

Report to: Audit Committee

Subject: Summary of Audit Activity

Date: 27th March 2012

Author: Service Manager - Audit & Risk Management

1. PURPOSE OF REPORT

To summarise the outcome of Internal Audit activity for the period January to March 2012.

The report will highlight all final reports issued and associated key findings, concerns identified in any work in progress, details of liaison with management and External Audit and provide details of any changes to the Annual Audit Plan.

2. SUMMARY OF INTERNAL AUDIT ACTIVITY

Final Reports Issued

The following reports have been finalised for the period January – March 2012.

- IAR1112-05 Leisure Centre Bar Stock
- IAR1112-14 Payroll
- IAR1112-16 Creditors
- IAR1112-18 Banking
- IAR1112-19 Lending & Borrowing
- IAR1112-20 Officer & Member Disbursements

IAR1112-05 Leisure Centre Bar Stocks

The report provided **limited assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Five medium and two low risk recommendations were made.

The limited assurance rating is predominantly due to the fact that stock reports contain inaccurate prices and calculations. Additionally, there is a significant amount of estimation involved in the stock count, which may be justified, but means that variances will occur.

The full report is provided as an annex for member consideration.

IAR1112-14 Payroll

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Three low risk recommendations were made.

In addition to the recommendations the following areas of good practice were highlighted:

- The use of check sheets for all starters, leavers and changes to existing standing data to ensure all information is processed correctly and accurately.
- The My View system allows staff to access and view their payslips, along with other key payroll information, on an ongoing basis. This is also more environmentally friendly than circulating paper copies.

IAR1112-16 Creditors

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Two medium and five low risk recommendations were made.

The two medium risk recommendations relate to the requirement to establish an authorised signatory list and the activation of the Agresso function to notify budget holders where a purchase order exceeds approved budget.

In response to these two recommendations the requirement for manual signatures will cease due to electronic authorisation being utilised. Activation of the Agresso function for budget notification will be discussed with the software supplier with the view to activating this function.

IAR1112-18 Banking

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Three low risk recommendations were made.

IAR1112-19 Lending & Borrowing

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. One low risk recommendation was made.

IAR1112-20 Officer & Member Disbursements

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. One medium and five low risk recommendations were made.

The medium risk recommendation relates to an incorrect rate being used for P11D calculations. This has now been corrected and all future changes to this parameter will be subject to management check.

Work in Progress

The following review is currently in progress:

- IAR1112-07 - Insurance & Inventory

There are no significant areas of concern identified in the work to date from this review.

In addition to the above work in progress, the review of the Financial Management System (IAR1112-21) is scheduled to begin week commencing 26th March 2012. This is the final audit review of the current financial year and will ensure completion of the 2011-12 audit plan.

4. RECOMMENDATION

The Audit Committee are asked to note the report and in particular that the level of assurance provided in each audit assignment will be taken into account when Internal Audit provide an overall opinion on assurance in the Annual Report at the end of the financial year.



INTERNAL AUDIT

FINAL REPORT

Title: Richard Herrod Leisure Centre Bar Stocks

Report Distribution

For Action:	Lee Gaskin Jayne Cox	Leisure Centre Manager Service Manager, Leisure & Culture
For Information:	Paula Darlington Mark Kimberley Andy Fretwell Colleen Warren Richard Walton	Corporate Director Corporate Director & Chief Financial Officer Operations Manager Principal Accountant Audit Commission
Prepared By:	Andrew Koch	
Draft Issued:	27 th January 2012	
Final Issued:	3 rd February 2012	

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EXECUTIVE SUMMARY

Introduction

A review of Richard Herrod Leisure Centre Bar Stocks has been undertaken as part of the approved internal audit periodic plan for 2011/12.

At this leisure centre, there have been significant variances in recent months between actual income and the predicted retail value of stock sold, based on the movement of stock.

