

Walsall Council
Internal Audit Service

Inventories and Stores
Social Care and Inclusion
Occupational Therapy

Audit Report 2005/2006
August 2006

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EXECUTIVE SUMMARY

A. Introduction

1. An audit review of inventories and stores for occupational therapy was undertaken as part of the 2005/06 cyclical audit plan.
2. The objectives of the audit were to ensure that the systems and procedures in place are sufficient and effective.
3. The scope of the audit is as set out on the contents' page. An overall opinion, points of good practice and an improvement action plan for each of the areas audited are attached. Audit recommendations, in general, are prioritised as high (***) , medium (**) or low (*).
4. Within a short period of issuing the final audit report, the head of service will be contacted to formally confirm that the action plan recommendations have been implemented as agreed.
5. Under the council's corporate governance arrangements, the outcomes of audits are reported routinely to the audit committee. This includes providing an overall report opinion and details of agreed recommendations successfully implemented.
6. The committee has expressed concern with a failure, in a number of instances, to implement agreed recommendations. The committee will seek explanations from managers failing to ensure that agreed recommendations are actioned.

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B. Overall Audit Opinion

1. The systems operated in support services were found to be of a poor standard overall, as described below:

Overall Audit Opinion		
	Good	Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively.
	Adequate	There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely and effectively.
➔	Poor	Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively.
	Unsatisfactory	Controls are failing or not present. No assurance can be given that the system, process or activity will achieve its objectives safely and effectively.

2. Occupational therapy stock is a part of the 'integrated community equipment stores' (ICES), which is managed under the section 31 'Pooled Budget' agreement with Walsall Primary Care Trust (PCT), established in April 2005. The council is the 'Host' and 'Lead Commissioner' under this contract and also the accountable body. The section 31 agreement requires that the council's standing financial instructions shall apply to the management of the pooled fund and the partnership arrangements under this agreement. There is no contract yet in place between the council as lead commissioner and the tPCT as provider for the ICES, although a service specification for this arrangement has been drafted. Consequently, the manner in which the council as lead commissioner has applied financial and contract procedure rules in commissioning this service requires clarification, which is now in hand.

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3. Staff at the stores are employees of the tPCT and include some people who transferred under TUPE from social services. Due to general recruitment difficulties, a stores services manager was not appointed until April 2005, after a gap of three years without any manager. Following the manager's appointment the operational functions at the stores are now starting to improve.
4. As part of this audit review, appointments had been arranged with the service manager. However, due to the service manager's other stated commitments and unavailability, these appointments had to be cancelled on a number of occasions. Consequently, it is not possible to verify that the systems employed at the stores provide appropriate assurance and that safeguards are in place to protect the council's interests and discharge its accountable body obligations.
5. There were no recommendations from previous audit reviews that required follow up.
6. There are 4 high priority recommendations,

Section	Action Plan Ref.	Recommendation
Recording of inventory	1.1	An up to date inventory should be maintained in accordance with the council's FPRs. The inventory should document the following information for items worth £50 or more: - date of items purchased; - value of item; - location; - serial number; - security marking; and - details of disposals/ transfers.
	1.2	Designated officers who are independent of the inventory maintenance function should conduct annual inventory checks and sign the inventory book to evidence that this has been undertaken.
Recording of stock	5.1	Stock records should be reviewed for accuracy and completeness.
Minimisation of the risk of fraud and corruption for stock	6.1	No recommendations can be made as it has not been possible to conduct any testing in this area. Consequently the tPCT should be asked to confirm to the council that key controls, including adherence to financial and contract procedure rules, are in place.

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C. Summary of Findings

	Good	Adequate	Poor	Un-satisfactory
Recording of inventory				✓
Minimisation of the risk of fraud and corruption for inventory				✓
Access controls over inventory and inventory records				✓
Disposal of inventory				✓
Recording of stock				✓
Minimisation of the risk of fraud and corruption for stock			✓	
Access controls over stock and stock records	✓			
Accounting for stock			✓	
Stock ordering			✓	
Storage of stock	✓			
Disposal of stock				✓

D. Acknowledgements

1. Please thank all staff for their help and co-operation during the audit and particularly for making records available to the auditor.

