



Internal Audit Final Report

Bridgend Recreation Centre

Directorate: Education, Leisure and Community Services
Date: April 2008

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1. Introduction

- 1.1. An audit review of the financial procedures at Bridgend Recreation Centre was undertaken at the request of the Interim Operational Manager following routine checks which identified some areas of concern.
- 1.2. The functions of the section were examined, key controls identified and testing undertaken. The audit findings are based on;
 - Discussions with staff and observations
 - detailed review of daily income sheets
 - review of the stock and financial controls operating in the bar and catering functions
 - examination of reporting procedures

2. Objectives of the Audit

- 2.1. The main objectives of the audit were to identify areas of weakness in controls.

3. Audit Opinion

- 3.1. There are general weaknesses in controls surrounding the cash handling and stock management processes. The weaknesses in the cash handling process can occur at any stage from the issue of the float, to the cashing up process. The weaknesses in the stock management range from a lack of assurance that stocks are held securely due to the unknown number of keys in existence, to errors identified in the stock takes.
- 3.2. Given these weaknesses, it is not possible to allocate responsibility for deficits or errors to any specific members of staff.. The key areas for concern are:
 - Access to, and control of floats
 - Procedures for checking takings
 - Investigation of deficits
 - Staff training
 - Reporting procedures
 - Management monitoring and action, particularly on stocks on this occasion.
- 3.3 We have general concerns that, on the evidence of previous audit reviews of the Recreation Centre weaknesses in control, although perhaps initially addressed, appear to recur.
- 3.3. The overall audit opinion is that the above mentioned functions at the Bridgend Recreation Centre remain **inadequately** controlled despite being highlighted in previous audit reviews. It should however be noted that the comments in the management action plan reflect recent intervention in a number of areas some of which are still in the process of management review. It is anticipated that a number of the actions required will be of a long term nature and will be influenced to an extent on future budget decisions. It is also accepted that there have been a number of unique resource issues which have impacted largely on the implementation of management controls.

4. Findings, Recommendations and Management Action Plan

Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results.

The **recommendations** column is categorised on the following basis:

- Fundamental* - action that is considered imperative to ensure that the organisation is not exposed to high risks;
- Significant* - action that is considered necessary to avoid exposure to significant risks;
- Merits attention* - action that is considered desirable and should result in enhanced control or better value for money.

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
1	<p>General</p> <p>Review of the bar income for 2007/8 shows a steady decline in the income and the number of function bookings. The bookings for functions are reliant on regular customers. The recent year has seen a reduction in the numbers of bookings as regulars drift away. There appears to be no emphasis on this side of the business in the marketing system. Given the current trend, the future viability of maintaining such a service may be in question.</p> <p>This is an area of the Centre that could generate income in view of the profit margins associated with bars and catering.</p>	Significant	<p>Management should investigate the best way forward for improving the marketing of the function facilities at the Bridgend Recreation Centre. An area worth consideration is inviting comments and suggestions from customers.</p>	<p>The future management of the bar, catering and entertainments functions are currently under review by management. The sports and recreation service review is scheduled to be completed by July 2008. Detailed proposals for the Recreation Centre will follow this. Findings will be reported to CMB and cabinet.</p> <p>The management of the Bar and Catering provision at BRC has now been put out to tender April/May 2008</p>	December 2008

