



# AUDIT COMMITTEE

## *Committee Report*

### **Public**

**Date of Meeting:** 26<sup>th</sup> September 2008

**Title:** Audit Services Progress Report

**Report of:** Head of Audit Services

**Report reference:** CORP 48/08

### **Summary:**

This report summarises the work carried out by Audit Services since the previous report to Committee on 23<sup>rd</sup> June 2008.

### **Recommendations:**

Members are requested to receive this report.

**Contact Officer:** Ian Beckett, Head of Audit Services      **Ext:** 7292

## **Audit Services Progress Report**

### **1 Summary of Audit Work**

As previously agreed by Members of this Committee, Members will be supplied, at each meeting, with the Management Summary and the Summary of Recommendations and Action Plan for each audit which has been completed since the previous meeting. The following audit reports are attached -

Leisure Grants  
Stores

**Appendix A**  
**Appendix B**

Work has also been completed during this period on the following reviews, and the draft reports have been issued. The final reports will be presented to Members in due course.

Equality and Diversity  
Members' allowances  
Tullie House  
Building maintenance

Other work undertaken, which does not produce formal reports, includes Performance Indicators; preparation for ICT and Revenues and Benefits shared services; Freedom of Information requests.

### **2 Follow-up Reviews**

- 2.1 Follow -up reviews were undertaken where appropriate during the period covered by this report. There are two areas where action on recommendations is not yet complete, as detailed below for Members' information.

#### **MASS Database**

- 2.2 It was reported to Members at the meeting of this Committee on 23<sup>rd</sup> June 2008 that there had been little progress in respect of the "MASS" database in relation to Fixed Assets. (Report CORP28/08 refers). This had been discussed with the Head of Economic Development, Tourism and Property Services who had provided the following response -

*"It is acknowledged that there are a number of actions within the report that have not been progressed within the agreed timetable. The reasons for the lack of progress are*

*to do with both workload and staff absence. Unfortunately the latter problem has become more acute with the recent resignation of the team leaders in both the Estates and Asset Management sections – both key qualified personnel. The Asset Management team leader has also been absent from work since July 07. Progress in the immediate future will depend on the recruitment of qualified and experienced chartered surveyors in a difficult and competitive job market”.*

Posts were subsequently advertised but this did not result in any appointments.

- 2.3 This situation has again been discussed with the Head of Economic Development, Tourism and Property Services who provided the following up-date -  
*“Following research into salary levels of comparable posts in other public bodies, Staffing Forum on 12<sup>th</sup> August considered a proposal to enhance the Market Factor Supplements paid to Property Services staff that would bring relevant posts in line with market conditions. This proposal was not agreed and instead the possibility of a one-off payment as a “golden hello” was proposed. This proposal is to be the subject of a report to SMT by the Personnel Manager. Subject to agreement the intention is to go out to the market at the end of September. In the meantime and after some difficulty, agency staff are now in place undertaking case work only, without any management or project development roles.”*
- 2.4 This is a matter that has now been raised by the Audit Commission in their Governance Report and an Action Plan is being developed, being led by the Deputy Chief Executive.
- 2.5 The situation will continue to be monitored by Audit Services and developments will be reported to the Audit Committee in due course.

#### External Grant Funding

- 2.6 Following an earlier Audit review, it was agreed that there was a need to enhance the role of the External Funding Officer (EFO), in order to provide a central co-ordinating role to manage the external funding function both strategically and to provide operational support.
- 2.7 This was discussed with the Director of Development Services, who confirmed that there is still some overlap in activity between the EFO post and the Principal Programme Officer (acting as grant monitoring officer for Carlisle Renaissance). This is being dealt with in conjunction with other (e.g.) financial aspects, by the Head of Financial Services and the Head of Economy, Property and Tourism Services, following comments made by the Audit Commission in relation to the areas of partnerships and grant funding. The Director of Development Services confirmed that this issue will be resolved within the next few weeks.

- 2.8 The situation will continue to be monitored by Audit Services and developments will be reported to the Audit Committee in due course.

3 Ongoing work

Work on a number of other reviews commenced during the period – the reports will be presented to Members in due course. This includes work on the “material” systems, in order to ensure that the deadline for the completion of all such reviews will again be met.

4 Annual Governance Statement Action Plan

Progress against the Action Plan has been reported separately to this meeting - report CORP 49/08 refers.

5 Recommendations

- 5.1 Members are requested to receive this report.

I. Beckett  
Head of Audit Services  
September 2008

## Corporate Services

### Audit Services

Audit of Leisure Grants

# Final Report

24 June 2008

<b>Audit Contact</b>		<b>Extn No.</b>	
<b>Document Ref:</b>	C:\DOCUME~1\moragd\LOCALS~1\Temp\Leisure Grants Final Report.doc		

Directorate / Service Area	Recipients of Report	Action Required
Community Services	Director of Community Services Head of Community & Culture	For information
	Sport & Recreation Manager Community Support Manager (For Action)	There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Community Services, which is attached as Appendix A.
	Play Development Officer (Sport & Recreation) Administrative Officer (Sport & Recreation) Administrative Assistant (Community Support)	For information

**Please note:** The Chief Executive, Deputy Chief Executive and relevant Directors receive a copy of the full final report (management summary and appendices showing the matters arising and recommendations). The Audit Committee receives a copy of the Management Summary.

**1. Reason for the Audit**

- 1.1. As part of the audit planning process, Leisure Grants was identified as a low risk service area and has been selected for review as part of the agreed Audit Plan for 2008/09.
- 1.2. The agreed Audit Plan for 2008/09 includes a small selection of low risk audit reviews to provide a more holistic coverage of identified risks. This is a change to the audit planning strategy in comparison with the previous financial year whereby the focus was based on a top down approach. This covered areas identified as high risk and then, where time permitted, the identified medium risk areas.

**2. Background Information / Summary of the Audit Area.**

- 2.1. The audit process seeks to reduce risk to an acceptable level based on the efficient, economic and effective application of financial controls. Changes to controls suggested in audit recommendations are intended to achieve these benefits. This process reduces but does not wholly eliminate risk.
- 2.2. The main leisure grant schemes administered by the Council and covered within the review include:
  - Grants for Leisure;
  - Physical Activity and Sport Development Grant Award Scheme for Clubs;
  - Performance & Excellence Grant Award Scheme;
  - Coach Instructor Development Scheme; and
  - Discretionary budget – Contribution for Free Use of Facilities at the Sands Centre.
- 2.3. The main leisure grants received by the Council include:
  - Lottery grant funding of £220K, confirmation received in April 2008, however there has been no expenditure made to date. This grant is for the Play For Today, Live For Tomorrow programme; and
  - The County Sports Partnership (which originates from Sports England who deals with the County Sports Partnership which then devolves grants to Local Government Authorities in Cumbria). The main grant (match funded) received in 2007/08 was from the Lawn Tennis Association (LTA) for £125,040. This was to undertake 4 Macadam tennis courts (4 on grass courts), 2 of which to be flood lit including a single skin air hall.
- 2.4. A 5-year Strategy for Sport for the period April 2003 to March 2008, is expected to be superseded by a new programme, the SPAA Strategy. Work is currently underway and has reached stage 2 of the application process. However there is still no guarantees for the receipt of funding. The SPAA includes nationally set targets, which if not met will affect the funding received. These targets will include:
  - To increase participation in regular physical activity by 4% over the next three years; and
  - To increase from 21.6% to 25.6% individuals taking three times 30 minutes of regular activity in a week.

### 3. **Associated Risks of Providing this Service/Function**

3.1. Examination of the Risk Registers noted the following risks:

<b>Risk Description and Control Strategy</b>	<b>Type of Risk</b> <i>(strategic / operational)</i>	<b>Risk Score</b> <i>H/M/L</i>
<p>Ensure staff giving advice are adequately trained and where appropriate, advice meets National Quality Mark standards and when financial support is recommended, it is subject to the relevant procedures, processes and policies of the Council.</p> <p>Please also note, para 2.3 re: LTA grant purpose, this was project managed using PRINCE2 methodology, which included the production of a risk register.</p>	Operational	H (9)

### 4. **Scope of the Audit**

4.1. Audit testing (covering the financial year 2007/08) and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. The key areas reviewed are stated in the table, and a summary of findings has been included in Section 5 below.

