



# ESSEX FIRE AUTHORITY

## Purchase of New Appliances

FINAL

Internal Audit Report: 3.15/16

20 January 2016



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<b>Draft report issued</b>	10 November 2015		
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<b>Final report issued</b>	20 January 2016	<b>Client sponsor</b>	Glenn McGuinness – Deputy Director of Finance John Hindley - Manager, Purchase and Supply
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# 1 EXECUTIVE SUMMARY

## 1.1 Background

A review covering the 'Purchase of New Appliances' was undertaken as part of the agreed audit plan for 2015/16. The review focussed on the management of the contract in place with Angloco to provide new appliances to a standard specification to meet the requirements of a collaboration of Services.

The review also focused on the tendering process, evaluation of the documentation and adherence to the regulatory and internal requirements and assessment of the evidence demonstrating that the Service recognises the need to achieve and demonstrate value for money (VFM) through fit for purpose specifications and collaboration with other fire authorities in respect of the awarding of the contract.

The contract to provide the 'Common Specification B Type Fire Appliances to the Eastern Regions' was estimated prior to the tendering process to be worth between £11 and £12m and as a result the Service approached a Public Buying Organisation; The Consortium, who held a Framework for the procurement of fire appliances and the associated components. By following this process it saved the Service having to undertake the full OJEU process required due to the contract value.

The contract was awarded to Angloco following a robust tendering process following the adoption of the framework, in the form of a mini competition undertaken with five companies who met the basic specification criteria and was awarded based on a scoring mechanism using weightings for cost, specification and quality.

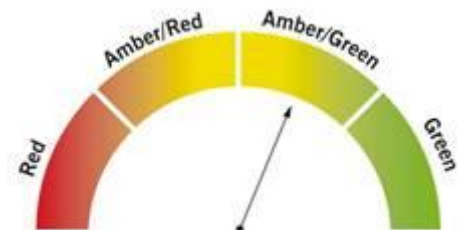
The final Contract was a commitment to provide 52 new appliances to Essex Fire Service (EFS) with a proportion of these to Bedfordshire Fire Service by March 2018 at a total contract value of £10.083m.

## 1.2 Conclusion

### Internal Audit Opinion:

Taking account of the issues identified, the Authority can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risks.



## 1.3 Key findings

The key findings from this review are as follows:

- The Service has in place Financial & Procurement Regulations that set out the contract value at which each procurement option and associated procedure must be followed. For each stage there is clear narrative on the procedures that the Service should adhere to and clearly sets out the officer's responsibility, tendering exercises, contract forms and associated financial limits. The regulations were approved on 18 March 2015 at the Policy and Strategy Committee and are scheduled for a review in March 2017.

- The Service ran a mini competition process following the adoption of the Framework agreement to identify the most suitable company to provide the contract based on set weightings. The tendering exercise from end to end was demonstrated to have been robust and transparent. The key stages were carried out and documented and a decision was made following an effectively managed process evidenced by the Delta E-sourcing system that provides a clear audit trail of the steps.
- Each tendering company provided their compliances and associated prices. The scores and prices against each of the weightings were collated into a scoring matrix to allow for comparison and therefore make a decision on who were most competitively priced in winning the tender.
- The Tender submissions and the collated Tendering Scoring Matrix confirmed that the data on the five submissions was accurate to the data held on the scoring matrix and that the same criteria and associated weightings were used to compare the bids. We confirmed from review of the scoring matrix that the contractor who scored highest overall was awarded the contract and also provided the contract at the lowest price. This demonstrates, with a 57% weighting on price, that value for money and the desired quality to ensure effectiveness of appliance and compliance to specification has been obtained by the procurement process.
- From a review of the contract award document signed by the Director of Finance we confirmed that the schedule of requirements includes a cost structures, the agreed delivery schedule and notes on price variation, stage payment arrangements and the allowances for additional fire authorities to be added to the contract with a maximum additional quantity of appliances set.
- We obtained the draft 2014-16 Procurement Strategy and confirmed that although the contents of the strategy document did provide detail and confirmation that the ideals of collaborative working and value for money being obtained through effective procurement processes, it had not yet been through a formal review or approval process and that it remained at a draft stage. With the Strategy remaining in draft having been intended to be formally in place in 2014, there is a risk that, whilst they are compliant with the financial regulations, procurement processes currently being undertaken are not in line with the Authorities intended strategic direction to the risk of the procurement activity not supporting the Service's aims, specifically not achieving value for money. This has resulted in a Medium priority action.
- We obtained the payment schedule maintained by the Manager of Purchase and Supply and compared the invoice values paid to the original purchase order. We confirmed from review that there is a difference of circa £10k for the first two completed appliances from the original cost price quoted per appliance and the price being paid and although aware of the variance the Manager, Purchase and Supply was unable to provide evidence to support the reason for the variances. If invoices are being paid that do not reflect the original pricing structure this causes a risk that the tender process in obtaining value for money may be negated by additional costs being incurred. This has resulted in a Medium priority action.
- Contract Management Meetings are held between the EFA and Angloco to allow for any issues to be discussed and resolved. These meetings are currently held on an adhoc basis with the last two meetings held in February and June 2015. There are no formal actions raised from these meetings. We also note that with there being contract delivery issues, in relation to the number of appliances completed against the number of appliances scheduled for delivery to date, the frequency of meetings may not be sufficient to allow for effective and timely management of the issues. With infrequent meetings and no evidence of agreed actions being documented, monitored and confirmation that actions have been addressed and closed; there is a risk that the contract will not be managed effectively. This has resulted in a Medium priority action.

