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**Derry City & Strabane**  
District Council

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Comhairle  
**Chathair Dhoire &  
Cheantar an tSratha Báin**

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**Derry Cittie & Stràbane**  
Destrìck Cooncil

# Internal Audit of Stores Management

## Final Report

## November 2016

## Professional Standards

Internal Audit is committed to ensuring high standards of service to Derry City and Strabane District Council. Our work complies with the Chartered Institute of Internal Auditors (CIIA) Code of Practice and Professional Standards and CIPFA Public Sector Internal Audit Standards.

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## Executive Summary

<p><b>System Priority:</b></p> <p><a href="#">Refer to Appendix (i)</a></p>	<p><b>B</b></p> <p>Failure to implement the recommendations could result in the failure of an important Council objective or could have some impact on a key Council objective</p>	<p><b>Audit Opinion:</b></p> <p><a href="#">Refer to Appendix (ii)</a></p>	<p><b>Improvement Needed</b></p> <p>Significant control weaknesses were noted and recommendations raised. There is considerable risk that the system will fail to meet its objectives.</p>	<p><b>Implementation Priority:</b></p> <p><a href="#">Refer to Appendix (iii)</a></p>	<table border="1"> <thead> <tr> <th>Category</th> <th>No of Recommendations</th> </tr> </thead> <tbody> <tr> <td><b>B1</b></td> <td>9</td> </tr> <tr> <td><b>B2</b></td> <td>5</td> </tr> <tr> <td><b>B3</b></td> <td>0</td> </tr> <tr> <td><b>Total</b></td> <td><b>14</b></td> </tr> </tbody> </table>	Category	No of Recommendations	<b>B1</b>	9	<b>B2</b>	5	<b>B3</b>	0	<b>Total</b>	<b>14</b>
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<div style="display: flex; align-items: flex-start;"> <div style="margin-right: 20px;">  </div> <div> <p><b>Introduction</b></p> <p>The purpose of this review was to provide senior management with an assurance about the adequacy and effectiveness of internal control over the audit area of stores management. The objectives and scope for this review were agreed with the Head of Environment prior to commencement of the audit.</p> <p>The Audit work performed was as follows:</p> <ul style="list-style-type: none"> <li>• Establishing the system of controls.</li> <li>• Evaluating the adequacy of the controls.</li> <li>• Designing and completing the audit programme to test the effectiveness of the controls.</li> <li>• Reporting on the adequacy and effectiveness of the controls to achieve system objectives.</li> </ul> </div> </div>															

	<h2>Objectives</h2> <p>The objectives of this audit are:</p> <ul style="list-style-type: none"><li>• To ensure that an adequate stock management system is in place.</li><li>• To ensure that there are adequate security arrangements in place at the stores.</li><li>• To ensure that there are adequate storage arrangements in place for all stock held.</li><li>• To ensure that adequate and accurate stock records are in place.</li><li>• To ensure that all purchases take full account of Council's purchasing and procurement policies and procedures.</li><li>• To ensure the risk of fraud and corruption is minimised.</li></ul>
	<h2>Scope</h2> <p>This particular audit will encompass a review of the following areas:</p> <ul style="list-style-type: none"><li>• Procedures;</li><li>• Segregation of Duties;</li><li>• Security &amp; Storage Arrangements;</li><li>• Disaster Recovery / Contingency Arrangements;</li><li>• Insurance;</li><li>• Stock Records;</li></ul>

- Staff training;
- Inventories
- Receipting & Issuing of Goods;
- Stock Takes;
- Stock Levels;
- Procurement of Suppliers; and
- Accounting Treatment of Stock.

### **Limitation of Scope**

No limitations to scope

### **Basis of Audit Opinion**

Internal Audit is satisfied that resources have been allocated to manage the stores, in that both stores have an allocated store person, stock within both stores is well organised, labelled and easily retrievable. Internal Audit is also satisfied that when the storeman is present goods issued and goods receipt documentation is adequately completed and access to the store is restricted to a limited number of persons. In addition Internal Audit is satisfied that access to store records is restricted and an inventory listing is in place for the Strabane store.

However, as a result of this audit a significant number of control weaknesses have been identified and Internal Audit have made a number of recommendations to improve the control environment. The key recommendations relate to the areas of implementation of the new Fleet-Minder system, review of security and storage arrangements especially when the Storemen are not present, improvements to the stock inventory system, improvements to the stock take process and procurement of stock items.

As a result of the number and ranking of recommendations raised, this audit has been given the audit opinion of 'Improvement Needed'.

Summary of Key Recommendations		
<b>B1</b>	9	<ul style="list-style-type: none"> <li>The implementation of Fleet-Minder should be established as a project with a realistic timeframe for implementation and project management methodology applied to manage the project.</li> <li>A new stores manual should be developed, communicated and staff trained in its use.</li> <li>The current operation of stock processes should be reviewed at both locations and segregation of duties inbuilt.</li> <li>The security and storage arrangements at both locations should be reviewed including the current arrangements of unrestricted access to the store by mechanics in the absence of the storemen.</li> <li>Controls should be improved over records such as the Fleet Manager should not be given blank orders, and under no circumstances should authorisation slips to approve payment of an invoice be pre-approved.</li> <li>Improvements are recommended to the stock inventory system at both locations. Until Fleet-Minder is operational, the Derry Store should re-instate the previous spreadsheet inventory system and Strabane should consider the risks associated with their current inventory system no longer being supported.</li> <li>Regular independent stock takes should be carried out at both store locations, written instructions should be developed and communicated for these stock counts, variances from counts should be regularly monitored and explanations documented, and appropriate approval mechanisms should be developed prior to overwriting any quantities on the system.</li> <li>Controls could be improved around the procurement of stock items, e.g. Strabane storeman should be issued with annual tender lists and any problems re defects in quality of items should be considered in future procurement exercises.</li> </ul>
<b>B2</b>	5	
<b>B3</b>	0	
<b>Total</b>	14	

## Audit Work Undertaken

This section provides an overview of the audit tests undertaken and key findings arising from these tests with a hyperlink for each recommendation to the relevant section of the 'Table of Recommendations' starting on page 19.