The leisure centre has two bars, a Main Bar with annual sales of £277,000 and the Millennium Suite with annual sales of £60,000, a combined annual turnover of £337,000. The two bars sell a variety of beers, wines, spirits, soft drinks, crisps, nuts and sweets.

Stocktakes are undertaken by a contractor. They take place every 4 or 5 weeks in line with the Council's accounting periods. Reports provided by the stocktaker calculate predicted retail sales, based on the movement of stock, and compare it to actual income, giving a surplus or deficit of actual income.

This audit focused on the stocktake on 3 August 2011, and the resultant stocktaker's report for the period 6 July to 2 August 2011. A deficit of £329 for the Main Bar and a surplus of £118 for the Millennium Suite were reported in this period.

Principal Findings

The main reasons for the variances appear to be inaccuracies and estimations in the stocktaker's report.

	High	Medium	Low
Number of recommendations	0	5	2

The detailed findings and associated recommendations are provided in the second part of this report. The risk levels attached to each finding reflect the risk to controlling the variances in the stocktaker's reports. We have not fully evaluated the impact of these findings, and in most cases further work needs to be done to identify the extent of, and remove any problems caused by, the matters found. The medium risk recommendations relate to the following:

- One error in recording a retail price alone caused a £45 overstatement in the reported variance
- The method of estimating the quantity remaining in partly used barrels of draught beer will naturally cause variances
- The value of wastage during pipe cleaning is a standard amount, and should be re-checked
- We have recommended two management reviews that we believe should take place regularly to identify the potential source of variances
- Some stock remains unsecured outside the shutters that lock the main bar.

Assurance Statement

Internal Audit can provide **limited assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

This is mainly because the stock reports contain inaccurate prices and calculations. Additionally, there is a significant amount of estimation involved in the stock count, which may be justified, but means that variances will occur.

INTRODUCTION

Objective & Scope

The purpose of the audit was to evaluate the stocktake and resultant stock reports, with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The key risks associated with the system objective are:

- Stock holdings and losses are not correctly recorded due to inaccurate stock records;
- Stocks may be lost through theft or wastage.

The control areas included within the scope of the review are:

- Stock counts;
- Stock valuations;
- Stock wastage and movement records;
- Stock security.

