurement management should then determine whether the information contained in the corporate policies are sufficient and can replace their own policy documents.</p>	
<p><u>Management Response and Action</u></p> <p>Accepted. A mapping of Procurement Policy to Corporate will be carried out to identify overlap and policy refreshes will be built into Business Assurance Diary</p>	
<p><u>Responsibility:</u> Procurement Planning Manager</p>	<p><u>Target date:</u> March 2016</p>

<b>Control Objective 2: Roles and responsibilities for procurement activities are clearly documented and individuals are aware of their duties.</b>	
<b>2.1: eKSF and Personal Development Plan(PDP) reviews were out-of-date</b>	<b>Important</b>
<p><u>Observation and risk</u></p> <p>The NHS Scotland annual appraisal process (eKSF) includes the requirement for each staff member to have a personal development plan (PDP), which is used to set objectives and goals for the year ahead. Our review of the eKSF records for the 27 members of staff in the Procurement Department found that only four (15%) had agreed their PDPs in the last 12 months. Of those 27 members of staff, only one (4%) had their eKSF review completed and signed off within the last 12 months.</p> <p>The eKSF Framework is the tool used to identify the knowledge, skills and learning and development that staff need to do their job well. Without regular performance reviews, there is a risk that staff may be unclear about what is expected of them in their role and how they are performing. This may lead to improvement and development opportunities being missed.</p>	
<p><u>Recommendation</u></p> <p>Line Managers should complete eKSF and PDP reviews with all procurement staff. In future, the appraisal process should be undertaken at least every 12 months.</p> <p>Line managers can use the information available as part of the finance KPIs to monitor performance.</p>	
<p><u>Management Response</u></p> <p>Accepted – now management team are in place this can happen.</p> <p><u>Management Action</u></p> <ul style="list-style-type: none"> <li>• Procurement Department to carry out eKSF/PDP for all staff</li> <li>• Business Assurance Diary to prompt 6 monthly checks of eKSF Status</li> </ul>	
<u>Responsibility:</u> Procurement Planning Manager	<u>Target date:</u> March 2016

<p><b>2.2: Job descriptions have not been signed-off by each job-holder and they do not match the revised department structure</b></p>	<p><b>Minor</b></p>
<p><u>Observation and risk</u></p> <p>The structure of the Procurement Department was revised in June 2015, resulting in changes to roles and responsibilities across the team. As a part of the restructure, the job descriptions for existing staff were revised. However, we noted the following issues:</p> <ul style="list-style-type: none"> <li>• Each post-holder is required to sign their job description and a copy should be kept within their personal files. We performed sample testing on the personal files of six members of staff. Of these, three files (50%) held job descriptions, however all were out of date and not signed. The other three files (50%) did not hold job descriptions at all.</li> <li>• Each job description includes a copy of the departmental structure; however, the structure included in the updated job descriptions does not match the revised department structure; and</li> <li>• No job descriptions are held in the shared drive for the Procurement Planning Manager, Senior Pecos System Manager and Pecos System Manager.</li> </ul> <p>As demonstrated in the previous point, EKSFs are not up-to-date for the majority of staff. Unless job descriptions are accurate and signed by the post-holder, there is a risk that some members of staff may be unaware with their responsibilities and position within the Procurement Department, which may lead to confusion over responsibilities and inaccurate guidance being given to operational staff.</p>	
<p><u>Recommendation</u></p> <p>Management should update the job descriptions to include the updated departmental structure and ask each post-holder to sign a copy of their job description, which should then be stored in their personal file.</p> <p>In addition, as a housekeeping point, job descriptions for the three members of staff noted above should be located and stored in the shared drive.</p>	
<p><u>Management Response and Action</u></p> <p>Accepted. Job Descriptions will be updated with the revised structure. Staff will sign JDs and these will be filed and all JDs to be stored together.</p>	
<p><u>Responsibility:</u> Procurement Planning Manager</p>	<p><u>Target date:</u> March 2016</p>

<b>Control Objective 3: NHS Lothian's procurement activities comply with all relevant legislation and guidelines.</b>	
<b>3.1: There are no controls for the receipt and treatment of Scottish Procurement Policy Notes and other national guidance</b>	<b>Minor</b>
<p><u>Observation and risk</u></p> <p>Scottish Procurement Policy Notes (SPPNs) are published by the Scottish Government on an ad-hoc basis to provide advice on current policy issues. Scottish Procurement Action Notes (SPANs) are also issued by the Scottish Government and cover non-policy issues but still offer information and guidance on procurement related matters.</p> <p>While we are satisfied that the Procurement Department is carrying out the actions required by the SPPNs and SPANs, there is no control in place to record the receipt of the SPPNs and SPANs and what action has been taken in carrying out the requirements of them.</p> <p>There is a risk that NHS Lothian does not fully comply with the guidance issued as part of the SPPNs and SPANs, which may lead to missed opportunities to improve working practices.</p>	
<p><u>Recommendation</u></p> <p>Management should develop a register to record all SPPNs and SPANs received. The register should record the date received, who it was issued to, what action they have taken and whether or not any further action is required. One individual should be nominated to maintain the register to ensure it is kept up-to-date.</p>	
<p><u>Management Response and Action</u></p> <p>Accepted. Management will develop a register of SPPN and SPANs; the Business Assurance Manager will take ownership of this.</p>	
<u>Responsibility:</u> Procurement Planning Manager	<u>Target date:</u> March 2016

**Control Objective 4: All contracts comply with NHS Lothian's own internal policies, such as the Standing Financial Instructions and Scheme of Delegated Authority.**

We identified no significant issues in relation to this control objective.

