


P&SM: Separation of Duties



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Introduction

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This document is about the separation of duties.

Definition

The term separation of duties means that the processes involved in P&SM are divided between two or more people so that no one person is responsible for the entire purchasing process. It essentially involves three key authorities:

- Budget holder authority
- Authority to seek quotations, negotiate and commit
- Authority to accept and pay

Background

The separation of duties is one of a range of strategies available to the P&SM professional for ensuring probity in P&SM. It achieves this objective by ensuring that no single individual has complete authority over one purchase; rather the power is divided between two or more people. The importance of the concept of the separation of duties is illustrated by the relevant regulations currently in place in the public sector aimed at ensuring and maintaining the required level of probity and integrity within the purchasing process.

Explanation

CIPS encourages P&SM professionals to take responsibility for all their organisation's expenditure and implement appropriate procedures (in accordance with the wider legislative environment), controls, and allocate duties accordingly. Moreover, CIPS encourages P&SM professionals to be proactive in recommending to the Board, or its equivalent, an appropriate policy on the separation of duties.

Where employees choose to work outside the rules they should be reported to internal audit; CIPS does not encourage P&SM professionals to be seen to act as internal 'police' as this could well be damaging for their relationships with their internal customers. However, they should be constantly on the alert for possible fraudulent activity within other departments and their own.

Equally, if a P&SM professional is told or instructed by their line manager to do something outside the procedures or, anything that could be perceived as unethical, they should use influencing skills or, if under duress, take it up with either a senior colleague or the internal/external audit function. This process should be formally documented.

Having established that separation of duties is effective and desirable in a given set of circumstances, it is important to identify all the potential risk/control points in a procurement process and then decide what, if any, controls should exist. Assessment should include financial and non-financial risks, including reputation and impact on brand. Appropriate cost-benefit analyses should be undertaken to ensure that any such measures are (and are seen to be) fully cost-effective.

Key Control Points

There are many control points or parameters in the separation and allocation of duties, but these can be summarised in broad terms as follows:

- Specification/requisition process - who authorises the specification/requirement/requisition?
- Supplier selection process - who draws up tender lists, organises receipt of tenders, produces short-lists, and undertakes negotiation?
- Contract award - who decides on the successful supplier; authorises the contract or purchase order?
- Goods received - who checks that what has been ordered and what will be paid for has been received?
- Services performed – performance monitoring of supplier in accordance with the service levels in the contract.
- Payment process - who authorises the payment (signs off an invoice and arranges payment) including setting system tolerances?

As a minimum requirement, and in accordance with basic principles enshrined in the separation of duties, CIPS believes that it is good practice for a minimum of two different employees to be responsible for the following sequence of three key activities taken from the above list:

- Determining the need (e.g. the requisition or equivalent, specification, budget, etc.)
- Undertaking the procurement (eg. sourcing and commitment)
- Effecting the financial aspects (eg. authorising payment)

CIPS recommends that a table of delegations of authority is produced which sets out who has authority to approve what is under each of the processes identified. However, CIPS believes that this can be undertaken by any of the two or more employees identified earlier. It goes without saying that some organisations may require dozens of people to take responsibility for the three roles, but no single individual should have responsibility for more than one of the roles.

Additionally, it is good practice for those employees to have a nominated representative in case of absence through illness or holiday. CIPS also takes the view that, ideally, the actual signing of the contract documentation should also be seen as a separate function. As stated above, the prime reason for allocating different duties to different employees is so that a single individual is not able to influence the outcome to his own advantage.

There are other benefits in separating duties in P&SM, such as the cross-fertilisation of ideas and sharing of commercial expertise between the person who defines the need and the person responsible for the procurement. It is important to ensure that those employees chosen to take on such responsibilities have the competence to carry out their duties effectively.

There are a number of additional tools which can be employed to support the separation of duties which need somewhat more detailed explanation than those listed above:

