

BRIDGEND COUNTY BOROUGH COUNCIL

CATALOGUE SUPPLIES SERVICE JOINT COMMITTEE

29 JANUARY 2015

REPORT OF THE ASSISTANT CHIEF EXECUTIVE – LEGAL AND REGULATORY SERVICES

SERVICE TRADING AND OPERATIONAL PERFORMANCE

1. Purpose of Report

The purpose of the report is to appraise Members of the Service trading and operational performance during the year to date and to present Members with the proposed Revenue Budget for 2015-16.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities.

2.1 The Joint Supplies Service (JSS) provides a purchasing and supply function which secures savings to corporate customers and schools through economies of scale and thereby contributes to the financial prudence of the Authority.

3. Background

3.1 The JSS provides a single-source supplies facility for each of the partnering Authorities, through delivery via stores and a direct sourcing function for items of common and repetitive spend. It demonstrates savings to customers and schools through economies of scale.

4. Current Position

4.1 Performance Review: April-December 2014-15

4.1.1 Service Turnover

2014-15 1st April – 31st December (Week 39-40)

As part of the regular reports to the Joint Committee, the value of Service sales turnover for the relevant period, as measured against the sales target (together with comparison to the same period last year) is outlined below.

The period to the end of December has been positive with overall sales achieving above target summarised in the following tables, with significant growth in the use of the JSS arrangements by schools in the Cardiff and Vale of Glamorgan authority areas.

Table 1: Turnover to date (Order book)

	Actual April-Dec 2014-15	Target April-Dec 2014-15	Actual April-Dec 2013-14	% Actual to target
	£,000	£,000	£,000	
Catalogue Stores	3,409	3,271	3,252	+4.22%
Catalogue Direct	1,186	1,258	1,361	-5.72%
Totals	4,595	4,529	4,613	+1.46%

Table 2: Turnover (Order book) – Full Year Comparison

	Actual 2013-14	Full-Year Target 2014-15	Actual to Dec 2014-15	Variance	% of Target to be achieved in remaining 12 wks
	£,000	£,000	£,000	£'000	
Total	6,544	6,297	4,595	1,702	27%

Table 3: Turnover (Order book) by Customer Area (to December)

Year	Bridgend	Caerphilly	Merthyr Tydfil	Rhondda Cynon Taf	Cardiff	Neath-Port Talbot	Swansea	Vale of Glamorgan	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2014-15	808	1,001	252	1,407	513	70	112	170	262	4,595
2013-14	897	1,130	332	1,576	230	72	103	106	167	4,613

4.1.1.1 As reported previously, a number of factors have contributed to a lower than expected turnover from the Joint Authorities, particularly the Catalogue Direct product range.

4.1.1.2 A continuation of the successful extension of the service into the educational sectors of Cardiff and the Vale of Glamorgan authorities along with increased turnover by various housing associations and South Wales Police has seen an increase in Catalogue Stores turnover against both target and last year's actual figures.

4.1.1.3 The commencement of the new Aberdare Community School refurbishment project in January will also contribute to the achievement of the Catalogue Direct overall target for 2014-15.

4.1.2 Summary Financial Position at 31st December 2014

4.1.2.1 A summary of revenue budget expenditure/income for the financial year to 31st December 2014 is provided below for information.

Table 4- Comparison of budget against projected spend at 31st Dec 2014

Expenditure Group	Budget 2014-15 £,000	Adjusted Actual to 31 Dec 20134 £,000	Projected Outturn 2014-15 £,000	Projected Over/(Under) Spend 2014-15 £,000
Employees	821	586	770	(51)
Premises	113	74	99	(14)
Transport	112	107	139	27
Supplies & Services	146	122	157	11
Third Party Payments	25	35	43	18
Finance/Support Services	51	41	54	3
Total Expenditure	1,268	965	1,262	(6)
Trading	(1,253)	(1,059)	(1,362)	(109)
Non Trading	(110)	(90)	(120)	(10)
Total Net Income	(1,363)	(1,149)	(1,482)	(119)
Deficit/(Surplus)	(95)	(184)	(220)	(126)

4.1.2.2 Reasons for variation between budget and expenditure/income

- Employees – an expected underspend of £51,000 due to decreased staff costs.
- Premises – an expected underspend of £14,000 due to an extension of shared building costs with other departments located in County Borough Supplies.
- Transport – an expected overspend of £27,000 due to increased usage of the Service by the Cardiff and Vale of Glamorgan educational sectors.
- Supplies & Services – an expected overspend of £11,000 due to an increase in External Audit fees, both current and historic.
- Third Party Payments – an expected one-off overspend of £18,000 due to moving the organisation’s website facilities to a new service provider.
- Trading Income – a projected increase in trading income by £109,000 reflecting the expected continuation of forecasted price margins and turnover.

4.1.3 Service Performance Indicators

4.1.3.1 Monitoring reports are presented to the Joint Committee in relation to core performance indicators of the Service, with the following summary information provided for the year to 31st December 2014, together with the final outcomes for 2013-14 for comparison.

4.1.3.2 An additional performance indicator has been requested by Officers detailing the breakdown of order value by band.