### Overview of stock system

#### Stock Processes within Derry and Strabane

##### Issues identified

Internal Audit noted that no change has been made to the store processes at either Derry or Strabane following the merger of the two councils in April 2015 to become DCSDC. Rather the processes operational at both locations are different and both are subject to control weaknesses highlighted throughout this report.

Internal Audit noted that the new system 'Fleet-Minder' was procured in 2013. It is anticipated that following its implementation in the Derry store it will be rolled out to the Strabane store which will mean both systems will be the same. However the implementation of this system has been delayed and there is at present no definite timescale identified as to when it will be implemented (see separate issue identified below).

[See recommendation 1 below](#)

### New integrated Fleet and Stock Management System

##### Issues identified

DCSDC are intending to implement a new integrated Fleet and Stock Management System. However Internal Audit noted a number of issues in relation to this:

- a) [No defined timescale has been identified as to when the system will become operational](#)

The tender exercise for this system took place in 2013 at which stage the tender was awarded to purchase the Fleet-Minder system. At the time of audit in October 2016 this system was still not operational. The Fleet Manager advised that the hardware was ready for delivery to Skeoge, however had been delivered to the Strand Road premises in error. The Directorate Accountant for Environment and Regeneration advised Internal audit that as at 17/10/16 the spend on this system was £15,633 out of the total tendered spend of £34,339.

There is still a lot of work that needs to be undertaken to ascertain the baseline position for stock at the Derry store so that this information can be entered onto Fleet-Minder as the

starting position. This is because the Derry office has not been keeping the inventory listing up to date (see Test 8 on page 13 below for further details). The Fleet Manager advised the plan is to get the system up and running for the Derry stock first, before rolling this out to Strabane.

b) [The system may not meet all users requirements](#)

There is a lack of assurance that the Fleet-Minder system will meet all user requirements. For example, during fieldwork Internal Audit noted that not all the required information is being captured to be transferred to the system for 'go live' i.e. the stock sub group description, VAT code and minimum order quantity are not currently being captured. However, the Fleet Manager advised this is something that can be added at a later stage when the system is operational.

[See recommendation 2 below](#)

## Test 1 Procedures

### Test description

Internal Audit reviewed the procedures operating over stores management.

### Issues identified

A Transport Workshop Stores Manual had been documented within the former Derry City Council, however this document has not been updated since July 2012 and relates to the Derry store only.

The Strabane Storeman advised he was not aware of any manual or stock procedures. As such there is no current manual in place for the new DCSDC.

[See recommendation 3 below](#)

## Test 2 Segregation of duties

### Test Description

Internal Audit reviewed if there was adequate segregation of duties in the stock management process between employees:

- (a) ordering items;
- (b) receiving items;
- (c) authorising payments;

- (d) issuing stock;
- (e) amending/adjusting balances on the computer system;
- (f) stocktaking

#### **Issues identified**

Within the Derry storeroom there is a lack of segregation of duties in the stock control system in that the storeman is responsible for ordering items, receiving items, issuing stock and stocktaking.

Within the Strabane storeroom there is also a lack of segregation of duties in that the storeman is responsible for ordering items, receiving items and issuing stock.

Within Strabane an independent stock count was undertaken in the 2015/16 financial year and in both areas the Storemen prepare vouchers for payment, however Internal Audit are satisfied that these payments require subsequent authorisation by other managers and as such segregation of duties is being applied in this part of the process.

[See recommendation 4 below](#)

### **Test 3 Review of the security and storage arrangements**

#### **Test Description**

Internal audit reviewed the security and storage arrangements of both stores.

#### **Issues identified**

Internal audit noted a number of control weaknesses in the security and storage arrangements at both the Derry and Strabane stores as follows:

#### **Derry Storeroom**

- Due to the small size of the store and lack of space some items are stored in separate areas in less secure locations – i.e. general stores and compressor room. Entry to the main store is via a door and there is also a hatch over which the goods are dispatched. However Internal Audit noted that it would be possible to jump the hatch, if it was opened. Also Internal Audit noted for operational reasons the compressor room is left unlocked during the day and reliance is placed upon those taking food bags and oil spill products from this room to note in the records left in this room that these have been taken.
- Internal Audit noted that flammable liquids are stored as safely as possible. There is a separate oil store to which only the Fleet Manager and Storeman have keys. The majority of oil within this store is stored in a 'bunded' area and contained within 'bunded' tanks which Internal Audit were advised had multiple skins. However Internal

Audit noted that the security of this store could be improved. Although only the Fleet Manager and Storeman have access to this store, Internal Audit noted a number of high visibility jackets hanging in this location and the Storeman advised these are for the contractors who have been engaged to wash the vehicles. He advised that the Fleet Manager will give these contractors access to this store on a Saturday morning to get the jackets prior to washing the vehicles.

