

HEALTH AND CARE PROFESSIONS COUNCIL

# PROCUREMENT OF LARGE CONTRACTS

Internal Audit Report – FINAL

MARCH 2024

## LEVEL OF ASSURANCE:

DESIGN

LIMITED

EFFECTIVENESS

LIMITED

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## RESTRICTIONS OF USE

The matters raised in this report are only those which came to our attention during our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

## DISTRIBUTION LIST

FOR ACTION	Alan Keshtmand	Head of Finance
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FOR INFORMATION	Tarek Hussien	Procurement Manager
	Edin Kekic	Procurement Business Partner

## REPORT STATUS

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# EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

DESIGN	LIMITED	System of internal controls is weakened with system objectives at risk of not being achieved.
EFFECTIVENESS	LIMITED	Non-compliance with key procedures and controls places the system objectives at risk.

SUMMARY OF FINDINGS (SEE APPENDIX I)			# OF AGREED ACTIONS
H	0		0
M	5		5
L	2		2
TOTAL NUMBER OF FINDINGS: [7]			

### OUR TESTING COVERED THE FOLLOWING AREAS:

- ✓ Policies, procedures, and guidance
- ✓ Roles and responsibilities
- ✓ Compliance, Value for Money, and Quality Assurance
- ✓ Single source requests (SSR), approved supplier listings
- ✓ Conflicts of Interest
- ✓ Reporting and Oversight Arrangements

### BACKGROUND

As part of the internal audit plan for 2023/24, approved by the Audit and Risk Assurance Committee we undertook a review of the Procurement of Large Contracts.

In May 2022, HCPC appointed a new Procurement Manager. The Procurement Manager recently updated the Procurement policy to support in ensuring a more robust control framework for the procurement of goods and services is in place.

For the financial year ending 31 March 2023, the total value procured items totalled: £19.3m. To obtain value for money for goods and services procured, different thresholds have been set as per the below:

Amount	Requirement
< £5,000	3 quotes
£5,001 < x > £25,000	Mini-tender
£25,001 +	Full tender

Levels of approval for procurement are set within both the Procurement policy and the Scheme of Delegation. There are up to four levels of approval, with four levels applying for purchases over £150,000. The Chief Executive is the final approver alongside the budget holder, procurement lead and the Executive lead.

On a quarterly basis, a report is sent to the Chief Information Security Officer of single source requests (SSRs). For the most recent report, May 2023 (covering November 2022 to March 2023), the total SSR value was approximately: £278k.

HCPC are developing an evaluation manual to support in the management of contracts. This will support in the monitoring of performance and will allow clear guidelines of how to act should performance fall below expected standards.

### PURPOSE

The purpose of this review was to provide assurance over the design and operational effectiveness of the key controls in the procurement of large contracts. We also aimed to provide assurance as to whether value for money is sought when procuring contracts, whether appropriate approval was obtained and whether overall guidance was followed when procuring goods and services.

### CONCLUSION

While reviewing the procurement of large contracts process at HCPC, we noted that some good controls are in place including reporting on procurement activity. However, as part of our work, we have identified five MEDIUM and two LOW priority findings. The findings relate to:

- 1) A lack of supplier vs. employee bank account reconciliation checks completed to ensure that employees are not re-routing supplier payments to their own accounts. (MEDIUM)
- 2) There are no independent second line 'spot checks' undertaken on the procurement process to ensure the purchasing of goods and services has been in line with prescribed guidance. (MEDIUM)
- 3) Regular and consistent reviews of supplier performance, for many key contracts, are not undertaken. (MEDIUM)
- 4) An up-to-date supplier list is not in place to help ensure HCPC makes purchases from already approved suppliers, as a default. This reduces the VFM of HCPC's purchasing (MEDIUM)
- 5) Staff conflicts of interest are not kept up to date, nor are staff involved with a procurement required to declare positively any potential conflicts (or provide a 'nil' return). (MEDIUM)

As a result of our audit, we can provide LIMITED assurance over the design and operational effectiveness of the HCPC's arrangements in place in relation the procurement of large contracts.



