



Hinckley & Bosworth Borough Council: Internal Audit Draft Report **Procurement (2022/23)**

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Reporting Timetable

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2024

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Disclaimer

This report (“Report”) was prepared by Mazars LLP at the request of Hinckley & Bosworth Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Your One Page Summary

Audit Objective: To provide the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls relating to Procurement

Audit rationale

Why the Audit is in Your 2022/23 Plan	Your Strategic Risk
To cover adequacy and effectiveness of controls related to the council’s approach to procurement.	S.11 – Failure to successfully deliver the Medium Term Financial Strategy

Summary of our opinion

<p>Moderate Opinion See Appendix A1 for definitions</p>		Summary of Recommendations	
	Priority 1 (High)	-	Actions agreed by you 5
	Priority 2 (Medium)	4	Overall completion 31 March 2025
	Priority 3 (Low)	2	

Summary of findings

Examples of good practice	Highest Priority Findings	Key root causes
<ul style="list-style-type: none"> ✓ Purchase orders are appropriately approved ✓ Waivers have been appropriately approved by the Head of Finance 	<ul style="list-style-type: none"> • Contract award notices not published as per Public Contracts Regulations 2015 government guidance • Supporting documentation related to contracts not provided / available such as copies of quotations and tender evaluation documents • Waivers used for reasons that may be inappropriate 	<ul style="list-style-type: none"> • The council does not have a centralised procurement function in place or specialised procurement officers • Contract Procedure Rules do not include sufficiently specific requirements and are not reviewed and updated regularly

01 Summary Action Plan



Below is a high level summary of the actions that are intended to support your management of this risk area. Further detail about our findings, which have been discussed with management, are provided in our detailed action plan (see 03 Detailed Action Plan).

Ref	Recommendation	Priority	Owner	Due Date
1	<p>Awarded contracts over £30,000 should be published on Contracts Finder promptly in line with PCR 2015.</p> <p>The council should undertake a review of contracts and retrospectively issue award notices where possible.</p>	Medium	<p>Julie Kenny</p> <p>Director of Corporate & Streetscene Services</p>	N/A
2	<p>The contracts register should be reviewed and updated to include all relevant contract information.</p> <p>The contracts register should be updated on a quarterly, or monthly, basis and an officer should be assigned responsibility for undertaking the task.</p> <p>The council should develop performance indicators and undertake monitoring and reporting of procurement spend on a regular basis e.g. supplier aggregated spend.</p>	Medium	<p>Julie Kenny</p> <p>Director of Corporate & Streetscene Services</p>	31/03/2025
3	<p>Waivers requested should refer specifically to the exemptions within the Contract Procedure Rules and an appropriate justification should be provided. For example, where a waiver is being sought due to the sole supplier exemption, evidence should be provided showing how this was determined e.g. market research undertaken.</p> <p>A report / list of waivers should be maintained and updated on a regular basis.</p>	Low	<p>Ashley Wilson</p> <p>Head of Finance (S151 Officer)</p>	31/03/2025
4	<p>The council should review and update the Contract Procedure Rules with reference to best practice from other councils / peers.</p>	Medium	<p>Ashley Wilson</p>	31/03/2025

	The council should assign responsibility to an officer for reviewing the Contract Procedure Rules on a regular basis (e.g. annually) to take account of legislation changes and this review should be documented.		Head of Finance (S151 Officer)	
5	Contract information, such as copies of signed contracts, quotations and tender documentation should be retained in a central location. The council should review its current expenditure and contracts and ensure that formal contracts are in place with suppliers where necessary, and that existing contracts have been signed.	Medium	Julie Kenny Director of Corporate & Streetscene Services	31/03/2025
6	The council should implement a training programme for officers responsible for undertaking procurements and contract management, such as by engaging a supplier to provide regular workshops / training. Guidance / procedure documents should be produced detailing the whole procurement cycle and how officers should undertake contract management e.g. monitoring key performance indicators for contracts.	Low	Julie Kenny Director of Corporate & Streetscene Services	31/03/2025

02 Value for Money and Sector Comparison

Within each of our reports, we summarise any observations we have made about the effectiveness, efficiency and economy of your operations. This is to support our portfolio of public and social sector organisations with value for money considerations. We also summarise how you compare to similar organisations, which is intended to bring you the benefit of our insight.