	<b>Areas Examined</b>
1.	Policies and Procedures
2.	Grants Paid
3.	Grants Received

### 5. **Overall Conclusion of the Audit Review**

5.1. The audit review revealed that there were robust controls in place, however there were areas identified where the opportunity exists to enhance controls further. These are shown in appendix A and are to be brought to the attention of the relevant Head of Service. In summary the key issues arising from this review are:

- Preparing/updating of Operational Risk Registers;
- Raising of cheques before all evidence/invoices are available;
- Performing checks of grant payments to the main accounting system on a monthly basis and the segregation of duties between the raising of cheques and checks of grant payments to the main accounting system;
- Implementing a process to ensure grant conditions are recorded, monitored, reviewed and followed-up;
- Ensuring all grant claims are fully completed before being processed;
- Security and access of Performance and Excellence Grant Award Scheme passes; and
- Procedures to cover the use of facilities at the Sands Centre awards.

## 6. Grading of Audit Recommendations

- 6.1. Each recommendation/agreed audit action, in Appendix A, has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

\* A *fundamental* weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).

- 6.2. There are 11 recommendations arising from this review. 8 at grade B and 3 at grade C.

## 7. Statement of Assurance

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **reasonable** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.



**Community Services**

**APPENDIX A**

**1. GRANTS FOR LEISURE AWARDS**

***Method of Review:***

***Discussions with management and staff were undertaken alongside detailed system testing over the Grants for Leisure Awards Scheme 2007/08.***

***Summary of Findings:***

- 1) The grant application pack contains an official application form, guidance notes, criteria for the award of grant and a selection of other grant aiding bodies intended to be useful for organisations or individuals to obtain funding or additional funding.
- 2) Testing revealed that 4 out of the 5 grant approvals sampled have submitted an application using the official form and all applications were fully completed. The exception approached the Portfolio Holder directly instead of submitting an official application form.
- 3) 5 applications for grant have been refused during the financial year 2007/08. Testing revealed that all 5 applications had been refused in the Executive Portfolio Holders Decision documentation. Letters were promptly issued to applicants stating this fact and the reason/s given for refusal.
- 4) All grant awards tested had been authorised and evidenced through the Executive Portfolio Holder Decisions documentation.
- 5) The processing of applications are reliant upon Portfolio Holder Decisions being made and documented, with this aside, they were processed promptly and letters issued with the decision and stating payment of grant is subject to receiving evidence of invoices to support the application.
- 6) All grant conditions were found to be met for the sample tested of approved applications.
- 7) Once the Portfolio Holder Decision is made to approve applications, cheques are raised for the approved amounts and stored in the safe located within the Service Section until the required evidence of invoices are received from the applicant. **See recommendation/agreed action 1 below.**
- 8) The record of grants approved agrees to the Council's creditor system and the main accounting system. A check is performed on a monthly basis, evidenced by the ticking of grant amounts paid, as recorded in the manual record maintained by the Administrative Officer, to ensure that payments agree to the main accounting system. **See recommendation/agreed action 2 below.**
- 9) Discussion with the Administrative Officer revealed that there are adequate arrangements regarding the security, access and retention of records. There are also cover arrangements in place with another member of staff who has been trained to cover the position if/when needed.
- 10) The Operational Risk Register requested and received was dated 1 March 2004 – Draft 2. **See Recommendation/agreed action 3 below.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
1	<b><u>See summary of findings note 6.</u></b> Cheques are raised before all evidence/invoices required are received. This effects the accounting treatment for transactions along with time and cost in undertaking reversals and cancelling cheques if the deadline is not met.	Community Support Manager	Grant cheques should not be raised at the point of Portfolio Holder Decision approval unless all evidence/invoice documentation is received. If the evidence/invoices are not received at this point then cheques should not be raised until it has been.	B	End May 2008
2	<b><u>See summary of findings note 7.</u></b> The same member of staff raises the cheques and checks the payments made to the main accounting system. It is best practice that these two roles are separated by the check of payments made to the main accounting system being undertaken by a different employee. This would provide an independent review by cross checking duties and responsibilities, thereby reducing errors, which may not be picked up in a self-review.  N.B best practice is being implemented with the checks being made on a monthly basis and should be continued.	Community Support Manager	Staffing resources should be reviewed to enable arrangements to be made so that there is a segregation of duties between the raising of cheques and the checks made to the main accounting system of grant amounts paid.	B	End May 2008
3	<b><u>See summary of findings note 10.</u></b> The Operational Risk Register does not appear to have been updated since 01/03/04.	Community Support Manager	The Operational Risk Register should be reviewed at Community Support Team Meeting on a monthly basis. Where relevant updates to reflect any changes to the risk register should be made on a timely basis and evidence should exist to indicate the frequency of review.	B	End May 2008

## 2. PHYSICAL ACTIVITY AND SPORT DEVELOPMENT AWARD SCHEME FOR CLUBS

### ***Method of Review:***

***Discussions with management and staff were undertaken alongside detailed system testing of the Physical Activity and Sport Development Award Scheme for Clubs 2007/08.***

### ***Summary of Findings:***

- 1) All Sports Development grants reviewed are widely advertised.
- 2) Formal applications are used.
- 3) A criterion is set to determine the eligibility for the award of grant. Guidance to complete the application form is available on the official application form and is also detailed on the Council's internet site.
- 4) Applications were not found to be date stamped when received. **See recommendation/agreed action 4 below.**
- 5) Applications were fully completed and promptly processed.
- 6) Letters were issued informing the applicant of the decision, grant amount awarded and time-scale of one year to collect the award by supplying documentation/invoices to support the application. If the application had been refused the reason/s why were stated in the letter sent to the applicant.
- 7) Applications have been appropriately approved.
- 8) Refused application arrangements were found to be satisfactory.
- 9) Grant applications at the time of processing were found to meet the grant criteria. However there was a condition of the grant that all recipients of grant money must agree to do five hours of voluntary coaching/instruction for community sports or health and fitness. There was no evidence available to determine whether this grant condition is met. Discussion with the Play Development Officer revealed that this area is not recorded, monitored and where necessary followed up to determine compliance with the condition. It was stated that on the introduction of the new SPAA strategy, performance will be linked to targets and there will be a re-design of the current process. **See recommendation/agreed action 5 below.**
- 10) Evidence/invoices have been received before grant payments were made. Where evidence/invoices had not been received payments have not been made.

***Summary of Findings continued:***

- 11) Approved and paid grant payments recorded in the manual record (lever arch file containing details of all transactions within the Section (which is maintained by the Administrative Assistant) agree to the creditors system and the main accounting system. A check has commenced by the Administrative Assistant from the front of the manual record file, however, progress has not reached coverage to grants paid. **See recommendation/agreed action 6 below.**
- 12) Access, security and retention of documents were found to be satisfactory along with cover arrangements.
- 13) The Operational Risk Register was requested from the Sport & Recreation Manager who stated that he could not recall having prepared such a register. **See recommendation/agreed action 7 below.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
4	<b><u>See summary of findings note 4.</u></b> Applications are not date stamped on receipt. The purpose of this is to be able to monitor the promptness of processing by indicating where there has been a delay from the date that the applicant has signed the form/correspondence and the actual date it has been received by the Council. In some instances there can be significant delay, which would then be evident.	Sport & Recreation Manager	Applications/correspondence should be date stamped on receipt by the Council/Service	C	End July 2008
5	<b><u>See summary of findings note 9.</u></b> There is no recording, monitoring and where necessary follow up to ensure that recipients of grant money do five hours of voluntary coaching/instruction for community sports or health and fitness. This is a stated condition of the award of grant money.	Sport & Recreation Manager	A system should be set up to record, monitor and review and follow-up the grant condition to ensure that five hours of voluntary coaching/instruction for community sports or health and fitness has been performed.	B	End June 2008
6	<b><u>See summary of findings note 11.</u></b> Reconciliations of grant money paid are not performed on a monthly basis and there is no segregation of duties in performing this task. The same member of staff raises the cheques and checks the payments made to the main accounting system. In this instance the checks are made from a lever arch file, which had manual details of the income received and expenditure, made by the Section. The Administration Assistant has started to check the recorded transactions from the front of the lever arch file but has not yet got to the grants section of the file.  It is best practice that these two roles of raising cheques and checking transactions to the main accounting system are separated by the check of payments made to the main accounting system being undertaken by a different employee. This would provide an independent review by cross checking duties and responsibilities, thereby reducing errors, which may not be picked up in a self-review.	Sport & Recreation Manager	A reconciliation/ check should be made on a monthly basis between the manually recorded grant payments (held in the lever arch file) to the main accounting system.  A review of the arrangements should be undertaken so that there is a segregation of duties between the raising of cheques and undertaking the reconciliation/check to the main accounting system.  The Sport & Recreation Manager is to approach the Community Support Team to achieve this.	B	End June 2008
7	<b><u>See summary of findings note 13.</u></b> There does not appear to be an Operational risk Register in existence, which incorporates the administration of Sport Development Grants.	Sport & Recreation Manager	The Operational Risk Register should be prepared and reviewed at DMT on a monthly basis and updated where necessary with details of the date of update.	B	End June 2008