Table 5 - Service Performance Indicators for 2014-15

Performance Indicator	Service Target	2013-14 (Full Year)	2014-15 (To 31 Dec)
Product Availability Average stock level available for customers on first request	96%	96.56%	96.72%
Stockholding Value Average stock value retained during the trading year.	8 weeks stock equivalent	9.8 weeks (£623k)	9.4 weeks (£612k)
Debt Management Owed debt to the JSS during trading year	Not greater than 5.5 weeks credit income	3.9 weeks (Average £502k)	3.6 weeks (Average £427k)

Table 6 – Order Breakdown by Value Banding

Row Labels		£0 - £25	£26 - £50	£51 - £100	£100 plus	Grand Total
Corporate	No	2,982	1,784	2,112	3,461	10,339
	%	28.84	17.26	20.43	33.48	
Education	No	3,323	2,981	3,833	7,921	18,058
	%	18.40	16.51	21.23	43.86	
Other	No	515	338	315	395	1,563
	%	32.95	21.63	20.15	25.27	
Grand Total	No	6,820	5,103	6,260	11,777	29,960
	%	22.76	17.03	20.89	39.32	

4.1.4 E-enablement Monitoring

4.1.4.1 A strategic objective of the Joint Service, as part of the e-supply programme, is the increase and enhancement of electronic transacting with customers to include e-ordering, e-sales invoicing/payment and e-communications generally, to provide current and easily accessible information and enhanced marketing opportunity.

- 4.1.4.2 The key components in the development are the JSS interactive web-site, the national public sector eProcurement Service (ePs) portal and the enhancement of the Service back-office IT system.

Table 7 – Sales Order Analysis

Transaction Medium	2014-15 (Apr-Dec)	2013-14 (Full Year)
eProcurement Service (ePs)	30.8%	26.2%
JSS Web Site	15.1%	13.3%
Other – e-mail, fax, mail, telephone	54.1%	60.5%

- 4.1.4.3 eProcurement Service (ePs) Portal
The national ePs portal is the primary e-trading medium to the JSS at this time, providing an increasing volume of electronic purchase transactions from the four joint authorities, as the facility is rolled-out, as well as other ePs users primarily from the South Wales area.
- 4.1.4.4 Analysis of the customer usage of the portal is provided below with the % usage figure based on the turnover value.
- 4.1.4.5 The number of order transactions is also provided for comparison purposes.

Table 8 – ePs User Analysis April – Dec 2014

Area	BCBC	CCBC	MTCBC	RCTCBC	Cardiff	Swansea	V of G	Gwalia
%	9.90%	32.28%	7.41%	39.19%	1.27%	4.85%	3.65%	1.43%
Value (£'000)	118	384	88	466	15	58	44	17
Orders	874	3,791	792	2,935	115	414	274	45

- 4.1.4.4 JSS Web Site
The JSS web site provides an interactive, real-time, catalogue product ordering / card payment facility and content information resource available to authorised customers, with the prime target group for the e-trading function being the educational sector and independent customers
- 4.1.4.5 Turnover usage via the web site has increased during 2014/15, as indicated above, with analysis of the active web-site users provided below.
- 4.1.4.6 The breakdown of the % usage figure is again based on turnover value with the number of order transactions and individual customer order points also provided.

Table 9 – Web site User Analysis April – Dec 2014

Area	BCBC	CCBC	MTCBC	RCTCBC	Cardiff	NPT	Swansea	V of G	Other
%	16.7	15.6	11.2	36.3	6.7	2.7	2.2	6.1	2.4
Value (£,000)	121	113	81	262	49	19	16	44	18
Orders	856	683	329	1519	275	167	103	273	117
Accounts	101	45	27	132	30	22	10	21	34

- 4.1.4.6 Purchase Card Transactions
The JSS provides a facility for payment by Purchase Card via both the on-line web-site and by direct contact with County Borough Supplies (CBS).
- 4.1.4.7 Payment by purchasing card accounted for 3.39% of overall payments during the 2014-15 period to date, a total of £151,000. Adoption of purchasing cards by the higher education sector has seen an increase in the 'Other' category over the course of the year.
- 4.1.4.8 For comparison purposes, payment by purchasing card for the 2013-14 financial period was 4.22%.

Table 10 – Purchase Card Usage Analysis April – Dec 14

Area	BCBC	CCBC	MTCBC	RCTCBC	Other
%	5.7%	1.8%	Nil	91.2%	1.3%
Orders	5	4	0	797	195

**4.1.5 Absence Monitoring
April/December – 2014-15**

- 4.1.5.1 A summary of sickness absence for the current year to 31st December is detailed below for information.

Table 11 - Absence Monitoring to 31 December 2014

No. of Days Absence	Average No. of Days per Person	Average No of Days Absence per F.T.E	BCBC No of Days Absence per F.T.E
240.5 (292 previous year Apr-Dec period)	8.3 (1.9 excl. long-term)	7.5 (based on 216.2 F.T.E total days)	9.8 2013-14 Full Year

- 4.1.5.2 The absence level includes five long term absences (more than 15 days continuous) totalling 184.5 days (164.7 F.T.E days) within the overall absence of 240.5 days (216.2 F.T.E. days). As previously reported, two of the officers, whose combined absence totalled 71.5 days of the overall absence, have left the Service.