- There are currently entry / exit issues with the store location. As access to the store is currently via the mechanics workshop area, deliveries to the store can sometimes be problematic if other lorries are blocking the entrance area to the mechanics workshop.
- In addition Internal Audit noted that currently mechanics have access to the store and on a Saturday when they are undertaking maintenance checks on vehicles they can take stock from the store to correct any faults without the storeman's knowledge (as the storeman does not work weekend hours).

#### **Strabane storeroom**

- Internal Audit are satisfied that the main storeroom at Strabane is secure, however, there are a number of larger items such as wheelie bins, tyres and sweeper brushes stored in a fenced off area outside. This area is not within the immediate viewpoint of the storeman. In addition the storeman advised that drivers have keys to the outside location as they start work earlier than the storeman and will take whatever they need from this location and inform the storeman when they return in the evening. In addition there is no cover for the storeman when he is on annual leave. The storeman advised that the Strabane Refuse Collection Manager will open the store for the employees who require an item from the stores however these items are not always recorded on the issue cards when the stores person is not present. The Head of Environment clarified to Internal Audit that the new structure will involve the Fleet Supervisor being responsible for arranging cover for the storeman when he is on leave.
- The Strabane storeman was not aware of any alarm within the store and although there is CCTV coverage in the main corridor that leads to the entrance door of the store, there is no CCTV in the store itself.

[See recommendation 5 below](#)

## **Test 4 Disaster Recovery / Contingency arrangements**

### **Test Description**

Internal Audit reviewed what disaster recovery / contingency arrangements were in place in relation to stores.

#### Issues identified

The Fleet Manager, Storemen at both the Derry and Strabane stores and the Emergency Planning Officer at DCSDC are not aware of a disaster recovery plan /contingency plan in respect of the stock in stores.

[See recommendation 6 below](#)

### Test 5 Insurance Arrangements

#### Test Description

Internal Audit confirmed that appropriate insurance arrangements are in place for the stores.

#### Issues identified

During the review the Insurance Manager increased the general contents cover for Strahan's Road (which would cover the stores).

When comparing the insurance cover to the value of stock at year end it would appear that the insurance coverage is adequate, and could possibly be revised downwards. However Internal Audit have concerns over placing reliance on the stock valuation value for the Derry Store given that this was not based upon a stock count but rather was dependent upon the values recorded in the financial system and these are dependent upon the accuracy of coding information by the storeman. Given that Internal Audit were advised that there were problems in the past with the then storeman recording the coding accurately there is a lack of assurance that these values are correct. Internal Audit acknowledge that a new storeman has recently been engaged at Derry.

[See recommendation 7 below](#)

### Test 6 Stock Records

#### Test Description

Internal Audit reviewed the Stock Records and ensured that access to these was sufficiently restricted.

### Issues identified

#### Blank Orders from the Stores Order Book

The Fleet Manager advised that he would normally be given a batch of 10 blank orders which he would use for ordering services directly himself if required. These would then be returned to the Stores person to attach to the relevant invoice.

#### Pre-authorised payment slip

During fieldwork Internal Audit viewed a pre authorised payment slip for the Strabane store.

#### Strabane vehicle parts not part of stock control process

Internal Audit were advised that in Strabane the mechanics keep their own stock of parts within the garage, and seek approval directly from management for orders, rather than this being accounted for via the stock control process.

[See recommendation 8 below](#)

## Test 7 Staff Training

### Test Description

Internal Audit reviewed staff training to confirm that staff have received appropriate training for handling stock.

### Issues identified

There is a lack of assurance that the storeman at Strabane has undertaken all required training as the training matrix records for this employee were incomplete. The Fleet Manager advised that he had only recently (at the start of October 2016) become aware that he was responsible for this member of staff.

From reviewing the training matrix for the Derry storeman, Internal Audit noted that there are a number of courses as per the training matrix which the Derry storeman would be due to attend again also. However, Internal Audit noted that this storeman is still recorded on this matrix in his previous position as a mechanic and so may no longer be required to attend these courses in his new role as storeman.

[See recommendation 9 below](#)

## Test 8 Inventories

### Test Description

Internal Audit established what records are kept in stores to inform management of the amount and level of stock retained at any given time.

### Issues identified

#### Lack of stock inventory system at Derry

Within Derry issues and receipt records are maintained, however there is no inventory listing maintained based upon this information. The last inventory listing supplied to Internal Audit was for the period dated 26/06/14 - 22/07/14. As such there are currently no records maintained for the Derry store to inform management of the amount and level of stock retained in the store at any given time.

#### Stock inventory system at Strabane

Within Strabane, stock record cards are maintained for each item of stock. These are updated based upon the goods received notes and stores issue dockets. This information is then updated onto a computerised inventory system called 'Task'.

Internal Audit selected a random sample of 10 stock record cards and undertook a physical count of the stock to review the accuracy of the information contained within the stock record cards. This revealed a number of variances as follows:

- In 5 of the 10 items reviewed (i.e. 50%), the physical count undertaken by Internal Audit was less than the quantity recorded on the card,
- In 1 of the 10 items reviewed (i.e. 10%) the physical count by Internal Audit showed a higher level of stock than that recorded on the card,
- In 4 of the 10 items reviewed (i.e. 40%) items matched the quantity recorded on the store card.