We have also agreed two low priority management actions which are covered within sections 2 and 3 of the report.

## 1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Purchase of New Appliances	4 (8)	1 (8)	2	3	0
Total			2	3	0

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

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## 2 ACTION PLAN

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Action for Management	Implementation date	Owner responsible
1.1a	The Procurement Strategy for 2014 – 2016 is at draft stage and requires formal review and approval.	Medium	<p>The Service will ensure that the draft Procurement Strategy is reviewed to ensure content is sufficient and up to date to reflect and support the Service's objectives.</p> <p>As the objectives and requirements of the 2020 programme become clearer, these will be incorporated into any new Procurement Strategy.</p> <p>The Strategy will then be presented and formally approved at the Policy and Strategy Committee.</p>	August 2016	Purchase and Supply Manager
1.1b	There is no formal procedure document setting out the specific steps required by management in undertaking a tender process.	Low	The Service will draw up a procurement procedure document to demonstrate key stages of the tendering process and provide clear guidance to managers.	March 2016	Purchase and Supply Manager

Ref	Findings summary	Priority	Action for Management	Implementation date	Owner responsible
1.2	<p>We confirmed from review that there is a difference of circa £10k from the original cost price quoted per appliance and the price being paid which is due to a difference in stowage costs of this amount.</p> <p>At the time of the review the Manager, Purchase and Supply was unable provide evidence to support the reason for the variances.</p>	Medium	<p>The Service will implement a payment spreadsheet setting out what has been paid and demonstrate reconciliation to the original purchase order figures.</p> <p>All records must be maintained to demonstrate up to date figures and any variances from the original purchase order must be explained.</p>	December 2015	Purchase and Supply Manager
1.3	There is not any coverage of the contract performance or specific coverage of the new appliances contract within an appropriate governance forum.	Low	The Service will ensure that the Contract with Angloco is being scrutinised and will decide at which forum this operational scrutiny will sit.	January 2016	Purchase & Supply Manager / Deputy Director Finance

Ref	Findings summary	Priority	Action for Management	Implementation date	Owner responsible
1.4	<p>There is no formal action plan and closure of required actions raised at the contract review meetings held with Angloco.</p> <p>We also note that with there being contract delivery issues the frequency of meetings, currently bi-annual is not sufficient to allow for effective and timely management of the issues.</p>	Medium	<p>The Service will review its current contract management processes and ensure that at a minimum three contract and operational meetings are held with Angloco each year during the contract period. These meetings will focus on remedying any current issues with delivery to schedule and formally hold the contractor to account for failures in delivery. Actions agreed will be formally recorded, monitored and closed off.</p> <p>The Service will retrospectively draw up a schedule of what has been delivered against schedule to show the delivery profile of the contract to date and use this as a key monitoring tool to take forward and report into a management group that will be assigned responsibility for overseeing the contract.</p>	From December 2015	Purchase & Supply Manager, Engineering Manager