4.1.5.3 A summary of the analysis of absence relevant to general post categories is provided below for the period April to December 2014.

Table 12 - Staff Group Absence Analysis (April-December)

Staff Group	No. of Staff	No. of Absence Days	No. of Staff Sickness Absence	Average No. of Days Absence
Management	2	0	0	0.0
Administrative/Professional	16	112.5	10	7.0
Warehouse	8	92.5	8	11.6
Transport	3	35.5	2	11.8

4.1.5.4 Members have also requested further information on the breakdown of absence by gender and the reasons for absence, which is reported below.

Table 13 – Staff Absence by Gender

Gender	Total Staff	No. of Staff Sickness Absence	No. of Absence Days
Male	12	10	128
Female	17	10	112.5

Table 14 – Staff Absence Reasons

Reason	No. of Staff	No. of Absence Days
Chest & Respiratory	1	3
Eye/Ear/Throat/Nose/Mouth/Dental	3	7.5
Infections	6	13
MSD including Back & Neck	7	137.5
Neurological	2	5
Stomach/Liver/Kidney/Digestion	7	11.5
Stress/Anxiety/Depression/Mental Health	1	63

4.1.5.5 All occurrences of absence are managed in accordance with corporate policy guidelines and have resulted in four welfare meetings, five informal review meetings and five formal review meetings including two with sanctions during the period.

4.2 Proposed Revenue Budget 2015-16

4.2.1 A specified objective of the Joint Service is to attain an annual income surplus to facilitate both future reinvestment in the Service and also to provide contingency funding. The total reserve at the 31st March 2014 was £1,005,000 with an expectation of the reserve increasing to £1,225,000 at the 31st March 2015 reflecting the current trading projection.

- 4.2.2 Due to the Constitution and the Business Plan awaiting approval, the proposed revenue budget has been based on estimates required in order to continue operating the Service from its current location.
- 4.2.3 If the Constitution and Business Plan is approved within the following months, then a revised proposed budget will be submitted incorporating the costs associated with relocating to new premises.
- 4.2.4 The income surplus target included in the budget for 2015-16 has been constructed to incorporate the required £95,000 trading return based on an inflationary increase in trading only, increasing the accumulated surplus to £1,320,000 at the 31st March 2016.
- 4.2.5 The proposed budget includes inflationary increase on pricing and on expenditure in relation to employee, contractual and other commitments.
- 4.2.6 The Employees estimate includes provision for the pay award in relation to the NJC pay claim. A reduction in costs of £84,000 reflects the deletion of the Manager and Senior Marketing Officer posts which is offset by the regrading of the Marketing Officer and Sales Group Leader posts, the full time employment of the Buyer post, the regrading of the Driver posts (non CPC qualified) and the successful Job Evaluation appeal to the Driver posts (CPC qualified). An increase of £10,000 has also been included for additional agency resources required to service the continued requirement of the Cardiff and Vale of Glamorgan educational sectors. The employees estimate also includes a projected increase of 0.2% in 2015-16, in employers' pension contributions resulting from the triennial Actuarial Valuation.
- 4.2.7 A decrease in Premises costs results from a change in shared building costs but also partially offset by inflationary increases in utilities and National Non-Domestic Rates.
- 4.2.8 Transport costs have been increased again primarily due to the increase in service requirement from the Cardiff and Vale Educational sectors but also due to increases in general uplift (source CPI Nov 14) and waste services.
- 4.2.9 An increase in Supports & Services costs due to revised external audit fees and increased hire of equipment costs.
- 4.2.10 Departmental Administrative costs are forecast to grow by inflationary growth only.
- 4.2.11 The proposed provisional budget for 2015-16, as Table 15 below, has been prepared to recover all operating costs together with an income surplus of £95,000.

Table 15 – Proposed Revenue Budget 2015-16

Category	Budget 2014-15	Price & Pay Inflation	Growth	Savings/ Reductions	Other Adjustments	Budget 2015-16
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employees	821	8	10	(84)	42	797
Premises	113	3			(6)	110
Transport	112	1	23			136
Supplies & Services	146	2	7			155
Third Party Payments	25					25
Support Services	51	2			1	54
Gross Expenditure	1,268	16	40	(84)	37	1,277
Income						
Trading	(1,253)	(14)			(5)	(1,272)
Non-trading	(110)				10	(100)
Gross Income	(1,363)	(14)			5	(1,372)
Surplus(-)/Deficit	(95)					(95)
Transfer to/from (-) Reserve	95					95

4.2.12 The budget is recommended for acceptance by the Joint Committee until approval of the Constitution and Business Plan allows for a revised proposed version that more accurately reflects relocation expenditure

4.3 Debt Management

4.3.1 Further information has previously been requested relating to the Joint Supplies Service long term outstanding debt.

4.3.2 Outstanding debt over 120 days currently forms 0.18% of total outstanding debt as at 31st December 2014 (£437,049).

