

Final Internal Audit Report

CES Stock Management

November 2024

Distribution: Corporate Director, Adult Social Care & Health (DASS and Caldicott Guardian)

Director of Adult Social Care Commissioning, Policy and Improvement

Head of Croydon Equipment Service

Head of Finance (ASCH)

Director of Finance & Deputy S151 Officer

Corporate Director, Resources and S151 Officer

Assurance Level	Issues Identified	
No Assurance	Priority 1	5
	Priority 2	4
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

1. Introduction

- 1.1. Croydon Equipment Solutions (CES) provides community equipment to 'support care in a home setting'. Since its establishment in December 2016, it has become an 'Integrated Procurement Hub' enabling other local authorities to procure, manage, deliver, collect and re-cycle such equipment.
- 1.2. CES operates on a sell/buy-back model, whereby equipment is transferred to the Local Authority/CCG at cost-price, and then bought back when the equipment is no longer required, provided that it can be refurbished and reused for a future client. CES also charges management fees to clients, as well as additional fees for maintenance and repairs of equipment.
- 1.3. Croydon's CES service operate using two systems: ProCloud and TCES. ProCloud is CES's internal system used to manage stock, transfers and approve procurement decisions. TCES is the system used by CES's clients whereby "prescribers" can make requests for transfers of medical equipment. The two systems replaced the previous system, Uniquis, in November 2023.
- 1.4. The functionality within CES's stock management system ProCloud enables the Service to categorise its stock in relation to its status and where it is currently stored. Warehouse staff utilise scanners to change the status of moved items and an audit trail is kept within ProCloud to log this process. CES intend to operate a monthly perpetual stock process in which all stock items are recorded as unchecked at the start of the month and checked in as the month progresses.
- 1.5. CES's dedicated Procurement Team manage the levels of its stock. Stock forecast reports are produced on a weekly basis; the reports export stock data from ProCloud for each stock type and use data regarding recent stock demand, desired stock levels, and contingency stock to forecast its procurement requirements. The reports are discussed in weekly meetings and action plans are established for the implementation of established procurement decisions.
- 1.6. CES's procurement previously fell under a Procurement Strategy, in place since 11 August 2016, which outlined the Service's Dynamic Purchasing System arrangement with suppliers. Management advised that at the time of review, the contracts in place as part of this arrangement had expired. CES have continued to use the same suppliers, who were no longer under contract.
- 1.7. This audit is part of the agreed Internal Audit Plan for 2023/24.
- 1.8. Following the postponement of the audit in July 2023, the audit was re-arranged to January 2024. However, due to capacity issues within the team, the Head of CES advised that it would be difficult to provide the evidence requested. Following a document request on the 29 February 2024 the audit was delayed. This resumed on 17 April 2024 when an outstanding document and testing request was issued on 18 April 2024. This email was followed up on the 23 April 2024 but the Financial Controller for CES advised that the service did not have capacity until the 13 May 2024.

1.9. As such fieldwork for the internal audit was ended with several key documents and walkthrough tests outstanding. These areas have been noted as findings in Section 3. As such, several of the findings are reflective of a lack of evidence obtained at the time of fieldwork.

2. Key Issues

2.1 The key issues identified are as below:

Priority 1 issues

IT Access levels could not be tested. **(Issue 2)**

Equipment warranties could not be tested. **(Issue 3)**

Testing of the procurement approval process for special items was not able to be conducted. Additionally, DPS framework contracts had expired and therefore all procurement activities involved off-contract purchasing. No contract register was provided and no evidence of procurement approval from items bought using the previous system. **(Issue 4)**

Testing of invoicing processes, including the charging of management fees, was not able to be conducted. Additionally, Management fees were not incorporated into special item prices on the new system. **(Issue 5)**

Testing of valuations of stock and holding special items at zero value, and annual stocktakes and segregation of duties during this process was not able to be conducted. Additionally, it was not possible to test annual stocktakes and segregation of duties during this process. **(Issue 7)**

Priority 2 Issues

Policies and procedures were out-of-date and not reflective of the new systems being used. **(Issue 1)**

Errors were identified in the internal transfer report, which records internal stock movements. Additionally, it was identified that a staff member was able to physically transfer an item of stock and then amend the report themselves. **(Issue 6)**

Data analysis found that special items of inventory, such as customised equipment, had been valued at zero cost. Management stated that they lack the resources to accurately determine the appropriate value of these items. **(Issue 8)**

There was no in-built approval process for disposals. Confirmation disposals being performed by the appropriate individuals was not provided. **(Issue 9)**

There were no Priority 3 issues.