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
2	<p><u>Key Points</u></p> <p>a) Documented procedures for the financial administration at the centre could not be located on request.</p> <p>b) There are no authorised signatory lists to provide guidance on levels of authorisation.</p> <p>c) Access to the safes has not been designated to specific officers. There is no official register for keys to the safes.</p> <p>Reporting lines for managers and duty officers are not defined. As a result, senior managers are not made aware of problems on all occasions. It is also unclear whether supervisors are aware of their financial responsibilities.</p>	Significant	<p>a) Documented procedures should be regularly updated and provided to all staff involved in cash handling.</p> <p>b) An authorised signatory list should be introduced which specifies the level of authorisation of each officer. E.g., Individuals responsible for cashing up tills or assessing void transactions, staff with access to the safes, etc.</p> <p>c) The signatory list should include a list of staff permitted to access the safes. There should also be a key register to be signed by staff.</p>	<p>a) Documented procedures have been located and staff training will be provided in implementation of the procedures.</p> <p>b) Agreed that only suitably trained staff should be given these responsibilities.</p> <p>c) Agreed. Training is planned for managers and officers acting up.</p> <p>Training required for relevant staff on Sport and Recreation Financial Procedures</p>	July 2008
3	<p><u>Petty Disbursements</u></p> <p>Petty disbursements are made from the main change float at weekends when petty cash is not available. This practice presents a number of issues which were confirmed by examination of the 'cash used from main float' documents; Inadequate details recorded in the narrative column.</p> <p>Signatures of staff are unclear.</p> <p>Amounts repaid do not always tie up with the amounts withdrawn.</p> <p>On 20/04/07 there is no record of the float being reimbursed from petty cash.</p>	Merits Attention	See comments below.	Agreed to make petty cash available at weekends. The Supervisor will be designated responsibility for the petty cash float which will have a maximum value of £30. This will reduce the number of staff accessing the main float and dispense with the current documentation.	July 2008

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
4	<p>Daily float check records; Identification of discrepancies is made difficult by the format of the form currently in use. Shaded areas can obscure the details recorded, signatures are also recorded in the totals row, there is no facility to record the withdrawals or reimbursements which are made at weekends when there is no access to petty cash.</p>	Significant	<p>The format of the float check records should be improved to allow for the clear signatures of the staff performing the checks and to clearly show any discrepancies.</p> <p>The practice of using the main change float for petty disbursements should cease. Management should ensure that; either petty cash is made available, or a specific float of a more appropriate value (e.g. £30) set up solely for this purpose.</p> <p>The level of the main change float should be reviewed. The sum of £1975.00 creates an unnecessary administrative burden. Consideration should be given to taking the main change float out of circulation.</p>	<p>Agreed. The format of the documents will be reviewed and amended to make details clearer. Staff will be instructed to complete all sections of the form. These will be checked periodically by admin. staff to ensure that they are being correctly completed.</p> <p>For convenience, the bulk of the large float will be put into sealable bags with seals this will speed up the amount of cash being counted daily. This will be reviewed after a trial period to ensure that it does not detrimentally impact on efficiency.</p> <p>Procedures currently being looked at by Senior Management Team</p>	July 2008
5	<p>Float Handover Records Review of a random sample of float handover records showed that on occasions:</p> <ol style="list-style-type: none"> there were no details of floats being returned at the end of the shift floats were returned at the end of the shift but no amounts signed for at the start of the shift no security tag numbers recorded for bar floats numerous cases of floats not confirmed as returned. <p>The float handover sheet does not specify that the float has been checked by the recipient on issue or return. This task is completed by the member of staff</p>	Significant	<p>The float handover sheet should require the recipient of the float to confirm that it has been checked. There should be evidenced periodical review of these documents my management.</p>	<p>Agreed. As for the daily float check records, the float handover records will be checked periodically by the admin. Staff to ensure that all relevant details are recorded.</p> <p>Training required for relevant staff on Sport and Recreation Financial Procedures</p>	July 2008

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
	responsible for cashing up. The number of incomplete float handover records makes it impossible to gain assurance that the floats are accurate. As a result, the accuracy of the subsequent take is also in question.				
6	<p><u>Cashing up Function</u> Procedures and levels of responsibility for the cashing up function were discussed with 4 of the duty officers. The range of responses from the above members of staff varied considerably. None of the staff displayed confidence in the use of the tills. A basic list of instructions accompanies each till e.g., open till, count float, etc. When over-rings occur, the duty officers request the staff to retain the till receipts and provide an explanation. Deficits are mentioned to the till operators but staff are not requested to make good deficits. The duty officers do not examine the till rolls to establish the reasonableness of over-rings by comparing subsequent orders. Guidelines on the operation of the tills were produced during the discussion. These are Torex procedures but they do cover the key points. They have not however been distributed to staff. It appears that duty officers are in a 'fire fighting' situation. They are doing their best with scant procedures and training.</p>	Significant	Documented procedures should be produced for all key activities. Training requirements should be established and addressed.	<p>A programme of financial training will be undertaken for all staff following an initial training session for managers provided by senior managers and Internal Audit. This training session is intended to provide a background to the reasons behind the procedures. Due to the comprehensive nature of the current documented procedures, a brief document highlighting the key areas is being considered. This will be supported by the full procedures.</p>	July 2008