Table 16 – Debt Over 120 Days

Corporate	Education	Outside Authority	Sponsorship
£113	£23	£647	£0

4.4 Service Audit Review

4.4.1 As part of the host authority Internal Audit Plan, an audit review of the JSS has been completed by the Internal Audit Service since the September meeting of the Joint Committee.

4.4.2 The objectives of the review 'were to examine and assess the effectiveness of the controls in place in order to provide assurance that identified risks within the Supplies Service are addressed'.

4.4.3 The scope of the audit was:

- To review debt management processes including debt collection rates, management, long term debt and write offs.
- To review stock control processes including general management, stock take results, stock adjustments and authorisation.
- To identify and test controls in place over the issuing and authorisation of credit notes.
- To review the content and reliance of non-trading income.
- To review staff management processes including the use of agency staff.

4.4.4 Audit Opinion

The conclusion from the audit review is 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 assessment maintains the substantial assurance attained from the previous audit review with no recommendation requiring further than a 'Merits Attention' category.

*Reflects a four-category audit review grading structure of Substantial Assurance/Adequate/Limited/No Assurance.

4.4.5 A copy of the report, including recommendations is provided on the attached Appendix.

4.5 Joint Committee Meetings Schedule

4.5.1 A proposed schedule of meetings for the Service for 2015-16 is provided below for information of Members.

4.5.2 The programme is structured to reflect key-dates for the potential approval of the Constitution and Business Plan and also the presentation of financial reports to the Joint Committee (Statement of Accounts).

Meeting Date	Location
16 April 2015	Rhondda Cynon Taff CBC
25 June 2015	Merthyr Tydfil CBC
24 September 2015	Bridgend CBC
28 January 2016	Caerphilly CBC

4.5.3 The schedule is recommended for acceptance by the Joint Committee.

5 Effect upon Policy Framework and Procedure Rules

5.1 None.

6 Equality Impact Assessment

6.1 There are no equality implications. .

7 Financial Implications

7.1 These are reflected in the body of the report.

8 Recommendations

8.1 It is recommended Members note the content of the report and agree the recommendations of paragraph 4.2.12 of the report, namely the proposed budget for 2015-16, and paragraph 4.5, the schedule of Joint Committee Meetings for 2015-16.

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Background Documents: None



**Bridgend & Vale
Internal Audit
Shared Service**

Internal Audit Report

Authority	Bridgend County Borough Council
Directorate	Legal and Regulatory
Audit Title	County Borough Supplies
Audit Year	2014/15

To	Stephen Evans, Business Operations Manager
CC	Andrew Jolley, Assistant Chief Executive James Ferris, Corporate Procurement Manager
Auditor	Sara Glover
Report Date	October 2014
Audit Ref	AA440

1. Introduction

- 1.1. An audit review of County Borough Supplies (CBS) was undertaken as part of the 2014/15 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. CBS need to re-locate the Service to new premises due to the poor condition of the existing office and warehouse accommodation and wider proposals to develop the Waterton site. The move is scheduled for August 2015 and CBS are attempting to accumulate any records which can potentially be destroyed prior to the move.
- 1.4. Concerns were noted during the last audit that Cardiff Council decided not to participate in the 2013/14 catalogue production arrangements which could have caused reduced buying economies of scale. However, an increase in gross sales has been reported from £6.112m in 2012-13 to £6.557m in 2013/14. The increase in customer base and turnover in 2013/14 is due to the closure of the Cardiff Supplies services and subsequent increase in turnover noticeably from the education sector.
- 1.5. The financial position as at 31st March 2014 showed a surplus of £176k. The accumulated usable reserve is £1.008m at 31 March 2014 compared to £833k in the preceding year.
- 1.6. There is a potential effect of the strategic direction which the new National Procurement Service (NPS) adopts; this is expected to occur in 2014/15. The NPS has been established to provide call off contracts for areas of common and repetitive spend across Wales and many of the areas within its remit cut across the product range provided by the Joint Supplies Service JSS.

2. Objectives & Scope of the Audit

- 2.1.** The objective of the audit was to examine and assess the effectiveness of the controls in place in order to provide assurance that identified risks within the Supplies Service are addressed.
- 2.2.** The scope of the audit was to review:
- Debt Management – debt collection rates, the management of longer term debts and write offs.
 - Stock – general management, stock take results, stock adjustments (including authorisation)
 - Issuing and monitoring of Credit notes.
 - Non-sales income –what this comprises and the reliance upon it.
 - Management of Agency staff.

3. Strengths & Areas for Improvement

- 3.1.** During the Audit a number of strengths and areas of good practice were identified as follows:
- A monthly review of credit notes and write offs takes place providing assurance that fictitious credit notes and/ or write offs are not created.
 - The management of bad debts has significantly improved since October 2013.
 - The Joint Supplies Service has a comprehensive business plan in place covering the period 2014/15 to 2019/20.
 - A financial review is carried out monthly, alongside the Finance Manager and includes analysis of trading figures, stock holding and expenditure.
 - CBS have consistent suppliers that contribute sponsorship towards the production of the annual catalogue.
- 3.2.** A number of recommendations contained within the report have been graded as Merits Attention. These are recommendations that we would like you to consider, however no formal response to them is required. Due to there being no significant recommendations, this report does not contain a Management Implementation Plan.