Value for Money	Sector Comparison
 <p>During the course of the audit, we have identified some potential areas of concern in regard to the council achieving best value for money during procurements, such as:</p> <ul style="list-style-type: none"> The council does not regularly review areas of high spend to identify where a contract could be put in place and identify opportunities to improve value for money. Review of a sample of waivers found that in some cases, waivers have been used where there is not a clear link to requirements of the Contract Procedure Rules. The use of waivers can lead to reduced value for money in procurement as a competitive tendering process is not in place. The council does not have a centralised procurement function or specialised procurement officers in place, although consultants may be used for larger contracts. Developing a procurement function with procurement expertise may lead to greater savings over time. 	 <p>Every council adopts Contract Standing Orders, or Contract Procedure Rules, setting out how the council will deal with procurements. However, there are regulations in place such as the Public Contracts Regulations 2015 which must be followed. We compared Hinckley & Bosworth Borough Council to other councils:</p> <ul style="list-style-type: none"> From review of the Contract Rules for other councils, we found that other councils tended to have a more condensed list of exceptions / waivers and a clearer approval process. From review of the Financial Procedures, we also noted that the S151 Officer or the Chief Executive may authorise any order of any value if evidence has been provided that the Contract Rules have been complied with, whereas at peers, contracts in excess of £500k typically require approval of the Cabinet / Executive. We noted that the Financial Procedure Rules allow the S151 or Chief Executive to authorise orders of any value provided that they are satisfied that the Contract Procedure Rules have been complied with, whereas at other councils high value orders (e.g. above £500,000) typically require Council or Cabinet approval.

03 Detailed Action Plan

We have identified areas where there is scope to improve the control environment. Our detailed findings are provided below. Definitions for the levels of assurance and recommendations used within our reports are included in Appendix A1.

1 Contract Award Notices	
Finding(s) and Risk	Recommendation(s)
<p>To comply with the Public Contracts Regulations 2015 (PCR 2015), where a contract over the value of £30,000 (inclusive of VAT) has been awarded, a contract award notice should be published on Contracts Finder within 90 days of the contract being awarded.</p> <p>According to the government Guidance on the Transparency Requirements for Publishing on Contracts Finder (PPN 01/23), a contract award notice should also be published where a contract has been awarded as a result of a Framework Agreement (e.g. mini competition or direct award) as well as contract awards that have not been openly competed such as where quotations have been sought or single tender action has been undertaken. This relates to regulation 108 1(b) of the PCR 2015 which states that the Council are required to publish information on Contracts Finder for contracts awarded based on a framework agreement.</p> <p>We selected a sample of 10 contracts over the value of £30,000 and reviewed the Contracts Finder website to determine whether a contract award notice has been published, however, we were unable to find award notices for any of the contracts that we sampled.</p> <p>Risk and Impact: Contracts awards are not appropriately advertised leading to non-compliance with the Contract Procedure Rules and Public Contracts Regulations 2015.</p>	<ol style="list-style-type: none"> 1. It should be ensured that awarded contracts over the value of £30,000 are published on Contracts Finder promptly in line with PCR 2015. 2. The council should undertake a review of contracts and retrospectively issue award notices where possible.
	Root Cause(s)
	Lack of central or corporate procurement department and lack of specialist procurement officers to assist with procurements.
Management Comments / Agreed Actions	
It remains our belief that this requirement does not arise out of the PCR 2015, but it is government guidance. HBBC's Procurement Team, which is a shared service covering multiple councils, are unaware of any that follow this guidance. We do comply with requirements to publish opportunities on Contracts Finder (requirement of the PCR 2015) and we publish details of all Purchase Orders over £5,000 on a quarterly basis along with payments over	

£500 . This is in accordance with the transparency requirements. We would not be able to do complete this retrospectively as suggested as we do not have the resources and consider it inefficient use of resources to do so retrospectively.