### 3. PERFORMANCE & EXCELLENCE GRANT AWARD SCHEME

***Method of Review:***

***Discussions with management and staff were undertaken alongside detailed system testing of the Performance and Excellence Award Scheme 2007/08.***

***Summary of Findings:***

- 1) Formal applications are used.
- 2) A criterion is set to determine the eligibility for the award of grant. Guidance on completion of the application form is available in the official application form and is also detailed on the Council's internet site.
- 3) All applications were found to have been date stamped on receipt.
- 4) The sample of applications tested found 2 out of 8 applications had not been fully completed. One application had not been signed by the applicant and the other application did not indicate in the required box whether funding had been received in the previous year. **See recommendation/agreed action 8 below.**
- 5) All applications were appropriately authorised and promptly processed.
- 6) Letters were issued to all applicants informing them of the decision. If the decision was to refuse award then the reason/s why were stated in the letter.
- 7) Refused application arrangements were found to be satisfactory.
- 8) All necessary information/documentation to support the application was on file before grant money was paid.
- 9) Approved and paid grant payments recorded in the manual record (lever arch file containing details of all transactions within the Section (which is maintained by the Administrative Assistant) agree to the creditors system and the main accounting system. A check has commenced by the Administrative Assistant from the front of the manual record file, however progress has not reached coverage to grants paid. **See recommendation/agreed action 6.**
- 10) Access, security and retention of documents were found to be satisfactory with the exception of the access and storage of award passes. These passes are pre-printed with spaces left to allow manual completion by the Administrative Assistant. The reference number is written on the pass to correspond with the manual file reference and dates to indicate the valid period of the pass etc. Once a pass has been issued the passes are not checked for validity on usage so the security and access of these blank passes is important. This has been discussed with the Administrative Assistant who will ensure that passes are locked away so that access is at the same time restricted. **See recommendation/agreed action 9 below.**

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation/Agreed Actions</u>	<u>Grade</u>	<u>Agreed Timescale for Completion</u>
8	<b><u>See summary of findings note 4.</u></b> Two applications were found not to have been fully complete. One application has been approved where the applicant has not signed the application.	Sport & Recreation Manager	Before applications are approved and processed a check should be made to ensure that they are fully completed by the applicant.	C	End July 2008
9	<b><u>See summary of findings note 10.</u></b> There is insufficient restriction of access and security over the Performance and Excellence Grant Award Scheme passes.	Sport & Recreation Manager	Performance and Excellence Grant Award Scheme passes should be held in a secure location with restricted access to those who need to administer the passes in accordance with their duties and responsibilities.	B	End June 2008

#### 4. COACH INSTRUCTOR DEVELOPMENT SCHEME

***Method of Review:***

***Discussions with management and staff were undertaken alongside detailed system testing of the Coach Instructor Development Scheme 2007/08.***

***Summary of Findings:***

- 1) Formal applications are used.
- 2) A criterion is set to determine the eligibility for the award of grant. Guidance on completion of the application form is available in the official application form and is also detailed on the Council's internet site.
- 3) All applications were found to have been date stamped on receipt.
- 4) All applications were appropriately authorised and promptly processed.
- 5) Letters were issued to all applicants informing them of the decision. If the decision was to refuse award then the reason/s why were stated in the letter.
- 6) Refused application arrangements were found to be satisfactory.
- 7) Approved grant applications met the grant criteria set.
- 8) All necessary information/documentation to support the application was on file before grant money was paid.
- 9) Approved and paid grant payments recorded in the manual record (lever arch file containing details of all transactions within the Section (which is maintained by the Administrative Assistant) agree to the creditors system and the main accounting system. A check has commenced by the Administrative Assistant from the front of the manual record file however progress has not reached coverage to grants paid. **See recommendation/agreed action 6.**
- 10) Access, security and retention of documents were found to be satisfactory.



## 5. USE OF FACILITIES AT THE SANDS CENTRE (DISCRETIONARY BUDGET)

### ***Method of Review:***

***Discussions with management and staff were undertaken alongside system testing of the discretionary budget for free use of facilities at the Sands Centre.***

### ***Summary of Findings:***

- 1) No written procedures appear to have been prepared to cover the use of facilities at the Sands Centre. It was found that there was a general principle of match funding applied to awards of free use of the facilities at the Sands Centre and advertising of availability was not widely presented. Generally, the same organisations/groups applied on an annual basis. However, the staff at the Sands Centre are aware of the scheme and do assist with awareness to organisations/groups where appropriate. **See recommendation/agreed action 10 below.**
- 2) Letters (with the exception of one occasion, where it was found to be by e-mail) are received as applications for the award of use of facilities at the Sands Centre.
- 3) All letters have been date stamped on receipt and processed in a timely manner. N.B. the e-mail date was taken as the date received.
- 4) Evidence was requested for awards to be made. Awards were based upon the principle of match funding. This is where the same amount of the award is required to be donated to a charity or a 50/50 split of the proceeds of the activity specifically linked to the use of the facilities to be donated to a specified charity.
- 5) Scheme awards were properly authorised and approved.
- 6) Where awards were not taken up or were not approved there was an appropriate audit trail found to justify the actions taken.
- 7) Contact is made with the Sands Centre where there has been an award made so that a record can be made to claim payment by the Sands Centre from the Sport & Recreation Section through the recharge process.
- 8) Details are recorded, as previously reported for the other grant awards, for reconciliation to the main accounting system. **See recommendation/agreed action 6.**
- 9) Approved award payments were recorded accurately in the Council's creditors and main accounting systems.
- 10) Access, security and retention of documents were found to be satisfactory.