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Audit	County Borough Supplies
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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 us 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 & Recommendations

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 criticality of each recommendation is as follows:

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. Debt Management

Ref.	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
6.1.1	<p>Expected Control: Payment terms are satisfactorily communicated.</p> <p>Risk: Customers unaware of payment terms meaning that they do not make payment within a suitable timeframe.</p>	<p>Terms of payment are nett 30 days from the date of the invoice (for credit account customers only). Non-credit account customers can make payments by debit card, credit card or cheque. In the instances of cheque payment, CBS reserves the right to withhold delivery of goods until cheques have cleared. 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 CBS of any discrepancies.</p>	None	N/A
6.1.2	<p>Expected Control: Suitable process in place for monitoring and pursuing aged debts.</p>	<p>The previous audit review identified that debt management had been affected by the long term absence of a member of the Sales Ledger team. During June 2014 the Joint Committee were advised that outstanding debt had substantially improved since the return to work of an officer who together with assistance provided by joint officers</p>	None	N/A

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Ref.	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
	<p>Risk: Failures to collect monies due meaning unrecoverable debts have to be written off.</p>	<p>had helped to resolve issues within their own authorities. As at 16th June 2014 outstanding debt over 120 days formed 0.26% of total outstanding debt (£559,805).</p> <p>Outstanding debt is targeted through a combination of e-mail and telephone communication and also the regular issue of monthly statements. The Auditor was advised that the Sales Ledger team chase up any invoices that remain outstanding at 60 days. Depending on the workload, the Sales Ledger team may chase outstanding invoices earlier than the 60 day deadline. They run two reports from the Syspro system on debt outstanding over 60 days, one by date and one by value. These reports are run weekly whereby one of the Sales Ledger staff concentrates on debt over a certain value and the other concentrates on debt by date.</p>		
6.1.3	<p>Expected Control: Management undertake regular reviews of outstanding debtors. Risk: Financial Loss to the Supplies Service.</p>	<p>A Syspro report was provided to the Auditor identifying all accounts which had an invoice balance outstanding at the 31st March 2014.</p> <p>It was noted that £856,900 was outstanding at the year-end, in comparison to a lesser amount of £624,348 for the previous financial year. The 2013/14 statement of accounts reported that the average number of days for which a debt is outstanding has increased compared to the previous year. The increase is from 27 days in 2012/13 to 28 days in 2013/14.</p> <p>The amounts outstanding were summarised by customer and it was identified that RCT had the largest amount outstanding which</p>	None	N/A

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Ref.	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
		<p>equated to 24.9% of the total amount of outstanding debt. As this was a Local Authority it did not appear to be a concern.</p> <p>A sample of 15 customer accounts with a total balance outstanding of £23,370 as at the year-end were selected for review. The following was noted;</p> <ul style="list-style-type: none"> • 6 out of 15 had not been actively pursued in a timely manner and the number of days between the invoice due date and the date of first follow up varied between 199 and 453 days. These related to invoices that were due between the period of October 2012 and July 2013 when the section had staffing problems. • 7 had all been initially pursued in a timely manner and had received several other chase ups, suggesting that the debt management process is under control. • The first pursuit for 1 debtor was after 64 days which exceeds the 60 day deadline set by CBS. • The remaining 1 was not pursued as the invoice had been fully paid within the 60 day period therefore chase up was not necessary. <p>All invoices had been fully paid at the time of the audit.</p>		
6.1.4	<p>Expected Control: Action is taken to recover bad debts before they are written off.</p> <p>Risk: Write Offs</p>	<p>It was advised that write offs are only performed as a last resort when all other avenues to recover the outstanding debt has been explored.</p> <p>System access to perform a write off is restricted to the sales ledger team. Write offs do not require authorisation on the Syspro system therefore there is no segregation on the system between the officer</p>	None	N/A

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Ref.	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
	inappropriately authorised.	<p>creating the write off and the officer authorising it. Discussions with the Business Operations Manager established that a monthly reconciliation is performed whereby a journal report of write offs is obtained from Syspro and reconciled to COA. A review of unrecoverable debt also forms part of the debtor summary for financial year-end requirements.</p> <p>The CBS policy was recorded as follows; prior to write off, authorisation of bad debts between the value of £50 and £1000 has to be granted by the CBS Manager together with the Finance Manager (technical & corporate). Bad debts over £1000 have to be authorised by the Chief Accountant and reported to the JSS committee prior to write off. This authorisation is documented in the form of a signature on a manual write off form.</p> <p>The total sum of irrecoverable debt written off during the 2013/14 financial year was £3439.65. 84% of the debt written off (£2875) occurred as a result of former suppliers going into administration whilst owing money for catalogue sponsorship. The remainder related to supplier surcharges which could not be recovered. All reasons were deemed appropriate.</p>		
6.1.5	<p>Expected Control: Bad debt adjustments are authorised in line with documented procedures.</p>	<p>As part of the 2013/14 unrecoverable debt an account of £2875 had been written off. The manual write off form evidenced that it had been appropriately authorised by the Chief Accountant in November 2013 however had not been reported to the JSS committee in line with CBS policy. It was advised that this will be reported at the next</p>	None	N/A

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Ref.	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
	<p>Risk: Debts are written off incorrectly leading to financial loss to the Supplies Service.</p>	<p>meeting which is scheduled for 25th September 2014.</p> <p>The Auditor queried why this was not reported to committee in a timely manner. It was advised that as a general rule, write offs are performed at the end of the financial year and subsequently contained within the June committee report. This was missed due to the fact that the debt was written off during November 2013 as opposed to March 2014 under the request of KPMG at the time of their audit.</p>		
6.1.6	<p>Expected Control: To ensure that suspense accounts are appropriately monitored and cleared out timely and accurately.</p> <p>Risks: Customers may be chased for payments when they have already done so leading to reputational damage;</p> <p>Difficult to identify entries at a later date.</p>	<p>Reviewing the debt management report established that approximately £7340 remained in the suspense account of which some entries dated back to 2007. It was noted that £5400 related to the 2013/14 financial year.</p> <p>Discussions with the Business Operations Manager confirmed that the suspense account has not been reviewed for several years and the majority of items within it are historic. Previously, the account was utilised for any payment received which was not applied to a correct invoice. Currently the suspense account is simply used if the payment is not a CBS payment and does not relate to a CBS customer.</p>	That old outstanding items remaining in suspense are reviewed and allocated as soon as possible.	Merits Attention

6.2. Stock

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Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
6.2.1	<p>Expected Control: Access controls to the stores are in place and in operation.</p> <p>Risk: Lack of segregation of duties leading to misappropriation of stock.</p>	<p>Internal warehouse keys are restricted to the warehouse managers, the Business Operations Manager, caretakers and the out of hour's security personnel, once the independent alarm on the warehouse entrance has been set. When the warehouse isn't manned e.g. lunch breaks, the outside doors are locked to ensure no outsiders can enter.</p> <p>Due to lack of space, deliveries have to be stored in the main aisles therefore drivers have unrestricted access to palleted areas of the warehouse. However, the more attractive items are either located in the aisle that contains the pickers and warehouse office (e.g. washing powder) or in a locked room behind the warehouse office (e.g. batteries).</p>	None	N/A
6.2.2	<p>Expected Control: Periodic stock takes are undertaken.</p> <p>Risks: Inaccurate stock records;</p> <p>Excess stock holding leading to reduced liquidity and potential obsolescence.</p>	<p>The 2014 stock takes took place between the 2-3rd January (C&D Aisles) and February 25-26th (A&B Aisles). Manual stock check forms were sighted within the stock take file maintained by the Business Operations Manager and the results (in the form of excel spreadsheets) of the A and B aisles stock count were provided to the Auditor.</p> <p>During the count, the stores are closed and no items are booked in or out during this period. In order for there to be segregation in duties during the stock count, Admin Officers work alongside the Warehouse Officers to count the stock. It was evident from the sample reviewed that these forms had been signed by at least 2 different officers.</p>	None	N/A

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		<p>If the stock take highlights any discrepancies a stock recount is performed in each instance. An aisle recount and aisle comparison form is completed. If the Business Operations Manager is happy that the goods are still not available after recount he enters the adjustments on the Syspro system, it was advised that a further recount may be requested depending on the value and quantity of the discrepancy.</p>		
6.2.3	<p>Expected Control: All stock adjustments are authorised by the CBS Manager.</p> <p>Risk: Unauthorised stock adjustments are made.</p>	<p>A report of stock adjustments from the Syspro system was provided to the Auditor for the 13/14 financial year. It was established that a total of -£8951.36 worth of stock had been written up.</p> <p>A sample of 15 stock adjustments were selected for review to ensure that the adjustment had been made for an adequate reason and had been authorised by a Senior Officer.</p> <p>The sample consisted of 5 ADJ adjustments (discrepancy between physical and book figure), 5 CHK adjustments (discrepancy at stock check) and 5 DEF adjustments (deficiencies). For the CHK adjustments it was evident that more than one officer had been involved in the physical count of stock confirming that there was a segregation of duties in the adjustment process.</p> <p>For the ADJ & DEF adjustments the adjustment form could not be located in 2 cases, these related to adjustments that were made during April and July 2013. The Materials and Sourcing Manager</p>	<p>That adjustment forms are retained to demonstrate the reason for the</p>	<p>Merits Attention</p>

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		<p>had only taken over responsibility for reviewing the adjustments since the retirement of the JSS Manager therefore it was uncertain where this paperwork was.</p> <p>In the remaining 8 cases the Materials and Sourcing Manager had initialled and dated the adjustment therefore it was evident that there was a segregation of duties between the officer requesting the adjustment and the officer authorising the adjustment. An adequate explanation for each adjustment was provided to the Auditor.</p>	adjustment and to establish appropriate authorisation has been granted, thereby enabling a suitable audit trail.	
6.2.4	<p>Expected Control: Access to perform stock adjustments on the Syspro system is restricted to certain authorised individuals</p> <p>Risks: Misappropriation of stock.</p>	The Purchasing team are responsible for making stock adjustments on the system. Each adjustment generates a journal which can be reprinted and contains the date, time and user who generated the adjustment. Adjustment journals are spot checked and signed and dated to evidence review. Stock recounts or investigations into the discrepancy are conducted where appropriate.	None	N/A