### 3 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those risks of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
1.1	<p>The Service has in place a Procurement Strategy which was last formally updated in 2010 and the Service is currently in the process of updating the Procurement Strategy with a draft version being in place to cover 2014–16.</p> <p>The Draft Strategy for 2014–16 sets out the following key areas;</p> <ul style="list-style-type: none"> <li>• The Collaborative Agenda</li> <li>• Definition of Procurement</li> <li>• Contract Regulation</li> <li>• Benefit Realisation</li> <li>• Present Position</li> <li>• The Collaborative Environment</li> <li>• Outcomes and Summary</li> </ul> <p>There is not a document in place at the Service that guides the full processes involved in drawing up a tender and what a manager would and should be doing at each stage of a tender process with the intention of awarding a contract.</p>	No	n/a	<p>We were provided with the original 2010 Procurement Strategy and also the draft 2014-16 Procurement Strategy.</p> <p>From review we confirmed that the Strategy for 2014-16 had not yet completed the review or approval process and that it remains at a draft stage.</p> <p>The contents of the strategy document did provide detail and confirmation that the ideals of collaborative working and value for money being obtained through effective procurement processes. Effective contract management was one of the key areas identified.</p> <p>It is noted that the 2014-16 Strategy document demonstrates a lot less content in comparison to its 2010 predecessor. This is confirmed with the Associate Director of Finance enable the Strategy to be more a more manageable document.</p> <p>With the strategy remaining in draft there is a risk that procurement processes will not support the Service's aims, specifically not achieving value for money.</p> <p>We confirmed from discussions with the Manager of Purchasing &amp; Supply that there is no clear guidance documentation on what a manager would have to do at each stage</p>	<p>Medium</p> <p>Low</p>	<p>(a)The Service will ensure that the draft Procurement Strategy is reviewed to ensure content is sufficient and up to date to reflect and support the Service's objectives.</p> <p>As the objectives and requirements of the 2020 programme become clearer, these will be incorporated into any new Procurement Strategy.</p> <p>The Strategy will then be presented and formally approved at the Policy and Strategy Committee.</p> <p>(b) The Service will draw up a procurement procedure document to demonstrate key stages of the tendering process and provide clear guidance to managers.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
				<p>of a tendering process.</p> <p>With this not in place there is a risk that tendering processes are not carried out in line with regulation or good practice to the financial and reputational detriment of the Service in not achieving best value for money or acting appropriately in the award of contracts.</p>		
1.2	<p>Each appliance is paid with four instalments at key stages of the process. By having stage payments in place this ensures that the Service owns the work in progress to date.</p> <p>The invoices are checked and approved individually and processed for payment through the Dream system.</p>	Yes	No	<p>We obtained the payment schedule maintained by the Manager of Purchase and Supply and compared the invoice values paid to the original purchase order.</p> <p>We confirmed from review that there is a difference of circa £10k from the original cost price quoted per appliance and the price being paid (potential additional cost to contract £520k).</p> <p>At the time of the review the Manager, Purchase and Supply was unable to provide evidence to support the reason for the variance(s).</p> <p>If invoices are being paid that do not reflect the original pricing structure this causes a risk that the tender process in obtaining value for money may be negated by additional costs being incurred.</p> <p>It is noted that prices differences are investigated as per documentation and correspondence to the contractor provided by the Manager, Purchase and Supply however all variations should be checked and narrative recorded to substantiate the reason for the variations.</p>	Medium	The Service will implement a payment spreadsheet setting out what has been paid and demonstrate reconciliation to the original purchase order figures. All records must be maintained to demonstrate up to date figures and any variances from the original purchase order must be explained.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
				We selected one payment to check it back through the Delta system. We confirmed that the invoice had been paid following email approval and was accurate to what is recorded on the payment spreadsheet.		
1.3	<p>The Audit Governance and Review Committee meet on a quarterly basis and have been confirmed by the Service as the forum which the key contracts and associated performance is to be scrutinised.</p> <p>The performance scrutiny does not appear to be happening at present and there is not an obvious alternative forum that undertakes this governance process.</p>	No	n/a	<p>We obtained the minutes for the Audit, Governance and Review Committee from January, April and July 2015 and reviewed the coverage.</p> <p>We did not identify any coverage of the contract performance. It is noted that the capital expenditure is reviewed of which the contract payments for the new appliances is the major.</p> <p>We confirmed that there is not currently another forum designated reasonability to oversee the operational performance of the contract.</p> <p>Without formal governance arrangements to review and scrutinise projects of large expenditure the Service is not demonstrating effective controls in ensuring delivery of the contract and management of issues identified.</p>	Low	The Service will ensure that the Contract with Angloco is being scrutinised and will decide at which forum this operational scrutiny will sit. The Audit, Governance and Review Committee will receive assurance over the management of the contract.
1.4	<p>Contract Management Meetings are held between the EFA and Angloco to allow for issues to be discussed.</p> <p>These meetings are currently held on an adhoc basis with the last two meetings held in February and June 2015.</p> <p>The meetings are minuted although do</p>	No	n/a	<p>We obtained the contract meeting minutes for 11 February and 16 June 2015 and from review confirmed;</p> <ul style="list-style-type: none"> <li>Attendance was satisfactory with key members of the EFA and Angloco present at both meetings.</li> <li>Areas of concern were clearly</li> </ul>	Medium	The Service will review its current contract management processes and ensure that at a minimum three contract and operational meetings are held with Angloco each year during the contract period. These meetings will focus on