<u><b>Ref</b></u>	<u><b>Issue</b></u>	<u><b>Responsible Officer</b></u>	<u><b>Recommendation/Agreed Action</b></u>	<u><b>Grade</b></u>	<u><b>Agreed Timescale for Completion</b></u>
10	<b><u>See summary of findings note 1.</u></b> There is an established system in operation to administer the use of facilities at the Sands Centre. However there were no procedure notes to detail what the system is that is operating. This would formalise the process by making it more clear, transparent and accountable.	Sport & Recreation Manager	Procedure notes should be prepared to cover the administration of the use of facilities at the Sands Centre.	B	End June 2008

## 6. MAIN GRANTS RECEIVED

### ***Method of Review:***

***Discussions with management and staff were undertaken alongside testing of the main grants received.***

### ***Summary of Findings:***

- 1) Discussion with the Sport & Recreation Manager revealed that there was one (match-funded) grant approved of £125,040 in 2007/08 from the Lawn Tennis Association (LTA). This was to undertake 4 Macadam tennis courts (on 4 grass courts), 2 of which to be flood lit including a single skin air hall.
- 2) Two files are held and maintained by the Sports & Recreation Manager. One file covers the commencement of the project to its physical completion and the other file covers the Project Completion Certificate along with the supporting documentation gathered to date, for submission to the LTA.
- 3) The project has been reported to Committee where approval was granted.
- 4) The scheme has been project managed using PRINCE2 methodology. The areas covered and evidenced within the audit review included:
  - Overall structure of Sections and individuals involved within the management of the project;
  - Project Initiation Document;
  - Risk register;
  - Costings; and
  - Actions.
- 5) Testing covered the grant conditions of the LTA Grant. This revealed that there was compliance with the terms and conditions set by the LTA. However one minor area was identified, this being that there was no evidence to support the requirement for the Coach Instructor to hold a Coach Licence. The Sport & Recreation Manager stated that the Coach Instructor does hold the Coach Licence. **See recommendation/agreed action 11 below.**

<b><u>Ref</u></b>	<b><u>Issue</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Recommendation/Agreed Action</u></b>	<b><u>Grade</u></b>	<b><u>Agreed Timescale for Completion</u></b>
11	<b><u>See summary of findings note 5.</u></b> There is no evidence placed on file to support compliance to a requirement in the terms and conditions set out by the LTA with regards to the coach holding a Coach Licence.	Sport & Recreation Manager	A copy should be requested and placed on file of the Coach Licence held by the Coach Instructor.	C	End July 2008

**Corporate Services**

**Audit Services**

Audit of Stores

# Final Report

21st August 2008

<b>Audit Contact</b>		<b>Extn No.</b>	
<b>Document Ref:</b>	C:\DOCUME~1\moragd\LOCALS~1\Temp\Stores Audit Final Report 2008-09.doc		

Directorate / Service Area	Recipient(s) of Report	Action Required
Community Services Facilities Management	<p>Director of Community Services (for information)</p> <p>Head of Facilities Management (for information)</p> <p>Head of Environmental Services (for action)</p> <p>Resource Planning Manager (for action)</p> <p>Transport/Stores Manager (for action)</p> <p>Stores Supervisor (for action)</p>	<p>There are matters arising / recommendations arising from this audit review which require your attention. Please refer to the Action Plan for Community Services, which is attached as Appendix A.</p>

**Please note:** The Chief Executive, Deputy Chief Executive and the Audit Committee receive a copy of the final report.



## **1. Reason for the Audit**

- 1.1. As part of the audit planning process for 2008/09, the Stores function at Bousteads Grassing depot was identified as a low risk service area in the Audit Plan, however it was selected as part of the sample low risk audits that have been agreed to be reviewed annually. The Stores have not been reviewed for a number of years and this was fundamental to its selection.

## **2. Background Information / Summary of the Audit Area**

- 2.1. The current operation has approximately 300 lines of stock with approximately 5,500 issues made per annum. During 2007/08 total issues in monetary terms amounted to £168,000 with an average running stock value of just over £50,000 throughout the year.
- 2.2. The Stores function falls within the Facilities Section of Community Services.
- 2.3. The Stores are utilised to varying degrees by the different operational units located within Bousteads Grassing depot. The Stores receive between 2 and 15 deliveries a day of varying degrees.
- 2.4. The budgeted cost of the Stores for 2008/09 is £90,400 with £30,400 of the cost being budgeted overheads. Two F.T.E staff are allocated to this cost centre with support given from a Yard Attendant.
- 2.5. Stock is controlled via a Stores module contained in Contractorplus. This system interfaces into the General Ledger on a weekly basis.
- 2.6. In addition to stock control duties, the Stores staff are responsible for the following:-
- Receipt of non-stores materials and equipment for all sections. i.e Highways, Grounds, Buildings, Area Maintenance and Waste Services.
  - The loading of equipment for all sections using a telescopic handler.
  - Receipt of seasonal machinery.
  - Being a collection point for all returns to suppliers.
  - Moving of furniture from office to office.
  - Ad-hoc projects, i.e. sandbags/flood defence.
  - Gas bottles retrieval scheme. Organising the return to manufacturers.
  - Off site loading/unloading.

## **3. Associated Risks of Providing this Service/Function**

- 3.1. Examination of the Risk Registers noted the following risks:

<b>Risk Description and Control Strategy</b>	<b>Type of Risk (strategic / operational)</b>	<b>Risk Score H/M/L</b>
<i>Failure to provide basic stock items</i>	<i>Operational</i>	<i>Low</i>
<i>Stock Monitoring Failure (Financial Implications)</i>	<i>Operational</i>	<i>Low</i>
<i>Work Injuries</i>	<i>Operational</i>	<i>High</i>

3.2. Other risks identified by Internal Audit as part of this audit are considered to be:

- *Division of Duties.*
- *Non compliance to Financial Procedure Rules regarding stock.*

***Please note that on conclusion of the audit, any critical risks outline at 3.2. should be assessed by the relevant Director for incorporation into the Directorate's Risk Register or, if considered to be a strategic risk, for discussion at the Risk Management Group.***

#### **4. Scope of the Audit**

4.1. Audit testing and verification procedures have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. Key areas for review and a summary of the findings are outlined below.

	Area Examined
1.	Year-End Stock Take 2007-08.
2.	Stock Ordering
3.	Stock Issues and Returns
4.	Stock Received and Returns
5.	Stock Amendments and Write-offs
6.	Storage and security of stock.

#### **5. Overall Conclusion of the Audit Review**

- 5.1. A number of opportunities to further enhance controls have been identified. These are shown in appendix A and have been brought to the attention of the relevant Heads of Service. In summary the key issues arising from this review are:
- 5.2. There was no evidence of procedural notes in circulation at the time of the audit. There was however, a Stores Policy Document which all relevant staff 'signed up to' when the managerial responsibility for the Stores function transferred to its current position. Although this document outlines the main rules and policies for stock operations it does not outline basic operational instructions for users. It is recommended that comprehensive procedural notes be prepared in line with Audit Commission requirements.
- 5.3. There are a number of issues surrounding the annual stocktaking process that require focus. The majority of them regard the division of duties surrounding the actual stock-take itself and the risk to both staff and stock. The Stores is a small operation with only 2 designated staff who operate the stores facility (with some assistance from the Yard Attendant) so it is appreciated that it is difficult to implement any division of duty. Management, however, should realise this lack of control, and review ways of counter-acting the risk by either having complete management overview (and therefore responsibility) of the stock-take procedures or having the stock-take completed by an independent resource.
- 5.4. There are other areas of concern, especially with stock signed out of stores in bulk and held off site. With some stock having a 'sale' value, it is very important that it is



properly accounted for and issued as if they were still in Stores, and included in year-end stock valuations accurately.

- 5.5. Audit testing showed that there were minimal problems within the ordering and invoicing systems in place. As highlighted in section 1, however, there is again an issue with division of duties. Management need to assess the risk and the cost benefits of addressing such risks.
- 5.6. Generally the stock issue and internal return operations are working well. User departments should be made aware of the importance of ensuring that all stock control documents are completed accurately and in full in all cases to ensure the issue process operates as smoothly as possible.
- 5.7. The systems of control within the stores for the receipt of goods from suppliers and any subsequent actions are well devised and embedded. The only apparent issue was the method of dealing with stock ordered by other sections and to be returned. Although a robust system is in place to control the handing over of responsibility via a series of 'signing stock in and out' procedures, it appeared that the ordering sections failed to transfer responsibility, or indeed the capability of returning the stock back to the stores to be returned. This can simply be addressed by highlighting the issue and ensuring that the ordering sections are aware of the need to either arrange return of stock themselves, or furnish the Stores staff with sufficient information to be able to do so.
- 5.8. The controls surrounding amendments, adjustments and write-offs are adequate. Consideration should be given to ensuring that the physical stocktaking duties are independent from the stock adjustments.
- 5.9. Stock is housed securely, with buildings alarmed and management aware of approved key holders for the premises of the stores. Management should evaluate the risk regarding the access to the key to the fuel tank and the lack of monitoring arrangements of the fuel stock usage. All stock items are also covered under insurance arrangements set up by the Authority.
- 5.10. To conclude, the Stores have initiated a number of systems of control to ensure that the function operates as securely and effectively as possible. When the additional points listed above are evaluated by management, and addressed, then assurance can be given that robust systems are in place. The points above do highlight control weaknesses however it must be stipulated that audit testing proved that there were no areas of significant concern.

