

# Northampton Borough Council Internal Audit Report 2006-07 Westbridge Stores – follow up

*Report No. 06\_07 NBC 17 – Final Report*



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## Timetable

Action	Planned date	Actual date
Agreement of terms of reference	March 2007	March 2007
Fieldwork start	March 2007	March 2007
Fieldwork complete	May 2007	May 2007
Draft report to client	June 2007	June 2007
Response by client	June 2007	June 2007
Final report	July 2007	August 2007

# Background and scope

## Introduction

The follow up review of Westbridge Stores was undertaken as part of the 2006/07 Internal Audit plan agreed by the Audit Committee.

This report has been prepared solely for Northampton Borough Council in accordance with the terms and conditions set out in our contract dated 1<sup>st</sup> January 2007. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

## Background

This report is intended to inform management of the results of our follow up review of Westbridge Stores. This review has been undertaken as part of the Operational Systems audit work included within the 2006/07 Internal Audit Plan. This report reflects our findings over the progress made in addressing prior year agreed recommendations at the time of our audit in April/May 2006.

## Approach and scope

### Approach

The purpose of this review was to follow up prior year agreed management actions from the review of Westbridge Stores which focused specifically on the following areas:

- Stock Holdings are maintained at cost effective and appropriate levels.
- Stock is held in a secure environment and is protected against loss or damage.
- All stock transactions are valid, authorised, subject to review and accurate records are maintained.
- Stock control processes are monitored through the production and review of effective management information.

Our work is designed to comply with the Government Internal Audit Standards [GIAS] and the CIPFA code.

### Scope

In accordance with our Terms of Reference (Appendix 1), agreed with the Corporate Manager, we undertook a follow up review of previously agreed recommendations.

### Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.

**Staff involved in this review**

We would like to thank all client staff involved in this review for their co-operation and assistance.

Name of client staff
Gerry Gammage - Transport/Fleet Team Leader
Bob Sibley - Head of Responsive repairs

# Results of follow-up

## Introduction

This report summarises the findings of our follow-up review of Westbridge Stores.

## Summary of Findings

Our detailed findings and recommendations are set out in the findings and recommendations section of this report. The table below summarises the number of findings raised and the priority rating assigned.

Risk rating	Number of findings	Implemented	Partially implemented	Outstanding
High risk	0	0	0	0
Medium risk	13	2	1	10
Low risk	0	0	0	0
<b>TOTAL</b>	<b>13</b>	<b>2</b>	<b>1</b>	<b>10</b>

It is disappointing to note that the majority of agreed management actions had not been actioned at the time of our review with 10 of the 13 issues raised previously remaining outstanding.

However, it should be noted that many of the revised management actions are tied to the implementation of the new IBS system which had not been procured at the time the original responses were provided. It is expected that this implementation will address many of the concerns raised previously.

# Limitations and responsibilities

## Limitations inherent to the internal auditor's work

We have undertaken a follow-up review of Westbridge Stores, subject to the following limitations.

### Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Future periods

The assessment of controls is a historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.


# Follow-up of prior year agreed management actions


Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
1	<p>There is limited information being provided from Stores to the Responsive Repairs Manager and Corporate Manager.</p> <p>This is mainly due to the inflexibility of the current system Uniclass. It was noted that an additional reporting package, Crystal has been bought and training has recently been provided but reports are still difficult to formulate.</p>	<p>● Medium</p>	<p>The Corporate Manager should ensure that the new Enterprise System is reviewed and that adequate reports can be generated from the system to enable the stores to be effectively monitored.</p> <p>These reports could include:</p> <ul style="list-style-type: none"> <li>stock movement</li> <li>write off</li> <li>outstanding orders</li> <li>obsolete stock</li> <li>issues</li> <li>Spend against budget</li> </ul>	<p>Developments of UE continue since implementation in April.</p> <p>Procurement of Crystal licences and further associated training.</p> <p>Procurement of new stock management system approved within HRA investment fund.</p> <p>New developments allow full integration with UE enabling reports to be produced as a control measure and management tool.</p>	<p>Repairs manager – RM B Sibley BS – Oct 06</p> <p>Property maintenance manager - PMM R Fitzhenry RF – Oct 06</p> <p>RM– Project leader.</p> <p>Target Delivery December 06</p>	<p><b>Outstanding.</b></p> <p><b>Action to be taken:</b></p> <p>Further to corporate purchase of IBS, management decision taken to cease development work on UE to free resources. Stores module and Bar coding system included within project scheduled for phased integration Nov07 &amp; March 08 with repairs module. The IBS system will have robust reports facility.</p> <p><b>Responsible Officer:</b></p> <p>IBS Project Board</p> <p><b>Target Date:</b> Nov 07 – March 08</p>


Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
2	<p>It was noted through discussion that there is no annual budget review process for expenditure within the Stores.</p> <p>Although procurement will review suppliers annually and obtain competitive agreements no overall budgetary control is in place.</p>	<p style="text-align: center;">●</p> <p style="text-align: center;">Medium</p>	<p>The Corporate Manager should ensure that budgets are set annually for stores and monitored to ensure that variations are investigated and can be explained.</p>	<p>Annual Budget process will identify budget for materials. Directly related to NHF schedule of rates.</p> <p>Monthly meetings with stores manager with reporting to property maintenance manager.</p>	<p>PMM - Oct 06</p> <p>RM – Sept 06</p>	<p><b>Outstanding.</b></p> <p>Rebasing of HRA budgets from Apr 07 will allow improved budget monitoring on materials expenditure. IBS module will integrate with NHF Schedule of rates.</p> <p><b>Responsible Officer:</b> PMM/Accountancy</p> <p><b>Target Date:</b> Apr 07</p> <p>Re-organisation of stores management to Responsive Repairs team leader will include monthly meetings and 121's with all Stores staff linked into service plan objectives and targets for the repairs section.</p> <p><b>Responsible Officer:</b> PMM</p> <p><b>Target Date:</b> Aug 07</p>



Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
3	Although there are some written procedures available within Stores that cover purchasing and the control of stock, these were all last reviewed and updated in February 2002.	● Medium	The Stores Manager should undertake a review of the procedures to ensure that they reflect current operating practices and take account of the new Enterprise system.	Review all written procedures and incorporate use of new stores system, with robust reporting and integration into UE.	Gerry Gammage Stores Manager - SM  December 06	<b>Partially implemented.</b> In the process of being completed and finalised.  <b>Responsible Officer:</b> Acting stores manager - SM  <b>Target Date:</b> Aug 07
4	It was noted that there were no up to date financial procedures located within the stores and confusion as to what the exact policy was for dealing with obsolete stock.	● Medium	The Stores Manager should contact finance and obtain a copy of the latest financial procedures and ensure that the process for dealing with obsolete stock is understood and complied with.	Review financial procedures with accountancy.  Arrange refresher training for all stores employees.	SM – Oct 06  PMM / SM – Nov 06	<b>Implemented.</b>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
5	A review of the stock control reports from the last stock take in March 2005 revealed a significant credit balance of £1.5m. This line is identified as call off orders or code 996 on the report and has been accumulating since 1996. This is potentially due to an anomaly within the system generating the report.	 Medium	A review of this balance should be undertaken to ensure that the cause of the balance is identified, it is reconciled and corrected.	Review balance and reconcile with accountancy prior to implementation of new system.	SM - Oct 06	<b>Outstanding.</b> Inherent with Uniclass legacy system. IBS implementation will resolve. <b>Responsible Officer:</b> IBS Project Board <b>Target Date:</b> Nov 07 – Mar 08


Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
6	It was noted that there have been no random stock reviews undertaken during the course of the year.	 Medium	The Stores and Depot Manager should ensure that random stock checks are performed and the evidence retained.	New stores system will facilitate stock inventory, which will be included within new stock management procedures.	SM – Dec 06	<p><b>Outstanding.</b></p> <p>IBS will have real time stock information through bar coding and imprest stocks on vehicles linked to mobile working solution.</p> <p><b>Responsible Officer:</b> IBS Project Board</p> <p><b>Target Date:</b> Nov 07 – Mar 08</p> <p>Stores staff to undertake weekly audit of 20% of stock including high value and high moving stock items.</p> <p><b>Responsible Officer:</b> SM</p> <p><b>Target Date:</b> Jun 07</p>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
7	Testing of 23 randomly selected stock items identified 10 instances where the amounts held in the stores did not agree to stock records. We noted instances where physical stock levels were both under and over what was recorded on the system.	 Medium	The Stores and Depot Manager should review the discrepancies identified and ensure that adequate reasons for the variations can be provided.	<p>Improved control measures to be in place in new procedures to eliminate errors. New system will reduce.</p> <p>Investigate current position through random sampling and investigation.</p>	<p>SM – Dec 06</p> <p>SM – Oct 06</p>	<p><b>Outstanding.</b></p> <p>Weekly stock audit implemented</p> <p>Performance management of stores function including monthly audit of stock levels and stores personnel having daily, weekly and monthly performance targets.</p> <p><b>Responsible Officer:</b> SM</p> <p><b>Target Date:</b> Jun 07</p>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
8	<p>Although a requisition was located for all 20 stock issues tested we did note the following:</p> <ul style="list-style-type: none"> <li>• None of the requisitions stated the operative or tradesperson number.</li> <li>• 11/20 had no signature to identify the issuing officer.</li> <li>• 7/20 had no receiving officer signature.</li> </ul>	<p>● Medium</p>	<p>The Responsive Repairs Manager should ensure that all appropriate officers are informed of the need to fully complete and sign the stores requisition.</p>	<p>As above.</p>	<p>SM – Dec 06</p>	<p><b>Outstanding.</b> Management instruction to all staff. See 7 <b>Responsible Officer:</b> PMM <b>Target Date:</b> Jun 07</p>
9	<p>It was noted that the Uniclass system has a number of open orders that have not been closed down since 1996. Therefore there is a risk that inappropriate invoices could be paid against these orders.</p>	<p>● Medium</p>	<p>The Stores and Depot Manager should ensure that the open orders on Uniclass are reviewed and closed as soon as practical.</p>	<p>Immediate review of all opens orders on system and completed.  Use of open orders to be strictly prohibitive in new procedure</p>	<p>SM – Sept 06  SM – Dec 06</p>	<p><b>Implemented.</b></p>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
10	<p>We noted on several occasions that the door into the stores located at the trade counter although supposed to be kept locked was found to be open.</p> <p>In addition another entrance point that led directly into the stores through metal doors was found to be open.</p>	<p>● Medium</p>	<p>A review of the security arrangements within the stores should be undertaken, and all access points should be secure.</p>	<p>Urgent review of stores security and immediate action identified and recommendations incorporated within procedure</p>	<p>SM – Sept 06</p>	<p><b>Outstanding</b></p> <p>Weekly audits introduced to monitor.</p> <p>Included in revised procedures see item 3.</p> <p><b>Responsible Officer:</b> Responsive repairs TL</p> <p><b>Target Date:</b> ongoing</p>
11	<p>It was noted that Stores are authorised to make sales to tradesman with cash being retained in a till until the end of the week.</p>	<p>● Medium</p>	<p>The Corporate Manager should consider withdrawing this service from the Stores to avoid the need for cash to be taken and potentially compromising the level of discounts being obtained from suppliers.</p>	<p>Investigate take up of scheme. Urgently review with a view to withdrawal of the service.</p>	<p>PMM – Sept 06</p>	<p><b>Outstanding.</b></p> <p>Management instruction to cease forthwith.</p> <p><b>Responsible Officer:</b> PMM</p> <p><b>Target Date:</b> Jun 07</p>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
12	<p>Annually the Procurement Department will undertake a review of Suppliers and prices. Upon receipt of quotations a preferred supplier list is provided to stores for them to update on to their system.</p> <p>However these agreements are not retained and therefore it is difficult to ensure that data has been accurately recorded on the stores system.</p>	<p style="text-align: center;">●</p> <p style="text-align: center;">Medium</p>	<p>The Stock Controller should retain the annual agreements to evidence that information has been correctly entered onto the stores system.</p>	<p>Identification of dedicated procurement support to facilitate periodic review – Quarterly.</p>	<p>PMM – Sept 06</p>	<p><b>Outstanding.</b></p> <p>No progress. PMM to discuss with procurement officer to facilitate review and report into monthly Repairs / stores monitoring.</p> <p>All current arrangements are published on intranet.</p> <p><b>Responsible Officer:</b></p> <p>PMM</p> <p><b>Target Date:</b> Aug 07</p>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed originally agreed	Original deadline for action and accountable officer	Current Status
13	It was noted that there was no detailed policy or procedure in relation to imprest stock held on vans, although this was being looked into during the audit in March 2006.	 Medium	The Responsive Repairs Manager should ensure that there is an adequate review process in place for checks on imprest stock levels.	New policy and procedures will address imprest stock. In conjunction with stores management system implementation of Automated vehicle location software will facilitate stock replacement.	SM – Dec 06  PMM – Mar 07	<b>Outstanding.</b> IBS implementation will ensure imprest stock integrate with main stores levels. Mobile working will also facilitate efficient stock replacement <b>Responsible Officer:</b> IBS Project Team <b>Target Date:</b> Nov 07 – Mar 08 Team leaders to determine imprest stock levels for all trades. <b>Responsible Officer:</b> PMM <b>Target Date:</b> Aug 07



# Appendix 1 - Terms of Reference

Key areas considered during our 2005/06 Westbridge depot store review that are to be followed up:

- Stock Holdings are maintained at cost effective and appropriate levels.
- Stock is held in a secure environment and is protected against loss or damage.
- All stock transactions are valid, authorised, subject to review and accurate records are maintained.
- Stock control processes are monitored through the production and review of effective management information.

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