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AUDIT OPINION & ACTION PLAN**

1. RECORDING OF INVENTORY

AUDIT OPINION

The controls in this area are unsatisfactory.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
1.1	***	<p>The service manager does not maintain an inventory.</p> <p>The stores have been burgled eight times during 2005/06. On 4 of these occasions all of the electrical hardware, such as computers and printers were stolen.</p>	<p>In the absence of accurate and complete inventory records, there is an increased risk of misappropriation/ theft or loss.</p>	<p>An up to date inventory should be maintained in accordance with the council's FPRs.</p> <p>The inventory should document the following information for items worth £50 or more:</p> <ul style="list-style-type: none"> - date of items purchased; - value of item; - location; - serial number; - security marking; and - details of disposals/ transfers. 	<p>New commissioning and contract arrangements will formalise the required position that the tPCT operate the stores in compliance with their own financial regulations</p>	<p>Assistant director, adult services - social care & inclusion.</p> <p>Head of younger adults & disability services - social care & inclusion.</p> <p>1 September 2006</p>
1.2	***	<p>Inventory checks have not been undertaken during 2005/06.</p>	<p>In the absence of adequate inventory checks there is a risk of misappropriation/ loss and theft going undetected.</p>	<p>Designated officers who are independent of the inventory maintenance function should conduct annual inventory checks and sign the inventory book to evidence that this has been undertaken.</p>	<p>Nominated staff are being given tasks to conduct the annual inventory checks independent of the maintenance function.</p>	<p>Head of younger adults & disability services - social care & inclusion.</p> <p>1 September 2006</p>

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AUDIT OPINION & ACTION PLAN**

2. MINIMISATION OF THE RISK OF FRAUD AND CORRUPTION FOR INVENTORY

AUDIT OPINION

The controls in this area are unsatisfactory.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
2.1	***	The council is the 'Host' and 'Lead Commissioner' for the community equipment stores as stated within the section 31 agreement. Although it is intended that the stores will operate to the tPCT's financial regulations, commissioning arrangements have not yet been clarified on a formal contractual basis.	This matter has been addressed in the 2005/06 'Pooled Budget Arrangement' report.	This matter has been addressed in the 2005/06 'Pooled Budget Arrangement' report.	n/a	n/a

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3. ACCESS CONTROLS OVER INVENTORY AND INVENTORY RECORDS

AUDIT OPINION

The controls in this area are unsatisfactory.

No comments can be made under this section of the review as no inventory records are maintained and no testing could be carried out on physical items.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
		None				

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4. DISPOSALS OF INVENTORY IS CONTROLLED AND RECORDED

AUDIT OPINION

The controls in this area are unsatisfactory.

No comments can be made under this section of the review as no inventory records are maintained and no testing could be carried out to verify any disposals as having taken place.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale

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AUDIT OPINION & ACTION PLAN**

5. RECORDING OF STOCK

AUDIT OPINION

The controls in this area are unsatisfactory.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
5.1	***	<p>Stock records are incomplete in that the following information is not disclosed:</p> <ul style="list-style-type: none"> • location of stock; • value of stock per unit; and • date/ quantity of issues, returns, goods received and disposals. 	<p>The quality of management decisions will be compromised as they will be based upon incomplete information. There is also a risk of the council's financial statements being mis-stated.</p>	<p>Stock records should be reviewed for accuracy and completeness.</p>	<p>Full stock records have always been maintained although, at the time of the audit, data was being migrated to a new computer system.</p> <p>Stock records will, however, be reviewed once the migration has been completed. This will including a check that purely council owned items are recorded separately (there are a small number of bespoke items of equipment purchased by the council which are kept at the stores).</p>	<p>Head of younger adults & disability services - social care & inclusion.</p> <p>1 September 2006</p>

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Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
5.2	**	<p>Stock held also includes Walsall Manor NHS Trust stock.</p> <p>The section 31 agreement does not reference arrangements for the management/ control arrangements for Trust stock held at the stores.</p>	<p>Third party stock may be included in the annual stock take by the council. This could result in the stock valuation being inadvertently, mis-stated in the council's financial statements.</p>	<p>Third party stock should be removed from stores unless there is a valid agreement in place between the council and the Trust for stock to be held in PCT stores.</p>	<p>New commissioning and contract arrangements will clarify that third party stock is the management responsibility of the tPCT.</p>	n/a

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6 MINIMISATION OF THE RISK OF FRAUD AND CORRUPTION FOR STOCK

AUDIT OPINION

The controls in this area are poor.