## 6. **Grading of Audit Recommendations**

- 6.1. Each recommendation/agreed audit action in the appendices has been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Grade	Level of Risk
A	Lack of, or failure to comply with, a key control, leading to a *fundamental weakness.
B	Lack of, or failure to comply with, a key control, leading to a significant system weakness.

C	Lack of, or failure to comply with, any other control, leading to system weakness.
D	Action at manager's discretion.

\* A *fundamental* weakness includes non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).

- 6.2. There are 20 recommendations arising from this review. 8 at grade B, 11 at grade C and 1 at grade D.

## 7. **Statement of Assurance**

- 7.1. Based on the audit approach, issues and the grading of the recommendations arising from this review, it is considered that a **REASONABLE** level of assurance can be given in relation to the systems of control (see definition below).

Level	Evaluation
1. Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
2. Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
3. Restricted	Significant weakness/es have been identified in the system of internal control, which put the system objectives at risk.
4. None	Based on the results of the audit undertaken, the controls in operation were found to be weak or non-existent, causing the system to be vulnerable to error and/or abuse.

**Directorate, Service Area**

**APPENDIX A**

**1. STOCK TAKE 2007-08**

***Method of Review:***

- ***Discussion with relevant staff as to policy and procedure.***
- ***Examination of the Financial Procedure Rules with regard to stocktaking.***
- ***Examination and evaluation of the 2007/08 Stock Take Summary.***
- ***Comparisons of the manual 'count' to that input into the Stock take Summary.***
- ***Re-examination of the stock check results on a sample of 20 items to ensure that the amounts counted were correct at the time of the stock check.***
- ***Examination of 10 Discrepancies from the 2007/08 Stock Take Summary.***
- ***Comparison of original stock-take data to Contractorplus stock report to ensure that stock totals had been entered correctly on to the system.***

***Summary of Findings:***

The last complete Stock take was undertaken on 3<sup>rd</sup> and 4<sup>th</sup> of April 2008 with the previous count being undertaken on the 1<sup>st</sup> and 2<sup>nd</sup> of November 2007. Financial Procedure Rule C.87 states "Annually at the 31<sup>st</sup> of March or as near as possible to that date, a complete stocktaking of all stores shall be carried out by a responsible officer and stock sheets shall be prepared showing the annual stocks on hand at 31<sup>st</sup> March as revealed by the stocktaking".

Financial Procedure Rule C.88 states that "Each authorised officer shall sign the stock sheets of his Directorate and certify that the details are correct and forward a certified copy to the Director of Corporate Services". It was confirmed that this occurred.

The 'master' stock take document which was used at the physical count to note the actual items counted was compared to the final stock take document. The only discrepancy between the two was the Gas Oil, which was further investigated by Audit.

The Stores Supervisor conducts a rolling sample stock check every week (perpetual audit). Over the year the entire stock is counted and it also gives the opportunity to assess potentially obsolete stock. The Stock takes are documented and retained. This is viewed more as an internal assurance process rather than as a verification exercise as it is not independent.

The stock list as at 21/04/08 was compared to the original stock take data to ensure that the information had been transposed accurately. Any discrepancies were explained as being known adjustments that were required to be altered on the system after the stock take. There were no further discrepancies found.

The Rock Salt could not be counted and verified for two reasons. 1) The stock level is just a 'guestimate', based on stock ordered as there is no weighbridge to weigh the salt. 2) The salt is stored at Willowholme and therefore could not be physically examined by Audit.

The issuing process was identified as being as follows:-

- The highways section run an on call rota throughout the winter period.
- The Highways operative usually loads the salt outside of normal working hours. E.g. after 4.30p.m
- The requisition for the salt used the night before is given to the Stores the following morning and this is then input into Contractorplus.
- The Willowholme site is unmanned, deliveries are called off in minimum quantities of 25 tonnes. Arrangements are made for the driver to be met by the gate by a highways operative, who then signs the goods received note and passes it to the stores for inputting into Contractorplus.

The stock list as at 21/04/08 was compared to the original stock take data to ensure that the information had been transposed accurately. Any discrepancies were explained as known adjustments that were required to be altered on the system after the stock-take. There were no further discrepancies found.

The Resource Planning Operational Support Supervisor produces a stock reconciliation report on a monthly basis which depicts the monthly movement of stock within the stores. This was examined and period 12/07 was cross-referenced to all base data to ensure that the totals could be verified and agreed to the stock control system.

Contractorplus is updated with the latest price of goods via a process of revaluation. When an invoice comes in, prices from the latest invoice updates the current price held on the system for budgeting purposes. This difference has to be manually revalued on the system when stocks have depleted so that the stock value can be calculated correctly at the appropriate time.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.1	<p>Financial Procedure Rule C.87 states that “the Director of Community Services shall inform the Director of Corporate Services of any stocktaking being carried out in order that a representative of the Director of Corporate Services can be present to undertake such test checks as may be necessary”.</p> <p>This rule has not been applied over the past decade or so. This is probably due to the low stock value now held in the stores and the relative benefit of a member of Corporate Services attending the stock-take. The independence issue will still exist, however other avenues should be explored as to instilling the independence in the system in a more resource effective manner, i.e, employing an independent senior member of staff within Community Services to oversee the procedure</p>	Director of Corporate Services/ Head of Audit Services.	<p>Financial Procedure Rules do stipulate that a representative of the Director of Corporate Services should be present at the annual stock-take. Consideration should be given to altering the Financial Procedure Rules to say, “The Director of Community Services shall inform the Director of Corporate Services of any stocktaking being carried out in order that an <u>independent senior representative, agreed by the Director of Corporate Services</u> can be present to undertake such test checks as may be necessary”.</p>	B	March 2009
A.2	<p>The physical count was undertaken by the following staff:-</p> <ul style="list-style-type: none"> <li>• Storemen x 2 (Counting) (Not independent)</li> <li>• Stores Supervisor (Counting) (Not independent)</li> <li>• Resource Planning Support Officer (Counting) (independent)</li> <li>• Resource Planning Clerical Assistant (Data input into Stores Module) (Independent)</li> <li>• Resource Planning Operational Support Supervisor (Data input into Stores Module) (Independent).</li> </ul> <p>Stock takes should be undertaken primarily by staff who are independent of the stock ordering processes.</p>	Head of Facilities/ Resource Planning Manager	<p>Stock takes should ideally be undertaken by persons independent of the stock purchasing, ordering, issuing and write – off processes. If, due to resource implications, this is not possible, management should acknowledge that they are willing to accept the risk and allow the whole stock-take procedure to be overseen and sample checked by employee/s independent of the stores operating procedures.</p>	B	March 2009