Responsible Person	Julie Kenny	Action Due Date	N/A
	Director of Corporate & Streetscene Services	Priority Level	Medium

DRAFT

2 Contracts Register			
Finding(s) and Risk		Recommendation(s)	
<p>According to the Local Government Transparency Code 2015, local authorities must publish details of contracts above the value of £5,000 on a quarterly basis. The council has a contracts register available on its website dated to May 2023. However, this only includes 14 contracts in total.</p> <p>We selected a sample of 10 contracts in order to determine whether they have been included within the contracts register and found that none of the samples have been included within the contracts register.</p> <p>Additionally, we were provided with the 2022-23 spend analysis and reviewed aggregate / total spend with each supplier over the period. We found 576 suppliers where aggregate spend had exceeded £5000, which is above the minimum threshold required by the Local Government Transparency Code 2015 to publish on a quarterly basis.</p> <p>We also noted that there is no specific central monitoring of procurements, such as to detect non-compliant and off contract spend or aggregated spend with suppliers going over procurement limits.</p> <p>Risk and Impact: The council does not publish all required contracts on a quarterly basis leading to a lack of transparency and non-compliance with the Local Government Transparency Code 2015.</p> <p>The council is unaware of the level of off contract and non-compliant procurement spend leading to non-compliance with the Contract Procedure Rules and Public Contract Regulation 2015.</p>		<ol style="list-style-type: none"> 3. The contracts register should be updated on a quarterly, or monthly, basis and an officer should be assigned responsibility for undertaking the task. 4. The contracts register should be reviewed and updated to include all relevant contract information. 5. The council should develop performance indicators and undertake monitoring and reporting of procurement spend on a regular basis e.g. supplier aggregated spend. 	
		Root Cause(s)	
		Lack of centralised oversight to collate and report contract information.	
Management Comments / Agreed Actions			
As mentioned above, we do publish all Purchase Orders over £5,000 so arguably some of this requirement has been met. HBBC agree we can work on publishing the contracts register although we are unclear on the other recommendations around performance indicators and what value they would bring. We are not a large authority with areas of spend for aggregation.			
Responsible Person	Julie Kenny	Action Due Date	31 March 2025

	Director of Corporate & Streetscene Services	Priority Level	Medium
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3 Waivers from Contract Procedure Rules			
Finding(s) and Risk	Recommendation(s)		
<p>In line with the Council's Contract Procedure Rules, for contracts estimated to have a value of over £50,001, a competitive procurement process is required. However, the Contract Procedure Rules also set out a number of exceptions from the requirement to invite tenders. Typically, authorisation by the Head of Finance and / or a report must be submitted to the Senior Leadership Team in order to approve a waiver request.</p> <p>As a report listing all waivers approved in year could not be provided, we reviewed a sample of eight recent waivers processed to confirm that they had been appropriately approved and are in compliance with the Contract Procedure Rules. All 8 had approved waivers in place.</p> <p>In four out of eight cases, we found that the waiver request was submitted by a specialist procurement consultant associated with the development of Twycross Zoo. In these cases, a number of suppliers were approached and assessed directly by the specialist procurement consultant rather than advertising and publishing the invitation to tender publicly. These contracts included a building engineering services consultant (£215k), net zero consultant (£90k), principal designer (£45k) and civil and structural engineering consultant (£156k). The same reasons for waivers being required were provided in all four cases:</p> <ul style="list-style-type: none"> • Programme constraints / delays • Specialist works and requires consultants with experience with similar works 	<p>6. It should be ensured that waivers requested refer specifically to the exemptions within the Contract Procedure Rules and an appropriate justification is provided. For example, where a waiver is being sought due to the sole supplier exemption, evidence should be provided showing how this was determined e.g. market research undertaken.</p> <p>7. A report / list of waivers should be maintained and updated on a regular basis.</p> <tr style="background-color: #D9E1F2;"> <th colspan="2">Root Cause(s)</th> </tr> <p>There are too many potential exceptions from the Contract Procedure Rules, and the exceptions are too broadly applicable to different scenarios.</p>	Root Cause(s)	
Root Cause(s)			