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management Requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1				
2	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>Policies and procedures are in place that cover stock management, procurement, transfers/repurchases, valuation, stock takes and storage/refurbishment/disposals.</p> <p>Finding/Issue</p> <p>Discussion with Management established that the Council had yet to update its procedural guidance in line with the new processes required to operate its new IT system (TCES) and its compatibility with Pro-cloud. Therefore, all the documentation reviewed was out of date.</p> <p>The review of the policies and procedures also noted that there was insufficient detail in the following areas:</p> <ul style="list-style-type: none"> - Goods-In Procedure: while the Goods-In Procedure provided a detailed overview of the processes required to meet the Council's expectations, roles and responsibilities were not clearly defined; and - Refurbishment Guide. <p>In addition, there was no procedural guidance in relation to:</p> <ul style="list-style-type: none"> - How CES Calculated its stock valuations; - How the management fees for its items were set and reviewed; 				
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- The process through which CES determined whether its clients should be re-credited upon the return of equipment which required scrapping;
- The process through which the CES identified its procurement requirements;
- There was no guidance on repurchasing items;
- While there was procedural guidance outlining the process for managing an item being returned to CES, as well as an item being sent to a customer, there was no guidance in relation to the management fee or the process for charging and refunding the client.

Risk

There is a risk of an inconsistent approach to stock management due to lack of clear and up-to-date procedural guidance, leading to potential financial and / or stock loss.

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2				
1	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>Access levels to IT systems is appropriate with only relevant active staff having unique user log ins to access the systems. Departing staff are promptly removed from the system.</p> <p>Finding/Issue</p> <p>Evidence was requested but not provided to perform a reconciliation between the ProCloud active users report and a list of CES staff to confirm whether access was appropriate and limited to current staff. Therefore, it was not possible to provide assurance on this point.</p> <p>Risk</p> <p>Inappropriate users, including former staff, may have access to the system.</p>				
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Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3				
1	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>All stock/equipment currently in use by customers and that held by the Council as inventory, is covered by insurance. The warranty status of equipment recorded.</p> <p>Finding/Issue</p> <p>Evidence of insurance and the warranty status of equipment was requested but not provided. As such, no assurance can be provided in relation to supplier warranties or insurance status.</p> <p>Furthermore, review of CES's warehouse procedural guidance identified that there were no documented processes in place for verifying warranty status (meaning faulty equipment could be replaced) prior to equipment being scrapped, (although Internal Audit did not confirm if equipment has recently been scrapped.)</p> <p>Risk</p> <p>The Council is unaware that damaged equipment is covered by warranty, leading to items being scrapped rather than replaced under warranty, incurring a financial loss for the Council. Stock is not properly insured, resulting in financial loss in the event of damage or loss.</p>				
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Control Area 2: Procurement of Stock

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4				
1	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>An up to date contract register is in place allowing the Council to monitor contracts which are at or nearing expiry. Additionally, off contract spending is limited and monitored. Approval is provided for off contract spending. Delegated authority limits for the procurement of stock are clearly defined.</p> <p>Finding/Issue</p> <p>The Procurement Strategy for CES, which had been in place since 11 August 2016, was last updated on 11 June 2018 (approx. six years prior to the internal audit). The Strategy set out CES's engagement with the Dynamic Purchasing System (DPS). The following issues were noted:</p> <ul style="list-style-type: none"> - At the time of the internal audit, management explained that the contracts established under the DPS had now expired, and a new procurement strategy and retendering process had not yet been undertaken, largely due to capacity and recruitment issues. CES was continuing to use the same suppliers for its equipment. While expired contracts may continue under implied terms, Internal Audit could not verify that this was the case, and it could mean that CES may not be able enforce the terms of the original contract such as penalties for delayed delivery; - While management advised that an approval process was built into ProCloud where expenditure approval limits had been set for each member of CES staff, Internal Audit were not able to verify this via walkthrough of the full delegated authority settings due to a system malfunction. 				
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- Sample testing was performed on five purchases over the period of April 2023 to September 2023 from the procurement report provided by CES. However, management were unable to access the audit trail for these purchases as these were made using the former system, Uniquis. Further testing was attempted, but CES advised that they did not have the capacity to re-perform the sample test; and
- Management did not provide evidence of a contract register, which recorded the details of current contracts.