A.3	<p>There are 290 items listed on the 2007-08 Stock Take results. The results showed discrepancies on 127 of the items which represents 44% of total stock. The majority of the discrepancies were of nominal value and overall the value of the discrepancies amassed to a net sum of £1,095.15.</p> <p>The only major discrepancy was the Gas Oil which had been overstated by 3,481 litres at an estimated value of £1,945.88p.</p> <p>It was established that the stock take took place over 2 days on a Thursday and Friday.</p> <p>Whilst an e-mail had been sent to staff, requesting that they limit their use of the Stores during that time to emergency use only, this was largely ignored due to the ineffective dissemination of information. Deliveries also had to be dealt with.</p> <p>The accuracy of the stock check will inevitably be affected by these interruptions and should be prevented as far as possible. Staff who are stocktaking should be enabled to concentrate on the task in hand 100% which would speed up the process and improve accuracy.</p>	Head of Facilities/ Resource Planning Manager	<p>Staff who are undertaking the stock take should be enabled to concentrate on the task in hand 100%. This would speed up the process and improve accuracy. Stock takes should take place in Stores operational down-time. Supervisors and staff that use the Stores should be made aware that unless there are exceptional circumstances, that when a stock-take is being performed that the stores can not be accessed, nor any deliveries be arranged.</p>	C	March 2009
A.4	<p>There was what at first appeared a large discrepancy with the stock levels of Gas Oil. At the Stock take the 'stock physical quantity' was given as being 6,007 litres and the 'Stock taken' as being 2,526 litres, which leaves a discrepancy of 3,481 litres. A negative value of 474 litres was shown on the stock system prior to the count and the quantity physically counted was 3,000 litres, which produced this figure of 2.526 litres.</p> <p>At the time of the review it was seen that the stock, after adjustments was in fact 3,000 litres up from the figure shown in Contractorplus.</p> <p>This co-incidentally is the amount of an average order.</p>	Head of Facilities/ Resource Planning Manager	<p>Prompt action is necessary to attempt to resolve discrepancies of this type successfully. During the time of the review the Stores Supervisor had taken steps to ensure that this problem will be highlighted immediately from now on.</p> <p>Management should ensure that these monitoring reports are reviewed regularly and prompt corrective action taken.</p>	C	August 2008

	<p>Audit investigations could not clarify where the error had occurred despite liaising with suppliers and checking payments and delivery received notes. The only conclusion to be reached is that either the information held in Contractorplus was incorrect initially or a delivery had been received from the supplier that had somehow failed to register on either the suppliers system or Contractorplus and the Creditors system.</p> <p>As the stock is actually 'up', the suppliers have been paid in full, the delivered stock is all accounted for and the Contractorplus system has been adjusted, there is no need for further action.</p> <p>Due to this problem occurring, the Stores Supervisor now reconciles the Gas Oil tank meter to Contractorplus and the requisitions received on a weekly basis. This information is then recorded on a spreadsheet. This will immediately highlight any problem was one to happen in the future.</p> <p>Gas Oil cannot be cannot be physically 'dipped' as such to measure the amounts due to the methods of storage (it is held securely in a 'Titan Tank' which is a double sealed unit). Reliance has to be placed on a remote measuring device called Watchman<i>Plus</i>. This works via a probe and bund sensor being fitted inside the tank, which transmits the level of liquid to the Watchman<i>Plus</i> display, which is situated in the Stores office. This device measures the liquid in tenths of a litre, whereas the oil requisitions are rounded to the full litre as this is the format which is accepted by Contractorplus. There is therefore a natural rounding variance of 1 – 2 litres per week on the reconciliation.</p>				
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A.5	<p>A sample check of 20 items were counted. There was an adjustment issue with stock item 900000 and 900002. Both levels of stock appear 'down', when in reality the system requires adjustment. A new brand of toilet paper is being purchased but the stock system has not been updated to accommodate this so although overall the system 'balances' it does not reflect this as the information is inaccurate. If new items of stock are requested (especially replacement stock) a system should be in place to ensure that the stock system is updated accordingly.</p>	Head of Facilities/ Resource Planning Manager	<p>If Stores users make the decision to replace existing stock with stock of a different type, a method of authorisation (either e-mail or memo) should be passed to the Stores Supervisor prior to order to ensure that the Stores system can be updated ready to receive the information and assure that the system is accurate and is able to report on stock type and levels accurately.</p>	C	August 2008
A.6	<p>A sample of 10 items of stock where there were stocktaking discrepancies were queried with the Stores Supervisor. Acceptable explanations were given for the majority of the queries. There was an issue with one item (Stock item 444639 – Verge Rail) where the stock had been counted in lengths as opposed to meterage and resulted in a discrepancy of 219.4 being recorded on the stock-take. As a result of this erroneous count, the Contractorplus system had been also adjusted in error.</p> <p>It was proved to Audit that the error had been made as a result of how the verge rails were inspected. This would not have been automatically picked up as part of the stock take process (although due to the relatively small amount of stock held, the Stores Supervisor would have noticed at re-order stage).</p> <p>Although the problem is minor and would have had little consequence it highlighted the requirement of a 'second check' on the larger discrepancies.</p>	Head of Facilities/ Resource Planning Manager	<p>If the stocktaking highlights a significant discrepancy, a second count should be taken by a member of staff different from the member of staff who performed the initial count of that item.</p>	C	March 2009



A.7	Financial Procedure Rule C.90. states that "All surpluses/deficiencies revealed by stocktaking will be reported immediately to the Director of Corporate Services. All deficiencies/surpluses must be investigated and explained. The Director of Corporate Services will decide whether the matter warrants a report to the Corporate Resources Overview and Scrutiny Committee". As previously stated there were a number of discrepancies found during the stock-take but none of any major value apart from the Gas Oil. Audit conducted a thorough investigation into this discrepancy as part of this review and it could not be resolved. The issue is that the discrepancy was not reported in the first instance to the Director of Corporate Services which is a contravention of the Financial Procedure Rules.	Head of Facilities/ Resource Planning Manager	All major discrepancies in stock level or value require to be reported to the Director of Corporate Services in compliance with Financial Procedure Rule C.90. For this purpose, 'major' should be classified as 5% of the monetary value of the stock held as agreed with the Transport/Stores Manager.	B	March 2009
A.8	The Imprest/Off-site stock are items such as parts for street lighting columns, Gas Oil and Trade Refuse Bags. Lighting column switchgear is kept in the vehicles that go out to do repairs and are booked out on usage to reactive job numbers on Contractorplus. Trade refuse bags have an attached value and should be controlled. Refuse bags are signed out of stores in boxes of 300, not to requirement. There was no evidence found of regular checks of stock held on vans after it had been signed out of the stores. Once stock has been effectively 'signed out' of the stores it is the responsibility of the user sections to ensure that the issued stock is accounted for. The lack of reconciliation of imprest stock to a physical count leaves items open to misappropriation and operatives open to potential allegations.	Head of Environmental Services/ Head of Facilities	<p>Currently there are no internal control procedures in place to account for stock that signed out of stores in bulk and retained by the ordering sections. It is imperative that this stock is accounted for, especially those stocks that have a 'value'.</p> <p>The total stock issued should be reconciled to the amount issued and to which operative, business in the case of the trade waste sacks, or vehicle in the case of Gas Oil, and the amount retained in the sectional stock.</p> <p>Procedures should also be put into place to ensure that adequate checks are made by Supervisors/signatories to ensure validity of the requests before repeat issues from Stores are made to ensure that stock is not held off site in excess.</p>	B	August 2008

## 2. STOCK ORDERING

### **Method of Review:**

- ***Discussion with relevant staff as to policy and procedure.***
- ***Walkthrough test of stock ordering procedures.***
- ***Use of the CIPFA Internal Control Questionnaire for stock ordering procedures.***

### **Summary of Findings:**

Testing confirmed that the re-order report is not totally accurate. This cannot be explained and it a recognised problem as being a 'blip' in the system. Due to the relatively limited amount of stock being held however, this is not a major problem as yet as the Stores Supervisor has an in-depth knowledge of what is available, what the expected usage will be and what needs to be replaced even before the report is run. He then uses common sense when examining the report and double checks if stock does actually needs to be reordered when the report shows so.

The Stores Supervisor runs an inactive orders report on a regular basis. This details the amount and date of the previous order and is used to identify any obsolete stock. The Stores Supervisor e-mails the initiating section explaining the situation and asks if the item of stock will still be required and is dealt with appropriately.

