



CHIEF CONSTABLE OF CLEVELAND

Stockholding

FINAL

Internal Audit Report: 4.16/17

3 August 2016

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Debrief held	23 June 2016	Internal Audit team	Dan Harris, Head of Internal Audit
Draft report issued	8 July 2016		Angela Ward, Senior Manager
Revised draft report issued	11 July 2016		Philip Church, Manager
Responses received	3 August 2016		Lucy Sheridan, Auditor
Final report issued	3 August 2016	Client sponsor	Graeme Slaughter, Chief Finance Officer
			Suzanne Lancaster, Business Manager
		Distribution	Kate Rowntree, Executive Staff Officer

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1 EXECUTIVE SUMMARY

1.1 Background

A review of Stockholding at Cleveland Police was undertaken as part of the approved internal audit periodic plan for 2016/17 to determine whether stock control procedures are adequately designed and applied to ensure stock levels held represent value for money.

The Stores contain a range of stock items but the majority of items relate to uniforms and other items of equipment which are issued to Officers. Specialist equipment, such as firearms, are not a stock item and are managed by the individual departments at the Force. The total value of stock held in stores at the time of the audit was £83,700.

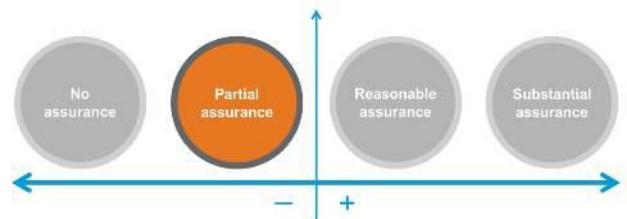
1.2 Conclusion

The objective of the review was to ensure stock control procedures were adequately designed and were consistently applied to ensure stock levels held represent value for money. We have raised four 'medium' priority management actions relating to weaknesses in the stock control procedures in place, how the Oracle system is used and the determination of minimum stock levels, which impact value for money.

Internal Audit Opinion:

Taking account of the issues identified, whilst the Chief Constable of Cleveland can take **partial assurance** that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied.

Action is needed to strengthen the control framework to ensure this area is effectively managed.



1.3 Key findings

The following well-designed controls were identified:

- The process in place for the ordering of stock items both internally, when the Officer orders stock from the Stores, or when Stores order stock from suppliers were found to be adequate. A sample of 20 replenishment and 20 internal orders had been appropriately authorised in-line with the Scheme of Delegation.
- The process for write offs of stock was found to be in-line with established procedures. A sample of 10 write offs reviewed confirmed in all cases a valid reason for the write off had been documented and it had been approved by an authorised Officer.
- Independent stocktakes are carried out every six months by the System and Accounts Manager, two members of the Stores team and another independent Officer from the Force. The stocktakes are carried out to ensure the recording of stock is accurate and discrepancies identified are minimal. The variances at the last two stocktakes were £4.72 and £22.12.

However there were also areas identified requiring four medium priority management actions:

- Stock is replenished using the judgement of experienced Stores Officers but there are no ideal minimum or maximum quantities of each stock item recorded which may be needed in the absence of key members of staff. The Oracle system has the capacity to store these figures and may be able to produce reports to make the replenishment of stock more efficient. There is also no evidence to show that the minimum quantities of stock items has been considered in order to keep an optimum amount of stock within the Stores.

- Large quantity orders were not supported by a business case increasing the risk of excessive ordering resulting in funds being held as working capital.
- All current stock items are in use by the Force and there are procedures in place for when stock becomes obsolete to try and raise income for this stock. However the length of time some items have been in stock indicates that stock could be held at lower levels.
- Although independent stock takes are carried out the regular stock checks carried out by the stores team are not recorded so there is no evidence of these.