NHS Lothian's procurement processes follow the Scottish Government's Procurement Journey, which supports all levels of procurement activity. The Procurement Journey allows the Procurement Department to focus on higher value, higher risk areas in which they can deliver value for money. The Procurement Journey provides a clear decision matrix to apply to each procurement which leads to an overall rating and takes account of the risk involved. Once the decision matrix has been applied, specific guidance is given for the procurement depending on the overall rating. Procurements deemed to be lower risk can be undertaken by any member of staff with sufficient delegated authority, whilst higher risk procurements must be undertaken by procurement officers who possess the specific expertise.

We performed testing over a sample of five contracts and found that each of them had followed the Procurement Journey. We also confirmed that those contracts had been fully authorised in line with NHS Lothian's Standing Financial Instructions (SFIs) and Scheme of Delegation.

<b>Control Objective 5: There is adequate and regular reporting on procurement activity within NHS Lothian, including savings generated.</b>	
<b>5.1 There is no formal reporting to the Board of progress against the strategic objectives and other targets</b>	<b>Significant</b>
<p><u>Observation and Risk</u></p> <p>The Procurement Strategy sets out 25 objectives, with timescales for completion. The Strategy states that progress against the objectives will be reported to the NHS Lothian Board through the Procurement LRP Committee, which will also provide an annual report to the NHS Lothian Finance &amp; Resources Committee.</p> <p>However, there is currently no reporting of progress against the strategic objectives to the Board. In addition, the Procurement LRP Committee has not provided an annual report to the Finance &amp; Resources Committee, although the Director of Finance does include some narrative around savings within procurement as part of the Local Reinvestment Plan.</p> <p>Without regular reporting there is a risk that the Board is unaware of how effectively the Procurement Department is progressing against its procurement objectives, which may lead to objectives not being achieved within the agreed timescales. In addition, without an annual report provided to the Finance &amp; Resources Committee, it will be unable to assess the effectiveness of the Procurement LRP Committee.</p>	
<p><u>Recommendation</u></p> <p>Management should introduce a framework for regularly reviewing and reporting progress against the objectives that are set out in the Procurement Strategy. For example, this could include monthly or quarterly internal review against the strategic objectives with an annual or bi-annual formal report to the Board on progress.</p> <p>In addition, the Procurement LRP Committee should provide an annual report to the Finance &amp; Resources Committee. The report should focus on what has been achieved in the past year and what actions have been agreed for the year ahead.</p>	
<p><u>Management Response and Action</u></p> <p>Accepted. Management will introduce a framework for reporting activity in the Procurement Strategy to the board or a board committee. The Procurement LRP Committee will provide an annual report to F&amp;R.</p>	
<u>Responsibility:</u> Associate Director of Procurement	<u>Target date:</u> March 2016

<p><b>5.2 The Procurement LRP Committee has not met monthly as intended</b></p>	<p><b>Important</b></p>
<p><u>Observation and Risk</u></p> <p>In March 2015, NHS Lothian created a Procurement LRP Committee as a sub-committee of the Efficiency &amp; Productivity Group. The Committee was chaired by the Chief Officer and planned to meet monthly. The Committee’s main objective was to support the delivery of NHS Lothian’s LRP Plan for 2015/16 and beyond. However, the Committee has not been meeting monthly as set out in its Remit. Some alternative mechanisms have been introduced since the formation of the Committee, such as direct reporting to the COO each month. Management therefore plans to review whether the Committee is still required.</p> <p>There is a risk that some of the key aspects of oversight and control are lost if the Committee is discontinued and alternative mechanisms are not put in place.</p>	
<p><u>Recommendation</u></p> <p>During its review of whether the Procurement LRP Committee should be continued, management should satisfy itself that each element of the Committee’s Remit is adequately covered by alternative arrangements or alternative arrangements should be put in place where gaps are identified. Only once management has satisfied itself that each element of the Committee’s Remit will be adequately addressed should the Committee be discontinued.</p>	
<p><u>Management Response and Action</u></p> <p>Accepted. Management will carry out an assessment to ensure each element of the Committee’s remit is addressed before deciding to discontinue or replace.</p>	
<p><u>Responsibility:</u> Associate Director of Procurement</p>	<p><u>Target date:</u> March 2016</p>



## Appendix 1 - Definition of Ratings

### Management Action Ratings

Action Ratings	Definition
<b>Critical</b>	The issue has a material effect upon the wider organisation – 60 points
<b>Significant</b>	The issue is material for the subject under review – 20 points
<b>Important</b>	The issue is relevant for the subject under review – 10 points
<b>Minor</b>	This issue is a housekeeping point for the subject under review – 5 points

### Control Objective Ratings

Action Ratings	Definition
<b>Red</b>	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
<b>Amber</b>	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
<b>Green</b>	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)