

Final Internal Audit Report

Croydon Equipment Solutions

March 2018

Distribution: Executive Director of Resources (Final Only)
 Director Commissioning & Improvement
 Head of SCC People

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	7
	Priority 3	0

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

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. Introduction

- 1.1 Croydon Equipment Solutions (CES) is a subsidiary of Croydon Care Solutions Ltd, a formerly wholly owned Local Authority Trading Company (LATC) which was brought back in house at the end of 2016. CES provides community equipment to 'support care in a home setting'. Since its establishment it has become an 'Integrated Procurement Hub' allowing other authorities to procure, manage, deliver, collect and recycle such equipment. The Council has a pooled budget arrangement with Croydon Clinical Commissioning Group and Croydon Health Services.
- 1.2 This audit is part of the agreed Internal Audit Plan for 2017/18.

2. Key Issues

Priority 2 Issues

Policies and procedures are in place but there has been no formal approval of any of the procedures and the format and quality varies widely. In addition, CES is obliged to be compliant with Health & Safety (H&S) regulations and LBC policies such as the Tendering and Procurement policy but the procedures do not refer to these (**Issue 1**).

The CES staff training database has not been updated since February 2017 and a number of relevant staff members appear to have not had training or are overdue for refresher training for Manual Handling and H&S Awareness (**Issue 2**).

During the day, access to warehouse and delivery areas is not restricted. In addition, at the time of the last call-out for the intruder alarm (due to a fault) in October 2016, the engineer recommended upgrading the CCTV system and repairing damaged doors in the warehouse. This has not been carried out (**Issue 3**).

The Uniquis system features full stock warehouse management, including mobile computing. Handheld scanners record all items received and are also used to pick, ship, return and move items. However, we were informed that there is an issue with internet connectivity. Scanning equipment in and out can be very slow at certain times of the day, and updates from drivers' handheld devices can take hours to reach the system (**Issue 4**).

Every stock line in each location is counted, checked and updated at least monthly, with any discrepancies investigated by Warehouse Supervisors and / or the Warehouse Manager. However, we could not find any evidence of reports produced for management detailing total quantities and values of missing items (**Issue 5**).

Obsolete stock was scrapped in agreement with Merton Council when the LA joined the service. An agreement to do this was not however formalised and is likely to have been in a telephone conversation between the Customer Service Manager of CES (currently on maternity leave) and a representative from Merton Council (**Issue 6**).

For emergency orders, where the authoriser is off sick / in a meeting / on leave, CES customer services is able to override the authorisation requirement. For these the prescriber provides CES with the order number and CES then overrides the requirement for the authorisation. For any orders subject to these overrides (which apparently amount to several per week), a record of the email request is made in the 'Additional Notes' of the order on UNIQUS, but no reports are produced or reviewed of these instances to confirm that management oversight is appropriate (**Issue 7**).

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management Requirements					
Priority	Action Proposed by Management				
2	<p>Access to Croydon intranet is available for staff in each area to log onto and view</p> <p>Formal review of policy and procedures will be the responsibility of the relevant manager of each department in CES. Before implementation or update, all policies will be reviewed by the head of Operations and the Commercial Finance Manager with a central record kept. All staff will be made aware of the central records and have access to refer them.</p>				
	<p>Detailed Finding/Rationale – Issue 1</p> <p>Approved policies and procedures provide staff with guidance on legislative, organisational and management requirements. This helps enable staff to carry out duties in an efficient and effective manner, in line with legislation. These should be regularly reviewed to ensure they fit current procedures and law.</p> <p>Policies and procedures are in place for many areas of activity within CES. These have been written and maintained by the Logistics Manager, the Warehouse Manager or the Head of Customer Services, depending on the subject, and have evolved over time. There has been no formal approval of any of the procedures and the format and quality varies widely. These procedures are available to staff in departments and are provided to new starters.</p> <p>In addition, we were informed that CES is obliged to be compliant with Health & Safety regulations and LBC policies such as the Tendering and Procurement policy but the procedures do not refer to these.</p> <p>Where approved policies and procedures are not in place or up-to-date, there is a risk that staff will not comply with legislative, organisational and management requirements for key processes and are unable to carry out duties in an efficient and effective manner. This could lead to reputational damage where legislation is breached or a service user being negatively affected as a result of non-compliance.</p>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Commercial Finance Manager</td> <td>30th June 2018</td> </tr> </tbody> </table>	Responsible officer	Deadline	Commercial Finance Manager	30 th June 2018
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Commercial Finance Manager	30 th June 2018				

