



# Internal Audit Report

## Supply Chain Management

### Final

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Prepared for: East Sussex Fire & Rescue Service  
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## Internal Audit Report – Supply Chain Management

### Report Distribution List

- Duncan Savage - Assistant Director, Resources & Treasurer
- Mark O’Brien - Deputy Chief Fire Officer - Director of Service Planning & Assurance
- Claire George - Procurement Manager

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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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.
- 1.3. This review is part of the agreed Internal Audit Plan for 2018/19.
- 1.4. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted in the main body of the report.

### 2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - 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.
  - 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.
  - Effective Business Continuity Planning mitigates the effects of any supply chain failures.
- 2.2. This review sought to provide assurance that the Authority has appropriate arrangements in place to ensure there is sufficient awareness of the markets in which it operates. It reviewed key areas of risk across supply chains, where the Authority is reliant on other organisations for the provision of its services. The review also assessed the process for undertaking due diligence of contractors used by the Authority, including their resilience (following recent high profile contractor collapses), both pre and post contract award.
- 2.3. We reviewed a sample of five high profile contracts and sought evidence that appropriate checks are carried out to manage the above mentioned supply chain risks.

### 3. Audit opinion

**Partial Assurance** is provided in respect of **Supply Chain Management**. This opinion means that there are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.

*Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

### 4. Basis of Opinion

- 4.1. We have been able to provide Partial Assurance over the key controls operating in the area under review as systems of control for supply chain management were not found to be adequate. Although the Authority has recognised the need to strengthen governance arrangements, roles and responsibilities for supply chain management, and contract management in general, are not yet clearly defined and set out.
- 4.2. We found that activity to engage with suppliers to manage the risks associated with supply chain management is inconsistent and there is no structured approach. None of the contracts we reviewed demonstrated evidence of all the controls that we would expect to see in operation. However, for each contract, there was evidence of some controls in place. Moreover, we found evidence of good practice where controls, e.g. checks on contractors' public liability and financial health, were in operation, albeit not consistently, where no formal requirements for periodic checks were in place. Supply chain controls were operating far more effectively at the point of tender than as part of contract management once the contract was live.
- 4.3. Whilst we understand that corporate business continuity and risk management are controlled at departmental level, we were unable to ascertain that they were sufficiently well established to manage the risks associated with supply chain management, for example, reliance on a single supplier providing critical back-off functions.
- 4.4. Whilst operational procedures require critical suppliers and contractors to have effective business continuity plans and public liability insurance, these requirements do not form part of Contract Standing Orders, reducing their visibility to procuring officers and, therefore, the level of compliance. It also means that these requirements do not form part of the Authority's constitution.
- 4.5. Once a contract has been let, there is no requirement for pre-tender and due-diligence checks to be re-performed throughout the life of the contract, increasing the risk of disruption to the supply chain, though, as detailed above, we found that some officers were carrying out these checks nonetheless.
- 4.6. The Authority does not have an Ethical Procurement Policy, which may undermine its ability to promote and enforce practices in accordance with its ethos.

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- 4.7. The Authority has already identified the need for improvement in a number of these areas. A new Procurement Strategy has been agreed and this has resulted in an organisational restructure, with the intention of formalising contract management. This will give a more substantial role to the Procurement Team to ensure that professional procurement expertise can be given to support officers' expertise in their service areas. Furthermore, work carried out to address specific risks, such as the Brexit risk analysis, will be useful as the basis on which to strengthen wider controls on the supply chain and on contract management in general.

Audit Opinion Direction of Travel		
Improved	Unchanged	Reduced
N/A		

### 4. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation	1	1
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	4	2, 3, 4, 5
Low	Represents good practice but its implementation is not fundamental to internal control	3	6, 7, 8
<b>Total number of agreed actions</b>		<b>8</b>	

### 5. Acknowledgements

- 5.1. We should like to thank all staff that provided assistance during the course of this audit.