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
	<u>Under & Over Banking Reports</u>				
7	<p>Reception; Numerous under-rings which indicates that not all income is being recorded at the point of sale. A number of unexplained deficits. Numerous errors with credit/debit card payments and refunds.</p> <p>These points raise the issue of staff training and monitoring by management.</p>	Significant	<p>a) Procedures should be reviewed to ensure they are up to date and available to staff. Training of staff in procedures and till operation should be instigated.</p> <p>b) Monitoring of the detailed financial operations of the centre needs to be implemented.</p> <p>c) Reporting of financial operations needs to be improved to ensure problems are addressed and information is given to senior managers on a timely basis.</p>	<p>a) As above.</p> <p>b & c) Resource issues have affected this area in recent years. The new provisional management structure at BRC will provide a system of monitoring and simplify reporting lines.</p> <p>Training required for relevant staff on Sport and Recreation Financial Procedures</p>	July2008
8	<p>Catering; High number of unexplained discrepancies; surpluses as well as deficits. E.g. 30/06/07 -£18.65 deficit, £3.00 over-ring identified. £15.65 remained unexplained. Possibly indicating inaccurate floats or the need for training in the operation of the till.</p>	Significant	As above	<p>This area will be incorporated into the staff training. The new allocation of responsibilities should ensure that reporting lines are clear and that discrepancies are brought to the attention of management.</p>	July 2008

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date																					
9	<p>Bars: Examination of the cashing up sheets for the bar revealed a number of over rings, a sample of which were examined and found to have reasonable explanations. The sample did not however reflect the overall level of over rings identified by the stock taker. These are summarised below;</p> <table border="1"> <thead> <tr> <th>Date 2007</th> <th>Over-rings (£)</th> <th>% of till reading</th> </tr> </thead> <tbody> <tr> <td>27/03 – 24/04</td> <td>1824.90</td> <td>14.3</td> </tr> <tr> <td>24/04 – 05/06</td> <td>80.85</td> <td>0.9</td> </tr> <tr> <td>05/06 – 03/07</td> <td>58.00</td> <td>2.4</td> </tr> <tr> <td>03/07 – 07/08</td> <td>744.70</td> <td>13.9</td> </tr> <tr> <td>07/08 – 04/09</td> <td colspan="2">Info not available</td> </tr> <tr> <td>04/09 – 04/10</td> <td>29.31</td> <td>2.2</td> </tr> </tbody> </table>	Date 2007	Over-rings (£)	% of till reading	27/03 – 24/04	1824.90	14.3	24/04 – 05/06	80.85	0.9	05/06 – 03/07	58.00	2.4	03/07 – 07/08	744.70	13.9	07/08 – 04/09	Info not available		04/09 – 04/10	29.31	2.2	Merits Attention	A system needs to be introduced for routine monitoring and investigation of over rings and reporting findings to an appropriate manager. Ideally, there should be periodic, high level management review of all areas of income.	Stock take reports will be scrutinised by the Programme Development Manager who has experience in interpreting stock results. Areas of concern will be referred to the bar and catering manager for investigation and explanation.	January 2008
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10	The bars and catering manager does not work evenings. One of the casual bar staff has been given responsibility of acting up as bar supervisor. These duties include obtaining change for the tills, changing barrels and collecting bottled stock from the cellar. This also includes completing the documentation for issuing stock.	Significant	Management should consider a review of the current staffing. For a fixed period, the bar be manned and managed by the bars manager for evening functions. This combined with the enhanced stock monitoring documentation recently introduced, should impact on the deficits which have been occurring persistently.	Since December 07 the bars and catering manager has been present during selected evening functions.	Immediate																					

