



Internal Audit Final Report

Development and Infrastructure Department and Community Services

Review of Year End Stock and Work in Progress

June 2010

CONTENTS

	Page
1. BACKGROUND	1
2. AUDIT SCOPE AND OBJECTIVES	1
3. AUDIT APPROACH	1
4. AUDIT FINDINGS	2
5. CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES	4
6. ACKNOWLEDGEMENTS	4

APPENDIX 1

ACTION PLAN

1. BACKGROUND

- 1.1 As part of our annual audit programme for 2010 - 2011 Internal Audit carried out a review of 2009 -10 year-end stock. The review covered Operational Services year-end stock taking procedures, stock counts, quantities and pricing along with Work in Progress (WIP).
- 1.2 Within Operational Services, there remains only one store holding stock records, all others making purchases as required and booking these directly to jobs. The Headquarters for the Roads Lighting store is located in Lochgilphead and issues of stock to other areas are made from this store.
- 1.3 Figures for the WIP are produced by the Contracts Manager, Roads and Amenity Services and the Senior Accountant, Development and Infrastructure Services.
- 1.4 This year the review also covered Integrated Equipment Service (IES) stock for Community Services.
- 1.5 The EIS Stock is held at a number of locations with the service being hosted by the NHS and their staff is responsible for the input/record keeping. All stock and assets for the integrated service are purchased by Argyll and Bute Council.
- 1.6 The findings generated by the audit were discussed with management and resulted in an agreed action plan at Appendix 1.

2 AUDIT SCOPE AND OBJECTIVES

- 2.1 The broad objectives of the review were to ensure that:
 - departmental procedures for the year end stock take were adequate as agreed with Internal Audit;
 - sample count of stock held at the stores is accurate;
 - a sample of stock lines are correctly recorded in the stock system; and
 - a sample test of contract works in progress (WiP) values were calculated accurately.

3 AUDIT APPROACH

- 3.1 The following approach was used to satisfy the objectives of the audit:

Lighting Store:

- A copy of the instructions sent out for the year-end stock take was requested from the Finance Manager – Operational Services.
- As the Lighting store in Lochgilphead was the only remaining store carrying stock within Operational Services, Internal Audit visited this store on 1 April 2010. A sample of stock lines was reviewed and quantities found on the shelves were compared to the stock cards held by the Operational Services Department.
- Internal Audit obtained a copy of the stock certificate for the lighting store from Operational Services and reviewed this for accuracy.

Work in Progress

- Internal Audit also met with the Senior Accountant – Development and Infrastructure, to test a sample of work in progress valuation calculations produced for the year-end.

IES Store

- The IES stock is held at a number of locations but the Hub store is in Oban at Lorn and Islands District General Hospital and this was the store visited by Internal Audit. The stock report provided for IES stock was not run until 26 April 2010.
- The report detailing the stock held at 26 April 2010 produced by NHS staff was passed to Internal Audit by the Senior Accountant, Joint Futures.
- A sample of stock items was selected and the quantities held in the store were checked against the stock report.

4 AUDIT FINDINGS

Lighting Store

Stock Take Procedures

- 4.1 The Audit review found that the stock take procedures were comprehensive.

Stock Check

- 4.2 The lighting store in Lochgilphead is the only store that holds stock and this store was visited by Internal Audit.
- 4.3 Twenty commodities were selected from the stock cards for review. The stock cards had still to be updated for stock issued on 31 March 2010. After the

adjustments had been made 9 stock items did not agree. Some of the items were short and some were over. The Roads Lighting stores Reconciliation for March 2010 was checked against the sample taken during our visit. Departmental staff carried out an independent check of the sample taken by Internal Audit. It was found that some items of stock purchased for capital contracts had not been used and had been returned to the store without being marked up in the stock cards. This resulted in a total stock value difference of £1,216.96 equating to 1.47% of the total value which is not material in relation to the Council's annual accounts. The stock cards will be updated to take account of these returns. Internal Audit will carry out a sample stock check in the current financial year prior to the annual stocktake being carried out in March 2011