# EXECUTIVE SUMMARY

## SUMMARY OF GOOD PRACTICE

- ▶ **Communication of policies, procedures, and guidelines** - HCPC currently share their Procurement and Fraud policies via the intranet. This allows policies, procedures and guidance to be readily available to HCPC staff.
- ▶ The Procurement manager periodically provides a procurement presentation on a 'need' basis, which covers the procurement procedures and guidelines in place at HCPC.
- ▶ **Scheme of delegation** -The Scheme of Delegation is up to date, and based on our sample testing of large contracts was appropriately followed, this helping to ensure all high value purchases are sighted by the required level of authority. Additionally, the scheme of delegation had adequate segregation of duties in built between the budget holders, procurement department and approving bodies.
- ▶ **Conflicts of interest** -Council members are occasionally involved with procurement at HCPC. Where members are involved, they are asked whether they have any conflicts prior to being added to the procurement panel.
- ▶ **Sample testing large contracts** - During our sample testing we noted that large procurement item bids are evaluated by multiple individuals from different departments to help ensure segregation of duties. For procurement activity HCPC have quoted price and quality on a 70/30 split, which helps ensure value for money contracts are undertaken by HCPC and not just the 'cheapest' item is procured.
- ▶ **Data Repository** - All procurement related data is kept within the G-drive repository for storage and future reference. As per discussion, there is planning to shift to One-drive in the future for easy sharing of data. All documentation had been stored on the G-drive for our samples selected.
- ▶ **New vender onboarding** - While performing a walkthrough of the onboarding process for new vendors we noted that there are some fundamental due diligence checks in place such as financial information to help ensure that suppliers that HCPC engage with are fit for purpose, do not have bad credit and provide the desired service.
- ▶ **Single Source Tenders** - We noted for a sample of SSR's, all SSR's were approved by the Head of Finance and included supporting reasoning for choosing a non-competitive procurement route in line with the exceptions within the

Procurement policy. All SSRs for the period (quarterly) are reported to ARAC.

- ▶ **Reporting** - We reviewed the ELT finance report which includes the information regarding renewals and new contracts. This is reported to ELT quarterly.

## SUMMARY OF KEY THEMES

Despite the good practice mentioned, we noted the following five MEDIUM priority findings where HCPC could enhance the procurement of large contracts process:

- ▶ No checks are conducted to confirm if supplier and employee bank details match, which can indicate fraud. (MEDIUM)
- ▶ No second line spot checks to ensure agreed procurement methods are followed. (MEDIUM)
- ▶ Ongoing key supplier performance evaluations are not completed consistently, to help ensure the contract is delivering as expected. (MEDIUM)
- ▶ An outdated approved supplier list is in place and is not reviewed regularly, increasing the probability of an unnecessary bifurcation of suppliers for given categories of goods or services. (MEDIUM)
- ▶ There is insufficient evidence of conflicts of interest checking on a regular basis, only at the supplier selection stage. (MEDIUM)

## USEFUL STATISTICS

<b>£19.3m</b> Procurement for Financial year ending 31 March 2023	<b>£278k</b> Single source requests (SSR) value from November 22' to March 23'	<b>4</b> Number of Large Contracts (>£150k) from July 22' to August 23'
<b>23</b> New Vendors created between 01 July 2022 and 31 August 2023	<b>10</b> Contract renewals in Finance report quarter ending July 23'	<b>£851k</b> Value of Large Contracts (>£150k) from July 22' to August 23'