- Availability and capacity of consultants
- Proven track record of project delivery
- Professional indemnity of £10m known to be in place

The above reasons did not refer directly to specific exceptions within the Contract Procedure Rules. Although there is an exception for sole suppliers for specialist works within the Contract Procedure Rules, it is unclear that the works were of a uniquely specialist nature where there would be no genuine competition.

In another case, relating to a waiver for the procurement of a fitness instructor (£11k), we noted that specific referral to exceptions within the Contract Procedure Rules was provided:

- Appropriate SLT member is of the opinion that goods or services are supplied only at a fixed price and no reasonably satisfactory alternative is available
- There would be no genuine competition on account of the uniquely specialised nature of the goods / services (sole supplier)

The waiver request was submitted to the Head of Finance and approved.

Upon review of the waivers, we were unable to understand the specific reasons for their approval. For example, all four of the above waivers relating to Twycross Zoo included identical wording as reasons for the waiver being required, despite being submitted for a range of services. The specialist nature of the work was given as a reason to not advertise, as there would be no genuine competition. However, no evidence was provided as to what the specialist work was, and why this would mean there would be no genuine competition. For the waiver provided in relation to the fitness instructor, the request stated a reason being that the instructor had a specialist qualification meaning that there would be no genuine competition. However, the name of the qualification was not included. Neither was an explanation as to why this would lead to no genuine competition e.g. why no one else would have it. Further explanations and rational in

support of the waivers were provided to us by the Head of Finance. In future the details and justification for the need of a waiver should be included in the submission to ensure clarity around why the waiver has been approved.

Risk and Impact: The use of waivers which are not compliance with the Contract Procedure Rules results in the inability to demonstrate best value and potential non-compliance with statutory requirements.

Management Comments

The four main waivers referred to are on a construction project for an Orangutan enclosure and associated science research facilities, which in my view clearly fall into the more specialised area. These waivers were not to go with a sole supplier and were tendered and scored these four suppliers which you have seen in the very long wavier document that has quite a lot of information in compared to a standard wavier. Therefore, there has been competition and VFM obtained.

Sometimes situations occur where they do not neatly fit in with the exact wording of the constitution, and a decision has to be made to follow the spirit if good practice it contains. The constitution notes, that “where the procuring officer seeks to utilise alternatives, the council’s Procurement Officer should be consulted “and that the “most economically advantageous tender should be selected where procurement rules provide.” This was complied with; the only issue being requested was that as they had contacts they had worked with before and knew could comply could the waive the normal need for an open advertisement.

The reasons for the request given by the Zoo were:

1. Programme Constraints/Delays – The project programme which was included in the Levelling Up Funding Bid, was already in delay due to the late notification of the funding award i.e. appointing key consultants should have commenced in August 2021. However, this did not commence until December 2022.
2. Specialist Works - The works were of a specialist nature and therefore it was vitally important that the choice of consultants was paramount to the successful delivery of the project i.e. choosing consultants who had experience of this type of works.
3. Availability – COVID-19 and Brexit have had a profound impact on the construction industry, especially in the consultant sector, leaving many businesses with reduced resource capability at a suitable grade level. Therefore, we approached consultants who we knew currently had capacity and suitable level of resource to manage the constraints and complexities during the life cycle of the project.

4. Proven Track Record – We approached consultants that we knew had a proven track record of project delivery at Twycross Zoo, or in the zoo or leisure sector.

