

Appendix B

**BUCKINGHAMSHIRE COUNTY COUNCIL
INTERNAL AUDIT AND RISK MANAGEMENT**

FINAL INTERNAL AUDIT REPORT

Stores Audit 2018/19



Date Issued: May 2019

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Audit Control:

Closing meeting:	22 February 2019
Draft report:	15 March 2019
Management responses:	10 & 26 April 2019
Final report:	03 May 2019
Audit Ref:	19-48

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Report Distribution:		
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Final Report as above plus:	Jason Thelwell	Chief Fire Officer

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Management Summary

Introduction

This audit of Stores, BMKFA was undertaken as part of the 2018/19 Internal Audit plan as approved by the Overview and Audit Committee. The audit was undertaken during the fourth quarter of 2018/19.

The prime purpose of the Stores within Buckinghamshire Fire and Rescue Service is the purchase, custody and issue of stock. The stores are held in three separate locations, these being the Mezzanine, the Shed and the Stores Room. The Asset Management Team is responsible for issuing new assets to the 20 Fire Stations, with each Fire Station being able to request replacements of existing stock. The Asset Management Team use software, 'Red Kite', to manage the assets. The software allows the team to keep track of current asset levels and what items need to be ordered.

Audit Objective

Internal Audit's objectives for this audit were to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place to manage and mitigate financial and non-financial risks of the system.

This will serve as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually. It also provides assurance to the Section 112 Officer that financial affairs are being properly administered.

Scope of work

The audit activity focussed on the following key risk areas identified in the processes relating to Stores Management:

Management of Stock:

- Stores procedures are compliant with Financial Regulations and Financial Instructions.
- Stock is identified, marked and recorded to reduce the risk of loss or misuse.
- Stock write offs/disposals are authorised appropriately.
- Stock is held securely and access is appropriately restricted.
- Where relevant, stock is tested on a regular basis to ensure it is not obsolete/unsafe.
- An independent annual stock check is carried out, including stock not held centrally, any discrepancies between records and physical stock held are recorded, reported and differences investigated.
- There is an adequate separation of duties between ordering, recording and authorising the purchase of new stock.

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Stock Recording:

- Stock records are adequate to enable identification of assets and stock owned and determine those in use or not in use.
- Regular stock checks are carried out and reconciled to records to identify any anomalies and reduce the risk of loss.
- There is a system in place to monitor the level of stock held and to ensure that levels are reasonable in relation to usage to reduce the risk of wastage.
- The issue of stock from central stores is adequately controlled to reduce the risk that departments are holding too much stock/obsolete stock.

Stock/Asset Management System:

- Appropriate security is provided over access to the asset management system and data to reduce the risk that data is compromised.
- There is a provision for system recovery and continuity of business processes to reduce the risk of loss of data.
- There is an efficient/adequate process in place for uploading data from the asset management system to Integra.
- Data uploaded from the asset management system to Integra is reviewed for accuracy and authorised at the appropriate level.

Personal Protective Equipment (PPE) Contract:

- The performance of the PPE contract is monitored and any issues identified are managed and resolved appropriately.
- There is a named/experienced contract manager in place to manage the contract.
- The contract is working effectively and the necessary equipment is available for use when needed.

The audit considered the controls in place at the time of the audit only. Where appropriate testing was undertaken using samples of transactions that occurred within the last 12 months.

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Table 1 Overall Conclusion

Overall conclusion on the system of internal control being maintained	Limited
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RISK AREAS	AREA CONCLUSION	No of High Priority Management Actions	No of Medium Priority Management Actions
Management of Stock	Reasonable	1	1
Stock Recording	Reasonable	1	1
Stock/ Asset Management System	Limited	2	0
Personal Protective Equipment (PPE) Contract	Substantial	0	0
		4	2

Appendix 1 provides a definition of the grading for each of the conclusions given.