# DETAILED FINDINGS



# DETAILED FINDINGS

## RISK 1: Policies and procedures are not in place or not up to date resulting in inconsistent working practices.

FINDING [1] - POLICIES, PROCEDURES and GUIDANCE NOT UPDATED			TYPE
<p>In principle, policies, procedures and guidance underpin the methodologies for undertaking tasks in a consistent and transparent manner, giving clarity on areas such as roles and responsibilities.</p> <p>The Procurement policy was last updated in September 2021. The Policy does not include the new practices introduced by the Procurement Manager such as the supplier evaluation process and updating and reviewing of the approved supplier list. The Procurement policy and the Supplier Evaluation forms will be approved once the Procurement Policy Note (PPN) is released by the Government in October 2023, which shall include important changes to procurement regulations.</p>			Effectiveness
IMPLICATION			SIGNIFICANCE
Where policies, procedures and guidance are not up to date there is a risk of inconsistency and a lack of transparency in the procurement process which can lead to value for money not achieved.			LOW
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
1. HCPC should ensure the Procurement policy is reviewed, at a minimum every two years with 'ad-hoc' changes as they are required.	Tarek Hussien - Procurement Manager	BDO were advised we update our policies every 2 years. The Procurement Manager started 18 months ago and is in the process of updating the policy. The New Procurement Bill is coming into effect soon and we are waiting to incorporate the old policy into the new.	June 2024



# DETAILED FINDINGS

## RISK 3: Inappropriate items are procured.

FINDING [2] - Quality Assurance Spot checks (2nd Line)			TYPE
<p>In any organisation, second line checks in the form of spot checks on procurement activities either by those within the team or those from an independent team help to ensure that policies, procedures and guidance are consistently followed.</p> <p>The Procurement team has historically included one Procurement manager only; however, a Procurement Business Support officer has recently been recruited. No second line checks have been undertaken on the full activity of the Procurement team thus far due to a small team.</p> <p>We were informed by the procurement manager that the Executive Team Lead for the individual procurement activity reviews the end-to-end procurement process including key elements such as compliance and value for money for individual items procured and this is documented via emails and approval comments. We were not provided evidence to support this.</p> <p>We were informed that a quarterly report of Large Value Contracts and Single Source Requests is sent to the QA team, we were not provided a copy of this report, however it was acknowledged that there are opportunities to enhance the detail within the report.</p>			DESIGN
IMPLICATION			SIGNIFICANCE
Where second line checks are not in place to ensure procurement activity is in line with prescribed policies, procedures and guidance, there is a greater risk of instances where procurement guidance is not followed, impacting the propriety of the procurement and value for money achieved.			MEDIUM
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
<p>2. The Procurement team should:</p> <ul style="list-style-type: none"> <li>a) Introduce second line and documented 'spot checks' to ensure that procurement activity is in line with prescribed guidance.</li> <li>b) Discuss second line 'end to end' spot checks with the Quality Assurance team and consider if they are able to support in undertaking them on a regular basis.</li> <li>c) Introduce a more comprehensive description of any large value contracts single source requests with a focus on the effectiveness of the procurement process.</li> </ul>	Tarek Hussien - Procurement Manager	<p>While the QA team primarily focuses on assessing potential risks, we acknowledge that our current process does not explicitly include end-to-end spot checking. We are open to enhancing our procedures to incorporate more thorough spot checks, ensuring better alignment with audit expectations.</p> <p>The quarterly reports include a detailed listing of Large Value Contracts and Single Source Requests, serving as a transparent overview. We will explore opportunities to enhance this reporting process to provide more</p>	June 2024



		<i>comprehensive insights into the effectiveness of the procurement process.</i>	
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## DETAILED FINDINGS