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
	<p>not have a set agenda as the meetings are a forum for any issues with the contract to be raised and discussed. Actions are assigned as necessary to address issues raised.</p> <p>There are not formal action plans in place to support these meetings or documented evidence that the issues have been formally addressed and effective action taken.</p> <p>There is in addition to these meetings constant informal contact between the EFA and Angloco to discuss the ongoing issues.</p>			<p>discussed and actions set with responsibility attached.</p> <ul style="list-style-type: none"> <li>• Delivery Scheduling is a reoccurring agenda item demonstrating that the key performance area is being discussed.</li> </ul> <p>We confirmed from review however that there is no formal action plan. We also note that with there being contract delivery issues with times slipping and at the time of the review only two appliances completed and delivered with these expected originally in March 2015 and only arriving in September 2015, the frequency of meetings may not be sufficient to allow for effective and timely management of the issues.</p> <p>With infrequent meetings and no evidence of monitoring and closure of required actions there is a risk that the contract will not be managed effectively.</p> <p>We reviewed the letter to the contractor and identified that issues have been raised although there does not appear from discussions with the Manager, Purchase and Supply that there has been any improvement in this area.</p> <p>Without following a robust process in holding the contractor to account there is a risk of further slippage in delivery to the detriment of the forces operational ability.</p>		<p>remedying any current issues with delivery to schedule and formally hold the contractor to account for failures in delivery. Actions set will be formally recorded, monitored and closed off.</p> <p>The Service will retrospectively draw up a schedule of what has been delivered against schedule to show the delivery profile of the contract to date and use this as a key monitoring tool to take forward and report into the a management group that will be assigned responsibility for overseeing the contract.</p>

# APPENDIX A: SCOPE

## Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

### Objective of the area under review

To ensure that Value for Money is obtained within the organisation through the procurement processes.

When planning the audit, the following areas for consideration and limitations were agreed:

#### Areas for consideration:

The following areas were considered as part of the review:

- To review the procurement/tendering process used by the Service to ensure integrity and compliance with legislation.
- Our review will aim to provide assurance to the Service on the procurement arrangements.
- Policies and procedures have been documented, aligned and made available including VFM / Procurement Strategy.
- Compliance with the Financial Regulations in relation to obtaining quotations and tenders.
- Review of the specifications to support the tender process, and the process in developing those specifications to ensure value for money
- Management of tender processes including maintenance of tender register and record of quotes, including review of the criteria in evaluating each option and the assessment of value for money
- The contract management process for the on-going delivery of the new vehicles

#### Limitations to the scope of the audit assignment:

- Testing was limited to the review of current procedures and processes in place and our opinion is based on the outcomes from testing completed during our review.
- We have not provided an opinion on the contents or adequacy of the contract in place.
- We have not verified compliance with contract documentation and requirements.
- We have not provided an opinion the specification of the appliances.
- We have not substantively re-perform reconciliations.
- Testing was completed on a sample basis.
- Our work does not provide an opinion on the adequacy of the procurement function or appropriateness of contracts entered into.

Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

## APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit assignment:

- Glenn McGuinness - Deputy Director of Finance
- John Hindley - Manager, Purchase and Supply

# FOR FURTHER INFORMATION CONTACT

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