6.3. Credit Notes

Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
6.3.1	Expected Control:	A Syspro report detailing credit notes raised during the 2013/14		

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Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
	<p>Credit notes are only issued in appropriate circumstances and segregation of duties exists within the credit note system.</p> <p>Risk: Unauthorised credit notes issued on a corrupt basis leading to financial loss to CBS.</p>	<p>financial year was provided by the Business Operations Manager. Last financial year approximately 1199 credits with a total net value of -£79,084 were raised and the average net credit value was £65.96.</p> <p>Of the 1199 there were 5 credits over £1000 and 562 (47%) of credit notes raised were under the value of £20.</p> <p>Discussions established that there are several reasons why a credit note would be required. For example, a credit note can be raised where a customer orders goods which are not required and are therefore returned to stores. Once the return is received by stores the Return to Supplier (RTS) documentation is forwarded to the Sales Ledger Team, in order for the corresponding credit to be raised to the customer.</p> <p>Credits raised for items not returned to store e.g. those which are catalogue direct (CD) items have supporting documentation in terms of a credit note received from the supplier. Diary notes within the Syspro system document explanations for the credit being created.</p> <p>A sample of 15 credit notes (5 stock items, 8 CD items and 2 catalogue sponsorship) were examined to ensure that there was appropriate reasoning evident for the credit given and that appropriate documentation had been retained to support the reasoning. A valid reason was provided to support the issuance of each credit note.</p>	<p>That return to Stock remittances are</p>	<p>Merits Attention</p>

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Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
		<p>For the stock credit notes reviewed it was noted that:</p> <ul style="list-style-type: none"> A RTS note was located for each evidencing that the goods were due to be collected from the customer. However, it was unclear in 3 out of 5 instances whether the goods had been returned to the warehouse prior to the customer being issued with a credit note as the RTS had not been dated to evidence that the goods had been returned to stores. Therefore the Auditor could only verify that a credit note had been issued to the customer after the goods had been returned to stock in 2 instances. <p>For the CD credits it was identified that:</p> <ul style="list-style-type: none"> The paperwork for 1 out of 8 could not be located and there was no paperwork on file for a further 1 out of 8 as the credit note was raised as a result of CBS error. For the remaining 6 out of 8 CD credits, 4 out of 6 had been issued to the customer after CBS had received the credit from the supplier and this took between 32 and 143 days with the delay being due to CBS not having received the credit themselves. The other 2 out of 6 had been issued to the customer 3 and 24 days prior to CBS receiving the credit from the supplier. Valid reasons were provided as to why these had been issued in advance. <p>The credit notes issued in relation to catalogue sponsorship were created to make a system adjustment because CBS had been issued with a credit from the supplier to offset against future purchases.</p>	<p>signed and dated to evidence that goods have been returned to the stores prior to a credit note being issued to a customer.</p>	

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Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
6.3.2	<p>Expected Control: Credit notes are regularly reviewed by management.</p> <p>Risk: Fictitious credit notes issued.</p>	<p>The previous audit review identified that there is no segregation of duties within the Syspro system to prevent the same officer creating and authorising a credit note. As a result it was recommended that a review of all credits over £1000 and a sample of other credits take place on a monthly basis. It was pleasing to note that a review of credit notes takes place at the end of each month. The Business Operations Manager undertakes this review to ensure that there are valid reasons for the credit note, but also to identify any common problems with certain customers that may need resolving, or even to help identify a training issue with staff.</p> <p>The spreadsheet maintained to document these checks was provided to the Auditor. It was evident that a check had been performed each month whereby all credit notes over £1000 were checked and a random sample of other credit notes had also been reviewed. The spreadsheet documents the reason for the issuance of the credit note but does not state who performed the review or on which date the check had taken place. The Business Operations Manager advised that this review is completed as part of the month end checks.</p>	None	N/A

6.4. Non-Sales Income

Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
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Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
6.4.1	<p>Expected Control: Non-sales income is realistically budgeted for.</p> <p>Risk: Financial implications if actual non-sales income is less than budgeted.</p>	<p>For 2013/14 the budgeted total income recorded in the statement of accounts was £1,305k and 8% of this related to other income (£105k).</p> <p>It was identified that other income is non sales income and comprises three types of income; catalogue sponsorship, contract rebates and recharges for site income.</p> <p>The actual total income for 2013/14 was £1272k of this £121k related to other income (10%). The actual income was 2% higher than budgeted income as there was an over-recovery of £16,000 as a result of increased catalogue sponsorships.</p>	None	N/A
6.4.2	<p>Expected Control: There is a suitable process in place for obtaining sponsorship from suppliers.</p> <p>Risk: Lack of sponsorship could lead to insufficient funds to produce the catalogue.</p>	<p>A spreadsheet is maintained by the Business Operations Manager which contains a list of current sponsors/ suppliers and how much sponsorship they have provided CBS each financial year since 2005/06. It contains all necessary contact information for the supplier. On inspecting the spreadsheet it was apparent that the majority of suppliers have remained constant over the last few years.</p> <p>Each summer, a letter is sent to these suppliers requesting them to sign and confirm that they will be providing sponsorship for the forthcoming financial year. The amount of sponsorship is stated by CBS on the letter. If the supplier requests additional pages in the catalogue they inform CBS who adjust the sponsorship accordingly. Once a signed letter has been received suppliers are invoiced and</p>	None	N/A