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p><b>Roles and Responsibilities</b></p> <p>Whilst there is liaison with major suppliers, that includes discussion of their supply chains, there is no structured approach for supply chain management, or contract management in general. Activity to manage areas such as the political and regulatory environment; technological developments; and the buoyancy of the market take place to varying degrees but it relies heavily on the experience of officers and is applied inconsistently.</p> <p>Where contracts are let through frameworks, reliance is often placed on controls operating within the framework without checks to ascertain what checks are actually undertaken.</p>	Without guidance that sets out the Authority's expectations on contract management, and supply chain management in particular, the likelihood of achieving its contract objectives is reduced.	High	<p>a) Contract Management guidance will be produced as part of the planned document refresh which supports the strategy.</p> <p>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 &amp; maintained.</p> <p>b) As an interim, the basic principles of good contract management practice will be uploaded to the Procurement Intranet page and publicised via email.</p>
<b>Responsible Officer:</b>		Claire George	<b>Target Date:</b>	<p>a) Dec 2019</p> <p>b) June 2019</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p><b>Risk Management</b></p> <p>Risk management arrangements are unclear. There are no risk registers for the contracts, with reliance being placed on the departmental risk registers to record key risk and their mitigations. No risk registers could be made available to review during the audit and officers in the Procurement Team do not have access to them and are therefore unsighted on the Authority's assessment of risks relating to the supply chain, contract management or procurement more generally.</p>	<p>Without adequate risk management arrangements, there is an increased risk that an event occurs that adversely impacts the Authority.</p>	Medium	<p>ESFRS do not currently prepare Risk Registers at Business Area or supplier level.</p> <p>Procurement will build on the approach developed to mitigate any risk from Brexit, and introduce a risk register for strategically critical goods, services and associated business critical suppliers.</p>
Responsible Officer:		Claire George/Risk Officer	Target Date:	Dec 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	<p><b>Business Continuity Planning (1)</b></p> <p>Requirements for the Authority’s suppliers to have business continuity plans are set out in a Business Continuity Management Policy Manual Note, which specifies that a business continuity plan must be a contractual requirement. However, there is no documented requirement for contract managers to carry out routine checks to confirm that contractors maintain business continuity plans throughout the life of the contract and that they subject them to periodic testing.</p> <p>Business continuity requirements are not covered by Contract Standing Orders, decreasing visibility of the requirement to officers involved in procuring goods or services.</p>	Without checking that contractors maintain and test their business continuity plans, there is an increased risk of service disruption	Medium	<p>a) Business continuity plans are requested and evaluated for applicable tenders, both by ESFRS and other lead Authority’s FRS when let nationally.</p> <p>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.</p> <p>CSOs will be updated to reflect the minimum standard requirements for all contracts let by ESFRS, including BCPs and liability insurance thresholds.</p> <p>b) All key staff associated with contracting will be reminded via email &amp; the Procurement Intranet page will be updated.</p>
Responsible Officer:		Claire George/Glenn Jones	Target Date:	<p>a) Dec 2019</p> <p>b) June 2019</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	<p><b>Business Continuity Planning (2)</b></p> <p>The Authority does not require business continuity plans to be held as part of each contract's contract management arrangements. There is a requirement for business continuity plans to be held at departmental level but we were unable to obtain copies during the audit as they were not available to the officers interviewed, including senior officers in the Procurement Team.</p>	<p>Without robust and visible business continuity planning - and effective dissemination of the plans - the Authority will be more seriously affected by the loss of a supplier, or its services.</p>	Medium	<p>The Procurement Manager has established since the audit that Business Continuity plans are available on the intranet.</p> <p>We shall include wider communication of their location.</p>
<b>Responsible Officer:</b>		Claire George/BC Officer	<b>Target Date:</b>	June 2019

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
5	<p><b>Financial Health Checks</b></p> <p>Contract Standing Orders require that financial health checks be undertaken as a part of the procurement process. However, there is no formal requirement to carry out such checks once the contract is live.</p>	<p>Without checking the financial health of contractors, the authority's ability to react to the loss of a contractor is significantly reduced.</p>	Medium	<p>Procurement are introducing 6 monthly financial checks on all business critical suppliers and this will be formalised under the new risk register regime.</p>
Responsible Officer:		Claire George	Target Date:	Ongoing

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
6	<p><b>Public Liability Insurance</b></p> <p>The requirement for contractors to hold public liability insurance is set out in the Authority’s Invitation to Tender documentation but is not included in Contract Standing Orders. There is no requirement laid down to check that contractors have maintained the appropriate level of insurance throughout the life of the contract.</p>	<p>Without seeking assurance that contractors maintain the required level of public liability insurance there is a risk that an incident occurs for which the contractor is uninsured.</p> <p>The provision of a key procurement requirement outside Contract Standing Orders reduces its visibility and hence the likelihood of compliance. Its inclusion in CSO would also make it a constitutional requirement strengthening its standing in the Authority.</p>	Low	<p>a) Liability insurance is mandated within the tendering process, at a level appropriate to contract value, risk &amp; complexity.</p> <p>CSOs will be updated to reflect the minimum standard requirements for all contracts let by ESFRS.</p> <p>b) All key staff associated with contracting will be reminded via email &amp; the Procurement Intranet page will be updated.</p>
<b>Responsible Officer:</b>		Claire George	<b>Target Date:</b>	<p>a) Dec 2019</p> <p>b) June 2019</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
7	<p><b>Contractors’ Due Diligence Checks on their Supply Chains</b></p> <p>There is no formal requirement for contractors to carry out due diligence checks on their supply chains to provide the authority with assurance on their continuity of service. There is no guidance advising officers, responsible for contract management, of the nature of checks that would be appropriate for them to make on contractors’ practices for the various types of contract in place across the Authority.</p>	<p>If contractors do not review their supply chains, and include details in their performance reports to the Authority, ESFRS has reduced visibility over the related risks.</p>	Low	<p>The support of Category Specialists in the letting of all contracts will significantly improve this.</p> <p>Contracts currently obligate contractors to confirm that any sub-contractors will be subject to the same terms and conditions.</p> <p>As part of the guidance &amp; 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.</p>
<b>Responsible Officer:</b>		Claire George	<b>Target Date:</b>	March 2020

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
8	<p><b>Ethical Procurement</b></p> <p>Although work is undertaken to ensure compliance with legislative requirements, the Authority does not have an Ethical Procurement Policy that sets out in detail how it conducts its business and what it expects of its suppliers. This may include environmental issues, social value and the way suppliers are treated.</p> <p>An Ethical Procurement Policy could also document the approach the Authority would take to ensure the compliance of its suppliers.</p>	Without an Ethical Procurement Policy, there may be a greater risk that contractors behave in a manner inconsistent with the ethos of the Authority.	Low	<p>The ethical behaviour of potential suppliers is evaluated within the standard invitation to tender, under the discretionary grounds for exclusion (including providing sufficient evidence of any remedial action taken).</p> <p>An ethical procurement policy will be drafted, to support the new strategy.</p>
<b>Responsible Officer:</b>		Claire George	<b>Target Date:</b>	March 2020

# Appendix A

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

### Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management’s responsibilities for the application of sound business practices. We emphasise that it is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.