



**Bridgend & Vale  
Internal Audit Service**



**Internal Audit  
Final Report**

**Bridgend County Borough Council  
County Borough Supplies  
December 16th 2011**

**To: Phil Hughes – Manager County Borough Supplies  
James Ferris – Group Manager Procurement  
David MacGregor – Assistant Chief Executive - Performance**

**From: Internal Audit**

**Auditors: Kathryn Usher & Tommy Morgan**

**Audit Ref: AA050 2011/12**

**Date : 16<sup>th</sup> December 2011**

## **1. Introduction**

- 1.1 An audit review of County Supplies was undertaken as part of the 2011/12 annual Internal Audit Plan.
- 1.2 This report sets out the findings of the review and makes recommendations, where it is felt that improvements in financial and non-financial administration could be made.
- 1.3 The County Borough Supplies Services is a one stop purchasing facility for each of the four partnering Authorities, (BCBC, RCT, Merthyr and Caerphilly). In addition, the facility is also available to and used by other organisations including South Wales Police.
- 1.4 The overall financial position of the service is detailed in the 2010/11 statement of accounts and indicates that in the year to 2010/11 the service incurred a deficit of £1K which includes expenditure on modernisation costs of £39K. The balance sheet indicates reserves of £515K inclusive of an accumulated surplus of £474K.

## **2. Objectives & Scope of the Audit**

The objective of the audit is to provide assurance to the Catalogue Supplies Joint Committee that appropriate financial and operational controls are in place.

2.1 The scope of the audit was :

- To review compliance with Contract and Financial Procedure Rules with respect to the ordering, receipting and authorisation of payments for goods and services.
- To evidence that the Supplies Service is compliant with the BCBC contract procedure rules with respect to the award of contracts.
- To examine controls over income receipting & banking to ensure that monies are receipted, stored securely and banked intact.
- To identify and test controls in place over sales invoicing including the issuing and authorisation of credit notes.

- To examine debt control processes and the authorisation of bad debt write offs.
- To examine controls over the store function to incorporate the regularity of stock checks, analysis of stock movement and the authorisation of stock write offs.
- To review and comment on business planning and performance including budgetary control.

### 3. Strengths & Weaknesses

3.1 During the audit a number of strengths and areas of good practice were identified as follows:

- As identified in previous audits, systems of internal control are well embedded and testing indicates that controls are adhered to in practice.
- Sound governance arrangements are in place with quarterly meetings with the Joint Supplies Committee incorporating performance reports from the service manager. There is also full consideration of future developments and the ongoing service review.

3.2 The following key issues were identified during the audit which need to be addressed:

- Whilst no recommendation is made in this report the review of the future of the service has been ongoing for a number of years and this represents a significant risk to the service.
- Testing of contracts tendered by the service identified a small number of instances whereby envelopes were marked in such a way as to allow the sender to be identified.

### 4. Audit Opinion

4.1 Based on an assessment of the strengths and weakness of the areas examined, and through testing it has been concluded that the effectiveness of the internal control environment is considered to be sound and therefore **substantial assurance** can be placed upon the management of risks. This overall opinion is supported by the identification of a well controlled system where only minor recommendations may have been made where it is considered that the action required is desirable and should result in enhanced control or improved value for money.

### 5. Acknowledgement

5.1 A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

## 6. Findings and Recommendation

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.

### 6.1 Contracts

Ref	Possible Risk	Key Findings / Conclusions	Recommendation	Categorisation
6.1.1	Breach of EU Regulations. Potential challenge to successful tenders.	All tenders are forwarded to Buy4Wales who arrange for them to be published in the EU Journal. For the three tenders sampled, this was approximately two months before the closing date of the tender. Time requirements were found to have been complied with.	None	
6.1.2	Uncompetitive award of contracts.	For the sample of three contracts tested, a formal tender exercise in line with the CPR's had been completed for each. All tenders had been delivered to Legal Services at the Civic Offices. They were recorded and opened by an officer from Legal and the Purchasing Manager. For higher value tenders the Mayor and Deputy Leader were also present as required by the contract procedure rules.  Contracts tested:  B(CBS)/038/10 – Sports & Gymnasium Equipment B/(CBS)/086/11 – Educational Aids B/(CBS)/073/11 - Supply of Residential Contract furniture.	None	