### RISK 4: Value for money is not achieved.

FINDING [3] - CONTRACT and SUPPLIER EVALUATION			TYPE
<p>To help ensure a contract provides value for money (VFM), in-contract supplier evaluations help to determine whether a supplier provides the required quality of goods or services. Any substandard performance issues can be ironed out early.</p> <p>HCPC do not actively and consistently review and consider the performance of its key suppliers on a regular basis to ensure they are receiving VFM for its supply of goods and services. From our discussion with the Procurement Manager, the Procurement team intend to introduce a formal evaluation process once the pre-award Evaluation Form and new Procurement policy is approved by Council.</p> <p>We were informed by the Procurement Manager that during departmental meetings there are discussions on supplier performance, but minutes are not taken of these meetings.</p>			DESIGN
IMPLICATION			SIGNIFICANCE
Where regular reviews are not undertaken on contract performance there is a risk that suppliers perform below contract conditions, which can lead to VFM not achieved as well as continual engagement with that supplier, where service should have otherwise stopped.			MEDIUM
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
3. HCPC should introduce regular (at least 6 monthly) reviews of its contracts in place to ensure performance is in line with expectations and any areas of identified under performance are identified and rectified in a timely manner.	<i>Tarek Hussien - Procurement Manager</i>	<i>We will explore regular reviews to track supplier performance and manage under performance effectively.</i>	<i>June 2024</i>



# DETAILED FINDINGS

## RISK 4: Value for money is not achieved

FINDING [4] - ONBOARDING			TYPE
<p>It is important to have timely and appropriate onboarding checks in place prior to engaging and signing contracts with suppliers. This helps to ensure that the relationship is right, and the goods and services procured meet HCPC's needs.</p> <p>We reviewed the only four transactions of over £150k that had taken place in the past 12 months. Whilst we were shown evidence of the due diligence checks completed for the four transactions including financial background, bank details, past projects completed, available manpower etc., it was not clear whether this activity was completed prior to, or post supplier appointment.</p>			EFFECTIVENESS
IMPLICATION			SIGNIFICANCE
Where an approved supplier list is not reviewed on a regular basis there is a risk that the suppliers no longer provide value for money in the services they provide.			LOW
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
4. HCPC should ensure that there is documented evidence of when supplier due diligence was undertaken to ensure HCPC only approves key and significant suppliers that align to HCPC's ways of working and expectations.	<i>Tarek Hussien - Procurement Manager</i>	<p><i>We are currently updating our procedures to ensure this concern is mitigated as part of the supplier selection process as well as an ongoing task.</i></p> <p><i>Moreover, the official records of the supplier's financial health check are required as part of the tender documentation for any large value tenders. Additionally, we get in touch with CCS consultants according to the kind of service that has been acquired, so they can check the stated costs and verify that they match the lowest rates available on the platform and adhere to the necessary guidelines.</i></p>	<i>June 2024</i>



# DETAILED FINDINGS

## RISK 4: Value for money is not achieved.

FINDING [5] - CONTRACT and SUPPLIER EVALUATION			TYPE
<p>An approved supplier list enables goods and services to be procured from suppliers who have already undergone appropriate due diligence checks and have been assessed as offering a value for money service.</p> <p>HCPC have an approved supplier list in place however this has not been recently reviewed.</p>			DESIGN
IMPLICATION			SIGNIFICANCE
<p>Where an approved supplier list is not reviewed on a regular basis there is a risk that the suppliers no longer provide value for money in the services they provide increasing the probability of an unnecessary bifurcation of suppliers for given categories of goods or services.</p>			MEDIUM
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
<p>5. HCPC should review the approved supplier list on a regular basis and where required, remove suppliers no longer identified as providing value for money and add where new value for money suppliers are identified.</p>	<p>Tarek Hussien - Procurement Manager</p>	<p><i>The Procurement Manager is preparing a new manual and relevant forms [Venders Creation &amp; Evaluation Manual] that refers to a formal review of vendors' to analyse their performance in relation to various criteria and determine whether they satisfy organisational needs. The goal is to build a portfolio of usable vendors that are best-in-class and low-risk.</i></p> <p><i>This manual has been created &amp; placed after several discussions with the budget holders, Chief Information Security &amp; Risk Officer and Quality Assurance team in order to make sure it complies with the HCPC Policy.</i></p> <p><i>The current approved list is under review as we are shifting to a new Finance System (Business Central) which is due to go live by 01<sup>st</sup> Feb 2024.</i></p>	<p>June 2024</p>