The overall conclusion of limited assurance for the Stores audit was concluded as the system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

Management of Stock

The Asset Management Team have a Red Kite Asset Management User Guide in place. This is a guide for staff members on how to use the Asset Management Software. Review of the User Guide identified that there is no issue or review date to the guide and, as a consequence, we were unable to confirm if the Red Kite Asset Management User Guide is being reviewed on a regular basis.

New staff members receive training on how to use the Red Kite system. This includes training on how to navigate around the system and how to raise requisitions on Red Kite.

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As part of the audit, a report of all assets held in stock was obtained. From this report, a sample of 20 assets were selected and traced to their location. It was confirmed that in 14 out of the 20 cases, the asset could not be identified in storage. In a further instance, although the asset was identified, it had not been tagged appropriately.

Audit confirmed that one set of asset write-offs had been completed for the current financial year. When assets are to be written-off, the Asset Management Systems Officer provides a list of items that are proposed to be written-off. The Write-off Schedule is sent to the Director of Finance and Assets for approval. Audit confirmed that the write-offs completed for this financial year had been signed off by the Director of Finance and Assets.

The write-offs are input into the General Ledger (Capita – Integra) at the end of the financial year. As a result, the write-offs for the current financial year had not been processed on the General Ledger at the time of the audit, therefore this could not be tested. At the end of the year, the trainee accountant raises a journal to process the write-off. The journal is then approved by an independent member of staff. Audit confirmed that the write-offs had been written off on the Asset Management Software (Red Kite).

Stock is held in one of three areas, this being the Mezzanine, Shed and Stores Room. To enter each of these areas an electronic tag is required to open the securely locked doors. This ensures that only Fire Authority staff members with tags can access the sites. Furthermore, the Shed and the Mezzanine are secured with a separate lock to ensure only the Asset Management team can access the site. The Stores room is manned by a member of the Asset Management Team at all times. This ensures that the items in the room cannot be taken without authorised access.

Staff are required to undertake regular equipment inventory checks. The frequency of these spot checks are dependent on the type of item which, in turn, is determined by the Periodic Inspection Testing (PIT) Number each asset is assigned. For example, the 48b PIT Number (Rados Survey Meter) would be checked once a month at the start of each month. When the staff check the assets, a device is used to scan the tag label of each asset to confirm that the asset has been located and checked. During the spot checks, the staff will declare if they have found the asset, if it is inadequate or faulty.

A sample of ten different items were selected randomly from the Red Kite System. These were tested to see if the items had been checked in accordance with the frequency required. From the sample of ten items tested, in two cases the item had not been checked in line with the frequency required. In two further cases the location of the items was not identified during the test.

An annual stock check is undertaken independent of the regular stock checks. A member of the Finance Team, who is independent of the daily management of the asset management system, undertakes the full asset check. Email records of the annual stock check was provided by the Finance Team.

When purchasing new stock, a staff member in the Asset Management Team raises a requisition order. This order is approved by the Asset Management Budget Holder. Once the requisition order has been approved, the order workflows to

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the Procurement Team. The Procurement Team convert the Requisition Order into a Purchase Order and the order is then placed with the supplier.

The Asset Management Team will receive the goods which they have ordered. A team member is required to undertake a Goods Received check on the items delivered. The invoice is then paid by the Finance Team once the goods received check has been completed. All the documentation should be attached to the General Ledger system.

A report of all purchases for the current financial year (2018/19) was obtained. From this report, a sample of 20 procurements were tested and no exceptions were identified. In all cases, there was adequate segregation of duties, supporting evidence was retained and purchases were approved in line with the Financial Regulations.

Stock Recording

If staff require a replacement for a damaged item, the staff will raise a defect notification on Red Kite. This defect is reviewed by the Asset Management Team, and if assessed to be reasonable, the asset is delivered to the station at the next available opportunity. When a new asset is bought which has not been used at the Fire stations before, the initial tagging and distribution of the assets is down to the Asset Management Team. The Crew members are not able to request new items, only replacements for existing assets which are malfunctioning or damaged.

Furthermore, Red Kite also has the capability to record the minimum, maximum and re-ordering levels. This ensures that when the minimum level is breached, the system will automatically prompt the Asset Management Team on what to order and the quantity to order. This ensures that excessive amounts of stock are not ordered when it is not required.