Before we carried out this review, a number of suggestions and recommendations for the improvement of stock security and records had already been made by leisure centre staff, and by the Gedling BC internal audit and accountancy sections. These are listed in Annex A. Many of these were in the course of implementation at the time of audit. This audit report does not supersede these suggestions, which are not necessarily repeated in our recommendations.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
Recommendation 1 - Retail Prices on the stock report			
Level of Risk - Medium			
<p>Our sample testing of the retail prices on the stock report, produced by the stocktaker, found one pricing error.</p> <p>Theakston Mild which is sold at £2.30 per pint (£18.40 per gallon) had been entered as £19.20 per gallon. This alone causes a £45.60 overstatement of the main bar stock report's predicted sales.</p> <p>Wines and spirits can be sold either as full bottles, or in measures. But the stock report only allows a single retail price per bottle. The actual retail prices are likely to be different depending on how they are sold.</p>	<p>Incorrect variances on the stock report.</p>	<p>(a) A review of the retail prices on the stocksheets should be undertaken, particularly for draught beers which make up £17,026 (79%) of the main bar's sales.</p> <p>(b) The retail prices of wines and spirits should be checked in detail.</p> <p>Action: Lee Gaskin – Richard Herrod Leisure Centre Manager</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action:</p> <p>(a) The Leisure Centre Manager to check that retail prices are correct against stock takers report immediately, after every price rise and whenever stock takers report shows a discrepancy of over £250. Service Manager to ensure that Redhill and Arnold Leisure Centres do the same.</p> <p>(b) The Leisure Centre Manager to discuss sale of wine with stock taker immediately to assess the impact of selling wine by the bottle.</p> <p>Timescale: Immediate</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Estimations (partly used barrels)</p> <p>Level of Risk - Medium</p>			
<p>When stocktakes are undertaken, a notable amount of estimation is used to assess the quantity remaining in partly used barrels of draught beer. This is done simply by lifting and guessing by weight how full each barrel is.</p> <p>Eight of the 20 barrels counted at the main bar stocktake on 3 August were partly used. The total value of this stock was £1,555.</p>	<p>The existence of natural variances on the stock report is mistakenly considered to indicate a problem, especially as there is a low tolerance of £250 for reporting variances for investigation.</p>	<p>(a) The natural existence of variances should be recognised when assessing stocktake results. To take account of this, the threshold for reporting variances should be reviewed, and maybe increased, after other discrepancies in the stock report, identified elsewhere in this report, are resolved.</p> <p>(b) The acquisition of a weighing machine should be considered.</p> <p>Action: Lee Gaskin – Richard Herrod Leisure Centre Manager</p>	<p>Management Comment:</p> <p>(a) Do not agree with increasing tolerances as they act as a trigger point for further management checks.</p> <p>(b) Agreed.</p> <p>Planned Corrective Action:</p> <p>(b) The Leisure Centre Manager has discussed this at length with the stock taker. He does actually own a weighing machine but says that it always comes out with very similar results to those that he estimates. He also states there are Health & Safety risks in using the weighing machines because the barrels have to be lent over at an unsafe angle.</p> <p>Timescale:</p> <p>Implemented</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Pipe Cleaning Level of Risk - Medium</p>			
<p>The pipes from the draught beer barrels to the main bar are cleaned weekly, and the amount of beer wasted is always 'priced' at £152.</p> <p>In the Millennium Suite the pipes are usually cleaned fortnightly and the wastage 'priced' at £108. Additional cleans may be done depending on the number of events held there.</p> <p>These prices are significant (£824 in a 4-week period) and so any error could have a significant impact on the stock reconciliation.</p> <p>If there are errors here, they would be consistently similar every month, and not cancel each other out over the year.</p>	<p>This is a potential source of incorrect variances on the stock report, although we have not identified any error.</p>	<p>The accuracy of the standard 'prices' of wastage at pipe cleaning should be re-checked by measuring the actual losses, and the retail prices.</p> <p>Action: Lee Gaskin – Richard Herrod Leisure Centre Manager</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: The main bar checked on 10.1.12 as £121. Millennium Suite checked on 10.1.12 as £107. Therefore these are the weekly figures that will be used going forward.</p> <p>Timescale: Complete</p> <p>To be checked quarterly and at every price rise.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 4 - Management Reviews</p> <p>Level of Risk - Medium</p>			
<p>There are two management reviews that we believe should take place regularly to identify potential sources of variance in the stocktaker's report.</p> <p>(i) Because the variance is based on the retail value of sales, on each stock report management should review the predicted retail value of sales for each product line, and check the accuracy of unusual fluctuations compared to other months. The new till facility to report sales per stock item could help with this review.</p> <p>(ii) Review till reports to ensure that the 'void' and 'error correct' options are used appropriately, to cancel transactions for which no sale has been made. Excessive use may indicate that takings are being misappropriated, and should be followed up with the relevant till users.</p>	<p>The sources of variance on the stock report are not identified.</p>	<p>Leisure Centre management should carry out the two management reviews described here.</p> <p>Action: Lee Gaskin – Richard Herrod Leisure Centre Manager</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action:</p> <p>(i) To be checked when discrepancies are over £250 or possibly more often depending on reporting facilities of new tills.</p> <p>(ii) To be monitored regularly per till user once new tills are installed.</p> <p>Timescale: Ongoing from February</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 5 - Stock Transfers Level of Risk - Low</p>			
<p>There are standard forms to record the transfer of stock between the Main Bar and the Millennium Suite. These transfers are taken into account by the stocktaker.</p> <p>However, the stocktaker informed us that stock transfers are not being properly recorded, particularly at busy times.</p>	<p>Incorrect variances on the stock report.</p> <p>However the risk is limited as any discrepancy will cause compensating variances between the Main Bar and Millennium Suite stock reports, with no overall variance.</p>	<p>Bar staff should be reminded to record details of all stock transfers between the two bars.</p> <p>Action: Lee Gaskin – Richard Herrod Leisure Centre Manager</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: Staff are reminded regularly at staff meetings. This will continue. Staff will be informed of the importance of recording stock transfers.</p> <p>Timescale: Immediate and ongoing</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 6 - Security Level of Risk - Medium</p>			
<p>All staff have access to the bar, including non-bar staff.</p> <p>When the Millennium Suite bar is closed the shutters secure the whole bar. However, the shutters on the Main Bar only cover the rear of the bar area where most of the optics are held. Some stock remains unsecured outside the shutters.</p> <p>There is a flap at the entrance to the bar to let staff in and out. It no longer has a catch to secure it. It is left upright and open at times when the public are in the bar.</p>	<p>Stock may be stolen.</p>	<p>(a) The Main Bar should have shutters that secure the whole bar.</p> <p>(b) Access to keys to the shutters should be limited to necessary staff.</p> <p>(c) The bar flap catch should be repaired and the flap kept in the closed position when not in use.</p> <p>Action: Lee Gaskin – Richard Herrod Leisure Centre Manager</p>	<p>Management Comment:</p> <p>(a)(b) Do not agree, the main bar is open all day for drinks and snacks. There is never a time when it would be practical to use shutters other than when the Centre is closed.</p> <p>(c) Agreed</p> <p>Planned Corrective Action:</p> <p>(c) The lock on bar flap to main bar to be repaired.</p> <p>Timescale:</p> <p>(c) Complete</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 7 - Stocktaking Contractor Level of Risk - Low</p>			
<p>The stocktaking role at all of the Council's leisure centres has been undertaken by the same provider for a number of years. The fee is currently £385 per month.</p>	<p>Best value may not be achieved.</p>	<p>The purchase of stocktaking provision should be reviewed on a periodic basis.</p> <p>Action: Jayne Cox - Leisure Facilities Officer</p>	<p>Management Comment: Recommendation agreed. However, the total value of the contract for GBC stock taking is only £4,620 ex VAT each year. This is less than the threshold for 3 quotes, as per the financial regulations.</p> <p>Planned Corrective Action: The Service Manager to obtain 2 further quotes for stock taking across all 3 sites for comparison before renewal of the existing contract.</p> <p>Timescale: 2012-13 renewal</p>

