

EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Scrutiny and Audit Panel
Date	05 June 2019
Title of Report	Internal Audit Report – Supply Chain Management (SCM)
By	Claire George, Procurement Manager
Lead Officer	Duncan Savage, Assistant Director Resources/Treasurer

Background Papers None

Appendices 1. SCM Final Report – April 2019

Implications

CORPORATE RISK	✓	LEGAL	
ENVIRONMENTAL		POLICY	✓
FINANCIAL		POLITICAL	
HEALTH & SAFETY		OTHER (please specify)	
HUMAN RESOURCES		CORE BRIEF	

PURPOSE OF REPORT **To update on the findings and assurance opinion of the Internal Audit Report, undertaken in March 2019.**

EXECUTIVE SUMMARY It is the agreed protocol that where Internal Audit Reviews result in an opinion of partial assurance or lower the report is presented in full to both the Senior Leadership Team and the Scrutiny & Audit Panel.

Internal Audit conducted an audit of the processes and policies which support SCM within ESFRS, in line with the agreed audit plan of for 2018/19.

The report makes various recommendations to strengthen the Authority's current position. Audit are cognisant that the new Procurement Strategy and adoption of Category Management specifically targets improvements in our approach to SCM and that these improvements will act to significantly reduce the risks identified.

The report concludes that Partial Assurance is provided in respect of Supply Chain Management at this time.

RECOMMENDATION

Panel are recommended to:

- i) Endorse the report and the management response.
 - ii) Note that internal audit will carry out a follow up review in 2019/20
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1. INTRODUCTION

- 1.1 The Institute of Supply Chain Management defines supply chain management as “the oversight of materials, information and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. Supply chain management involves co-ordinating and integrating these flows both within and among companies.”
- 1.2 ESFRS has not outsourced any part of the delivery of its frontline services. However, it is reliant on external suppliers for many of its support functions, including the provision of ICT infrastructure and software, and for the supply of its equipment, much of which is highly specialised. It is designed to maximise the impact of procurement, both internally and externally.
- 1.3 Currently, responsibility for ongoing contract and supply chain management is devolved to the relevant business area. Central to the new Procurement strategy is the introduction of a category management approach and the central co-ordination of all contracting activity; from pre procurement analysis to post award contract & supplier relationship management. A category led approach to contract management, will oversee contract delivery, optimisation and performance.

2. SCOPE OF AUDIT

- 2.1 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 1. Due diligence checks identify, in a timely manner, contractors that:
 - are in danger of becoming insolvent;
 - do not maintain adequate public liability insurance;
 - do not have effective business continuity or risk management arrangements in place;
 - do not carry out adequate due diligence checks on their own suppliers; or
 - use unacceptable trading or employment practices.

2. Market and industry intelligence is sufficient to allow the early enough identification of suppliers or market sectors at risk of failing and to enable appropriate steps to be taken, including where the Authority is reliant on other organisations for the provision of its services.
 3. Effective Business Continuity Planning mitigates the effects of any supply chain failures.
- 3.2 Audit reviewed a total sample of five high profile contracts and sought evidence that appropriate checks are carried out to manage the above mentioned supply chain risks.

3. SUMMARY FINDINGS

- 3.1 Audit accept that corporate business continuity and risk management are controlled at departmental level, however, were unable to ascertain that they were sufficiently well established to manage the risks associated with supply chain management.
- 3.2 In general, supply chain controls were operating far more effectively at the point of tender than as part of contract management once the contract was live. Activity to engage with suppliers to manage the risks associated with supply chain management is inconsistent and there is no structured approach
- 3.3 Evidence of good practice where controls, e.g. checks on contractors' public liability and financial health, were in operation, albeit not consistently, with no formal requirements for periodic checks in place, although some officers were carrying out these checks nonetheless.
- 3.4 The Authority does not have an Ethical Procurement Policy, which may undermine its ability to promote and enforce practices in accordance with its ethos.

4. RESPONSE

- 4.1 Fundamental to the new Procurement strategy is the introduction of a category management approach and the centralisation and co-ordination of all supply chain and contracting activity; from pre procurement analysis to post award contract & supplier relationship management.
- 4.2 Category Specialists will support Senior Users in the key commissioning departments to analyse market conditions and proactively and appropriately analyse and manage their supply chains and contracts. This coordinated approach will harness expertise to provide a broad understanding of the supply market, including the opportunities and the threats.

- 4.3 Contract Management guidance will be produced as part of the planned document refresh which supports the strategy. Part of the Category Specialists' role will be to ensure that national contracts are monitored appropriately, including liaising with our national colleagues, to ascertain standards are being adequately monitored & maintained.
- 4.4 The report makes eight recommendations of which one is high risk – this will be addressed by an interim solution in June 2019 and permanently in December 2019. The majority of the other recommendations will be implemented by December 2019, with two remaining low risk recommendations by March 2020. These timescales reflect the need to recruit to the new Procurement structure in order to implement the category management approach.

5. CORPORATE RISK

- 5.1 Risk Management is a key theme under the new Procurement Strategy. Identifying and mitigating risk of supply is integral to the formulation of the category strategies and associated contracts.

- 5.2 ESFRS do not currently prepare Risk Registers at Business Area or supplier level.

Procurement will build on the approach already developed to mitigate any risk from Brexit, to introduce a risk register for strategically critical goods, services and associated business critical suppliers.

- 5.3 Recentralising procurement activity under the professional expertise of the Procurement Department will ensure a consistent approach to routine checks and assessment of potential threats to the security of supply. Procurement are introducing 6 monthly financial checks on all business critical suppliers and this will be formalised under the new risk register regime.

- 5.4 Business Continuity Plans (BCP) are requested and evaluated for applicable tenders, both by ESFRS and other lead Authority's FRS when let nationally.

- 5.5 As part of the guidance & document refresh which supports the new strategy, standard terms will include reporting mechanisms which obligate suppliers to provide information in relation to their supply tiers, as applicable. Basic principles of good contract management practice will be uploaded to the Procurement Intranet page and publicised via email.

6. POLICY IMPLICATIONS

- 6.1 Liability insurance is mandated within the tendering process, at a level appropriate to contract value, risk & complexity but this is not currently reflected in the CSOs.
- 6.2 CSOs will be updated to set the minimum standard requirements required for all contracts let by ESFRS, including an appropriate BCP and the minimum liability insurance thresholds. All key staff associated with contracting will be reminded via email & the Procurement Intranet page will be updated.
- 6.3 An ethical procurement policy will be drafted, to support the new Procurement Strategy.