NB it should be highlighted that the majority of items maintained within Strabane stores are lesser value items, mostly relating to cleaning products with some vehicle items and some brush cleaning items.

Internal Audit also noted that the 'Task' computer system is used by the Administrative Assistant within Strabane to update the information from the goods received and issued cards at Strabane onto an inventory listing. The Administrative Assistant advised that there is no longer any support available for the Task system and she advised she is also logging on via a previous users logon details, as she has no way of changing these due to the system being unsupported.

[See recommendation 10 below](#)

## Test 9 Receiving and Issuing of goods

### Test Description

Internal Audit established the procedure for recording receipts and issues of goods to ensure this was adequate.

### Issues identified

Within Derry a stores issue record is completed by the storeman when the goods are issued, and a record kept of at least the initials of the person receiving the goods. However the person receiving the goods is not required to sign this sheet, rather it is the storeman who completes this information. Internal Audit queried this and were advised that as CCTV is operational in this area it was not considered necessary for the recipient to sign.

[See recommendation 11 below](#)

## Test 10 Stock takes

### Test Description

Internal audit reviewed if independent stock takes are undertaken on a regular basis and if stock levels were agreed with those of previous periods / years and if significant variations were independently investigated.

### Issues identified

Internal Audit identified the following issues:

- There was no independent stock take undertaken at the Derry store in the last financial year. Rather the current storeman advised he had carried out the stock take in April 2016 himself, over a number of evenings. As such there is a lack of segregation of duties in this process as this storeman is responsible for the custody of this stock. In addition Internal Audit were advised that ground maintenance stock is not included in the count.
- There are no procedures or written instructions made available to staff as to how to undertake the stock counts, nor was training provided. There is a lack of clarity over whose responsibility it is to develop these procedures.
- Formal cyclical counts of the major items of stock do not take place throughout the year.

- When stock takes do take place, the level of variances between stock records and the physical stock are not regularly monitored nor are reasons documented for any differences. Internal Audit analysed the variances identified in the 2015/16 stock count for Strabane based upon the information supplied by the Directorate Accountant for Environment and Regeneration. This showed several variances, many of which arose due to the physical count of stock being higher than the records maintained (inferring that potentially purchases of stock are not being accurately added onto stock records).
- Adjustments to stock records as a result of the count undertaken are not authorised. Rather the Strabane storeman advised that the Strabane Administration Assistant will update the information on Task by overwriting the current quantity with the new quantities.

[See recommendation 12 below](#)

## Test 11 Stock Levels

### Test Description

Internal Audit reviewed the controls operating over stock levels to ensure that

- minimum and maximum stock levels had been established and were kept under review;
- where an adjustment is required, it was appropriately authorised;
- where stock levels are at or approaching the minimum level, orders are initiated promptly;
- confirm that slow moving stock is identified and stock levels altered in line with changes in demand;
- confirm that a regular review is carried out of all stock issued to ensure that it appears reasonable.

### Issues identified

- **Minimum and maximum stock levels have not been established at either of the stores**

In the Strabane store there is not a large quantity of stock maintained, rather Internal Audit were advised that 1 extra item would be retained in the storeroom and when it is used it would be re-ordered from a local supplier.

- **No system is currently in place to identify slow moving or obsolete stock.**

From review of the general storeroom at Derry, Internal Audit noted that there were a number of obsolete items within the stockroom. Within Derry there were 22 snow tyres which the storeman advised Internal Audit cost approximately £300 each. In addition within the Strabane store there was a lot of paint which the storeman advised had been

used previously for a youth training scheme. Internal Audit also noted obsolete bulbs and electrical components

[See recommendation 13 below](#)

## Test 12 Procurement

### Test Description

Internal Audit reviewed the procurement arrangements of suppliers to ensure compliance with DCSDC policy and procedures e.g. requirement to obtain quotations, undertake tender exercises. NB The specific review of quotation / tender exercises will be undertaken as part of a separate procurement audit at a later date.

### Issues identified

Derry store:

The Derry storeman advised that since taking over this position he had located some invoices dating back to 2014 relating to the previous storeman which had not been paid.

Strabane store:

The Strabane storeman advised that most cleaning material is tendered centrally and he would procure from this list. However at the time of audit fieldwork October 16 he didn't have the current centralised tender list for the 2016/17 financial year. He was therefore unaware as to which suppliers he should be using.

The Strabane storeman advised that even though they are included on the tender list, he would order items of protective clothing from a local supplier to suit the men's needs rather than from the tender list.

[See recommendation 14 below](#)

## Test 13 Accounting Treatment of Stock

### Test Description

Internal Audit held discussions with the Directorate Accountant for Environment and Regeneration to establish how stock balances are recorded at the year-end to ensure that they are valued in accordance with relevant accounting standards.

### Issues identified

Stock is included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula which is in compliance with accounting standards. This information is taken from the Agresso Accounting system.

Internal Audit noted that the reliability of information within Agresso relating to stock is dependent upon the accuracy of information input both on quantity and value by stores management. As such it is important that all this information is captured accurately at source. Internal Audit have already identified issues that will impact upon the accuracy of this information at other parts of this report:

- at test 5, page 11, Internal Audit have highlighted there is a lack of assurance over the accuracy of coding information to Agresso,
- at test 8, page 13, Internal Audit have highlighted the lack of a stock inventory system at Derry
- at test 10, pages 14 and 15 Internal Audit have highlighted the lack of an independent stock count being undertaken at the Derry store in the 2015/16 financial year.

It is anticipated that the implementation of the Fleet-Minder system will help to ensure the information is more accurate. However as outlined in page 7 of this report Internal Audit have concerns that a defined timescale has not currently been identified as to when the system will become operational.

[See recommendations already raised \(recommendation no 2, 7, 10 and 12\).](#)

## Test 14 Previous Audit Recommendations

### Test Description

Internal Audit reviewed the progress made towards implementing the previous audit recommendations made in January 2013.

### Issues identified

None of the 4 recommendations made in the previous audit report issued in January 2013 relating to the then Derry City Council have been addressed.

These recommendations related to the following areas:

- Management consider the options available to ensure that the manual stock system developed is continually updated.

- Management should ensure that the budgeted computerised fleet management system is procured and installed as soon as possible.
- It is important to ensure that a complete disaster recovery / contingency plan is developed when all services have been relocated to the new depot at Skeoge
- Appropriate steps are taken to ensure that all staff are provided with relevant up to date procedures and refresher training within the appropriate timeframes.

This is unsatisfactory given the length of time that has elapsed since the previous internal audit was undertaken (Final Audit Report issue date was January 2013). All these recommendations have been re-iterated in this report as a result of the testing undertaken above.

### **Acknowledgements**

Internal Audit would like to take this opportunity to thank the Fleet Manager, Storemen within both Derry and Strabane Stores and the Directorate Accountant for Environment and Regeneration for their assistance in compiling this report.

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p><b>1. <u>Stock Processes within Derry and Strabane</u></b></p> <p>Given the delays in the implementation of Fleet-Minder Internal Audit recommends that Management review the processes operational at both the Derry and Strabane stores and ensure these are improved in relation to any recommendations made within this report. Internal audit would recommend that changes should be made to processes in anticipation for the new system and both stores should operate the same processes.</p>	<p>A review of current processes is currently underway on the basis that the processes in use at both locations are identical. It's intended that the Strabane store will carry only minimal stock with all major components housed at Skeoge.</p> <p>The Fleet-Minder system will be introduced simultaneously at both sites with the stores person at each location receiving appropriate training. Presently a significant volume of data has been migrated into the system through back office support and this is considered as a key first step in ensuring the system operates correctly when it goes live.</p> <p>All associated hardware has now been installed at the Skeoge site and Fleet-Minder are due to migrate data week commencing 21 November</p>	<p>Ongoing, completion March 2017</p>	<p>1</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
	<p>2016. Training for both stores personnel and workshop operatives to take place concurrently. There is still work to be done regarding bar-coding of components within the Fleet Stores and this is planned during January 2017.</p>		
<p><b>2. <u>New integrated Fleet and Stock Management System</u></b></p> <ul style="list-style-type: none"> <li>Internal Audit recommends that the implementation of Fleet-Minder should be established as a separate project. A realistic timescale should be established as to when the system will become operational and project management methodology applied to manage the project. As such this will break the project into a number of tasks that need to be undertaken and any dependencies in undertaking these tasks will be identified so they can be managed. Each task should be allocated to a particular individual/group so that there is clarity over who is responsible for undertaking the task, and so that the project overall can be managed to ensure the anticipated implementation date is achieved.</li> <li>Internal Audit recommend that all required information is captured onto the system before 'go live' otherwise</li> </ul>	<p>A detailed project plan has now been completed so that the system will be fully operational by the 1<sup>st</sup> of April 2017.</p> <p>A significant volume of data has been migrated into the system through back office support and this is considered as a key first step in ensuring the system operates correctly when it goes live.</p> <p>Details entered on to the system include manufacturer's part numbers, etc for all parts held. This is a labour and time intensive task and best carried out by those familiar with the current stock requirements.</p>	<p>Ongoing, completion March 2017</p>	<p>1</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
unforeseen issues could arise at a later date, which may mean the full functionality and benefits of the system may not be realised.			
<p><b>3. <u>Procedures</u></b></p> <p>Internal Audit recommend that the Fleet-Minder system is implemented as soon as possible. Prior to its implementation a new Stores Manual should be developed outlining clearly the new processes and procedures to be adopted.</p> <p>All relevant staff in both Derry and Strabane should be issued with a copy of this manual. Training should be given in these procedures and staff sign off required to acknowledge receipt of this training.</p> <p>These procedures should address all relevant areas relating to the stock process (including those highlighted within this report).</p>	<p>As stated above the Fleet-Minder system will be fully operational by the 1<sup>st</sup> of April 2017.</p> <p>An ‘all encompassing’ operational manual will be compiled by Fleet Manager, Stores Operative and Fleet-Minder staff as part of this process with all relevant staff trained in both the operation of the system and the processes and procedures related to this.</p> <p>It is envisaged that this will be completed by Jan 2017 and communicated to all workshop staff via workshops, toolbox talks and through practical usage.</p>	March 2017	1
<p><b>4. <u>Segregation of duties in the Stock Control system</u></b></p> <p>Internal audit acknowledge that the implementation of Fleet-</p>	A Fleet Supervisor will be in place at each location	March 2017	1