Risk

Where the procurement strategy has not been subject to regular review and contracts have expired, there is a risk that information will be out-of-date, and procurement decisions are not being processed in line with the update objectives of the service. This may expose the Council to additional risks around the achievement of best value.

Control Area 3: Transfers/Repurchases of Stock

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 5				
1	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>The approach for handling transfers of equipment to clients and repurchases of equipment from clients are defined and documented. This includes reference to handling the stock once it has been repurchased, and any supplementary charges in relation to management fees and disposal charges.</p> <p>Finding/Issue</p> <p>Sample testing of five transfers to clients (between October 2023 and December 2023 selected from the Credit Report produced from ProCloud) identified that:</p> <ul style="list-style-type: none"> - For one item, the requisitioner listed was not included in the report of prescribers for the client, which lists those able to prescribe equipment for the client; - All the deliveries to the client were delivered late by an average of 8 days; <p>One delivery in which the order summary as per ProCloud did not align with the asset history. The order summary suggested the order was delivered on the 23 January 2024 while the asset history showed the delivery was made on the 01 February 2024.</p> <p>In addition, although requested, none of invoices raised to the clients for the sample were provided. Therefore, the calculation of management fees was inferred from the data within ProCloud, e.g. catalogue costs to CES within ProCloud, and the costs that were advertised at within TCES (system used by clients to request transfer of equipment), but not directly verified from the invoices. As such, no assurance can be provided in relation to the payments made to the Council; and</p>				
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Additional testing was performed in relation to the transfer of two special delivery items (items procured specifically for a client which were not carried as standard stock). The following issues were identified:

- No evidence was provided that procurement of the item had been appropriately approved by CES and therefore no assurance can be provided around the procurement controls; and
- Management explained there was issue in the new system where management fees were not being incorporated into the prices for special items. As such, management fees had to be applied manually. For both special deliveries reviewed, it was noted that the system did not reflect the management fees. Additionally, the invoices were not provided to show that the client had been charged an appropriate wmanagement fee.

Risk

Transfers/repurchases of stock are not appropriately charged leading to lost income. Procured items are not appropriately approved increasing the risk of fraudulent transactions.

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 6				
2	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>An internal transfer report is in place that shows movements of stock by physical location, category and system account location. The transfer report should be accurate and up to date for all movements, and segregation of duties should be maintained between those carrying out stock movements and those updating the report to ensure that the report cannot be manipulated.</p> <p>Finding/Issue</p> <p>A sample of five stock items from the January 2024 internal transfer report were examined, and it was found that:</p> <ul style="list-style-type: none"> - One item was placed in the 'pending yard' category by the same individual who subsequently moved it to the shelf. (Pending yard is a category used for items which have been received into the warehouse and are awaiting movement to the correct location.) The item was placed in pending yard on 19 January 2024 and moved to the shelf on 22 January 2024 by the same staff member, therefore there was an absence of segregation of duties; and - For one item the asset history indicated that the item had been returned from the customer and transferred straight to its shelf within the warehouse. However, no entry was recorded which captured when the item was returned and when the item was checked into the pending yard category on ProCloud. <p>Risk</p> <p>The correct procedure is not followed when returning items into the warehouse, increasing the risk that items are lost, and financial losses are incurred There is a lack of segregation of duties which enables unilateral movements of stock, increasing the risk of fraud. Where the asset history of an item is not complete, there is a risk that</p>				
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stages of the process have been missed, increasing the risk of fraudulent activity or missed stages such as defect identification.

Control Area 4: Valuation of stock and stock takes

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 7				
1	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>A rolling perpetual stock takes occurs on a monthly cycle. An annual fixed stock take is performed for equipment on the shelf.</p> <p>Reports on damaged, missing, disposed, transferred stock are used to verify any discrepancies identified during the stock take/verification exercise.</p> <p>Finding/Issue</p> <p><u>Annual Stock-take</u></p> <p>CES provided some evidence in relation to a stock take exercise performed on 31 March 2023. However, information in relation to who performed the stock take, how segregation of duties was enforced, whether working papers regarding the exercise were maintained and whether reports on damaged, missing, disposed and transferred stock were used to justify any discrepancies was requested but not provided. Therefore, no assurance could be provided around the stock take controls in place</p> <p><u>Perpetual Inventory Counts</u></p> <p>Rolling perpetual inventory counts are performed over the course of each month. On-site testing confirmed that at the start of each month all stock items are resent to 'unchecked' and are then or checked in as the month progresses. Review of a perpetual inventory report on-site in January 2024 demonstrated that the process was in progress for the current month. These checks for prior months could; however, not be confirmed as the CES team were not able to export and share previous perpetual inventory check reports due to a system issue.</p>				
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Sample testing was performed for a sample of ten items from the perpetual stock count. For nine items in the sample, the quantity observed agreed to the quantity listed in the stock take. However, for one item, where a quantity of 10 was listed in the stock take, 11 were observed on the shelf during audit testing. Management advised that this had arisen due to a human error / miscount.

