



**BRADFORD COLLEGE EDUCATION
TRUST**

Procurement

FINAL

Internal Audit Report: 3.15/16

12 July 2016



CONTENTS

1 Executive summary	2
2 Action Plan	4
3 Detailed findings	6
APPENDIX A: SCOPE	9
APPENDIX B: FURTHER INFORMATION	10
For further information contact	11

Debrief held	19 May 2016	Internal Audit team	Rob Barnett, Head of Internal Audit Amjad Ali, Client Manager Anastasia Morgan, Assistant Manager Rakxa Parmar, Senior Auditor
Management action received	14 June 2016		
Draft report issued	22 June 2016		
Responses received	12 July 2016		
Final report issued	12 July 2016	Client sponsor	Sarah Murray, Head of Finance
		Distribution	Sarah Murray, Head of Finance

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Therefore, the most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the risk management, governance and control processes reviewed within this assignment. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

1 EXECUTIVE SUMMARY

1.1 Background

This review was undertaken to provide the Trust with feedback on their current systems and processes for procurement and to ensure that appropriate procurement procedures are in place and Value for Money (VfM) is achieved.

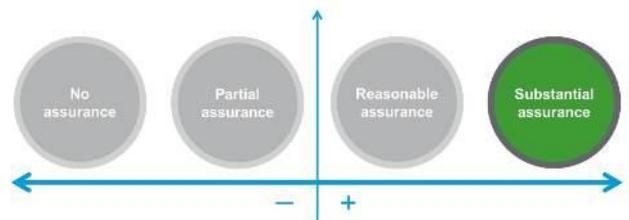
1.2 Conclusion

Overall our review identified that the system and controls in place were adequate in order for the Trust to ensure that there are adequate procedures in place for procurement. We have noted findings within the control framework which have led to two management actions, one 'medium' and one 'low' priority.

The medium findings related to the lack of segregation of duty at Appleton Academy.

Internal Audit Opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.



1.3 Key findings

The key findings from this review are as follows:

- There were Trust wide Financial Regulations as well as Academy level Financial Procedures detailing the procurement process including levels for quotation and tenders.
- Training was provided to staff on an informal level and refreshed during the annual budget setting process.
- The Resource Financials systems had been updated to reflect the authorisation levels linked to the Scheme of Delegation.
- A sample of 30 purchases at both the Trust and Academy level were tested to confirm that the Financial Regulations and Scheme of Delegation had been complied with.
- Testing of a sample of 15 suppliers at both the Trust and Academy level confirmed that new supplier forms had been completed and approved.

However the following weaknesses in the design of the control were identified which have led to one 'medium' and one 'low' management actions:

- Testing identified that a purchase at Appleton Academy had been raised, submitted and approved by the same member of staff; this member of staff was also able to approve payments.
- There was no evidence to confirm that background checks on suppliers had been undertaken at Samuel Lister Academy.

1.4 Additional information to support our conclusion

Area	Control design*	Non-Compliance with controls*	Agreed actions		
			Low	Medium	High
Procurement	2 (8)	0 (8)	1	1	0
Total			1	1	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.

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	Actions for management	Implementation date	Responsible owner
Area: Procurement					
1	Testing identified that there was a lack of segregation of duties at Appleton Academy where a member of staff was able to raise, submit and approve purchase orders as well as make payments.	Medium	<p>Unfortunately there isn't the option to remove the ability to raise purchase orders for Budget Holders on our finance system which would prevent this happening.</p> <p>We will endeavour to ensure that the same person does not approve the order and invoice in future and will remind the academies of the importance of segregation of duties throughout the purchasing process.</p> <p>A final control which is in place however is that two signatures are required for all payments so any concerns or unusual transactions should be picked up before payment is made.</p>	June 2016	Trust Head of Finance

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
2	There was no evidence to confirm that background checks on suppliers had been undertaken at Samuel Lister Academy.	Low	A new supplier form has been rolled out across the Trust and is now in use by Samuel Lister Academy that includes background checks.	June 2016	BCET Head of Finance

3 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those areas 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	Actions for management
Area: Procurement						
1	<p>Procurement procedures are in place to ensure that the Trust obtains value for money from its purchases; three quotes must be obtained for purchases over £10,000 up to £20,000 and approved in line with the Financial Regulations.</p> <p>Prior to March 2016 the quotations limit was set at £2,500.</p>	No	-	<p>The quotation limit had been changed from £2,500 to £10,000 in line with the EFA guidance and an email had been sent out to each Academy by the Trust Head of Finance on 21 March 2016.</p> <p>Testing of a sample of 30 purchases across both academies and the Trust identified that where required quotes had been obtained and retained in file for all purchases over the quotation limit.</p> <p>It was confirmed that the purchases had been approved in line with the authorisation levels; it was however noted that in one instance for two purchases, £3,950.00 and £6,000, placed at the same time, with the same supplier, the Director of Business & Finance had submitted and approved the purchase. The Director, Business & Finance was also authorised to approve all payments, as such there was no segregation of duties in the purchases submitted by the Director, Business & Finance.</p>	Medium	<p>Unfortunately there isn't the option to remove the ability to raise purchase orders for Budget Holders.</p> <p>We will endeavour to ensure that the same person does not approve the order and invoice in future.</p> <p>A final control however is that two signatures are required for all payments so any concerns or unusual transactions should be picked up before payment is made.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				Without segregation of duties there is a risk that the procurement system is open to fraud and error leading to a misappropriation of monies.		
2	<p>A new supplier's form is completed for all new suppliers. The form is then reviewed by the Director of Business and Finance/Head of Finance and the supplier approved.</p> <p><u>Missing control</u></p> <p>The form is noted with the background checks undertaken before the supplier is approved to be included onto the supplier list.</p>	No	-	<p>A new supplier form had been developed and rolled out by the Trust in November 2015. The form required the company details to be completed but however did not allow for the recording of background checks that had been undertaken.</p> <p><u>Appleton Academy</u> Testing confirmed that new supplier forms had been completed and approved by the Director of Business and Finance for the new suppliers in the sample. The form had also been noted with the checks undertaken and evidence of the checks attached to the form.</p> <p><u>Samuel Lister</u> Testing confirmed that the form had been completed and authorised by the Head of Finance, however the template did not allow for the recording of the background checks undertaken.</p> <p><u>Trust</u> It was identified through discussions with the Head of Finance and review of the supplier</p>	Low	A new supplier form has been rolled out across the Trust and is now in use by Samuel Lister Academy that includes background checks.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
-----	---------	----------------------------------	---------------------------------	---------------------------------	----------	------------------------

list that there had been no new suppliers since the requirement for the completion of the new supplier form was introduced in November 2015.

Without the recording of the outcome of the background checks undertaken there is a risk that unsuitable suppliers are used and value for money is not achieved.

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 areas:

Objective of the area under review

The Trust has a Procurement Policy and procedures in place which are consistently applied to ensure value for money is achieved.

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

Areas for consideration:

This audit reviewed the controls in place at BCET for ensuring that relationships are established with suitable suppliers, appropriate purchases are made and value for money achieved.

The following areas were covered during the review:

- Procedural documentation and training for ensuring procurement activities are performed in a consistent and effective manner.
- Supplier sourcing procedures, including tendering procedures and mechanisms for obtaining supplier quotes in order to ensure value for money is achieved.
- Supplier selection procedures, including supplier assessment and approval controls.

Limitations to the scope of the audit assignment:

- Testing was completed on a sample basis only, based on transactions from the current financial year.
- We have not commented on whether the Trust achieves VFM from specific transactions, only whether the Trust has demonstrated whether VFM activities have been taken place.
- We did not examine accounting for VAT.
- We did not comment on the appropriateness of purchases; only whether the Trust's Financial Regulations and Procurement Policy were complied with.
- We did not review the procedures in relation to the raising of purchase orders or payment of invoices, as these areas were covered as part of our key financial controls work.
- This review only considered the Procurement Policy and compliance therewith.
- It should be noted that 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

Appleton Academy

- Jacqueline Waters - Director, Business & Finance
- Shazia Ghauri - Finance Manager

Samuel Lister Academy

- Rachael James - HR and Facilities Manager
- Helen Kempster - Finance Manager

BCET

- Sarah Murry - Head of Finance

Documentation reviewed during the audit:

- Trust Financial Regulations 2015
- Academy Financial Procedures 2015
- Scheme of Delegation 2015

Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken 67 audits of a similar nature in the education sector.

Level of assurance	Percentage of reviews	Results of the audit
Green (substantial assurance)	50.79	✓
Amber (reasonable / partial assurance)	41.27	
Red (no assurance)	7.94	
Management actions	Average number in similar audits	Number in this audit
	3.30	2

FOR FURTHER INFORMATION CONTACT

Robert Barnett, Head of Internal Audit

robert.barnett@rsmuk.com

Tel: 07791 237658

Amjad Ali, Client Manager

amjad.ali@rsmuk.com

Tel: 07800 617139

rsmuk.com

The UK group of companies and LLPs trading as RSM is a member of the RSM network. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm each of which practises in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

RSM UK Consulting LLP, RSM Corporate Finance LLP, RSM Restructuring Advisory LLP, RSM Risk Assurance Services LLP, RSM Tax and Advisory Services LLP, RSM UK Audit LLP, RSM Employer Services Limited and RSM UK Tax and Accounting Limited are not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. Baker Tilly Creditor Services LLP is authorised and regulated by the Financial Conduct Authority for credit-related regulated activities. RSM & Co (UK) Limited is authorised and regulated by the Financial Conduct Authority to conduct a range of investment business activities. Whilst every effort has been made to ensure accuracy, information contained in this communication may not be comprehensive and recipients should not act upon it without seeking professional advice.

© 2015 RSM UK Group LLP, all rights reserved