1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Stockholding	2 (10)	3 (10)	1	4	0
Total			1	4	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

2 ACTION PLAN

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
Area: Stockholding					
1	Procedures are in place detailing the key functions of the Stores; however, the document had not been reviewed since 2012.	Low	The procedures will be reviewed periodically, for example every two years, and changes made where necessary. This will be documented on the version control section within the procedures.	September 2016	Business Support Manager
2	Oracle has the functionality to set minimum or maximum stock levels; however, this function has not been used by the Force.	Medium	<p>The Oracle system will be examined to determine if the stock control functions for minimum and maximum quantities can be established.</p> <p>It will also be examined to determine whether reports from Oracle can be produced using this information to monitor stock levels.</p>	September 2016	Business Support Manager & Systems and Accounts Manager

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
3	Stores Officers regularly check stock items to ensure the amounts are correct and the Business Support Manager carries out random spot checks; however discrepancies from the checks are not documented.	Medium	Stores Officers will document discrepancies found when carrying out regular stock checks on a sample of items. Independent spot checks will be recorded and carried out on a periodic basis (monthly).	September 2016	Business Support Manager
5	When large quantities of stock are ordered the amount of stock needed is estimated using information known; however, there was no evidence in place to show how the quantity of stock is calculated or estimated.	Medium	When large quantities of stock are purchased a basic business case will be produced and evidenced detailing reasons for quantities ordered.	September 2016	Business Support Manager
6	High value items had been held in stock for prolonged periods.	Medium	Stock items that have been in Stores for a considerable amount of time will be identified and will also help to influence the minimum and maximum stock levels held. This will be considered as part of the management action two.	See management action two	See management action two

3 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
Area: Stockholding						
1	<p>There are a set of procedures in place which governs the processes of ordering and replenishment of goods. The procedures had been produced by the Business Support Manager in 2012. The procedures detail how all processes are carried out and recorded on Oracle (stores system).</p> <p>The procedures are available to Store Officers on the shared drive.</p> <p>The Financial Regulations and Standing Orders provide a high-level review of key responsibilities of staff with reference to stock and stores.</p>	Yes	No	<p>There are a large number of operating procedures in place for the Store tasks on Oracle which are a step by step guide of how the process is carried out. There is also a stores daily processes document which states the differences between the roles of the Stores Officers.</p> <p>There was no evidence that the procedures had been reviewed since they were formalised in 2012. We confirmed the operational guides are available to the Stores Officers.</p> <p>The Financial Regulations and Standing Orders provide a high-level description of the responsibilities in relation to stock.</p> <p>If the procedures are not reviewed there is a risk they may become out of date and the correct processes may not be followed.</p>	Low	The procedures will be reviewed periodically, for example every two years, and changes made where necessary. This will be documented on the version control section within the procedures.
2	<p><u>Missing Control</u></p> <p>Stores Officers check the stock levels on a weekly basis and then replenish any stock accordingly. The decision to replenish stock is based on the experience of the Store Officers.</p>	No	-	<p>The Stores Officers are continually assessing the stock levels when they are carrying out their day-to-day tasks. They will make a note of low stock quantities and complete an inventory order sheet. The checks carried out are visual and are only documented if stock is replenished.</p> <p>The inventory orders are saved on the Stores shared drive. The drive was examined for 2016/17 and observation</p>	Medium	The Oracle system will be examined to determine if the stock control functions for minimum and maximum quantities can be established. It will also be examined to determine whether reports from Oracle can be produced using this information to