# DETAILED FINDINGS

## RISK 8: Conflicts of interest - Misappropriation of funds.

FINDING [6] - SUPPLIER vs EMPLOYEE BANK ACCOUNT CHECKS			TYPE
<p>To help limit the risk of internal fraud, it is good practice that regular checks are undertaken, to confirm there are no matches between employee and supplier bank account details. There have been recent instances of fraud in other organisations where a staff member has diverted payments to suppliers into their own bank accounts.</p> <p>HCPC do not undertake formal checks between employee bank accounts and supplier bank accounts, which are triggered by suppliers changing their bank details, to identify any similarities or where monies may be misdirected.</p>			DESIGN
IMPLICATION			SIGNIFICANCE
Where reconciliations are not undertaken between employee bank accounts vs supplier bank accounts there is a risk that payments are made into employee bank accounts which are disguised as suppliers.			MEDIUM
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
<p>6. On at least an annual basis, employee vs supplier bank account checks should be undertaken.</p> <p><i>To Note: A similar recommendation has been included as part of the Payroll, IR35 audit for employees changing their bank details to which they then may align to suppliers and are not noted. However, in this instance, this is triggered where suppliers' details are changed and not identified against employee' details.</i></p>	Tarek Hussien - Procurement Manager	We acknowledge the initial risk associated with the on-boarding of new suppliers and changes to suppliers' details. To address this, we are committed to implementing a periodical check between employee and supplier bank accounts to ensure data accuracy and prevent potential fraud.	June 2024



# DETAILED FINDINGS

## RISK 8: Conflicts of interest - Misappropriation of funds.

FINDING [7] - UPDATING THE CONFLICTS OF INTEREST			TYPE
<p>In order to avoid any conflicts of interest (COI) when procuring goods and services, organisations require all officers involved with the procurement process to declare any new COIs and they be documented or any nil returns.</p> <p>All staff at HCPC are required to verify when they first start working at HCPC whether they have any COIs. Currently employees are not asked or reminded to review and where appropriate update their COIs.</p> <p>The Procurement manager explained that COI is considered as part of the procurement process. However, there is no documented evidence that this is completed or where any COI's have been identified appropriate safeguards have been put in place.</p>			DESIGN
IMPLICATION			SIGNIFICANCE
<p>Where there is no regular review and updating of staffs potential COI, as well as no documented evidence to demonstrate COIs have been considered when procuring goods and services there is a risk that the procurement process may not represent an unbiased selection process. Those who are influencing and selecting suppliers may have the potential to act in a biased manner and not select a supplier aligning to the Procurement process and representing VFM for HCPC.</p>			MEDIUM
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
<p>7. HCPC should ensure that:</p> <ul style="list-style-type: none"> <li>a) On at least an annual basis employees are reminded to review and update their Conflict of Interest (COI's) declarations.</li> <li>b) There is documented evidence for each procurement activity that potential conflicts of interest have been considered.</li> </ul>	<p><i>Tarek Hussien - Procurement Manager</i></p>	<p><i>Currently, team members are expected to disclose any conflict of interest when forming a tender panel before negotiations commence.</i></p> <p><i>However, we need to make sure this is written and officially implemented as part of our procurement process.</i></p>	<p><i>November 2023</i></p>