Risk

The Council are unaware of the stock they hold therefore increasing the risk of poorer data leading to inaccurate evaluations and the potential for stock to be stolen or lost.

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 8				
2	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>Inventory is valued appropriately in line with accounting standards. This will usually involve valuation at cost, although valuation by other methods, such as Net Realisable Value (NRV) may be appropriate for special items of inventory, such as those designed for a specific purpose, with limited scope for re-use.</p> <p>Finding/Issue</p> <p>Management provided a full asset list report generated on the 11 January 2024 and data analysis was performed to identify all 'special' items. It was noted that each 'special' stock item had a purchase value of zero. Management explained that they did not have capacity to identify whether this purchase value represented the value that the item was held at. In addition, it was not possible to perform the required sample testing of catalogue items and the valuation of these. As such, no assurance can be provided around the valuation of its stock.</p> <p>Risk</p> <p>Special items of stock are valued at 0, misrepresenting the value of inventory and leading to inaccurate financial reporting.</p>				
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Control Area 5: Storage, Refurbishment and Disposals

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 9
2	These findings are accepted. However, as Croydon Equipment Service spun out to become an employee mutual on 1 November 2024 and is no longer part of the Council, these findings are no longer applicable.	<p>Expected Control</p> <p>Stock disposals are appropriately authorised and there is segregation between the approval process and the individual moving the stock to scrap. Segregation of duties is evidenced on the approval forms (either manually or via the system).</p> <p>Finding/Issue</p> <p>Management explained that there was no in-built feature in the IT system for authorisation of scrapping requests and signed forms were not required to process a scrapped item. They also explained that only the service technician and supervisors perform scrapping. Testing of the ProCloud system was not able to confirm whether requests to scrap were restricted to staff of sufficient grade.</p> <p>Review of a sample of 10 disposals between November 2023 and December 2023 from the disposals report sought to establish whether an appropriate audit trail was recorded to capture the scrapping process and confirm that this was performed by someone of the appropriate grade. While an audit trail existed in each instance, it was noted that:</p> <ul style="list-style-type: none"> - Confirmation that this was processed by a Service Technician or Supervisor was not provided; - Due to the lack of an automated approval process or the use of scrapping forms, it was not possible to confirm that appropriate recycling checks had been performed prior to scrapping; and - For five of the scrapped items sampled, the stock had been moved to the pending yard/clean or refurb by the same member of staff who had scrapped the item.
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		Risk
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		Where no segregation of duties is in place, there is an increased risk that stock is disposed of inappropriately, leading to financial loss. Stock is not recycled meaning the council is not meeting sustainability requirements.
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AUDIT TERMS OF REFERENCE

CES Stock Management

1. INTRODUCTION

- 1.1 Community Equipment Services (CES) is a service that provides wheelchairs and other community equipment to residents of the London Borough of Croydon and other partner boroughs, the London Borough of Merton and London Borough of Sutton. Additionally, CES has a contract with the Croydon Clinical Commissioning group (CCG) to provide wheelchairs to local residents through the NHS.
- 1.2 CES operates on a sell/buy-back model, whereby equipment is transferred to the Local Authority/CCG at cost-price, and then bought back when the equipment is no longer required, provided that it can be refurbished and reused for a future client. There is currently no depreciation of equipment during its useful lifetime: equipment is bought back and re-sold at cost-price until it is no longer usable, resulting in the final user paying the full cost of the equipment.
- 1.3 CES also charges management fees to clients, as well as additional fees for maintenance and repairs of equipment.
- 1.4 This audit is part of the agreed Internal Audit Plan for 2023/24.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
 - Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls; and
 - Report on these accordingly.

3. SCOPE





- 3.1 This audit examined the Council's arrangements in relation to Community Equipment Solutions Stock Management, and included the areas set out in the table below:

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisaional and Management Requirements	2	1	0
Procurement of Stock	1	0	0
Transfers/Repurchases of Stock	1	1	0
Valuation of Stock & Stock-Takes	1	1	0
Storage, Refurbishment and Disposals	0	1	0
Total	5	4	0

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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