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p>Minder will address some of the segregation of duties issues. However until Fleet-Minder is operational Internal Audit recommend that the current operation of the following processes is reviewed at both locations and segregation of duties inbuilt.</p> <p>These processes are:</p> <ul style="list-style-type: none"> <li>a) ordering items;</li> <li>(b) receiving items;</li> <li>(c) authorising payments;</li> <li>(d) issuing stock;</li> <li>(e) amending/adjusting balances on the computer system;</li> <li>(f) stocktaking.</li> </ul> <p>If this is not considered feasible given the limited amount of persons involved in stock management at each location, then Internal Audit recommend that compensatory controls are applied such as supervision.</p>	<p>to oversee the works of the store man. Each supervisor will validate and countersign each of the purchase orders prior to these going to the Fleet Manager for final sign off.</p> <p>As stated above it is intended that the Fleet-Minder system will be operational by 01 April 2017. This is however pending the recruitment of a permanent Fleet Supervisor at Skeoge who will be core to the successful functionality of the system.</p> <p>This post will be readvertised during December 2016.</p>		

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p><b>5. <u>Security and Storage Arrangements</u></b></p> <p><b>Derry Storeroom</b></p> <ul style="list-style-type: none"> <li>• Internal Audit acknowledge that consideration is currently been given to moving the store location at Derry. Internal Audit recommend that the considerations highlighted at pages 9 and 10 above, are taken into account when deciding the new location of the store.</li> <li>• Internal Audit recommend that the process of giving the mechanics access to the store when the storeman is not present should be reviewed.</li> <li>• Internal Audit recommend that given the flammable nature of liquids within the oil storeroom, the contractor’s high visibility jackets should be stored in a separate location.</li> </ul> <p><b>Strabane storeroom</b></p> <ul style="list-style-type: none"> <li>• In order to provide a level of assurance that all issues will</li> </ul>	<p>As stated a critical review of current arrangements is underway and all recommendations as highlighted in this report will be implemented as part of this process.</p> <p>As above, attempts to recruit a Fleet Supervisor are on-going with difficulties being experienced with this trawl. Once appointed a schedule will be introduced to ensure that either the stores person or Fleet Supervisor is present when stores are open.</p> <p>In addition consideration is also being given as to the arrangements during periods of annual leave, arrangements for the storage of flammable liquids including where the contractor’s high visibility jackets should be stored and arrangements for the compressor room.</p> <p>A review of arrangements at the Strabane store</p>	<p>December 2016</p>	<p>1</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p>be properly accounted for Internal Audit recommends that management review the arrangements at the Strabane store for the larger items and improve the security over these.</p> <ul style="list-style-type: none"> <li>Internal Audit recommends that management review the need for an alarm and CCTV coverage within the store area.</li> </ul>	<p>has commenced. This will include reporting arrangements along with the process and procedures for accessing stores, ordering materials etc.</p> <p>In addition Councils M &amp; E Supervisor is at present scoping the installation of CCTV at this location with the intention of installing a system following the completion of a procurement exercise and consultation with relevant staff and Trade Unions.</p>		
<p><b>6. <u>Disaster recovery / contingency arrangements</u></b></p> <p>Internal Audit recommends that the Fleet Manager should liaise with DCSDC Emergency Planning Officer to assess if the stores should be regarded as a critical service and to ensure appropriate disaster recovery / contingency arrangements are put into place.</p>	<p>Disaster recovery / contingency arrangements had previously been considered under a wider operational services Emergency Plan process. This plan identified what arrangements could be put in place should the stores not be available. The Plan is at present being reviewed to ensure that it is up to date and reflects the split-site position.</p>	January 2017	2
<p><b>7. <u>New storeman trained in coding</u></b></p> <p>A new storeman has recently been engaged at Derry and Internal Audit recommends that he liaises with the</p>	<p>The Directorate Accountant has engaged with the store man on this issue.</p>	December 2016	2

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
Directorate Accountant on the appropriate coding to be used to ensure reliance can be placed on the stock valuations recorded within the Accounting System.	Procurement training has also been arranged and will take place in January 2017.	January 2017	
<p><b>8. <u>Stock Records</u></b></p> <p><b><u>Access to order stationery</u></b></p> <p>Internal Audit recommends that the practice of giving to the Fleet Manager 10 blank orders should be stopped. Rather if orders are required by the Fleet Manager these should be completed as and when needed.</p> <p><b><u>Pre-authorised payment slip</u></b></p> <p>Internal Audit recommends that under no circumstances should authorisation slips to approve payment of an invoice be preapproved. All approvals should be after the manager has checked and reviewed the accuracy of the payment to be processed and is satisfied that this should be made. All relevant staff should be made aware of the importance of this aspect.</p>	<p>This practice has now ceased.</p> <p>All relevant staff have been reminded of the process for vouching and approving invoices. It has also been reinforced that under no circumstances should payment vouchers be signed-off without a fully completed Purchase Order having been scrutinised and all necessary supporting documentation attached.</p>	<p>Completed</p> <p>Completed</p>	1