Refer to Action Plan Point 1

- 4.4 The storeman informed the auditor that when he was not in the store other workmen had access to the store and would take items of stock but they do not sign out this stock. Although the storeman would be told in advance that there would be a pickup he was not informed of the items required.
- 4.5 Management should ensure that stock records are accurately updated on an ongoing basis to avoid further differences at next and subsequent stock checks. This will reduce the number of adjustments required in order to produce an accurate stores valuation figure for the annual accounts and may highlight any discrepancies at an early stage.
- 4.6 When stock is to be uplifted from the Lochgilphead store an e-mail should be sent to the storeman giving details of the stock items required.

Refer to Action Plan Point 2

- 4.7 Prices used in calculating the stock value were found to be accurate although there were 3 instances where the price recorded on the stock cards was not the most recent as taken from most recent invoice values.

Departmental Working Papers

- 4.7 The findings from Internal Audit's review were checked against the Stock Reconciliation produced by the Finance team within Development & Infrastructure Services.

Work in Progress

- 4.9 Internal Audit was passed a copy of the spreadsheet used to calculate the figure for the 2009 – 10 year-end Work-in-Progress. A sample of 5 items was selected from the 29 entries on the spreadsheet for review and further documentation requested for these items. Documentation was reviewed and the figures provided by Operational Services were found to be satisfactory.

IES Store

- 4.10 A sample of 26 stock items was taken from the stock sheets provided by staff at the Lorn store and a physical check was carried out. Of the 26 items checked only 5 agreed with the figure on the stock sheets. One of the items selected is no longer in use. The stock report was run on 26 April 2010 and the stock check took place on 29 April 2010. There could have been issues and receipts of stock within this period.
- 4.11 A report showing the stock movements for the period 26 to 29 April was provided for Internal Audit. We were still unable to reconcile the stock report with the physical stock count.
- 4.12 The problem with this store is the some items are returned by clients and are then refurbished and put back into the store.

Refer to Action Plan Point 3

5 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

- 5.1 Development & Infrastructure Services demonstrated that they had procedures in place for ensuring stock figures were correctly stated in the financial statements.
- 5.2 Community Services will have to put procedures in place to ensure that the stock records accurately reflect the stock position.

6 ACKNOWLEDGEMENTS

- 6.1 Internal Audit would like to thank Development & Infrastructure Services and NHS staff for their assistance in conducting the audit and producing this report.
- 6.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the scope in paragraph 2.1 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 6.3 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 1

ACTION PLAN

ACTION PLAN NO.	PARA	GRADE	FINDING	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	4.3	High	<p><u>Lighting Store</u> The stock cards had still to be updated for stock issued on 31 March 2010 and items of stock purchased for capital contracts that had not been used. After the adjustments had been most of the stock items agreed.</p>	<p>Management should ensure that stock movements are accurately recorded on an ongoing basis thus reducing the need for year-end adjustments and highlighting any possible discrepancies at an early stage. The stock cards should be amended in respect of purchases made in respect of capital contracts being returned to the store.</p>	Operations Manager	30 June 2010
2	4.4 - 4.5	High	<p><u>Lighting Store</u> The storeman informed the auditor that when he was not in the store other workmen had access to the store and take items of stock but they do not sign out the stock taken.</p>	<p>When stock is to be uplifted from the Lochgilphead store, an e-mail should be sent to storeman giving details of the stock items required..</p>	Operations Manager	30 June 2010

ACTION PLAN NO.	PARA	GRADE	FINDING	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
3	4.8-4.10	High	<u>IES Store</u> The stock reports did not agree with the actual stock held in the store.	A full stock count should be carried out and the stock records should be amended to reflect the actual stock being held. A set of procedures should be produced for the storeman.	Integrated Equipment Services Manager	30 September 2010