5. Professional Indemnity – It was a condition of appointment that design consultants used on the NSCC Project could provide a minimum of £5 million pounds of Professional Indemnity. Therefore, we approached consultants who confirmed they already had this in place, and this would be offered as part of any formal appointment.

It was the view of the S151 occur, that this was a unique situations and in the interests of HBBC and ensuring the project was moving forward, on balance, it was felt it met the spirit of the wavier requirements of the constitution.

The self-employed fitness instructor is a new creditor, supporting the delivery of the Lets Get Moving Sport & Physical Activity Commissioning Plan. The payment (£10.8k) of this project work is 100% via the public health grant (external grant) and monies are aligned in Exercise Referral for this. The instructor is self-employed and a compliance check has been completed. The project work for 2023/24 needs completing as aligned to our plan commitment and associated expenditure. This cannot sit with an extension to, or new recruitment of a member of staff due to the uncertainty on funding from 2024 onwards.

It was the view of Cultural Services that the instructor had specialist qualifications allowing her to instruct classes on HBBC’s behalf. This assurance was accepted as suitable as they have expertise in this area. For the value of £5,001 to £20,000 it just means one of two written quotations were not obtained.

Waivers will continue to be reviewed and sent to the procurement officer as required.

Other than assisting auditors it is unclear what benefit there is to a register of waivers as any individual wavier can be retrieved when needed.

Responsible Person	Ashley Wilson	Action Due Date	31 March 2025
	Head of Finance (S151 Officer)	Priority Level	Low

4 Contract Procedure Rules				
Finding(s) and Risk		Recommendation(s)		
<p>The Contract Procedure Rules set out the procedures by which the council should enter into contracts for the provision of goods, services, materials and works, and was last reviewed in April 2023. From review of the Contract Procedure Rules we identified a number of weaknesses, such as:</p> <ul style="list-style-type: none"> • There is no reference to the requirement to publish the award of contracts on Contracts Finder and Find a Tender which is a requirement of the Public Contracts Regulations 2015 following the UK exit from the EU and the Contracts Register, which is a requirement of the Local Government Transparency Code 2015. • There is no reference to how contract values should be estimated, such as including whole life costs and ensuring that there is no artificial splitting of contracts. • There are 17 different reasons for exceptions or waivers from the requirement to tender with differing requirements for approval and reporting, rather than a simplified process such as requiring approval and a report to SLT for all exceptions / waivers. • There is no reference to how many tenders are required to be invited when undertaking a competitive tender process e.g. at least three tenders to be considered. <p>Risk and Impact: The Contract Procedure Rules contain insufficient and / or outdated guidance to staff undertaking procurements leading to inappropriate procurements taking place and non-compliance with the Public Contract Regulations 2015.</p>		<p>8. The council should review and update the Contract Procedure Rules with reference to best practice from other councils / peers.</p> <p>9. The council should assign responsibility to an officer for reviewing the Contract Procedure Rules on a regular basis (e.g. annually) to take account of legislation changes and this review should be documented.</p>		
		Root Cause(s)		
		<p>The council has not designated responsibility for regularly reviewing the Contract Procedure Rules which may lead to a lack of accountability towards keeping the Contract Procedure Rules updated.</p>		
Management Comments / Agreed Actions				
<p>We will consider this for the next constitution update as amended as considered necessary</p>				
Responsible Person	<p>Ashley Wilson Head of Finance (S51 Officer)</p>		Action Due Date	31 March 2025
		Priority Level	Medium	