When procured items are received, these are goods received checked by the asset management team. The assets are tagged and added to Red Kite before they are delivered to the Stores or the relevant Fire Stations. A sample of 20 items were chosen from around the storage area to determine if they could be identified on the Asset Management System. From a sample of 20 items tested, in all cases the items selected from the stores were identified on Red Kite. However, in seven cases the items were stated on Red Kite as being located elsewhere.

A sample of 20 procurement items were chosen from a report of procured items in the current financial year. The sample of procurement items were tested to confirm they had been promptly and accurately updated on Red Kite. Audit identified that in two applicable cases the asset had not been added to the asset management system.

The Red Kite System allows for a record to be kept on what has been ordered in the past. With the Asset Management System, the Asset Management Team can use the historic orders to assess if too many items have been requested in the last few years. The Asset Management Team assess if items are being requested more frequently or in larger quantities

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than historical orders. This allows the Asset Management Team to only deliver items required to the stations. The Asset Management Team can also use other stations and crew sizes to compare if a station is ordering excessive stock.

Stock/ Asset Management System

There are different access levels for different users of the Asset Management System. There are four users in the Asset Management Team who have the access rights to add or remove users. The Human Resources department informs the Asset Management Team through email if a new staff member is required access to Red Kite.

Only members of the Asset Management Team and Property Team can add or remove assets on the system. There are eleven users who can add or remove assets on the Asset Management System. All other staff members have read-only access to the system. Testing confirmed that all users on the Red Kite system are current and relevant.

The Fire Authority was unable to provide a copy of the Red Kite contract. The Red Kite contract should include an agreed time frame for the system to be reinstated in the event of system failure. The Fire Authority was also unable to show that it is the Red Kite system operator's responsibility to ensure that the system is backed up.

The Asset Management System (Red Kite) and General Ledger (Capita Integra) are currently not interfaced, however a high level reconciliation is undertaken at year-end. Therefore we were not able to provide assurance that the values recorded on Red Kite are the same as those maintained on the General Ledger.

Personal Protective Equipment (PPE) Contract

The Personal Protective Equipment Contract is between the Buckinghamshire and Milton Keynes Fire Authority and Bristol Uniforms Ltd. The contract is for Bristol Uniforms Ltd to provide Protective equipment for Firefighters; which includes items such as helmets and gloves.

The Personal Protective Equipment (PPE) contract went live in October 2018. Before the contract went live, the contractor provided the service under a trial period of one year. The procurement was undertaken as part of the Central Government tendering. The Central Government recommended Bristol Uniforms Ltd as the preferred contractor.

The Buckinghamshire and Milton Keynes Fire Authority have Key Performance Indicators in place with the PPE Contractors (Bristol Uniforms Ltd). The Key Performance Indicators are reported to the Procurement Manager on a monthly basis. Where the KPIs are not met, a financial penalty is imposed on the contractor. The KPI reports are reviewed with the contractor on a quarterly basis during the Contract Monitoring meetings. The last three contract monitoring meeting minutes were obtained

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by Audit. The meeting were attended by the Procurement Manager with the Asset Management Systems Officer and the Group Commander attending in some instances.

Examples of KPI's in place include:

- Bristol Uniforms will ensure that all firefighters and officers have access to serviceable and correctly sized PPE at the commencement.
- Bristol Uniforms will, in relation to a safety event, maintain continuity of evidence in accordance with the contract or is reasonably anticipated pursuant.
- Bristol Uniforms will clean and return PPE within seven calendar days of collection including repair.

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Table 2 Detailed Audit Findings and Action Plan

Management actions have been agreed to address control weakness identified during the closing meeting and agreement of the draft Internal Audit report. Progress in implementing these actions will be tracked and reported to the Overview & Audit Committee.

We categorise our management actions according to their level of priority:

Priority High (H)	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
Priority Medium (M)	Significant issue that requires prompt action and improvement by the local manager.
Priority Low (L)	Minor issues requiring action to improve performance or overall system of control.