Good practice includes:

- There is segregation of duties when ordering, receiving and authorising payments for stock.
- Keys to the stock room are kept in locked cabinets overnight.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
6.1	***	<p>It has not been possible to verify or test the stock records maintained by stores.</p> <p>Appointments had been arranged with the service manager for the above task to be undertaken. However, due to the manager's other commitments and unavailability these appointments were cancelled on a number of occasions.</p> <p>Consequently, it is not possible to verify systems employed to provide appropriate assurance that safe guards are in place to protect the council's assets and staff.</p>	<p>Controls are insufficient to guard against loss / misappropriations.</p>	<p>No recommendations can be made as it has not been possible to conduct any testing in this area. Consequently the tPCT should be asked to confirm to the council that key controls, including adherence to financial and contract procedure rules, are in place.</p>	<p>New commissioning and contract arrangements will formalise the required position that the tPCT operate the stores in compliance with their own financial regulations</p> <p>The reasonableness of the records maintained is reviewed on an ongoing basis by the head of younger adults & disability services.</p>	<p>Head of younger adults & disability services - social care & inclusion</p> <p>1 September 2006</p>

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AUDIT OPINION & ACTION PLAN**

7. ACCESS CONTROLS OVER STOCK

AUDIT OPINION

The controls in this area are good.

Good practice includes:

- | | |
|---|--|
| <ul style="list-style-type: none"> • Stock is in the view of officers. | <ul style="list-style-type: none"> • Stock is held securely and cannot be accessed without knowledge of the keypad codes to the store room. |
|---|--|

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
		None.				

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8. ACCOUNTING FOR STOCK

AUDIT OPINION

The controls in this area are poor.

Good practice includes:

- Year-end stock certificates are provided to central finance.
- Recharges are made for stock issued on a timely basis.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
8.1	***	<p>It has not been possible to verify or test the stock records maintained by stores.</p> <p>Appointments had been arranged with the service manager for the above task to be undertaken. However, due to the manager's other commitments and unavailability these appointments were cancelled on a number of occasions.</p> <p>Consequently, it is not possible to verify systems employed to provide appropriate assurance that safe guards are in place to protect the council's assets and staff.</p>	<p>Systems cannot be verified has been sufficient and appropriate to detect loss/ misappropriations.</p>	<p>No recommendations can be made at this stage as it has not been possible to conduct any testing in this area.</p>	<p>See 6.1</p>	

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9. STOCK ORDERING

AUDIT OPINION

The controls in this area are poor.

Good practice includes:

- Stock is re-ordered based on seasonal trends, e.g. wheel chairs are in demand during the summer rather than the winter.
- Suppliers used by the stores have all been vetted and approved by the council.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
9.1	***	<p>It has not been possible to verify or test the stock records maintained by stores.</p> <p>Appointments had been arranged with the service manager for the above task to be undertaken. However, due to the manager's other commitments and unavailability these appointments were cancelled on a number of occasions.</p> <p>Consequently, it is not possible to verify systems employed to provide appropriate assurance that safe guards are in place to protect the council's assets and staff.</p>	<p>Systems cannot be verified has been sufficient and appropriate to detect loss/ misappropriations.</p>	<p>No recommendations can be made at this stage as it has not been possible to conduct any testing in this area.</p>	<p>See 6.1</p>	

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10. STORAGE OF STOCK

AUDIT OPINION

The controls in this area are good.

Good practice includes:

- | | |
|---|--|
| <ul style="list-style-type: none"> • Stock is stored in premises that will not lead to its deterioration. • Staff involved with stock have all received appropriate training in handling stock. | <ul style="list-style-type: none"> • Slow moving stock is identified and stock levels altered in line with changes in demand. |
|---|--|

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
		None				

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AUDIT OPINION & ACTION PLAN**

11. DISPOSAL OF STOCK

AUDIT OPINION

The controls in this area are unsatisfactory.

No comments can be made under this section of the review as no stock records are maintained and no testing could be carried out to verify any disposals as having taken place.

ACTION PLAN

Ref	Priority	Finding	Risk Exposure	Recommended Action	Response	Responsibility & Timescale
		None			A new disposal procedure was approved by the management steering group in March 2006.	n/a