

Report to: Audit Committee

Subject: Summary of Audit Activity

Date: 18th June 2013

Author: Service Manager - Audit & Risk Management

1. PURPOSE OF REPORT

To summarise the outcome of Internal Audit activity for the period April to June 2013.

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 April – June 2013.

- IAR1213-03 Fuel Stocks
- IAR1213-04 Bin Stocks
- IAR1213-05 General Stores
- IAR1213-13 Payroll
- IAR1213-15 Capital
- IAR1213-16 Financial Management System (FMS)
- IAR1213-17 Cash Receipting
- IAR1213-18 Officer & Member Disbursements

IAR1213-03 Fuel 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. One high, three medium and one low risk recommendations were made.

The high risk recommendation relates to the need to enhance the routine monthly monitoring reports for fuel usage. Whilst the monitoring of fuel usage has been greatly improved to centralise the monitoring of fuel cumulative fuel usage, further monitoring reports need to be developed to monitor individual vehicle/activity usage.

In addition, three medium risk recommendations were made relating to the control of vehicle fuel tags and a review of CCTV equipment at the depot. As with the fuel reports, highlighted above, additional controls have already been introduced with respect to restricting access to key fuel fobs, however, further monitoring controls are recommended to provide a robust audit trail of access arrangements.

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

IAR1213-04 Bin Stocks

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 risk recommendation was made relating to the need to undertake a review of stock replenishment levels to minimise stock holding levels and associated costs.

IAR1213-05 General Stores

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 relating to the need to investigate a minor anomaly (£383.28) on the stock holding sheet. The error was attributable to a rogue formula on the spreadsheet rather than any discrepancies with the actual stock figures.

IAR1213-13 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. Six low risk recommendations were made. These related to the need to update procedural documentation and review the timeliness of documentation between payroll and personnel and the associated responsibilities for storing relevant documents.

IAR1213-15 Capital

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 one low risk recommendations were made. The medium risk recommendations relate to the need to review and update the Procurement Strategy, and specifically to ensure the strategy documents the Councils approach to the public's "right to challenge" procurement activities.

The strategy has been reviewed and updated to include reference to the Localism Bill 2011 and will be presented to SLT during June 2013.

IAR1213-16 Financial Management System (FMS)

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. Four low risk recommendations were made all relating to minor procedural issues including the sign off of month end reports/reconciliations. All four issues have been addressed.

IAR1213-17 Cash Receipting

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 four our low risk recommendations were made. The medium risk recommendation relates to the shared use of user log on's during short periods of cover.

IAR1213-18 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. Four low risk recommendations were made, all relating to minor procedural issues with respect to the completion of relevant claim forms.

Work in Progress

The above reviews represent the final reports in respect of the 2012-13 financial year, and ensure completion of the 2012-13 audit plan.

There are no audit reviews carried forward to the 2013-14 annual 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: Fuel Stocks

Report Distribution

For Action: Mark Hurst Transport Services Manager

For Information: Mark Kimberley Corporate Director & Chief
Financial Officer
David Wakelin Corporate Director
Colleen Warren Principal Accountant
Thomas Tandy KPMG

Prepared By: Diane Hyett

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EXECUTIVE SUMMARY

Introduction

A review of Fuel Stocks has been undertaken as part of the approved internal audit periodic plan for 2012/13.

Gedling Borough Council purchased approximately 380,000 litres of fuel during the financial year 2011-12 with an approximate purchase value of £430,000.

The fuel is held in tanks within the depot at Arnold. The tanks are in the process of being replaced and the gauges updated to ensure that the monitoring of the fuel stocks will be accurate, and the information collected reliable. To date, recording of actual fuel stocks has been by a manual dipstick method.

The main tank has recently been replaced with a larger tank, which will allow the Council to take advantage of increased discounts when purchasing larger quantities of fuel.

During the period of the audit testing, the Council procured a new fuel supply contract through ESPO.

Principal Findings

	High	Medium	Low
Number of recommendations	1	3	1

The detailed findings and associated recommendations are provided in the second part of this report.

The high risk recommendation relates to the need for more focussed monthly monitoring reports of fuel issues and usage. Two of the medium risk recommendations are concerned with controls over the issue and use of fuel ID tags and the third relates to the availability of CCTV surveillance of the depot.

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 primarily due to there being significant scope to improve the use of effective management information to control fuel stocks and issues.

INTRODUCTION

Objective & Scope

The objective of the audit was to document and evaluate the auditable area 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:

- Hazards arising from fuel leaks
- Losses due to theft, including the issue of fuel to non-council vehicles and to unapproved staff
- The use of council vehicles for unapproved activities
- Excessive expenditure on fuel supplies through poor Value For Money with fuel purchases, processing unauthorised orders, and failure to receive all supplies paid for
- Mis-statement of stock balances and fuel usage costs
- Unreliable management information.

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

- Fuel is securely and safely stored
- Fuel is issued for approved purposes
- Fuel is appropriately sourced, ordered, delivered and paid for
- Fuel is used promptly and accurately accounted for.

