

Internal Audit Report



Internal Audit Report
Education & Children's Services
Early Years & Childcare Strategy teams
Ordering & Certification and Stock Control
Assignment No.19-03
October 2019

(Report No. 19/339)

Final Report

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
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Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2019/20 approved by the Audit Committee on 26 June 2019. Audit testing was carried out in April and May 2019.

Scope and Limitations

The audit was designed to establish whether expected controls over the ordering, receipting of, delivery and safeguarding of supplies are in place and are operating satisfactorily within the Early Years and Childcare Strategy teams, located at Perth Grammar School’s Community Wing.

The review consisted of an analysis of procedural documentation, interviews with relevant officers and team members and testing.

The audit was limited to the operations of the Early Years and Childcare Strategy teams. It did not consider the operations of the Early Years Inclusion Team, other teams within Education and Children’s Services (ECS) or other Council services. It considered the use of PECOS by officers and team members in the Early Years & Childcare Strategy team, but did not evaluate controls within and over this financial system.

The audit was limited to the ordering, receipting of delivery and safeguarding of supplies, it was not a wholesale review of the Early Years and Childcare Strategy teams.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that controls over the ordering of goods are adequate
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Internal Audit Comments:

Early Years & Childcare Strategy have informed Internal Audit that the vast majority of purchases of goods by the teams are via PECOS (Professional Electronic Commerce Online System). This is in line with Council policy and procedures.

Internal Audit Report

In some cases an order is requested informally, e.g. by Post-It Notes stuck to catalogues or on pieces of paper that are not retained. Admin Support at Perth Grammar School Community Wing raises the requisition in the system, PECOS, and the officer requesting the order to be raised approves the order. The informal nature of the request means that the Admin Support officer has no evidence that they were asked to raise the order and could be vulnerable should the order be questioned at a later date.

Strength of Internal Controls:

Moderate

Control Objective 2: To ensure that controls over the receipting of delivery of goods are adequate

Internal Audit Comments:

There is scope to improve controls for receipting the delivery of goods in that: delivery notes are not annotated to verify that goods have been received by the Service; the team member checking the receipt of the goods could be the person who raised the order; and delivery notes are not being held in the order prescribed by ECS Financial Policies and Procedures.

Furthermore, from the 11 transactions tested, 2 purchase orders were found where the despatch date on a delivery note is subsequent to the fully received date recorded in PECOS. In one case there is a discrepancy with the receipting of the whole order and in the other case the discrepancy is with part of the order. The dates in PECOS for both are in March 2019 which indicates that the goods were receipted in PECOS prior to delivery to ensure the expenditure was posted to the 2018/19 financial year and not 2019/20.

Testing showed four instances out of seven in the 2018/19 financial year where the Admin Support had updated PECOS for the receipt of goods from Argos on the instruction of another non- Admin Support Officer, without seeing either the goods or a receipt. In two of these four instances, goods had been receipted in PECOS by an Admin Support Officer when a non- Admin Support Officer said they would pick the goods up from Argos and subsequently didn't. Internal Audit were informed that no payment has been made for these orders.

Strength of Internal Controls:

Moderately Weak

Control Objective 3: To ensure that controls over the safeguarding of resources are adequate

Internal Audit Comments:

Internal Audit found that:

- Goods are ordered by the two different teams and by different sub-teams within the teams separately;

Internal Audit Report

<ul style="list-style-type: none">• Goods are retained as inventory by that team or sub-team and stored separately;• There may be times when sharing of inventory by one team or sub-team may negate the need to purchase goods by another team or sub-team; and• There may be times when the same or similar goods required by different teams or sub-teams may be ordered together, which may lead to cost savings to the Service in the way of discount. <p>There is scope to streamline the ordering and inventory control processes, which could result in the potential for better use of resources within the Service as a whole.</p> <p>Prior to the commencement of the assignment the Service Manager instigated the preparation of inventory control in six large containers in the grounds of Perth Grammar School and in 'Play Pods' at various schools and other premises. The Service Manager informed Internal Audit that she sees this as the starting point to introducing an inventory system whereby goods will be signed out for use and then signed back in again when finished with. The Service Manager also highlighted that she will instigate a periodic inventory check.</p> <p>The six large containers are padlocked; however Internal Audit were informed that the same key opens all 6 padlocks, as well as the school gate. Although the key is retained in a key safe in the Community Wing office key safe, there is a high likelihood that there are 'unofficial' copies. In order to ensure that these goods are held securely and accessed only by authorised personnel, consideration should be given to changing the locks and controlling where keys are held.</p>	
Strength of Internal Controls:	Moderately Weak

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The

Internal Audit Report

completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Service Manager, Team Leader, Admin Support Management Assistant & Business Assistants and the CDS Financial Systems Officer during this audit.

Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive & Chief Operating Officer

S Devlin, Executive Director. ECS

J Pepper, Depute Director, ECS

S Johnston, Head of Education

B Martin-Scott, Service Manager: Early Years, ECS

G Boland, Senior Business & Resources Manager, ECS

J Cockburn, Finance & Governance Manager, ECS

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

Committee Services

External Audit

Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was J Clark.

This report is authorised for issue:

J Clark

Chief Internal Auditor

Date: 28 October 2019

Internal Audit Report

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	<u>Compliance with ECS Financial Policies & Procedures</u>	Medium
2	<u>Segregation of duties</u>	Medium
3	<u>Argos orders</u>	Medium
4	<u>Inventory control – Key to containers in Perth Grammar School grounds and school gate</u>	High
5	<u>Inventory control – Maintenance of inventory lists</u>	High
6	<u>Inventory control – Periodic Inventory checks</u>	High
7	<u>Receipting delivery in PECOS prior to physical receipt</u>	Medium

Appendix 2: Action Plan

Action Point 1 - Compliance with ECS Financial Policies & Procedures

Team members did not demonstrate an awareness of the ECS Financial Policies and Procedures on ERIC. These Procedures place requirements on officers for the ordering, the receipting of delivery of goods and the payment of invoices. No site-specific procedures were in use to ensure the consistency of treatment of these functions.

Had these been in place, some of the control issues highlighted by this review may have been avoided.

Management Action Plan

1. Team members have been signposted to the ECS Financial Policies and Procedures on ERIC.
2. Furthermore, the Service Manager held a Development Day with her teams in October 2019. The outcomes from this review were included within the development day in order to raise awareness and ensure clarity for all staff in undertaking these functions. Support and guidance was provided by ECS' Finance Support Team in this regard.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	1. Complete 2. Complete
Required Evidence of Completion:	Agenda and notes from the Development Day.

Auditor's Comments

Satisfactory

Action Point 2 - Segregation of duties

ECS' Financial Policies and Procedures require that there is adequate segregation of duties.

There may be a lack of segregation of duties in the end-to-end process of ordering, approving, receiving goods and authorising payments.

Segregation of duties protects officers by ensuring that there is at least one more person involved in key processes. These segregations also ensure that goods ordered are appropriate and within budget and are received by the Council.

Management Action Plan

Processes have been clarified within the team regarding roles and responsibilities. Local procedures will be updated to include reference to segregation of duties and this was included within the Development Day referred to in Action Point 1.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Local procedures Agenda and notes from the Development Day

Auditor's Comments

Satisfactory

Action Point 3 - Argos orders

A sample of 4 of the 7 orders placed at Argos were reviewed. It was noted that, where goods are ordered from Argos, these are collected from the store rather than being delivered to Council premises. Whilst this practice does not incur delivery costs, there are additional resources used for driving, collecting and delivering the goods to the relevant Council establishment. It was noted that there were occasions where such collections have taken place on a non-working day. Furthermore, this increases the possibility of one team member being responsible for requesting the order to be raised, authorising the order and receiving the goods without an independent person being involved in the process.

Goods should only be receipted in PECOS by Admin Support where s/he has seen the goods, or the Argos receipt with received goods, stamped by an Argos employee, signed by team member receiving the goods. It was noted that this was not always the case.

Management Action Plan

The Service Manager has instructed that all orders are to be delivered directly to the relevant establishment, thus there will be no requirement for team members to collect items from shops.

The issues raised by this finding were included within the Development Day as detailed in Action Point 1.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Agenda and notes from the Development Day

Auditor's Comments

Satisfactory

Internal Audit Report

Action Point 4 - Inventory control – Key to containers in Perth Grammar School Grounds and school gate

The containers which hold the equipment for the team are secured by padlocks. The keys for the padlocks are the same as those for the school gate, keys for which are also held by non-team members. Furthermore, it is unclear how many keys are in existence; who holds the keys; and where they are located.

Management Action Plan

New padlocks have been fitted on each of the containers. The keys are retained in a central location under the control of a limited number of team members (key-holders). The key-holder will be present when any inventory items are removed or returned so that the inventory list can be updated appropriately at the time.

Risk/Importance:	High
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Written assurance from the Service Manager that the locks have been replaced.

Auditor's Comments

Satisfactory

Action Point 5 - Inventory control – Maintenance of inventory lists

The inventory has now been prepared to record resources entering and leaving the containers and these should be kept up-to-date. In order to ensure that the records are up to date and accurate, goods should be signed out of inventory for use and then signed back in again upon return. Site-specific procedures should be developed to ensure that this is clearly recorded and all team members should be made aware of the processes to be followed. A template inventory in and inventory out document should be prepared to facilitate this.

Failure to do this opens up the risk of items being removed from the containers without authority and/or recording of its movement.

The inventory lists should be updated by a person independent of the key-holder from the document and the next blank document numbered consecutively.

Failure to do this opens up the risk that the inventory list will become incorrect.

Management Action Plan

A process has been developed for updating records of the contents of the containers and this process was included in the development day referred to in Action Point 1.

Local procedures regarding the maintenance of the inventory list will be documented.

Risk/Importance:	High
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Updated inventory list Agenda and notes from the Development Day

Auditor’s Comments

Satisfactory

Action Point 6 - Inventory control – Periodic inventory checks

A periodic inventory should be undertaken by two team members who are not key-holders to ensure that each inventory agrees with the physical inventory. Any discrepancies should be investigated and resolved. The inventory should be recorded along with any investigative action and resolution. The inventory document(s) should be signed or initialled and dated by both team members.

Failure to do this opens up the risk that unauthorised removal of inventory items may not be discovered and certainly not in time to allow easy investigation.

Management Action Plan

1. Local procedures will be developed for quarterly inventory checks to be undertaken to verify the contents of the containers.
2. The first inventory check will be undertaken by 15 November 2019.

Risk/Importance:	High
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	1. October 2019 2. November 2019
Required Evidence of Completion:	Sight of document(s) recording the inventory check along with any investigative action and resolution, signed or initialled and dated by both team members.

Auditor’s Comments

Satisfactory

Action Point 7 - Receipting delivery in PECOS prior to physical receipt

All team members should be reminded that goods should not be receipted in PECOS until they have physically been delivered.

By receipting before delivery there is a risk that an invoice would be paid through the PECOS/Integra matching process for goods never received.

Management Action Plan

The Service Manager re-iterated this requirement as part of the development day.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Agenda and notes from the Development Day

Auditor's Comments

Satisfactory