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p><b><u>Strabane vehicle parts not part of stock control process</u></b></p> <p>Internal Audit recommends that the process is reviewed to ensure all mechanical parts are ordered via the storeman, and the mechanics should not be in a position to order goods without the storeman’s knowledge.</p>	<p>All relevant staff at the Strabane depot have been advised of the arrangements re ordering stock and that only the store man – or in his absence Fleet Supervisor – can undertake this task.</p>	<p>Completed</p>	
<p><b>9. <u>Training</u></b></p> <ul style="list-style-type: none"> <li>Internal Audit recommends that the storeman at Strabane should undertake all required training as soon as practicable.</li> <li>A review should be undertaken of the Derry storeman’s training to identify if there are any courses which he is currently required to attend given his new role as storeman. Internal Audit recommends that any required training should be undertaken as soon as practicable.</li> <li>Internal Audit recommends that the Administration Officer is advised of changes in employee roles to ensure the training matrix accurately reflects the courses required to be attended for the employee’s current role.</li> </ul>	<p>A review of the current roles and responsibilities of the existing stores person based at Strabane is currently underway. It is envisaged that the existing JD will change radically to align to address many of the issues identified by IA.</p> <p>A review of the training requirements of the store men at both locations has been undertaken with training needs identified and taken forward by the Fleet Manager and HR. Training on proper procurement techniques and procedures has also been scheduled for January 2017.</p> <p>All training needs and completed actions are</p>	<p>January 2017</p>	<p>2</p>

**Table of Recommendations**

Recommendations	Management Response	Implementation Date	Priority
	captured on a sectional and Departmental level as part of the OHSS18001 process.		
<p><b>10. <u>Stock inventory system at Derry</u></b></p> <p>Internal Audit were advised that the new Fleet-Minder system will have an integrated stock management system which should include an inventory listing. However as there is no imminent timescale established for the implementation of Fleet-Minder, Internal Audit would recommend that in the interim period the Derry store should continue with the previous spreadsheet inventory system that was in use previously. Internal Audit acknowledge that this would first require a dedicated resource for a period of time to identify the current stock levels within the store, and update of this information onto a stock spreadsheet. From here it should be identified who should be responsible for ensuring this record is kept up to date by using the stock issues and returns documentation on a regular basis.</p>	<p>A project plan has now been produced and is at present being implemented so that the system will be fully operational for the 1<sup>st</sup> of April 2017.</p> <p>The spreadsheet inventory system will operate at Skeoge until such times as the Fleet-Minder system is operational.</p> <p>An interim stock take has been planned for January 2017, prior to the 'Go-Live' date for Fleet-Minder. This exercise will establish stock levels at this point in time together with stock location, part number, supplier, etc. with this detail inputted into the spreadsheet.</p> <p>The store man will have responsibility for updating the spreadsheet.</p>	<p>January 2017</p> <p>January 2017</p>	<p style="text-align: center;">1</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p><b><u>Stock Inventory System at Strabane</u></b></p> <ul style="list-style-type: none"> <li>Internal Audit acknowledge that the majority of variances identified during testing are not high value however would recommend that care is taken to update stock records accurately with issues and receipts on a more timely basis.</li> <li>Internal Audit acknowledge that the Task stock inventory system will be replaced by the Fleet-Minder system. Internal Audit highlight the weakness in the interim period in placing reliance upon a system that is unsupported and recommend that dependent upon the timescale for implementation of Fleet-Minder it may be necessary to put in place a different system / process.</li> </ul> <p>From a control perspective logon to the Task system should not be via a previous employee's details, however IA acknowledge that as the system is unsupported at present she is not in a position to change logon details currently.</p>	<p>The Fleet Supervisor will in the interim, monitor and ensure that records in the current Excel / Task system are updated to reflect receipts and issues.</p> <p>As stated above it is intended that the Fleet-Minder system be fully operational by the 1<sup>st</sup> of April 2017 with interim arrangements in terms of the Task software remaining in place until then.</p>	<p>Completed</p>	