1. A document that outlines the procurement procedures, processes and policies (such as an ethical code including points on, for example, transparency and declaration of interest). The document should state signing limits and roles and responsibilities defined for categories such as end users and budget holders etc. In particular, the procedures should state that the P&SM function should be notified as soon as a need to purchase (something not already on contract) is identified. Ideally, this policy should be mandatory and require compliance from all employees within the organisation. eCommerce, (and, in particular, e-procurement) is a means of enabling compliance as it automates the transaction processes and authorisation and tolerance limits can be set to ensure purchasers can only buy within the frameworks that have been put in place. CIPS recognises however, that such policies, procedures, systems and processes are best deployed in the context of change management (i.e. with effective communications, training and support).
2. A disciplinary policy, which could be the responsibility of the Human Resources department, which sets down the processes for reporting situations which have an ethical dimension (whistle blowing, etc.) and which encourages adherence to the separation of duties policy.
3. A risk analysis to support the separation of duties policy as it identifies risk issues within the organisation such as whether employees are motivated and whether they are remunerated appropriately. Indeed, an organisation's human resource strategy, in particular its recruitment and retention policy, can support effective control processes. It can be argued that a prerequisite to the implementation of controls is the assessment of the organisation's culture, recruitment processes and its approach to the training and employee development, the argument being that the higher the calibre of the employees the less need there is for tight controls.
4. Rotation of duties is good practice in terms of improving job knowledge and enhancing staff flexibility and CIPS encourages P&SM professionals to employ job rotation for this reason. It can also prevent buyers getting too closely involved with their favourite suppliers and help to prevent fraud – indeed rotation of duties is sometimes brought into play following discovery of a major fraud.

Other Strategies for Detecting and Preventing Fraud and Corruption

Separating duties is just one means of preventing corruption; it may be regarded as a first step and, like many other methods, is not fool-proof. There are other means of control and methods of discouraging such behaviour, such as holding random audits of different contracts and procurement projects.

There is also the issue of financial limits to consider when implementing controls, eg. how much each buyer can commit the organisation to. These processes should not be too onerous or complex. In particular, they should not create unnecessary delays in the procurement process where an opportunity for corruption might arise or result in a process that is too costly to implement. It is also important that the effort is proportional to the risk as it would

represent a poor use of resources to put significant effort in respect of controls into very low value/low risk expenditure.

Additionally, controls should not prevent the end user liaising with potential suppliers and enhancing their market and product knowledge. However, it should be remembered that this very liaison can result in the buyer being influenced by the supplier in a variety of ways. Because of this, particular caution should be exercised in those instances where a specific supplier is being suggested or recommended to the exclusion of all others.

CIPS believes that buying should normally be a team effort, that cross-functional teams should be promoted, and that one of the roles of the P&SM professional is to facilitate and encourage this.

CIPS holds the view that P&SM should have Board level representation and this is usually a prerequisite to strategic P&SM. The Board is ultimately responsible for the system of internal control, usually delegating its design and operation to nominated individuals. Delegation from the Board should include an agreed definition of what each function is responsible and accountable for and any powers reserved only for them. As already stated, CIPS believes that the Board should be clearly seen to approve the separation of duties policy, which should help to give it the endorsement required for effective implementation.

To ensure controls and their operation are in the best interests of the organisation, CIPS recommends a balanced scorecard approach. This will aid decision making and help to avoid conflicting priorities between the purchaser, the user and other functions. It will reduce instances of where policies/controls are summarily disregarded due to perceived lack of business fit, and promote flexibility and collaboration between departments.

A process for exceptions to the policy should be agreed. The Separation of Duties policy and other means of controlling financial and non-financial risks should be supported by regular reviews of buyers' activities and those colleagues involved in the procurement process, by both line management and internal audit.

Fraud: Organisation-Wide Considerations

There are a number of areas in relation to the management/prevention of potential fraud which impact particularly on the P&SM area but which should nevertheless be addressed on an organisation-wide basis. These include:

- Culture - a clear commitment to ethical values sends a strong message to employees and suppliers on what is expected from them
- Competency and integrity - visible commitment by the Board
- An organisational structure which supports and facilitates the monitoring of the business objectives
- Recruitment procedures - including the culture message in job advertisements so as to attract the right applicants
- Rewards/grievance disciplinary procedures to show that compliance issues are visibly managed
- Appropriate training programmes
- Bribery Act – ensure that all relevant staff are aware of the requirements under this act and adequate procedures are in place as laid down in the legislation.

Limitations of Controls

It should be recognised that controls do not give certainty, merely a reasonable assurance of effective and efficient operations; internal financial control; and compliance with the relevant laws and regulations. However, it is worth remembering that such controls protect the P&SM professional as much as the organisation by providing a clear audit trail which can be used in any situation where the P&SM professional's judgement, decisions or actions are brought into question.

Conclusion

There is a considerable potential for fraudulent activity within the procurement process, ranging from taking a percentage payment from a supplier on a large multi-million pound contract and raising and authorising payments for false invoices, to siphoning a few pounds from each call-off order. An organisation's reputation is at stake when problems occur as a result of an inappropriate separation of duties. Separation of duties is just one internal control that increases protection from fraud and errors by implementing appropriate checks and balances upon the activities of individuals within an organisation. By designing and implementing a robust governance structure that includes separation of duties the potential for errors and fraudulent activity will be greatly reduced.

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