	Audit Finding, risk exposure and potential impact	Priority	Management Action
1.	<p><u>Assets are identified, marked and recorded</u></p> <p>All assets maintained by the Fire Authority should be appropriately recorded, marked and stored in the relevant storage area. A clear record of the assets should be maintained to ensure that the existing assets can be used in the most efficient manner.</p> <p>As part of the audit, a report of all assets held in stores was obtained. From this report, a sample of 20 assets were selected and traced to their recorded location. It was confirmed that in 14 out of the 20 cases the asset could not be identified in storage. In a further instance, although the asset was identified, it had not been tagged appropriately.</p> <p>Where assets cannot be located, there is a risk that the asset is unaccounted for. This can result in the assets being mismanaged, which can lead to financial loss for the Fire Authority.</p>	H	<p><u>Asset Review</u></p> <p>Assets in storage will be reviewed on a quarterly basis to ensure the Asset Management records are complete.</p> <p>Officer responsible:</p> <p>Maria Darrell, Asset Management Systems Officer</p> <p>Date to be implemented by:</p> <p>30 September 2019</p>

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
2.	<p><u>Assets are tested on a regular basis</u></p> <p>Staff are required to undertake regular asset checks. The frequency of these inventory checks are dependent on the type of items, with this being determined by the PIT Number each asset is assigned. For example, the 48b PIT Number would be checked once a month at the start of each month. When the staff check the assets, a device would be used to scan the tag label of each asset to show that the asset has been located and checked. Once the staff have scanned the item, evidence of this scan is registered automatically on Red Kite. During these inventory checks the staff will declare if they have found the asset and if it is inadequate or faulty.</p> <p>A sample of ten items was selected randomly from the Red Kite system. These were tested to see if the items had been checked in accordance with the frequency required. In two cases the location of the items was not found and the item had not been checked as a result.</p> <p>Where assets are not checked on a regular basis, there is a risk that faulty or inadequate items are being held and used by staff members.</p>	H	<p><u>Asset Review</u></p> <p>Inventory checks should be reviewed by the Asset Management Systems Officer. Where the inventory checks have not been undertaken on a consistent basis, this will be followed up with staff.</p> <p>Officer responsible: Maria Darrell, Asset Management Systems Officer</p> <p>Date to be implemented by: 30 September 2019</p>
3.	<p><u>Red Kite Contract</u></p> <p>The Fire Authority uses the Red Kite Asset Management software to manage its assets. It is the responsibility of the Red Kite system providers to back-up the data maintained on the system.</p> <p>However, the Fire Authority was unable to provide a copy of the Red Kite contract. The Red Kite contract should include an agreed time frame for the system to be reinstated in the event of system failure. The Fire Authority was also unable to evidence that it is Red Kite system operator's responsibility to ensure that the system is backed up.</p> <p>Where the Red Kite System providers are not held accountable to the terms of the contract, there is a risk that data maintained on the system is not backed up according to the terms of the contract.</p>	H	<p><u>Request a copy of the contract</u></p> <p>The Fire Authority will request another copy of the contract with Red Kite. Furthermore, the system providers should be held accountable to the terms of the contract.</p> <p>Officer responsible: Ronda Smith, Procurement Manager</p> <p>Date to be implemented by: 30 April 2019</p>