The Internal Control Questionnaire established the following:-

- Telephone orders are only made in emergencies and these are then confirmed with a written order by the next working day.
- Checks are made to ensure that the goods ordered were appropriate. Stock is held at the request of departments e.g. highways, Area Maintenance Teams etc. If there were any changes or problems with materials, then the users would inform the stores and any problems would then be notified to the supplier and arrangements made to rectify them.
- The invoices are promptly agreed to the original order on Contractorplus.
- Checks are made to ensure that a bona fide official invoice is received from the supplier before any payment is made.
- All invoices are checked to the delivery notes and goods received notes to ensure that all details agree.
- Invoices are checked for accuracy and to confirm that they have not been paid before.
- Checks are made to ensure that invoices are coded to the correct expenditure code and anticipated overspends are reported to a senior manager.
- Invoices for stocks received are paid within the statutory and/or suppliers payment terms.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.9	When a new item of stock is required a 'new item request form' is completed. Each Section has their own books, and the request has to be authorised by section managers. The preferred supplier is then chosen from the list produced by the Procurement Section. The Stores Supervisor currently has authorisation to source smaller items of stock directly without using an official purchase order (e.g. batteries). Adequate documentation is retained. Although this is perfectly acceptable practice, as yet there are no procurement limits set.	Head of Environmental Services/ Head of Facilities	It would be beneficial to set the Stores Supervisor an order authorisation limit of £500 for smaller ad-hoc purchases. This would enable him to continue to make the smaller ad-hoc stock purchases yet would clarify the boundaries, both for himself and those making the request for stock as to when the 'official' system has to be followed. This will of course have division of duties considerations. These should be addressed once a management decision is taken with regard to the whole stores ordering, receiving, issuing and stocks counting processes.	C	August 2008.
A.10	There are established maximum and minimum re-order levels. These are pre-installed into the system. Each day, after the goods received and the requisition information is entered into the system the stock re-order report is run. This data is triggered by the re-order level detail installed into the system. Apart from the 'reactive' orders detailed above, all orders are determined from this report to keep stock levels consistent. The initial re-order levels are decided by the stock users and are reviewed periodically. The re-order report specifies the preferred supplier for that item of stock. This can be overridden if another supplier has been selected for the product and although this is not common practice, there is no system in place for when it does occur.	Head of Environmental Services/ Head of Facilities	If the preferred supplier as stated on the system is not used, when ordering stock for the Stores, then prior authorisation should be sought from the budget holder/manager and a note put on file briefly explaining the reasons why the supplier has been amended.  If the preferred supplier is not being used when sections are ordering goods directly for their own use then the established procedures should be followed whereby the Corporate Procurement Section is consulted. Ordering officers should all be made aware of this requirement.	C	August 2008.

A.11	<p>An official written order or copies of an electronic order/signature support all orders. These are produced automatically from the system.</p> <p>The Stores Supervisor can raise orders for stores purchases only. All orders from Stores are pre-fixed with an 'ST' buyer reference so individual orders can be traced to initiating sections. Once the stock code is entered, all the stock item details are displayed. This information is held within the system. An individual order is produced for each supplier.</p> <p>The orders are printed which generates a system order number so this can be traced through the process. The hard copies of the orders are then signed by the relevant signatory (Stores Supervisor &lt; £500, Transport/Stores Manager &gt; £500). This is then faxed and then filed in the 'Outstanding Orders File' until the order is received.</p> <p>An outstanding order report is regularly generated from the system and any outstanding orders are chased up with the suppliers. There is an obvious division of duty issue.</p>	Head of Facilities/ Resource Planning Manager	<p>There are division of duties issues whereby the Stores staff order goods, authorise official orders (of a certain monetary level), enter the details on the system, issue goods and are substantially involved in the stock take. Management should consider the benefits, considering the risk vs. the cost of assigning certain duties to independent persons.</p>	B	August 2008.
A.12	<p>A sample of orders was examined and these showed that some of the pre-set detail was not correct. This detail included incorrect supplier detail, contact telephone details and fax numbers. These have to be altered manually and there is a risk that this task may be overlooked and the detail sent out inaccurately (although there was no evidence that this had occurred during testing it is a possibility). In addition to this, it would look more professional if the order has not been manually adjusted.</p>	Head of Facilities/ Resource Planning Manager	<p>The official order template in Contractorplus should be amended to reflect Carlisle City Council's Depot's correct telephone number and fax number as those stated on the form are now defunct.</p> <p>The supplier details should be amended to reflect the correct contact address.</p>	C	August 2008.

### 3. STOCK ISSUES AND RETURNS

#### **Method of Review:**

- ***Discussion with relevant staff as to policy and procedure.***
- ***Examination of standard stationery.***
- ***Use of the CIPFA Internal Control Questionnaire.***
- ***Walkthrough test of stock requisition to entry on stores system.***
- ***Walkthrough test of Issue to return to stock.***

#### **Summary of Findings:**

Each section has its own sequentially numbered requisition books. These are classed as controlled stationery.

An official requisition note is required before issues are made. This requisition note includes:-

- The name of the person raising the requisition, department and location. There are no telephone details given but these are easily accessible if required.
- The quantity, description and number required are on the requisition when presented to stores personnel. Stores personnel, as part of the issue process annotate the reference number.
- The expenditure cost code or job number. This must be on the requisition otherwise stock will not be issued.
- An authorised signature and date.

When a requisition is completed, it is signed off as being complete and any amendments are clearly marked prior to the stock being issued.

Stock price quantity adjustments (to reflect price increases and reductions e.g requisition for 20 but only 18 in stock) are recorded on the "office use" section of the requisition and signed for by the recipient. An independent person then makes all adjustments on the system. Adjustments will be discussed in greater detail in part 5 of this report.

Requisitions are always issued immediately when the stock is available. The stock is signed out as received by the requester and signed out as issued by the stores staff.

The site returns to stores note includes:-

- a) Details of the goods being returned, e.g. quantity, description stock item reference number
- b) The expenditure or job code to which the credit should be made
- c) The reasons for the return of goods and the date.
- d) Signature of the individual returning the goods, their supervisor, the stores staff who receive them, and the Stores Supervisor after the returned stock has been entered on the system.

Although the note does not include the originating section or individual. The nature of the goods held in the stores, and the relatively small customer base teamed with the knowledge of the stores staff makes this unnecessary.

The walkthrough test of 5 items returned to stores stock, then adjusted on the system, appropriately showed that they had been done so accurately and on a timely basis.

Any rejected cost codes are promptly investigated by the Stores Supervisor. When processing requisitions, any rejects are taken up with the section concerned and a valid cost code or job number is obtained.

An audit trail exists that enables cross referencing between originating documents and stock records.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A.13	Despite there being a system in place, there was evidence of stock requisition forms not being completed accurately and in full. Users could be incorrectly charged for issues received.	Head of Environmental Services/ Head of Facilities	It is important that stock requisition forms are completed accurately and in full. This is to ensure that there is a valid record of goods that have been requested from the Stores, to prove that issues have been correct, and that stock could not be mis-appropriated without being detected.  Responsible signatories should recognise that if the requisition is not completed accurately then the goods will not be issued and it is their responsibility to emphasise this fact to the ordering staff.	C	August 2008.
A.14	The Stores Supervisor retains all copies of completed requisitions. Currently there are 4 complete years of records (from when the existing Stores Supervisor was appointed to post).	Head of Facilities/ Resource Planning Manager	There is no legal reason for copies of the requisition forms to be held as they are internal documents. It would be good practice to retain documents for one complete year and the one prior to this to form documentary proof of a transaction.	D	August 2008.

A.15	There is no record held of employees authorised to sign requisition notes. The Transport/Stores Manager has taken the decision that as only authorised signatories should have access to the requisition books, and therefore in theory should be the only people making requisitions, that there was no need for a separate list of authorised signatories to be issued to the Stores Supervisor for use. Although it is agreed that the fact that requisition books are only issued to authorised persons is a good control, it would only seek to improve the control further is an additional check for authorised signatories is made at point of issue.	Head of Environmental Services/ Head of Facilities	Ensuring that the Stores Staff confirm authorised signatory status at point of stock issue would further the existing control of only issuing requisition books to authorised signatories.  Staff with authorisation to sign requisitions should ensure that access to the requisition books is limited to themselves.	C	August 2008.
A.16	All Stores staff can issue stock but only the Stores Supervisor enters the requisitions on the system. When the Stores Supervisor does issue the stock, then updates the requisition, this again is not a division of duties and should be avoided if possible. The matter of division of duties has already been raised a number of times during this review and therefore the requirement for controls within processes needs to be re-iterated.	Head of Facilities/ Resource Planning Manager	There should be a clear division between the issue of stock and the updating of the stock system so that it is assured that all issues stated on the system have actually been processed as stated	B	August 2008.
A17	Requisitions are 'batched' up and are entered on the system daily just prior to running the stock reorder report. A report is run from the system and cross matched to the requisitions to ensure that all details are correct prior to the data being 'actioned'. Once the data is actioned, the information can only be adjusted by going through the stock adjustment process, which can be time-consuming. It is beneficial to ensure that the information is input as accurately as possible.  All requisitions, once input onto the system are processed and ordered from the suppliers that day.  A walkthrough test of four stock issues for that day highlighted no significant problem with this system on a normal day.	Head of Facilities/ Resource Planning Manager	A 'Stock Issue Batch Details' report should be run and balanced to the requisition slips prior to actioning the batch in all cases.	C	August 2008.