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	There is no set limit to the amount of stock being ordered.			<p>confirmed that orders had been sent to the Service department at least fortnightly for orders to be raised on Oracle.</p> <p>Minimum or maximum stock levels had not been established or agreed. However, discussions with the Systems and Accounts Manager established that the Oracle system had the functionality to record this information but was currently not utilised.</p> <p>Where key data, such as minimum and maximum stock levels, are not established there is a risk that stock is over procured impacting on the cash liquidity of the Force.</p>		monitor stock levels.
3	<p>Full stock checks are carried out with an independent officer from the Force every six months.</p> <p>The checks are carried out by a minimum of four officers, two members of the Stores team and at least two independent officers. A snapshot is taken of the stock on the system before the stocktake is carried out.</p> <p>The stock is counted and recorded on the Oracle system. A comparison is completed between the amount counted and the amount recorded on the system. Discrepancies are then identified and investigated.</p> <p>There is an inventory card for each stock item detailing when orders have been received and</p>	Yes	No	<p>Stocktakes are carried out every six months by the Systems and Accounts Manager, members of the Stores team and an independent officer from the Force. The stock is counted and then compared to a snapshot of the stock on the system at the time of the stocktake.</p> <p>When the actual stock is compared to the system and discrepancies are identified initially these items are re-counted to ensure the first count was correct. Once the re-count has been carried out all outstanding discrepancies are then investigated. Once this has been completed an adjustment is made to correct the stock and a write off is prepared and authorised by the Force. The most recent two stocktakes were examined and there was evidence of the minor discrepancies (£4.72 and £22.22 respectively) identified and that they had been investigated. There was also evidence that the adjustments had been approved and made to the system.</p> <p>Discussions with the Business Support Manager confirmed that ad-hoc stock checks are performed; however, evidence of the check performed was not documented.</p>	Medium	<p>Stores Officers will document discrepancies found when carrying out regular stock checks on a sample of items.</p> <p>Independent spot checks will be recorded and carried out on a periodic basis (monthly).</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	<p>when stock has been issued. When the weekly checks for replenishment are carried out by the Stores Officers they check the amounts on the cards to the number of items present.</p> <p>The Business Support Manager, Business Support Services carried out ad-hoc stock checks.</p>			<p>A sample of 10 stock items was selected and a mini stocktake was performed. In all cases selected the number of items in stock agreed to the number of items on the Oracle system. Each inventory item has a stock card which details the running stock total.</p> <p>There is a risk that discrepancies will not be identified in a timely manner and may result in unnecessary re orders if checks are not carried out regularly.</p>		
4	<p>Missing Control</p> <p>Minimum and maximum stock levels are established taking into account inventory turnover, the value of the item and physical size/cost of storage.</p>	No	-	<p>The Oracle system does not contain any ideal minimum and maximum quantities for any of the stock items. There is no evidence to show that these values had been determined. The level of stock was estimated by the Stores Officers using previous experience. We were advised by the Business Support Manager that the stock level fluctuates between £80k and £90k.</p> <p>If the minimum and maximum quantities of stock held are not calculated there is the possibility of holding excess stock therefore reducing the cash flow position of the Force and not representing Value for Money.</p>	-	See management action two
5	<p>Missing Control</p> <p>Analysis is carried out by the Force to determine the holding costs of stock items.</p> <p>A business case is produced and retained when a new item of stock is procured to determine the initial quantity to be ordered.</p>	No	-	<p>The Force is not aware of the holding costs of stock as this analysis has not been carried out. If excess stock is held this may not be an efficient use of space that could be occupied for other purposes.</p> <p>There has been a recent change of uniforms which led to a roll out of black shirts to replace all of the white shirts. The value of the write off of the white shirts was £2,318 but the stock was sold to another force so £1,346 income was received to leave an overall write off of £972.</p> <p>A large stock of black shirts was then procured but there was no evidence in place to show how the quantity of black</p>	Medium	When large quantities of stock are purchased a basic business case will be produced and evidenced detailing reasons for quantities ordered.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				<p>shirts was calculated or estimated.</p> <p>Lack of evidence to back up purchases increases the risk of excess stock being maintained in stores thus leading to a reduction of revenue available for other purchases.</p>		
6	<p>Stock turnover is not specifically managed; however, high value single items are no longer stocked as they are ordered by the specific units using self-service in Oracle.</p> <p>All high value items in existing stock are not replenished and are still being issued out to Officers.</p>	Yes	No	<p>There was no evidence to define high value items within Stores so a sample of 10 items were selected which included high cost single items and items of stock with an overall high value.</p> <p>Of the sample of 10 items there were three items of Police Support Unit kit. Discussions with the Stores Officers established that there is now new kit that PSU can order directly rather than order through Stores so this is a slow moving item. For example, there are 17 PSU extra-large lower leg guards in stock at a value of £3,235, the last issue of the item was in July 2015 and only two had been issued in the last 12 months. The last order of stock received into the Stores was in April 2012. The last orders for the other PSU items were prior to 2012 so items have been on stock for over four years.</p> <p>There was £690 of large Police Community Support Officer fleeces, only two of these had been issued in the last 12 months and the last stock order had come into Stores prior to 2012.</p> <p>There was £876 of combined Penalty Notices for Disorder on stock at the time of the audit which were last ordered in August 2014 and four boxes had been issued in the last year. These books of tickets contain information such as charges and contact details so the longer they are held in stores the more chance they have of the information becoming out of date.</p> <p>The introduction of the new style PSU kit being made</p>	Medium	<p>Stock items that have been in Stores for a considerable amount of time will be identified and will also help to influence the minimum and maximum stock levels held. This will be considered as part of the management action two.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				available through direct orders to the supplier will reduce the number of high value items being kept in stock and therefore improve cash flow; however there is still some old style kit in stock in stores which is not being ordered frequently which may become obsolete and require disposal.		