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
<p>Recommendation 1 - 'Small Workshop' Fuel ID Tag</p> <p>Level of Risk - Medium</p>			
<p>Fuel can only be issued at the pumps with a fuel ID card; these are normally allocated to a vehicle registration number. However, there is a 'Small Workshop' fuel tag, which is kept for the issuing of fuel for items of machinery.</p> <p>The tag is kept in the key cabinet in the small workshop office. However, if the cabinet is left open during the day anyone with access to the office would have access to the key fob.</p> <p>It was confirmed that there is no record kept of who has used this tag to issue fuel, or for which machinery items it is used. Should monitoring reports highlight irregularities with issues assigned to this card, it would be difficult to determine which members of staff were responsible.</p>	<p>Misappropriation through the issue of fuel against an ID tag for non-council use.</p>	<p>a) A record should be kept showing which operative has used the fuel ID card for the 'Small Workshop' and for what purpose.</p> <p>b) An exception report from the fuel system should be developed to highlight instances in which the 'small workshop' tag has been used: for the issue of fuel at unusual times of the day; for unusually high quantities of fuel; and for unexpected types of fuel.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment:</p> <p>Other departments need to be held more responsible for the issuing and monitoring of fuel.</p> <p>Planned Corrective Action:</p> <p>a) Involve other departments and set up keys for either team leaders or supervisors with pin or id number to eliminate the use of the small workshop tag. If pin or id numbers cannot be set up then a manual recording system will have to be used.</p> <p>b) Set up exception reports for all users in conjunction with the fuel monitoring suppliers.</p> <p>Timescale:</p> <p>30th September 2013</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Record of Vehicles/Fuel ID Tags Allocated to Staff</p> <p>Level of Risk - Medium</p>			
<p>Fuel ID tags are allocated for each vehicle, but a record is not maintained of which operative is using which vehicle each day. Should monitoring reports highlight irregularities with fuel issues (e.g. high frequency and/or quantities) it would be difficult to identify which members of staff were responsible.</p>	<p>Misappropriation through the issue of fuel against an ID tag for non-council use.</p>	<p>A daily record is maintained of which vehicles/fuel ID tags are allocated to which members of staff.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment:</p> <p>Tachographs are used by all drivers for vehicles over 3500kgs, also the bartec waste system identifies drivers via their daily vehicle checks, this also has integrated GPS. Masternaut tracking is fitted to all other registered vehicles apart from ride on mowers and the drivers all have id keys to insert into a key reader in the vehicle. Departments also have daily crew sheets and vehicle check sheets.</p> <p>Planned Corrective Action</p> <p>Send out an internal memo to drivers to highlight the importance of using Masternaut tracking id keys and monitor compliance.</p> <p>Timescale:</p> <p>31st July 2013</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Security of Fuel (CCTV) Level of Risk - Medium</p>			
<p>Although there is CCTV equipment in place covering the depot where the fuel tanks are located, our enquiries confirmed that it is not actually in use. Discussions identified that the equipment is thought to be faulty, possibly as a result of damage to underground cabling caused by vermin.</p> <p>We consider that active use of the CCTV equipment would serve a dual purpose:</p> <ul style="list-style-type: none"> - A deterrent against potential thefts; and - A means of investigating suspicions of theft to identify offenders. 	<p>Theft of fuel.</p>	<p>A business case for the repair or replacement of the CCTV equipment is put together, to assess whether the expected benefits would warrant the likely costs.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Transport Services Manager has met with the Facilities Manager and asked for quotations for CCTV replacement or repair.</p> <p>Planned Corrective Action: Update or replace CCTV system. This will be dependent on a viable business case.</p> <p>Timescale: Business case to be completed by 30th September 2013.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 4 - Monitoring of Fuel Stocks (dip readings) Level of Risk - Low</p>			
<p>Fuel stock dip readings are taken from the tanks and recorded on a weekly basis. Hard copies of the forms are held in the Transportation Office.</p> <p>Our review of these forms for the period 3/8/12 to 2/11/12 showed that they are not signed on a regular basis to confirm who has taken the readings and then who has reviewed them.</p>	<p>Effective and prompt monitoring may not take place, as a result of which significant discrepancies may not be identified and investigated at the earliest opportunity.</p>	<p>The fuel stock sheets are signed both by the officer taking the readings and the officer reviewing the outcome of the comparison.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Stock sheets are now signed by the Workshop Supervisor and the Transport Services Manager.</p> <p>Planned Corrective Action: Stock sheets signed on a regular basis from December 2012 and a file with the stock sheets is kept in the Fleet Offices.</p> <p>Timescale: Implemented.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 5 - Routine Monthly Monitoring Reports Level of Risk - High</p>			
<p>Reports are run on a monthly basis analysing the fuel that has been issued by vehicle. The Workshop Supervisor looks over the reports for any anomalies in the recorded refuelling times and quantities. However, at present, expected and actual fuel consumption are not compared. Difficulties arise in relation to some vehicles, such as refuse trucks, which are required to be stationary with the engine running for lengthy periods. Nonetheless, we consider that such factors could be taken into consideration in order to arrive at target fuel consumption rates for each type of vehicle.</p>	<p>Misappropriation of fuel through its issue to non-council vehicles or through its use for non-council business.</p>	<p>a) Target mpg figures are developed for each type of vehicle in the fleet.</p> <p>b) Monthly monitoring reports should be developed as follows:</p> <ul style="list-style-type: none"> - Analysis by vehicle showing total quantity of fuel issued and actual mpg against target mpg. - Exception report of fuel issues over a specified quantity for each type of vehicle. - Exception report of fuel issued outside of usual office hours. <p>Once developed, the actions taken to investigate reported anomalies should be recorded.</p> <p>Action: Mark Hurst – Transport Services Manager</p>	<p>Management Comment: Review and utilise existing systems to eliminate misappropriation of fuel.</p> <p>Planned Corrective Action:</p> <p>a) Develop target mpg via the use of the fuel monitoring system and the fleet management system.</p> <p>b) Use the fuel management system and fleet management system to develop monthly monitoring reports as listed in recommendation b) and record any actions taken in reporting anomalies.</p> <p>Timescale: 30th September 2013</p>

ANNEX A

Risk & Assurance – Standard Definitions**Audit 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 on 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