



**Internal Audit Report**

FINAL

**Review of Year End Stock**

April 2011

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## **1 INTRODUCTION**

As part of our annual audit programme for 2011 - 2012 Internal Audit carried out a review of 2010 -11 year-end stock. The review covered Development and Infrastructure/Community Services department year-end stock taking procedures and stock counts.

Within Development and Infrastructure, there is only one store holding stock records, the Roads Lighting Store which is located in Lochgilphead which issues stock to all areas within Argyll and Bute. All other purchases are ordered as required and booked directly to jobs.

The review of stock also covered Integrated Equipment Service (IES) stock for Community Services. The EIS stock is held at a number of locations with the service being hosted by the NHS and their staff being responsible for the input and record keeping. All stock and assets for the integrated service are purchased by Argyll and Bute Council.

## **2 AUDIT SCOPE AND OBJECTIVES**

The broad objectives of the review were to:

- Ensure departmental procedures for the year end stock take were adequate as agreed with Internal Audit;
- Ensure a sample count of stock held at various stores is accurate;

## **3 RISK ASSESSMENT**

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

- SR16 Failure to have a robust internal control process and system

## **4 CORPORATE GOVERNANCE**

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

## 5 MAIN FINDINGS

- The audit review found that the year-end stock take procedures for Development and Infrastructure were comprehensive. The Integrated Equipment Store processes have been improved since last year and this has resulted in a lower stock variance.
- Monthly stock reconciliations of the lighting store have taken place and this has resulted in a significantly smaller stock variance than in previous years. Stock checks have also been carried out during the year for the IES which has helped improve the year end stock count.
- Internal audit has some security concerns with regards to the storage of the integrate social work stock. The building where most of the social work stock is stored also contains a business, where members of the public can buy goods and services.

## 6 RECOMMENDATIONS

One recommendation was identified as a result of the audit, it was categorised as low priority. The recommendation is shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way

## **7 AUDIT OPINION.**

Based on the findings we can conclude that Development & Infrastructure have demonstrated that they have procedures in place for ensuring stock figures are correctly stated in the financial statements. The IES processes have improved significantly from last year, which has resulted in a more accurate year end stock figure.

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;

- Senior Accountant – Joint Futures
- Integrated Equipment Store Manager
- Development and Infrastructure Staff

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.

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