6.1.3	Favouritism to particular tenders; corruption; legal challenge from unsuccessful tenders.	<p>From the three contracts sampled, five of the 102 tender envelopes had been marked. Three were post office stickers which had the sender post code and either the persons name or unit number as they had been sent recorded delivery. One had a blurred franking mark and another had a company return address stamp on the back, neither were the same names as the supplier names for the tenders received. All had been analysed and four of the five have been awarded contracts.</p> <p>All tenders were recorded on the tender schedule and signed by two or more officers.</p>	In line with section 12 of the Contract Procedure Rules, Tenders should not be considered if the envelope is marked which could indicate the supplier submitting the Tender.	Significant
6.1.4	<p>Tender award is not competitive.</p> <p>One person has undue influence over the award of contracts.</p>	<p>Contracts are evaluated based on the following scoring:                  Quality 40%                  Price 35%                  Technical Merit 15%                  Delivery 10%</p> <p>Contracts are not awarded to just one supplier. Each contract is split into lots and the most advantageous supplier for each lot is awarded the contract for those items.</p> <p>The lead Purchaser which is either the Purchasing Manager or the Buyer completes the analysis based on the data they receive in the Tenders. There is also a technical panel which includes officers from Cardiff Supplies.</p>	None	
6.1.5	CBS are charged incorrect prices.	<p>A sample of 20 products was selected from invoices. Each was then checked back against the contract to ensure that County Supplies were being charged the correct contractual rate.</p> <p>Testing indicated that CBS has been correctly charged the contractual rate for 19 out of the 20 products the exception being one where a lower price had been charged.</p>	None	

## 6.2 Purchases

Ref	Possible Risk	Key Findings / Conclusions	Recommendation	Categorisation
6.2.1	No segregation of duties creating the risk of fraudulent purchases.	Officers have different access rights within Syspro. Orders are raised and authorised by one team, and deliveries are receipted and invoices entered by another team. Batches of invoices are manually approved for payment by management and also approved by them on COA.  Appropriate segregation was found to be in place for the sample of 20 invoices tested.	None	
6.2.2	Fraudulent purchases are made and invoices not retained.  Officers act outside of their authority.	There is a clear division of duties between the person entering and approving the invoices for payments.	None	
6.2.3	Goods ordered that are not required.  Goods ordered for personal use.  Inaccurate budget info due to commitments not being recorded.	Purchase orders are raised when stock levels are at or below the levels set in the system.  For items that are not held in stock, an order is activated on receipt of an order from the customer.  Orders are authorised by various officers in the buying team, up to their authorisation limits which have been approved by the Joint Committee.  Orders are emailed or faxed to the supplier. Hard copies are signed and retained until the item is received and the supplier has invoiced for the item. It was not possible to verify authorisation for orders in the sample as they were no longer held.	That the retention of electronic copy orders is considered in order to evidence that they were approved within the correct authorisation limits.	Merits attention

6.2.4	<p>CBS charged for goods not received or faulty/damaged goods.</p> <p>Deliveries made to Officers own address – fraudulent purchases.</p>	<p>From the sample of 20 invoices examined, 15 had delivery notes which had been addressed to CBS Waterton although one had not been signed.</p> <p>One invoice was received in five separate deliveries only four of the five had delivery notes. Evidence was available that checks had been made to whether the fifth delivery had been received.</p> <p>Two invoices had deliveries direct to the customer and the other two were for services so no delivery note would be received.</p>	None	
6.2.5	Inaccurate payments made to suppliers.	Supplier Statements are received and reconciled to the accounts; copies are only retained for those received at the year end.	None	

### 6.3 Stock

Ref	Possible Risk	Key Findings / Conclusions	Recommendation	Categorisation
6.3.1	Procedures do not exist for stock control; Roles & responsibilities are unclear leading to gaps in the internal control environment.	<p>It is evident that there are documented procedures for booking goods in/out.</p> <p>In addition, there are procedures documented for the stock take in the form of a memorandum detailing the procedure to be undertaken during a stock take inclusive of individual responsibilities.</p>	None	
6.3.2	Misappropriation of stock.	<p>Stock items which are deemed to be attractive are on the shelves which are more visible. Items such as disks and flash drivers are stored in locked cabinets. Access to these are restricted to two officers, both have their own keys and neither can be on leave at the same time.</p> <p>Attractive items such as washing powders have signs above advising that they are counted daily. The Stores Assistant advised that these are no longer checked daily but are randomly counted depending on time and work loads.</p> <p>Although there is a segregation of duties between pickers and drivers, the stock for each van is picked by the warehouse staff and placed onto a separate pallet for each delivery area. These are then checked by another officer.</p> <p>The picked items are stored on pallets in between the stock aisles. There is no physical security barrier, such as a separate despatch bay which would restrict the driver's access to the stores.</p>	None	