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		<p>as normal have 30 days nett to make payment.</p> <p>CBS rely on this income as it costs approximately £50k to produce the annual catalogue.</p> <p>Catalogue sponsorship is built into the budget every year and is primarily based on historic figures. CBS currently have 114 sponsors for the catalogue and as they have 350 plus suppliers it doesn't appear that placing reliance on this sponsorship is a problem, it is thought that suppliers need to promote their products in the catalogue to continue obtaining business.</p> <p>A review of the CBS website established that catalogue sponsorship is not promoted electronically to suppliers. If CBS continue to promote the use of online sales it should be considered whether they can attract new suppliers to raise sponsorship in this way.</p>		

6.5. Agency Staff

Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
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Ref	Expected Control & Possible Risk	Key findings / Conclusions	Recommendation	Criticality
6.5.1	<p>Expected Control: There is a suitable process in place when pursuing an agency worker.</p> <p>Risk: Budgetary implications if agency staff used unnecessarily.</p>	<p>Previously, when CBS formed part of the ICT and Property directorate, agency management forms were completed and sent to a Senior Manager for signing and then via HR for authorisation. This system caused a time delay thus the process was simplified to enable CBS to immediately raise the advert on the Randstad system.</p> <p>As CBS requirements can change daily and drivers are often needed for the same day to cover unplanned absences, the decision was made for CBS to place the advert on the Randstad system directly to avoid delay. This system was approved and the Materials and Sourcing Manager continues to process requirements in this way although CBS have recently been realigned to LARS.</p> <p>In the main its only drivers or warehouse staff which are required from the agency. On a Friday, the Materials and Sourcing Manager assesses the need for drivers for the forthcoming week. An advert will be placed on the Randstad system on a Monday for the number of drivers anticipated, but this may change as the week progresses. Should any additional/ fewer drivers be required Randstad are advised accordingly. CBS is self-financing and is therefore responsible for monitoring its expenditure.</p>	None	N/A
6.5.2	<p>Expected Control Staff can only be requested from the agency by a limited</p>	<p>Electronic Distribution System (EDS) Managers who have authorised access to create job adverts on the Randstad system are;</p> <ol style="list-style-type: none"> 1. Senior Stores Assistant. 2. Materials & Sourcing Manager 	None	N/A

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	<p>number of Senior Officers.</p> <p>Risk: Officers raising requests that have not been subject to the correct authorisation process.</p>	<p>Although the Senior Stores Assistant has access to the system it is usually the Materials & Sourcing Manager who creates the job adverts.</p>		
6.5.3	<p>Expected Control: Timesheets are checked to ensure they are accurate prior to authorisation.</p> <p>Risk: Agency workers under/overpaid; Financial loss to CBS.</p>	<p>The above officers also have access to authorise the agency workers timesheets on the Online Timesheet System (if the individuals are Randstad agency staff). The Senior Stores Assistant is ultimately responsible for authorising the timesheets as being located in the stores he is aware what hours have actually been worked.</p> <p>It was advised that if the agency worker has been provided through a tiered agency via Randstad the agency are responsible for completing timesheets on behalf of the worker.</p>	None	N/A
6.5.4	<p>Expected Control: Agency staff have appropriate checks in place prior to commencing their role at CBS.</p> <p>Risk: Inappropriate persons</p>	<p>Discussions established that prior to an agency driver commencing employment the individual is required to provide proof of their driving licence for inspection; CBS do not rely on the agency to have performed this check. Drivers are also required to sign a disclaimer prior to starting employment, which is issued by fleet services.</p> <p>Drivers are not eligible for a DBS check hence this does not form part of the pre-employment check.</p>	None	N/A

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	employed.	<p>A list of the agency staff employed at CBS during May 2014 was obtained from the Randstad system in order to ensure that licences had been obtained by CBS prior to the worker commencing. It was established that 7 drivers had worked during the month of May and driving licenses had been retained on file for each driver and had been signed and dated to evidence inspection. It was noted that 4 had been dated March 2014 and the remaining 3 had been dated July 2014 so were not due for re-inspection until September 2014 and January 2015 respectively.</p> <p>It was advised that all drivers licenses (both parts) are checked every 6 months, whether they are agency or permanent staff. Driving licenses are filed in a month tabbed order file and sorted by the date CBS took the last copy of the license. This file was not sighted at the time of the audit.</p>		
6.5.5	<p>Expected Controls: There is an appropriate recruitment and selection process in place for employing agency staff</p> <p>Risk: Inconsistency in approach across the directorates.</p>	Discussions confirmed that if CBS wish to recruit an agency worker on a permanent basis they would seek approval from HR and the worker would be subject to the standard recruitment process.	None	N/A

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