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p><b>11. <u>Receipting and issuing of goods</u></b></p> <p>Internal Audit recommends that within the Derry store the recipient of the goods should sign the goods received book upon receipt, rather than only the initial being recorded by the storeman.</p>	<p>This requirement has now been communicated to all relevant staff. In addition to this the suppliers delivery note must also be countersigned.</p>	<p>Completed</p>	<p>2</p>
<p><b>12. <u>Stock Takes</u></b></p> <ul style="list-style-type: none"> <li>Internal Audit recommends that regular independent stock counts are carried out at both store locations (at least annually). These should include a count of all stock including Grounds Maintenance stock. It should be clarified who will undertake these independent stock counts.</li> <li>Internal Audit recommends that it is clarified who is responsible for the development of procedures / written instructions as to how to perform the count. These should be developed and made available to all relevant staff. Those performing the count should be trained in these procedures.</li> </ul>	<p>The installation of the Fleet-Minder system will facilitate greater control and management of the stores. Once the system is fully operational 'spot checks' will be undertaken on a frequent basis to verify data held on the system.</p> <p>Fleet-Minder will also enable random sectional 'Stock-Takes' to be undertaken so all the parts within for example the 'Dennis' subgroup can be checked and recorded. This will negate the need to carry out an entire 'Stock-Take' at one time.</p> <p>The Head of Environment will, in discussion with IA</p>	<p>March 2017</p> <p>January 2017</p>	<p>1</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<ul style="list-style-type: none"> <li>• Internal Audit recommends that formal cycle counts of the major items of stock should take place throughout the year.</li> <li>• The level of variances identified via stock takes should be regularly monitored and explanations documented for any key variances.</li> <li>• Adjustments to stock records as a result of the count should be authorised by senior management.</li> </ul>	<p>and other relevant officers, agree and document the arrangements for undertaking independent annual stock takes.</p> <p>As stated above written procedures will be agreed and actioned with regard to the processes and procedures for undertaking both the annual and 'spot check' stock takes. These procedures will set out the roles and responsibilities of all involved along with actions required following any variance in date and how these are to be signed off and recorded.</p>		
<p><b>13. <u>Stock Levels</u></b></p> <ul style="list-style-type: none"> <li>• Internal Audit were advised that the Fleet-Minder system has the facility to identify and input minimum level quantities for each item of stock, so that when this trigger is reached the manager will be notified to re-order the goods. Internal Audit recommends that careful consideration is given to identify a realistic minimum order quantity, and this information should be input to the Fleet-Minder system so that this function can be</li> </ul>	<p>The Fleet Manager is at present reviewing stock levels and requirements as part of the preparation for the installation of the Fleet-Minder software. Stock levels will be determined on use with appropriate trigger /minimum quantities inputted to the system.</p> <p>The Fleet Manager is at present drafting written</p>	<p>March 2017</p> <p>January 2017</p>	<p>2</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<p>utilised.</p> <ul style="list-style-type: none"> <li>• Internal Audit recommends that in the future when any adjustment is required, the authorisation to make this adjustment should be appropriately documented.</li> <li>• Internal Audit recommends that slow moving stock is identified and stock levels altered in line with changes in demand.</li> <li>• Internal Audit recommends that any obsolete stock currently sitting in both the Derry and Strabane store should be identified and disposed of appropriately. This should be written off in the Accounts as soon as practicable, to ensure the accounts reflect accurate stock values.</li> </ul>	<p>procedures with regard to the operation of the stores function.</p> <p>As advised above stock level parameters will be set as part of the Fleet-Minder installation process. It must be noted however that some items are not available 'off the shelf'. In order to ensure that vehicles remain operable a small number of slow moving stock items will be held to ensure vehicle down time is minimised.</p> <p>A review of stock held is underway as part of the Fleet-Minder installation process. These items, once identified, will be disposed of in consultation with Internal Audit, Procurement and the Directorate Accountant.</p>	<p>January 2017</p>	
<p><b>14. <u>Procurement</u></b></p> <ul style="list-style-type: none"> <li>• Internal Audit recommends that the storeman at Strabane should be issued promptly with the new annual tender list each year, so that he is aware of which suppliers he is required to place the orders with.</li> </ul>	<p>The list of approved suppliers has been provided to Strabane staff along with instruction on use i.e that goods must only be purchased from those on the list.</p>	<p>Complete</p>	<p>1</p>

## Table of Recommendations

Recommendations	Management Response	Implementation Date	Priority
<ul style="list-style-type: none"> <li>Internal Audit recommends that the Strabane storeman should liaise with the Procurement Manager to ensure any defects in quality by suppliers is incorporated as part of the award exercise. There should be no exceptions to purchasing material from suppliers other than those on the tender list. If there is an exceptional reason why this might be the case, then this purchase should only be made on the documented approval of the Procurement Manager.</li> </ul>	<p>As advised above the Fleet Supervisor in Strabane will oversee and line manage the stores function so as to ensure that all procedures and processes are in full compliance with procurement obligations.</p> <p>Only in exceptional circumstances and in order to facilitate the needs of the service can parts/services be procured outside of the 'Annual Tender' list and only then when authorised by Fleet Manager.</p>	Complete	

## Appendix (i) System Priority Level

Internal Audit have recently introduced a 'System Priority level' to audit reports. The system priority level identifies the significance of the system under review towards achievement of the Council's objectives.

This will help management to easily identify significant issues at an organisational level.

There are 3 ratings as follows:

Rating	Description
A	Failure to implement the recommendations is likely to result in a major failure of a key Council objective, significant damage to the reputation of the Council or the misuse of public funds.
B	Failure to implement the recommendations could result in the failure of an important Council objective or could have some impact on a key Council objective.
C	Failure to implement the recommendation could lead to an increased risk exposure.

## Appendix (ii) Classification of Audit Assurance

Internal Audit have recently reviewed the classification of audit assurance levels. These continue to be based upon the system under review. The 3 new Assurance levels are 'Satisfactory', 'Improvement needed' and 'Major Improvement needed'. The definitions have been reworded to match the new Assurance levels.

The new assurance levels and definitions are as follows:

Level of Assurance	Definition
Satisfactory	<i>Evaluation opinion:</i> Overall controls are adequate and effective to provide reasonable assurance that risks are managed. While there may be some issues identified and recommendations raised, this should not significantly impact on the achievement of objectives.
Improvement needed	<i>Evaluation opinion:</i> Significant control weaknesses were noted and recommendations raised. There is considerable risk that the system will fail to meet its objectives.
Major Improvement needed	<i>Evaluation opinion:</i> Numerous significant control weaknesses were noted and recommendations raised. The system has failed or there is a real risk that the system will fail to meet its objectives.

## Appendix (iii) Implementation Priority

Implementation priorities are based upon Internal Audit's opinion on how quickly the recommendations should be implemented, relevant to their importance in the system under review.

There are 3 different priority ratings as follows:

Priority	Description
1	Weakness which should be addressed immediately.
2	Weakness, which is not fundamental but should be addressed in the short term (6 months).
3	Improvement, which represents best practice.

The Action Plan contains the priority both of the system and the recommendation.