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
11	<p>Comparison of invoices received from the bar supplier to the orders and the contract price list revealed a number of small discrepancies.</p> <p>It was also noted that there is no stated contract price for multiple purchases e.g., Invoice no. 9218676 30/08/07 - Smirnoff Red Label Vodka – 1.5lt x 6 bottles - £110.01 or £18.33 / bottle. Contract price per bottle £19.15.</p> <p>The minor price variations indicate that BCBC may not be informed of small price variations.</p> <p>The lack of contract prices for multiple orders of spirits indicates an area for future consideration.</p>	Merits Attention	<p>Any price variations should be clarified with the suppliers.</p> <p>Future contracts should include prices for multiple/bulk orders.</p>	<p>The responsibility for checking the supplier invoices will include confirmation of prices to the contract. This will be designated to the bar and catering manager.</p>	Immediate
	<u>Stock take Reports</u>				
12	<p>Initially, the stock take reports were scrutinised. Wastage for each stock take period was high in relation to the calculated receipts. <u>See Appendix 1.</u></p>	Significant	<p>A detailed system for recording and monitoring wastage should be introduced to aid in the identification of problem areas.</p> <p>Wastage records should include clear dates, stock lines and quantities.</p> <p>The nature of the waste should also be recorded, e.g., line cleaning, spillage, ullage, out of date stock, spoilt drinks.</p> <p>The number of lines used per function should also be recorded as this will affect the wastage allowance.</p> <p>Wastage records should be regularly monitored by an independent member of staff.</p> <p>A line manager should be designated to the</p>	<p>Agreed to implement a comprehensive wastage record which will be monitored by the Programme Development Manager.</p> <p>Any issues arising will be addressed to the bar and catering manager.</p>	January 2008

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
			bar/catering supervisor to maintain reporting lines. NB. The Grand Pavilion is currently using a comprehensive wastage record – this could be adapted for use at BRC. See example attached as appendix 2 .		
13	Examination of the stock take reports of the two available till analyses showed numerous deficits. A sample is listed in Appendix 3 .	Significant	The introduction of financial procedures and management checks should strengthen the controls relating to till and cashing up operations, however the management of stock is also a key issue. Specific procedures should be introduced for the management of stock. Particular attention should be paid to the recording of issues and returns from the stores. Management should scrutinise stock take reports and report findings and required actions to senior management.	Changes in the management responsibilities have been introduced since the departure of the Interim Manager. Responsibility for day to day management of the BRC has been allocated to the Facilities Co-ordinator who will be working with the bar and catering manager to isolate and address discrepancies. As previously stated, the stock take reports will be scrutinised by Programme Development Manager.	January 2008
14	The stock taker has identified 2 potential problems which were most recently referred to the bars & catering supervisor following the August 07 stock take; <ul style="list-style-type: none"> Differentiation between half pint measures and dashes for the post mix. Stock taker advised that the machines should be re-set by the suppliers. Also suggested that the machines should be moved to prevent accidental spillage. One possible method of resolving this issue is the use of bottled lemonade and	Significant	Management should take decisive action on this issue in an attempt to eliminate the current problems with discrepancies and excessive wastage.	Historically, post mixes have shown deficits against expected income due to the nature of the product. Customers request different quantities of mixer consequently the potential loss of income in this area is questionable. One possible remedy would be to use bottled lemonade and coke mixers. This point will be considered further.	March 2008

	Findings and Risk	Categorisation	Recommendation	Management Comments	Implementation Date
	<p>coke To date (October 07), none of the above have been implemented.</p>				
15	<p>The stock take reports for the current year were examined to establish the extent of the scrutiny and action taken.</p> <p>The accuracy of the income figures used in the stock takes for the current year was also checked. This was achieved by obtaining the financial information from the BRC bars cost centre on CedAr and comparing it to the figures stated by the stock taker.</p> <p>The final stock results and percentage deficits were re-calculated.</p> <p><u>See Appendix. 4</u></p>	Significant	<p>Due to the significant impact on the stock take results; The stock taker should be provided with details of all invoices raised / income received in different periods to the movement of the stock. The stock taker should be requested to stamp the invoices and note the stock take period that they are being included in.</p>	<p>Direct responsibility for addressing the issues relating to bars and catering will be allocated to the Dry Sports Manager who will be responsible for ensuring that all information on the stock reports is accurate. Responsibility for the interpretation of stock result figures will be allocated to Programme Development Manager.</p>	January 2008