# APPENDICIES



# APPENDIX I: AUTHORITY MATRIX

Total estimated contract value including VAT2	Method of selection	Internal authorisation level - who can approve the selection of the supplier	Method of acceptance / Commitment Authorisation
0-5,000	Competition with evidence of comparison of at least two suppliers, or use of a framework agreement	Budget holder, HoF, Executive Director,	Approved PO
5,001-25,000	Competition with minimum of three written quotations, or use of a framework agreement	Budget holder, HoF Executive Director,	Contract signed by Executive Director
25,001-150,000	Use of a framework agreement, or formal written tender in compliance with the UK Public Sector Procurement Regulations	Tender Panel makes final selection. Executive Director	Contract value up to and including £100k, contract signed by the Executive Director. Contract value over £100k, contract signed by the Chief Executive. Contract signed by Chief Executive with the approval of the Chair of Council
> £150,001	Use of a framework agreement, or formal written tender in compliance with the UK Public Sector Procurement Regulations	Budget holder must involve Procurement at the outset and throughout the process.	Contract value up to and including £250k, contract signed by the Chief Executive. Contract value over £250k, contract signed by Chief Executive with the approval of the Chair of Council. Contract signed by Chief Executive with the approval of the Chair of Council



# APPENDIX II: DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>SUBSTANTIAL</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>MODERATE</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, which may put some of the system objectives at risk.
<b>LIMITED</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>NO</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
<b>HIGH</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>MEDIUM</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>LOW</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.
<b>ADVISORY</b>	A weakness that does not have a risk impact or consequence but has been raised to highlight areas of inefficiencies or potential best practice improvements.



## APPENDIX III: TERMS OF REFERENCE

### EXTRACT FROM TERMS OF REFERENCE

#### PURPOSE

The purpose of this review was to provide assurance over the design and operational effectiveness of the key controls in the procurement of large contracts. We also aimed to provide assurance as to whether value for money is sought when procuring contracts, whether appropriate approval was obtained and whether overall guidance was followed when procuring goods and services.

#### KEY RISKS

The key risks with this area of activity are whether:

- Policies and procedures are not in place or not up to date resulting in inconsistent working practices.
- Items are purchased without the appropriate level of approval resulting in inappropriate items procured.
- Large contracts - Inappropriate items are procured.
- Large contracts - Value for money is not achieved.
- SSR - Value for money is not achieved.
- SSR - Misappropriation of funds.
- SSR - Inappropriate items are procured.
- Conflicts of interest - Misappropriation of funds.
- Conflicts of interest - Value for money is not achieved.
- Inappropriate spend is made without appropriate ELT and Board oversight.

#### SCOPE

- Policies, procedures, and guidance
- Roles and responsibilities
- Compliance, Value for Money, and Quality Assurance
- Single source requests (SSR), approved supplier listings
- Conflicts of Interest
- Reporting and Oversight Arrangements



## APPENDIX IV: STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Edin Kekic	Procurement Business Partner	
Tarek Hussien	Procurement Manager	



# APPENDIX V: LIMITATIONS AND RESPONSIBILITIES

## MANAGEMENT RESPONSIBILITIES

The Board is responsible for determining the scope of internal audit work, and for deciding the action to be taken on the outcome of our findings from our work.

The Board is responsible for ensuring the internal audit function has:

- The support of the Company's management team.
- Direct access and freedom to report to senior management, including the Chair of the Audit Committee.
- The Board is responsible for the establishment and proper operation of a system of internal control, including proper accounting records and other management information suitable for running the Company.

Internal controls covers the whole system of controls, financial and otherwise, established by the Board in order to carry on the business of the Company in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as 'controls' or 'internal controls'.

The Board is responsible for risk management in the organisation, and for deciding the action to be taken on the outcome of any findings from our work. The identification of risks and the strategies put in place to deal with identified risks remain the sole responsibility of the Board.

## LIMITATIONS

The scope of the review is limited to the areas documented under Appendix II - Terms of reference. All other areas are considered outside of the scope of this review.

Our work is inherently limited by the honest representation of those interviewed as part of colleagues interviewed as part of the review. Our work and conclusion is subject to sampling risk, which means that our work may not be representative of the full population.

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.

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that: the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or the degree of compliance with policies and procedures may deteriorate.

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