6.3.3	<p>Inaccurate stock records</p> <p>Stock misappropriations are unidentified.</p> <p>Obsolete stock is not identified.</p>	<p>Copy of the stock take procedure was provided. In order for there to be segregation in duties, Admin Officers work with the Warehouse Officers to count the stock.</p> <p>The stores are closed during the stock take and no items are booked in or out during this period.</p> <p>The IT and Supplies and Service Manager provided a copy of the stock report for 4<sup>th</sup> October 2011, which was for 3,094 different items with a total stock value of £510k.</p> <p>A total of 20 items were traced from the shelves to the stock held on Syspro and a further 20 from Syspro to the stock held. Although the movement of the stock was reviewed only 42% of the stock items were confirmed to have been accurately recorded. This results in a discrepancy of £619 from a total stock value of £18,900. In terms of error rate this equates to 3%. (Presumed error of £15K overall). This would be unlikely to be considered material.</p>	None	
6.3.4	<p>Unauthorised stock adjustments are made.</p>	<p>Copies of the stock adjustments for the previous 6 months were provided. A total of £5,428.17 worth of stock had been written off.</p> <p>A sample of five adjustment forms were reviewed, four had been raised by an Administrative Officer and authorised by the IT and Service Support Manager. The other had been raised and authorised by the IT Service Support Manager although this was for adjustments between stock items.</p>	None	

## 6.4 Sales Invoicing & Credits

Ref	Possible Risk	Key Findings / Conclusions	Recommendation	Categorisation
6.4.1	<p>Fictitious stock movements.</p> <p>Customer disputes invoice.</p> <p>Poor cash flow due to failure to invoice in a timely manner.</p>	<p>A Sample of 20 stock items were traced from Syspro to the customer order, signed delivery and invoice. All documents were evident and all delivery notes had been signed.</p> <p>The time taken between the customer placing the order and delivery being received and between delivery being received and the customer invoiced were calculated to be 5.3 and 1.3 days respectively.</p>	None	
6.4.2	<p>Unauthorised credit notes given on a corrupt basis.</p>	<p>A report of credit notes between 1<sup>st</sup> April 2011 and 30<sup>th</sup> September indicates a total of £42,470 raised for the period. On closer inspection this was identified as being inclusive of Retro Rebate from Suppliers.</p> <p>A sample of five credit notes were examined. To ensure that there was appropriate reasoning evident for the credit given. Three had returns notes signed by warehouse staff to verify stock had been received back and signed and dated by admin officer to verifying customer credit note raised. The others were for non stock items, one had been returned direct to the supplier and customer credited after receipt of the supplier credit note. For the remaining credit the supplier refused to accept the goods back as they were not faulty, notes on the accounts advised that the item had been returned and customer credited less £150 which was a stock handling charge as the item can now only be sold second hand.</p>	None	

## 6.5 Debt Management

Ref	Possible Risk	Key Findings / Conclusions	Recommendation	Categorisation
6.5.1	Debt collection is ineffective resulting in cash flow issues for the Supplies Service.	<p>Outstanding debts over 30 days as reported in the statement of accounts were:</p> <p>2009/10 £44,205.96                      2010/11 £65,502.62</p> <p>The Statement of Accounts advise the debtor days to have decreased during the previous three years:</p> <p>2008/09 38 days                      2009/10 35 days                      2010/11 29 days</p> <p>The IT and Service Support Manager advised that debts had not been written off for approx 5 years. Discussions are in place with External Audit for which aged debts can be written off.</p> <p>Recently, the Principal Accountant requested clarification on the authorisation and reporting procedure for the writing off of debts that are included in the bad debt provision, which is approx £14K. Some of which dates back as far as 2005/06.</p> <p>Audit advised that where debts are written off it should be ensured that this should be reported to the Joint Committee. Additionally, It should be considered whether the approval of the Chief Accountant is necessary for debts over a certain value.</p> <p>It is felt that procedures for write off need clarifying and documenting as recommended in the previous audit.</p>	<p>Control sheets should be introduced for bad debt write offs which should be approved by the CBS Manager ** prior to being actioned on the system.</p> <p>** Subject to whether there is a requirement under the Council's Constitution or that of the Catalogue Supplies Service for Senior Management of BCBC to authorise.</p>	Merits attention