Appendix 1

Re: Audit test 12 - Wastage

The Sept/Oct 07 wastage was valued at £295.80 including spillage of £101.80 which was approximately 86 % above the target figure of £14.40 as recommended by Stock Watch. The wastage records for the period July – September 07 were also scrutinised to establish the level of detail and to try and attempt to isolate causes.

July wastage records show an allowance of £454.40 for line cleaning. Based on the information supplied on the wastage record and reasonable estimation, the audit estimate for wastage is in the region of £295.00.

- Two of the four entries do not provide any measurement of the waste or the number of lines cleaned.
- Where wastage has been itemised there are substantial differences in the amounts claimed.
- There is no narrative to explain the level of wastage.
- Wastage sheets are not signed by the bars and catering supervisor / manager.
- There is no evidence of independent review of the wastage records.
- There is no clear information relating to any other form of wastage apart from line cleaning when there have been claims for ullage, spillage and out of date stock. (This point relates to the 3 months in question).
- The level of wastage claimed for the 3 month period is high in relation to the sales. This could indicate technical or staff training issues.

In conclusion –

Wastage is very high. There are no detailed, evidenced records to support the level of wastage claimed. There is an absence of independent monitoring and authorisation.

Appendix 2.

Example of layout of the bar wastage record used at The Grand Pavilion

Ullage / Wastage Record

Date	Item	Cost	Reason	Signature	Included in Stocktake
01/06/07	Jacobs Creek Wine (2 bottles)	£12.00	Corked	Joe Bloggs	Date of stock take.
09/06/07	Bacardi Breezer	£2.00	Dropped - broken	H. Potter	
20/06/07	All kegs (14 pts)	£36.00	Line cleaning	R. Weasley	
27/06/07	Carling (1 pt)	£2.40	Drip trays	J. Bloggs	
27/06/07	Strongbow (1/2 pt)	£1.20	Drip trays	J. Bloggs	
27/06/07	Worthington (2 pts)	£3.60	Drip trays	J. Bloggs	
01/07/07	Famous Grouse	£1.50	Returned by customer – glass not clean	H. Potter	
	Etc.....				

Appendix 3

Re: Audit test 13 Stock take analysis – physical stock

Feb-Mar -£30.40 vodka
Mar-Apr -£132.60 vodka
Feb-Mar- £16.20 Jack Daniels
Mar-Apr -£57.00 Jack Daniels
Overall deficits for keg beers:
Feb-Mar -£251.33
Mar-Apr -£481.33

Mar-Apr – overall deficits
House Wines -£48.00
Other wines -£253.40

Appendix 4

Re; Recommendation 15

Stock take analysis – Financial

NB. August stock summary was missing but all others were reviewed.

1. One invoice for the supply of wine at a wedding function had not been included in the income for the period of the stock take. This invoice was paid in advance in February 07 but the stock was not used until 14/04/07 – this income was not reflected in the stock take period. See WP. 7.18.1.

The audit recalculation reduces the stated deficit from -£1265.54 (11.5%) to -£1047.54 (9.34%).

This result will adversely affect the February 07 stock result.

2. For the period 24/04/07 to 05/06/07, income in the sum of £735.32 was included in the overall income figure. See wp.7.18.2. This had already been included in the previous stock take period resulting in an overstatement of receipts.

The audit recalculation reduces the stated surplus from £190.25 (2.11%) to a deficit of £673.73 (-8.26%)

The file of invoiced items was reviewed to ensure that all other invoiced income had been captured. It was noted that the stock taker does not indicate on the file, that items have actually been checked and included in the stock result.

In conclusion, there are gaps in the controls surrounding the capture of invoiced income.

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