Control Area 1: Legislative, Organisational and Management Requirements					
Priority	Action Proposed by Management				
2	<p>This area is the responsibility of the CES clinician and there is no clinician in CES at the moment.</p> <p>A new Clinician is being recruited as CES does not have one at the moment. Records will be kept up to date from when the new clinician starts.</p>				
	<p>Detailed Finding/Rationale – Issue 2</p> <p>Training is provided to staff in Manual Handling and Health & Safety to reduce workplace injuries and comply with legislation.</p> <p>The CES staff training database has not been updated since February 2017 and a number of relevant staff members appear to have not had training or are overdue for refresher training for Manual Handling and Health & Safety Awareness.</p> <p>Where appropriate training is not provided to staff, there is a risk of staff undertaking work which may risk their safety or be in breach of legislation. This may give rise to the Council facing compensation claims and penalties as well as causing reputational damage.</p>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Admin/Procurement Officer</td> <td>30th June 2018</td> </tr> </tbody> </table>	Responsible officer	Deadline	Admin/Procurement Officer	30 th June 2018
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Control Area 2: Security, Storage and Management of Stores

		Detailed Finding/Rationale – Issue 3	
Priority	Action Proposed by Management		
2	<p>The system is looked at every day in setting up site security overnight.</p> <p>The warehouse doors will be fixed by the end of March.</p> <p>A maintenance company is being sourced for maintaining the system and records will be kept.</p>	<p>Control over access to the warehouse helps prevent unauthorised entry, and intruder alarms and CCTV detect theft and/or break ins.</p> <p>During the day, access to warehouse and delivery areas is not restricted and discussion established that members of the general public do sometimes enter the warehouse by accident but are normally immediately spotted by staff. There is also no restriction to prevent staff entry; drivers need to walk through the warehouse to get to the logistics office.</p> <p>There are no special arrangements for high value stock, but the most valuable items are beds and chairs, especially bariatric ones which are fairly heavy and bulky. These would not be easily added to a van requiring at least two people to move them. It was also noted that more easily moveable items have low value and attractiveness (e.g., commode seats and walking sticks), and would not be straightforward to sell, so the reward: risk ratio is low.</p> <p>The site is secured when closed. Intruder alarms and CCTV are in place. However there was no evidence available that these had been maintained or tested regularly. No paperwork was held for the CCTV and the last call-out for the alarm (due to a fault) was in October 16. The engineer recommended upgrading the system and repairing damaged doors in the warehouse, but this has not been carried out, due to the potential move, (which we understand will not be until late 2018).</p> <p>Where entry to the warehouse is open with no access controls to prevent unauthorised entry, and intruder alarms and CCTV are not functioning properly / tested / serviced regularly, stock may be stolen due to break ins or internally by staff and continues.</p>	
		Responsible officer	Deadline
		Admin/Procurement Officer	31 st March 2018

Control Area 2: Security, Storage and Management of Stores

Priority		Action Proposed by Management	Detailed Finding/Rationale – Issue 4
2	<p>There is no risk of stock outs. This is due to:</p> <p>There is a perpetual daily rolling stock check that completes all stock on a monthly basis. So all records are refreshed on a monthly cycle.</p> <p>Resolution of connectivity is in progress with Adapto to ensure there is no down time.</p>	<p>Accurate, up to date inventory records help to prevent over ordering or stock outs, which may cause delivery delays to end users.</p> <p>The Uniquis system features full stock warehouse management, including mobile computing. On receipt of goods, a warehouse supervisor checks the goods and locates the purchase order number. Using a handheld scanner, the purchase order is entered into Uniquis which allocates unique asset numbers (PUC numbers) and bar-codes. Perpetual inventory checking software includes bar-coded shelf location, and allocates a shelf to the newly received stock. The handheld scanners are also used to pick, ship, return and move items between pre-set locations.</p> <p>Audit were informed that, although the system is easy to use, there is an issue with internet connectivity. Scanning equipment in and out can be very slow at certain times of the day, and updates from drivers' handheld devices can take hours to reach the system.</p> <p>Where inventory records are not accurate due to update delays, stock outs may occur causing delivery delays to end users or over ordering may take place.</p>	
Responsible officer		Deadline	
Admin/Procurement Officer		31 st March 2018	