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
4.	<p><u>Reconciliation between Asset Management System and the General Ledger</u></p> <p>The Asset Management System (Red Kite) and General Ledger (Capita Integra) are currently not interfaced, though a high level reconciliation is undertaken at year-end. At the time of the audit we were not able to provide assurance that the values of assets recorded on Red Kite are the same as those maintained on the General Ledger.</p> <p>Where the Asset Management and General Ledger systems are not reconciled on a regular basis, there is a risk that the records maintained on the General Ledger do not accurately reflect the records maintained on Red Kite. This can result in incorrect financial decisions being made by the Fire Authority.</p>	H	<p><u>Reconciliation between the Asset Management System and the General Ledger</u></p> <p>The Finance Team will investigate the possibility of interfacing the Asset Management system records to the General Ledger. Reconciliations between the two systems will be performed on a quarterly basis.</p> <p>Officer responsible: Mark Hemming, Director of Finance and Assets</p> <p>Date to be implemented by: 30 September 2019</p>
5.	<p><u>Stock records are complete</u></p> <p>Stock records should be adequate to enable identification of stock owned and determine those in use or not in use. A completeness asset register test was undertaken by audit to determine if assets were being accurately recorded on Red Kite.</p> <p>A sample of 20 items were chosen from around the storage area to determine if the stock could be identified on the Asset Management System. From a sample of 20 items tested, in all cases the items selected from the stores were identified on Red Kite. However, in seven cases, the items were stated on Red Kite as being located elsewhere.</p> <p>Where the records maintained on Red Kite are not up-to-date, there is a risk that the assets are not managed in the most efficient manner.</p>	M	<p><u>Asset Review</u></p> <p>Quarterly sample testing will be undertaken from the Asset Stores to the Red Kite System to ensure the records maintained on Red Kite are accurate.</p> <p>Officer responsible: Maria Darrell, Asset Management Systems Officer</p> <p>Date to be implemented by: 30 September 2019</p>

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
6.	<p><u>Procured items added to the Asset Management System</u></p> <p>All items procured by the Asset Management Team should be added to Red Kite. This ensures that the records maintained on Red Kite are complete and up to date.</p> <p>A sample of 20 procurement items were chosen from a report of procured items in the current financial year. The sample of procurement items were tested to confirm they had been promptly and accurately updated on Red Kite. Audit identified that in one applicable case the stock item had not been added to Red Kite. Discussions with the Asset Management Team identified that resource constraints has not allowed for a reconciliation to be undertaken of all procured items against new items which had been added onto Red Kite.</p> <p>Where newly procured items are not added to Red Kite, there is a risk that the Asset Management Records maintained on Red Kite are not complete.</p>	M	<p><u>Asset Review</u></p> <p>A list of procured items will be reconciled to Red Kite on a monthly basis.</p> <p>Officer responsible: Maria Darrell, Asset Management Systems Officer</p> <p>Date to be implemented by: 30 September 2019</p>
7.	<p><u>Stores Policies and Procedures</u></p> <p>A Red Kite Asset Management User Guide is in place. This is a guide for staff members on how to use the Asset Management Software. Review of the User Guide identified that there is no issue or review date to the guide. Therefore we were unable to confirm if the Red Kite Asset Management User Guide is being reviewed on a regular basis.</p> <p>Where policies and procedures are not reviewed on a regular basis, there is a risk that staff are working with practices that are out-of-date.</p>	L	<p>Action</p> <p>A review and issue date will be added to the User Guide.</p> <p>Officer responsible: Maria Darrell, Asset Management Systems Officer</p> <p>Date to be implemented by: 30 September 2019</p>

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Appendix 1 Definition of Conclusions

Grading:	Substantial	Reasonable	Limited
Overall conclusion on the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

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Appendix 2 Officers Interviewed

The following staff contributed to the outcome of the audit:

- Maria Darrell, Asset Management Systems Officer
- Ronda Smith, Procurement Manager
- Laura Taylor, Trainee Accountant

The Closing Meeting was attended by:

- Maria Darrell, Asset Management Systems Officer

The auditors are grateful for the cooperation and assistance provided from all the management and staff who were involved in the audit. We would like to take this opportunity to thank them for their participation.

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Disclaimer

Any matters arising as a result of the audit are only those, which have been identified during the course of the work undertaken and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that could be made.

It is emphasised that the responsibility for the maintenance of a sound system of management control rests with management and that the work performed by Internal Audit Services on the internal control system should not be relied upon to identify all system weaknesses that may exist. However, audit procedures are designed so that any material weaknesses in management control have a reasonable chance of discovery. Effective implementation of management actions is important for the maintenance of a reliable management control system.

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