6.5.2	Payment terms are not communicated to suppliers.	<p>Statements are issued monthly and followed up with standard letters for any 30, 60 or 90 days overdue.</p> <p>Terms and conditions are published on the website and credit terms are printed on the front of each invoice along with the requirement to notify discrepancies.</p> <p>Debts were advised to be chased after 60 days. During the Audit two officers were actively chasing outstanding debts.</p>	None	
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## 6.6 Banking & Receipts

Ref	Possible Risk	Key Findings / Conclusions	Recommendation	Categorisation
6.6.1	Monies are lost or misappropriated.	<p>There are two officers involved in the opening of mail; details of cheques received are recorded on the BCBC Register of Remittance Form.</p> <p>These forms are sequentially numbered and signed by both officers involved in the opening of mail.</p> <p>The form is also signed by the officer entering the cheques on to E-Banking and the PIB.</p> <p>The income received for two months, August and September 2011 was examined. All BCBC Register of Remittance Form had two signatures evidencing that segregation of duties exists.</p>	None	
6.6.2	Monies not banked promptly; monies not banked intact.	<p>All had been banked promptly and correctly recorded onto the Ledger.</p> <p>Cheques are stored in the officer's desk drawer between the banking being completed and physically being taken to the bank. Currently the banking is being undertaken daily but in order to reduce the time this is taking it is to reduce to twice weekly unless high value of cheques is received.</p> <p>As the income received is mainly cheques and not cash the insurance limits are not exceeded.</p>	That prior to cheques being taken to the bank they should be securely stored.	Merits Attention

## 6.7 Performance & Budget Management

Ref	Possible Risk	Key Findings / Conclusions	Recommendation	Categorisation
6.7.1	That there is no plan in place for the continuation of service.	CBS has a 5 year Service Business Plan which was approved by the Joint Committee in February 2010 and who are now updated on a quarterly basis.	None	
6.7.2	That the service provided does not meet the needs of its customers	<p>Quarterly reports are issued to the Joint Committee with reports being provided to the future of the Service. These include:</p> <ul style="list-style-type: none"> <li>• Standstill</li> <li>• Modernisation</li> <li>• Explore partnering within public sector</li> <li>• Develop an Exit Strategy</li> </ul>	None	
6.7.3	That there is no control of the budget; budget overspend.	<p>Responsibility for the budget has been delegated to the JSS Manager.</p> <p>A financial review is carried out monthly and includes analysis the trading figures, stock holding and organisation expenditure etc</p> <p>There is close involvement with the Principal Accountant with respect to budget monitoring.</p> <p>Budgets are reported to the Joint Committee. CBS has been self funding although deficits could be required to be financed equally be the four Councils.</p>	None	

## 7. Management Implementation Plan

Rec No.	Recommendation	Categorisation	Report ref.	Agreed	Management Comments	Job Title of Officer Responsible	Date to be implemented
1	In line with section 12 of the Contract Procedure Rules, Tenders should not be considered if the envelope is marked which could indicate the supplier submitting the Tender.	Significant	6.1.3	Yes	Practice to be reviewed with Legal & Regulatory, the office receiving all tenders/opening tenders on behalf of CBS.	CBS Manager/ Purchasing Manager	Nov/Dec 2011
2	That the retention of electronic copy orders is considered in order to evidence that they were approved within the correct authorisation limits.	Merits attention	6.2.3	Yes	Agreed, methodology for retention of the evidential record to be introduced with immediate effect.	IT & Support Services Officer/ Purchasing Manager	11/11/2011
3	That prior to cheques being taken to the bank they should be securely stored.	Merits attention	6.6.2	Yes	Agreed, CBS will purchase a small safe for retention of cheques during the week until a proposed weekly, rather than twice weekly activity, subject to a the value of cheques received at any time.	IT & Support Services Manager	18/11/11