Control Area 2: Security, Storage and Management of Stores					
Priority	Action Proposed by Management				
2	<p>We are investigating getting a report output for every stock count. This report will be sent to Operations Manager and Commercial Finance Manager for reviewing.</p>				
	<p>Detailed Finding/Rationale – Issue 5</p> <p>Stock checks provide a physical verification of the quantities and condition of items held in the warehouse. Discrepancy reports enable management to investigate the causes and value of missing or damaged items.</p> <p>It was established that a 'Perpetual Stock Check' is carried out by warehouse operatives, with every stock line in each location being counted, checked and updated at least monthly.</p> <p>Reports from UNIQUS list any discrepancies between what the system details should be on shelf and what is actually found on the shelf during the physical stock checking process. These discrepancies are investigated by Warehouse Supervisors and / or the Warehouse Manager. However, we could not find any evidence of reports being produced for management detailing total quantities and values of missing items. We were informed that items often 'turn up', but again, figures could not be provided for this.</p> <p>Where management do not receive reports detailing quantities and values of missing items, there is a risk that misplaced, stolen or damaged stock is not detected. Stock outs may occur which may delay delivery to end users.</p>				
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Control Area 2: Security, Storage and Management of Stores		Detailed Finding/Rationale – Issue 6
Priority	Action Proposed by Management	<p>Stock costs are shared between the London Boroughs of Croydon, Merton and Sutton and any write-offs by CES need to be confirmed with these boroughs. Approval of write-offs of obsolete stock by authorised officers provides verification and evidence that disposals are appropriate and have been sanctioned by partners.</p> <p>We were informed that obsolete stock was scrapped in agreement with Merton Council when it joined the service. An agreement to do this was not, however formalised and is likely to have been in a telephone conversation between the Customer Service Manager of CES (currently on maternity leave) and a representative from Merton Council.</p> <p>Where the decision to scrap obsolete stock is not approved by an authorised person and recorded as such, there is a risk that Croydon Council will be liable for the value of the stock in the event of a misunderstanding or mistake.</p>
2	A CES member of staff who agreed the year end values with Merton and Sutton is on maternity leave and not back until end of March. When this member of staff returns we will be able to verify the evidence.	
Responsible officer	Deadline	
Commercial Finance Manager	30 th May 2018	

Control Area 3: Requisition and Issue of Stores;

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 7
2	We will only let the customer Services Manager and customer Team leader authorise emergency orders overrides on the system. A procedure will be put in place including report monitoring.	Where an emergency order is placed and the authoriser is unavailable, CES customer services is able to override the authorisation requirement if necessary. For any orders subject to these overrides (which amount to several per week), a record of the email request is made in the 'Additional Notes' section of the order on UNIQUS, but no reports of these actions are produced for management oversight.
		Where orders are not authorised by appropriate officers, there is a risk that the authorisation and commitment processes are bypassed which could result in inappropriate purchases. In addition, disputes with partners may be difficult to resolve. Furthermore, where management do not receive reports detailing the quantities and values unauthorised emergency orders, there is a risk that inappropriate purchases and approvals will not be identified and addressed.
Admin/Procurement Officer	Responsible officer	Deadline
		31 st March 2018

TERMS OF REFERENCE

CROYDON EQUIPMENT SOLUTIONS (SUPPLY AND COST CONTROL)

1. INTRODUCTION

1.1 Croydon Equipment Solutions (CES) is a subsidiary of Croydon Care Solutions Ltd, a formerly wholly owned Local Authority Trading Company (LATC) which was brought back in house at the end of 2016. CES provides community equipment to 'support care in a home setting'. Since its establishment, it has become an 'Integrated Procurement Hub' allowing other authorities to procure, manage, deliver, collect and re-cycle such equipment. The Council has a pooled budget arrangement with Croydon Clinical Commissioning Group and Croydon Health Services.

1.2 This audit is part of the agreed Internal Audit Plan for 2017/18.

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 will examine the Council's arrangements for the charging for Croydon equipment solutions (supply and cost control) and will include the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Operational and Management Requirements;	0	2	0
Security, Storage and Management of Stores;	0	4	0
Requisition and Issue of Stores;	0	1	0
Performance Monitoring and Reporting; and	0	0	0
Financial Management and Reporting.	0	0	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

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 consistently 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 which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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