



Internal Audit Report

FINAL

Operational Services

Stock Control Systems - Leisure

November 2009

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1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review of Operational Services, Stock Control Systems - Leisure as part of the 2009-2010 Internal Audit programme.

Purchasing and stock control within Leisure Services was identified by Leisure Services as an area of potential weakness within the Leisure Service Action Plan and was therefore identified by Leisure Services for Audit. This Audit was originally scheduled to begin in September 2009 after an internal review had taken place. Internal Audit recognises that some of the weaknesses highlighted may have been identified by Leisure Services as part of this internal review.

Leisure facilities provide a major community service in meeting the physical activity, recreational and sporting needs of the people of Argyll & Bute and for visitors to the Area. There are currently 4 swimming pools, and 14 sports centres/halls (including schools). Leisure is managed by Operational Services - Facilities Services. In 2008/2009 Leisure generated income of £1,585,333 throughout its facilities.

As required by the Standing Orders, Financial and Security Regulations 5. Control of Resources – Asset Management 5.6 Equipment, Stocks & Stores – The care, custody and level of equipment and stock in any Service will be the responsibility of the Director of the Service concerned who will ensure that –

- (a) Adequate arrangements have been made for the proper and secure storage of all equipment and stock;
- (b) Stock levels are maintained at the minimum level sufficient to meet the operational requirements of the Service;
- (c) all equipment and stock received, issued, or otherwise disposed of are accounted for;
- (d) All stocks are checked a minimum of once a year in accordance with the arrangements approved by the Head of Strategic Finance.

Four facilities were reviewed as part of the Audit process. The facilities reviewed were: Aqualibrium in Campbeltown, Helensburgh Swimming Pool, Corran Halls in Oban and the Queens Hall in Dunoon.

2 AUDIT SCOPE AND OBJECTIVES

The broad objectives of the review were to ensure:

- There are appropriate stock control and stores procedures in place and that they are operated in accordance with Argyll & Bute's Financial & Security Regulations.
- There are adequate arrangements in place for the proper and secure storage of all stock held in the leisure facilities.

- Adequate documentation is available to support the ordering, receipt and payments for stock purchases made.
- There are complete, accurate and up-to-date stock records maintained and that all stock received, issued, or otherwise disposed of is accurately recorded and accounted for.

3 RISK ASSESSMENT

As part of the audit process and in conjunction with our Systems Based Auditing (SBA), Internal Control Questionnaire (ICQ) approach, the risk register was reviewed to identify any areas that needed to be included within the audit.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

- 5.1 Stock control procedures varied throughout the facilities reviewed. It was found that where robust procedures were clearly written down, these were not being followed. All facilities to some extent made use of the Leisure Management System - Torex.
- 5.2 An Integrated Management System is being introduced. This is a detailed set of procedures laid down for each specific facility and includes detailed procedures with regards to storage of stock and stock control. This system will be rolled out to all facilities and will be written to take account of each facility's needs.
- 5.3 Regular stock checks were being carried out in some facilities and records were being kept of the stock checks undertaken. However reliance could not be placed on the evidence as the stock check records were not signed or dated as being completed.
- 5.4 Where Purchase Orders were being completed in three facilities these were found to be incomplete in terms of detail. Ledger Codes, quantities ordered and detail of stock ordered were incomplete. There was insufficient detail on these Purchase Orders to allow reconciliation with the delivery note and the invoice.
- 5.5 There was little evidence of segregation of duties for the stock control process. Orders can be completed by the same staff member who is checking and receiving delivery of the order. The same staff member

- could also be involved in completing the invoice and recording the receipt of goods on Torex.
- 5.6 Internal Audit found that there were delays in updating stock records following the receipt of stock.
- 5.7 Internal Audit found that there were delays in the payment of Invoices to suppliers.
- 5.8 It has been recognised by Leisure Facilities that the Torex Leisure Management System does not provide adequate stock control measures and a review is currently taking place of stock control procedures with a view to improving procedures. An alternative 'stand alone' system of stock control is currently being investigated, this will provide the additional facility of being able to monitor stock performance.
- 5.9 The Management of Mussel Ebb Café in Aqualibrium had recently transferred from Facility Services to Argyll & Bute Council Leisure Services. Internal Audit found that there were no stock procedures in place within the Café at the time of Audit. On enquiry Internal Audit was informed that there had been no stock procedures handed over from Facility Services when the Management of the facility changed.

6 RECOMMENDATIONS

6 recommendations were identified as a result of the audit, 5 have a high priority and 1 has a medium priority. The recommendations are shown in the action plan below.

7 AUDIT OPINION

Based on the findings we can conclude that the Council has the basis to implement good stock control procedures and in some instances has good written procedures through the Integrated Management System, however Internal Audit found inconsistencies in stock control procedures throughout the facilities.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Performance Manager and his staff, the Facility Managers and their staff and the Finance Staff within Operational Services for

their co-operation and assistance during the Audit and the preparation of the Report and Action Plan.

Argyll & Bute Council's Internal Audit section has prepared this Report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This Report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The Report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	There was a lack of segregation of duties among staff for the various stages of the stock control process.	High	Consideration should be given to setting up a robust set of procedures to ensure segregation of duties throughout the various facilities, with named 'Posts' being responsible for the various elements of the stock process.	Performance Manager	31 st October 2009
2	Purchase Order Forms were not being used in Aqualibrium Mussel Ebb Café, orders were being completed on an A4 sheet of paper. It was found that in 3 out of the 4 facilities reviewed Purchase Orders were incomplete and had insufficient detail on them to allow the reconciliation of the order to the Delivery Note and to the invoice.	High	All facilities should make use of the Purchase Order system, in accordance with the Financial and Security Regulations. Purchase Orders should be completed in full, with all sections being completed with the required information. Purchase Orders should be signed and dated, taking account of segregation of duties.	Performance Manger	31 st October 2009

<p>3</p>	<p>A number of the samples that were taken found that in some instances stock records were incomplete, inaccurate, not up to date and in one facility no stock records were kept.</p>	<p>High</p>	<p>Stock records should be updated on Torex or on paper records, without delay, as soon as practicable after the delivery of stock. Records should be updated by a member of staff independent of the ordering process. Stock records should be reviewed and updated on a regular basis. Regular stock takes should be undertaken and should be recorded, signed and dated. A review should be undertaken of all stock recording systems across all facilities and where there is not one in existence this should be introduced.</p>	<p>Performance Manager</p>	<p>31st October 2009</p>
<p>4</p>	<p>There were delays in payments of invoices and in some cases invoices were not paid within the statutory time period. On enquiry it was found that suppliers often complained about late payment of invoices</p>	<p>High</p>	<p>Consideration should be given to reviewing the payment of invoices process. Leisure Services have implemented a process that will ensure the prompt payment of invoices to suppliers and that will ensure payments are made within the agreed terms and statutory requirements.</p>	<p>Performance Manager</p>	<p>Completed</p>

5	Internal Audit found that Delivery Notes (invoices are often used as Delivery Notes) were 'ticked' as being correct, however there was insufficient evidence to provide assurance that these were being reconciled with the Purchase Order.	Medium	Stock received should be independently checked and reconciled against the Purchase Order and any differences noted and investigated. The Delivery Note should be signed and dated as being correct.	Performance Manger	31 st October 2009
6	There were large 'write-offs' of stock recorded on Torex with no facility to record the reason for these as a result there was not evidence to support the 'write-off' of stock	High	Consideration should be given to reviewing the current system of recording the write-off of stock. The system set up should clearly record the reason for the 'write-off'.	Performance Manager	31 st October 2009