ANNEX A

Measures identified before this audit

As mentioned in the introduction to this report, before we carried out this review, a number of suggestions and recommendations for the improvement of stock security and records had already been made by leisure centre staff, and by the Gedling BC internal audit and accountancy sections. These are listed below. Many of these were in the course of implementation at the time of audit. This audit report does not supersede these suggestions, which are not necessarily repeated in our recommendations.

Measures identified by leisure centre management in discussion with Gedling BC internal audit and accountancy sections:

- Z1 till reading to be read weekly.
- Z2 till reading to be read monthly to correspond with the stocktake.
- Spirit cupboard to be kept locked.
- New tills which take card payments, are more secure, and have improved reporting options.
- Tills moved to the back of the bar.
- Cellar stocks to be reduced.
- Greater supervision of deliverymen.
- Increased duty manager presence in the bar area.
- This internal audit review.

Measures identified by leisure centre staff:

- Replacement of lock on bar flap and usage of lock.
- A unique lock for the spirit cupboard, instead of the current master key held by all staff.
- Improved training for casual duty managers on locked areas and security of building.
- Remove void button on main bar till.
- Confirm barrels are empty before being disconnected.
- Cleaners to be made aware of relevant issues.

ANNEX B

Risk & Assurance – Standard DefinitionsAudit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect to the risks emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are a number of significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Chief Financial Officer, Audit Commission and, where applicable, the relevant Corporate Director.

A synopsis of the audit report is provided to the Authority's Audit Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Service Manager - Audit & Risk Management on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk