

# The audit of procurement



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June 2015 – 293A2015



# Agenda

The Auditor General's responsibilities

Procurement risks

The audit of procurement:

- Opinion audits
- Local value for money audits
- Regional value for money audits
- Case study example

Promoting good practices:

- Think piece example

Current Welsh procurement challenges



# The Auditor General for Wales and the Wales Audit Office

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## Wales Audit Office:

- Established 2005
- Some 250 staff – financial, performance and IT auditors
- Headed by Auditor General for Wales, who is the statutory auditor for:
  - Welsh government and its sponsored bodies
  - Health bodies in Wales
  - Local government bodies in Wales
- Total annual value of expenditure audited >€27bn - of which procurement amounts to €6bn



# The Auditor General's responsibilities

## Statutory duties and responsibilities of the Auditor General:

- Express opinion on the accounts of public bodies
- Value for money audits of specific bodies
- Value for money audits of activities at the regional level promoting good practice



# Procurement risks

## Governance risks:

- More public services being provided by the private sector
- Different ethical standards
- Public sector lacks experience of contract management

## Value for money risks:

- Increased procurement replacing internal provision
- Public sector lacks experience of procurement/contract management

## Fraud risks:

- Estimate of annual loss due to procurement fraud – UK €3.2bn, Wales (pro rata) €160mn



## Opinion audits

Opinion audits conducted in accordance with International Standards on auditing.

Obtain assurance regarding material procurement transactions.

Assurance obtained:

- Controls testing
- Substantive testing



# Local procurement audits

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## Examples of local procurement audits:

- Reviews of capital contracts
- Reviews of revenue contracts
- IT procurement
- Public Private Partnerships
- Outsourcing of services
- Vehicle procurement
- Procurement of real estate
- Procurement of air services
- Health equipment purchases



## Regional projects

Examples of regional projects:

- Major transport projects
- The procurement of consultancy services





# Case study example - consultancy services

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## Background

Extensive use made of consultants

Annual expenditure by Welsh public sector €180m

Benefits of using consultants:

- Access to skills and resources
- Additional short-term capacity

Risks of using consultants:

- Tender evaluation subjective
- Expensive resource
- Can be difficult to control costs



# Case study example - consultancy services

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## Audit approach

Scoping

Issues analysis

Fieldwork:

- Structured question hierarchy
- Analysis of expenditure on consultants
- Survey of 50 public bodies in Wales
- 93 file reviews undertaken

Drawing conclusions

Reporting



# Case study example - consultancy services

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## Findings (1)

Scope to save some £23m each year by adopting better procurement practices

The public sector has reduced its expenditure on consultancy services, but few public bodies have a robust strategy for the procurement and management of consultants

There is little collaboration between public bodies in the procurement and management of consultancy services



# Case study example - consultancy services

## Findings (2)

Public bodies are failing to follow good practice in the procurement and management of consultancy services:

- The quality of records in support of consultancy services projects is generally poor
- Absence of robust systems for assessing the need for consultants and specifying their requirements
- Contract management during the delivery of consultancy projects is weak in many public bodies
- Public bodies do not routinely evaluate the benefits of, or learn the lessons from, their use of consultants



# Current procurement challenges

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- Lack of procurement expertise by public sector staff
- Conflict of interests arising from outsourcing
- More complex procurement models being used, but not fully understood by public bodies
- Poor option appraisal/procurement practices
- Limited information on procured goods and services
- Compliance with public sector ethical standards
- Embedding sustainability into procurement processes
- Opening the market to smaller suppliers
- Ensuring social benefits arise from procurement



## Promoting good practices

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Good Practice Exchange ([www.audit.wales/good-practice](http://www.audit.wales/good-practice))

- Good practice guides/self-assessments:
  - Procurement of vehicles
- Shared learning seminars:
  - Procurement of vehicles
  - Facilities management
- Think pieces:
  - Ethical aspects of supply chain management (being developed)



# Ethical aspects of supply chain management

Think piece being prepared to support sharing good practice

Increased outsourcing of public services

Tension between public/private sector cultures

The paper will consider how to address the uncertainty regarding:

- The extent to which UK public sector ethical standards (Nolan principles) apply to external suppliers
- How to ensure compliance with public sector ethical standards by external contractors



## Further information

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