5 Contract Documentation	
Finding(s) and Risk	Recommendation(s)
<p>The council does not have a corporate procurement department. Directors are responsible for procurements within their respective departments, and Service Managers within these departments undertake procurements. However, for larger or complex procurements, the council may use a specialist procurement consultant to undertake the tendering process. Due to this, departments hold contract information such as the signed contract and tender documentation, and the information is not held in a central location where it can be readily reviewed.</p> <p>The total spend by each supplier over the last 2 financial years was reviewed, and a sample of 10 suppliers where the expenditure exceeded the £50k threshold was obtained. We requested supporting information such as the signed contracts, quotations received and tender evaluation documentation and found the following:</p> <ul style="list-style-type: none"> • 2/10 – the copies of original quotations received have not been retained (Xeretec Office Systems, Sunrise Software Ltd) • 1/10 – the quotation or tender evaluation documentation has not been retained, such as tender evaluation spreadsheets (Xeretec Office Systems) • 1/10 – an agreement / contract with the supplier was provided however not signed by the council (Xeretec Office Systems) • 1/10 – a competitive procurement process was undertaken in 2020, however due to Covid-19 disruption the contract was not awarded (J&F Powner Ltd) <p>Risk and Impact: The council does not maintain adequate records of previous procurement activities and is unaware of what contracts are currently in place.</p>	<p>10. Contract information, such as copies of signed contracts, quotations and tender documentation should be retained in a central location.</p> <p>11. The council should review its current expenditure and contracts and ensure that formal contracts are in place with suppliers where necessary, and that existing contracts have been signed.</p>
	Root Cause(s)
	<p>Lack of central oversight of procurement.</p>
Management Comments / Agreed Actions	

Purchasing is devolved in our organisation and is the responsibility of each budget holder / manager and we believe the retention of all documentation should remain their responsibility. We do already have a procurement function in place which is delivered by the Weiland Shared Service.

We are going to move to all contract being sent to legal services to be held on file.

Responsible Person	Julie Kenny	Action Due Date	31 March 2025
	Director of Corporate & Streetscene Services	Priority Level	Medium

DRAFT

6 Procurement & Contract Management Training			
Finding(s) and Risk		Recommendation(s)	
<p>Directors are responsible for procurements within their respective departments, and Service Managers within these departments undertake procurements. A specialist procurement consultant may be used to assist with more complex procurements.</p> <p>Although there are Contract Procedure Rules in place, these do not go into sufficient detail on undertaking procurements and contract management (see recommendation 4).</p> <p>Additionally, we found that there is not a formal or structured training programme in place for officers responsible for undertaking procurements and contract management, and we were not provided with evidence showing that guidance is in place.</p> <p>Risk and Impact: Officers responsible for undertaking procurements and contract management do not have sufficient training leading to procurements that are non-compliant with the Contract Procedure Rules and Public Contracts Regulations 2015.</p>		<p>12. The council should consider the cost v benefit of implementing a training programme for officers responsible for undertaking procurements and contract management, such as by engaging a supplier to provide regular workshops / training.</p> <p>13. Guidance / procedure documents should be produced detailing the whole procurement cycle and how officers should undertake contract management e.g. monitoring key performance indicators for contracts.</p>	
		Root Cause(s)	
		No specialist procurement officers leads to lack of ability to provide procurement training and advice.	
Management Comments / Agreed Actions			
This is already in hand and a programme is being developed by the Welland Shared Service.			
Responsible Person	Julie Kenny Director of Corporate & Streetscene Services	Action Due Date	31 March 2025
		Priority Level	Low

A1 Audit Information

Agreed Audit Objective and Scope

The objectives of our audit were to assess whether Hinckley & Bosworth Borough Council has in place adequate and appropriate policies, procedures and controls in relation to Procurement with a view to providing an opinion on the extent to which risks in this area are managed. The audit considered the following risks relating to the area under review:

- Governance framework compliance
- Value for money
- Procurement planning

Scope Limitations

In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. Any testing performed was conducted on a sample basis. 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.

Definitions of Assurance Levels and Recommendation Priority Levels

Definitions of Assurance Levels	
Substantial Assurance	The framework of governance, risk management and control is adequate and effective.
Moderate Assurance	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited Assurance	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory Assurance	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations		
Priority 1 (High)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Priority 2 (Medium)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Priority 3 (Low)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.	Remedial action should be prioritised and undertaken within an agreed timescale.

Statement of Responsibility

We take responsibility to Hinckley & Bosworth Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work 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. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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