	Testing did highlight however that on the occasions when the Stores Supervisor is on leave and the requisitions are processed by the back up member of staff (Finance) there was no evidence that the reconciliation was performed. If there were a problem that came to light some time after the input, this would cause considerable more work for the Stores Supervisor to investigate the discrepancy.				
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#### 4. STOCK RECEIVED AND RETURNED.

##### *Method of Review:*

- *Discussion with relevant staff as to policy and procedure.*
- *Walkthrough test of one instance of goods being received, logged, invoiced and paid.*
- *Walkthrough test of stock being ordered, received, then returned to supplier.*
- *Other general observations.*

##### *Summary of Findings:*

The stores are the main point of contact for all deliveries, including those items not ordered by other sections. There is another procedure in place for these (see below)

The procedure for all ordered goods is as follows:-

- Goods are generally 'expected' so staff is always to hand to receive them.
- When they arrive, the Stores staff signs for what is stated on the delivery note. I.e "10 boxes of 'x'".
- Stores staff immediately check that the content of the delivery corresponds with the original order. Any discrepancies are dealt with immediately by the Supervisor.
- The Supervisor on a random sample basis performs a second check. All discrepancies are always re-counted by the Supervisor.
- Stock is then cleared away for Health & Safety purposes.
- Before the end of the working day, the Supervisor enters the goods received information onto the system. Only the amount received is entered which may differ from the amount ordered.
- When the invoice is received from the suppliers, the Finance staff check the stores system to ensure that the amount ordered was actually delivered and entered on the system. If there is a discrepancy, the Stores Supervisor will be informed to sort the problem. If the supplier is insisting that they delivered more items than the Stores system shows, the Stores Supervisor requests that they provide him with a copy of the proof of delivery as this would be signed by the responsible Stores staff. If this is provided and shows a difference to the system then a stock take will be undertaken. A disputed invoice is never paid without thorough investigation.

There were no problems found within the walkthrough test. There was some division of duties whereby the Supervisor double-checked the count.

The Stores is also a central delivery and collection point for non-store items. The Stores Supervisor has set up a system whereby all deliveries are logged and will not be issued without a signature from the member of staff who collects it. The goods are 'received' from the supplier in the same way that store ordered goods are received i.e., signed for by the stores staff and the relevant delivery documentation completed for the supplier. The only difference between these goods received and the stores goods received is that the goods are not entered onto the stores system, as it is not returned to stock.

A walkthrough test was undertaken of an item of stock that had been returned to the supplier. All the relevant documentation had been arranged and retained and the system updated promptly and accurately.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A18	Whilst the review was being undertaken, it was noticed that a large stock of blank PCNs were in the stock office awaiting return to the supplier. These had been there for a considerable length of time despite requests from the Stores Supervisor to deal with them. This is not acceptable as blank PCNs should be stored as controlled stationery and at that moment in time they were not. Upon further enquiry it transpired that this stock was to be returned to the supplier as it was unsuitable. As the Car Parking Staff had ordered the stock, the Stores Supervisor did not have the relevant contact details to arrange return as they do not have access to orders processed by other sections.	Head of Environmental Services/ Head of Facilities	All returns to suppliers should either be processed by the ordering section, or sufficient detail be given to the Stores Supervisor to arrange prompt return so that unsuitable stock is not held for longer than is necessary.	C	August 2008.

## 5. STOCK ADJUSTMENTS AND WRITE OFFS.

### **Method of Review:**

- *Discussion with relevant staff as to policy and procedure.*
- *Walkthrough test of fifteen amendments to the system to ensure that they had been amended appropriately.*
- *Examination of the systems audit trail of adjustments and explanations and evidence sought for a sample of ten.*
- *Other general observations*

### **Summary of Findings:**

Testing highlighted numerous reasons for adjustments to be made to the stock records. The reasons given included:-

- Stock count adjustments.
- Booked on in error.
- Wrong supplier.
- Non Stock included in count.
- Cross Coding.
- Damaged Stock.
- Sale to Staff (Personal sales to staff)
- Input Errors.
- Perished Stock.

All adjustments are controlled via a number of control codes in the General Ledger which the interface feeds into from Contractorplus. Each adjustment must have a contra entry otherwise it will reject and be investigated. Discussions took place with the Principal Finance/Systems Officer to clarify the procedure and identify any problems that have arisen. There have not been any incidents that are of audit concern in 2008/09 to date.

Where obsolete stock is subject to COSHH, it is disposed of under the prescribed regulations. Any other obsolete stock may be scrapped or sold via tender if a value is viable.

All write offs are made in accordance with the Authority's Financial Procedure Rules.

Obsolete stock is sold wherever possible.

Although there were no current examples available, it was assured that supporting documentation is held on file that confirms that items are correctly advertised and sold to the highest bidder.

Evidence was given that showed that VAT is included in the purchase price of all private sales and an official receipt is provided.

Fifteen amendments were traced through the system and there were no problems found.

<b><u>Ref</u></b>	<b><u>Issue</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Recommendation / Agreed Actions</u></b>	<b><u>Grade</u></b>	<b><u>Suggested Timescale for Completion</u></b>
A19	Stock take Adjustments are normally entered on the system by two members of staff, the Operational Support Supervisor and the Resource Planning Clerical Assistant. One is independent of the stocktaking process, however the Resource Planning Clerical Assistant is involved and should not be making stock level adjustments.	Head of Facilities/ Resource Planning Manager	The physical stocktaking duties and the adjusting of stock on the system should be performed independently.	B	August 2008.

## 6. STORAGE AND SECURITY OF STOCK.

### *Method of Review:*

- *Discussion with relevant staff.*
- *Physical examination of stores and methods of security.*
- *Examination of training records.*

### *Summary of Findings:*

Stock is housed securely, with buildings alarmed and management aware of approved key holders for the premises. All stock items are also covered under the insurance arrangement set up by the Authority. High 'risk' stock, i.e. Gas oil has further enhanced security arrangements to ensure that stock is not stolen or damaged.

During 2007/08 there was a very small amount of stock written off due to environmental 'damage', i.e. the cement had perished. This is unavoidable as the stores are housed in a very old building. The low value of the damaged stock does not warrant moving this stock elsewhere.

General health and Safety standards are observed. Together with the Health & Safety Manager, the Stores Supervisor performs risk assessments of the stock environment regularly.

All staff have undertaken manual handling training. One of the staff is about to start a NVQ in storage/warehousing. Staff have all completed the Authority's mandatory training courses.

<u>Ref</u>	<u>Issue</u>	<u>Responsible Officer</u>	<u>Recommendation / Agreed Actions</u>	<u>Grade</u>	<u>Suggested Timescale for Completion</u>
A20	Inspection of the storage arrangements for the signed out Gas Oil confirmed that the fuel is stored externally and housed in a suitable lockable vessel. As stated in Section1 there are items of 'value' booked out of stores and kept off site. All Grounds staff have access the key to the Gas Oil and at present there are no monitoring processes in place to ensure that the stock is only being used to replenish Authority vehicles. Access to the key to the fuel stores should be controlled.	Head of Environmental Services/ Head of Facilities	Management should ensure that there is restricted access to all stocks, especially stock with a 'value'.	B	August 2008.