APPENDIX A: SCOPE

Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objective of the area under review

Stock control procedures are adequately designed and are consistently applied to ensure stock levels held represent Value for Money.

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

- Assessment of the adequacy and completeness of policies and procedures relating to the day to day stock control processes at the main store.
- Review of the approved delegation of authorities in place for stock purchases.
- Application of stock ordering processes to key suppliers ensuring that stock is maintained at appropriate levels.
- Processes for receipting of stock from suppliers ensuring appropriate quality control and receipt processes are in place.
- Review of how minimum and maximum stock levels are established including whether this takes into account inventory turnover, the value of the item and physical size/cost of storage.
- Review of holding costs in particular the investment in high cost items with low turnover. We will consider how the purchase quantity was determined and what actions plans are in place to recover the costs for high value items that are obsolete.
- Review of the operational mechanism in place to ensure wastage is kept to a minimum, with any wastage incurred subject to review and approval. We will consider high value items that are no longer required.
- An assessment of how the Force manages its stock turnover, in particular for high value items, to ensure capital is being used effectively.
- Consideration of the frequency and the controls in place in relation to physical stock takes. This will consider whether stock reconciliations take place.
- Review of the distribution of stock to officers, the associated approval and how the stock management system is updated.

Limitations to the scope of the audit assignment:

- Any testing undertaken has been completed on transactions within the current financial year. Where this was not possible we have looked at transactions from the prior financial year.
- We did not comment of the performance of any Force suppliers.
- We did not confirm the appropriateness of minimum stock levels in place.
- We did not confirm Value for Money has been achieved when purchasing items.
- Only review has focussed on the main Stores at the Force's HQ and we have not visited other sites or reviewed the controls in place held outside of the main Stores.
- Our work does not provide absolute assurance that the stock control system is adequate or reliable, but we have provided assurance that it is being appropriately managed.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Suzanne Lancaster, Business Support Manager
- Martin Taylor, Stores Officer
- Brian O'Keefe, Stores Officer
- Ian Hailstone, System and Accounts Manager

Documentation reviewed during the audit:

- Stores Procedures 2012
- Write off report (June 2015 - June 2016)
- Replenishment Order report 2016/17
- Internal Order Report 2016/17
- Inventory Order sheets 2016/17
- Stock Value Report June 2016
- Year-end stock take March 2016
- Mid-year stock take September 2015
- Dispatch Notes 2016/17

FOR FURTHER INFORMATION CONTACT

Dan Harris, Head of Internal Audit

Tel: 07792 948767

Daniel.Harris@rsmuk.com

Angela Ward, Senior Manager

Tel: 07966 091471

Angela.Ward@rsmuk.com

Philip Church, Client Manager

Tel: 07528 970082

Philip.Church@rsmuk.com