

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	09 May 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2404 – Stores Stock Control
REPORT NUMBER	IA/AC2404
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the planned Internal Audit report on Stores Stock Control

2. RECOMMENDATION

2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix, and then endorse the recommendations made.

3. CURRENT SITUATION

3.1 Internal Audit has completed the attached report which relates to an audit of Store Stock Control

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council’s Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2404 – Store Stock Control

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Stores Stock Control

Status: Final

Date: 29 February 2024

Risk Level: Function

Report No: AC2404

Assurance Year: 2023/24

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	19-Jun-23	19-Jun-23
Scope agreed	30-Jun-23	28-Jun-23
Fieldwork commenced	03-Jul-23	28Jun-23
Fieldwork completed	21-Jul-23	27-Sep-23
Draft report issued	11-Aug-23	27-Oct-23
Process owner response	01-Sep-23	29-Nov-23
Director response	08-Sep-23	29-Feb-24
Final report issued	15-Sep-23	29-Feb-24
Audit Committee	25-April-24	

Distribution	
Document type	Assurance Report
Director	Steve Whyte, Director of Resources
Process Owner	Graham Williamson, Operations Manager Neale Burrows, Roads Operations Manager John Weir, Fleet Manager
Stakeholder	Mark Reilly, Chief Officer - Operations Kenneth Don, Contract Manager – Buildings Vikki Cuthbert, Interim Chief Officer - Governance*
Final only	Jonathan Belford, Chief Officer - Finance External Audit*
Lead auditor	Phil Smith, Auditor

1 Introduction

1.1 Area subject to review

Operations is responsible for overseeing the control of stocks held for the purposes of delivering road, building and fleet services. Services include those for the repair and maintenance of the Council's housing stock and operational buildings; the upkeep of roads for which the Council is responsible; and the service and repair of Council vehicles.

Roads and Buildings stock is managed by the Contract Manager – Buildings, while the Fleet Manager oversees stock relating to Council vehicles.

The Buildings Maintenance store is located at Kittybrewster, and vans carry quantities of commonly used Buildings stock. Roads' stock is largely located at the main store in West Tullos. The Fleet depot is at Kittybrewster.

1.2 Rationale for the review

The total value of stock held at the 2022/23 year end was £1,817,000 (Roads), £956,000 (Buildings), and £83,000 (Fleet). Fleet also holds stock on behalf of its suppliers for which there is a separate procedure and financial code. The value of this imprest stock was £39,000 at the 2022/23 year end, it is not however Council owned.

The objective of this review is to obtain assurance that stock procedures are adequate and stock movements are adequately accounted for. The audit was last completed in 2019 (Report AC2007) but did not include Fleet stocks. Following that review and as part of an ongoing service redesign, the Service indicated its intention to merge the stores function for Roads and Buildings and amalgamate the associated procedures which would address many of the risks identified in the audit relating to varying practice and procedure for the administration of stock receipts and issues, the authorisation of stock adjustments and write-offs, and consistency and compliance with stock check procedures.

Stock is a vulnerable asset that if not controlled appropriately, properly accounted for, and stored securely can result in financial loss for the Council or misstatement of the value of the Council's assets. In addition to the reputational impact of misappropriation of stock, service delivery across the Council's housing stock, roads network and fleet could be impacted where stock levels are insufficient.

Roles, responsibilities, and correct procedure must be clear, and authority levels set appropriately. Stock ordering and issues, stores security, and stock system access should be adequately controlled to mitigate risk and lessen any potential knock-on effect for service delivery e.g. repair response times, service quality and the safety of tenants and road users. The appropriate Fleet stock must be available in order to ensure the longevity and legality of the Council's vehicles.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to stores stock control for Buildings, Roads, and Fleet services.

There are dedicated systems and procedures in place, and in general stock control is adequate across the areas reviewed. Each of the stores systems is set up to ensure a purchase order is raised, following suitable authorisation, to replenish stock when required. On delivery, stock is checked to the delivery note and order, and booked into the stock system. A sample of purchase orders was reviewed and confirmed that stock receipts had been received in full and booked to the correct stock codes. Samples of stock being requisitioned by tradesmen, roads operatives and mechanics were taken and reviewed to ensure that these were processed to the correct job and stock numbers detailed on the requisition form. In general, testing demonstrated accuracy of stock recording. Assurance has also been taken over the security measures in place across the stock systems including user accounts, password protection, and an audit trail of activity.

However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control and improve processes, specifically:

- **Stores Systems Utilisation and Coding** – Increased manual processes are relied upon due to system upgrades not having been applied, a lack of refreshing handheld devices and many being aged or broken. Stock coding and labelling has also been identified as needing reviewed.
- **Stock Lines** – Removing low value items from the stock system could free up capacity without presenting a material financial risk. For example, out of 2205 Building services stock lines, 397 (18%) had an average cost per item of under £1, e.g. screws, bolts, nails. From 531 Roads stock lines, 50 (9%) had an average cost per item of under £1. Similarly Fleet holds stock of multiple items under £1 (e.g. automotive light bulbs)¹. It was also noted that some items are listed on the stock system that should be on an inventory list rather than in stock. This includes pasting tables in building services and crowd barriers in roads which are brought in and out of stock as necessary.
- **Stock Control** – Stocks are not always being booked out promptly. It was not possible to confirm fully the accuracy of system stock balances to stock on the shelf at Buildings and Roads stores due to variable timing differences. Of 15 requisition forms checked for Roads, only four

¹It was not possible to extract data from system reports in their current format for further analysis.

had been processed to the system on the same day of issue (27%). In one case (7%) it was 12 days later before the system was updated.

- **Stock Adjustments** – Where adequate arrangements were in place for general user access, similar controls were not in place to ensure adjustments made to stock balances in the systems are actioned, reviewed, and approved at an appropriate level. There is limited management information and review of stock accuracy and adjustments to support targeted and proportionate action.
- **Stock Valuation** – Contrary to the Council's accounting policy, Buildings and Roads services are valuing stock at the latest price. For the latter this should be at average price. Issues were also noted with imprest/consignment stocks included in the Council's stock valuation, and a lack of comprehensive physical verification.

Recommendations have been made to address these points, including: a review of written procedures, the exploration of options to improve efficiency and accuracy through system utilisation, review of stock lines, and the internal reporting of Management information. A final recommendation has also been made to ensure that adjustments made to stock values are appropriate in terms of the stock valuation and job charging policies. Where recommendations have been targeted at operational staff, engagement of central functions such as Finance and Digital is recognised as required to fully address the points.

2.3 Severe or major issues / risks

Issues and risks identified are categorised according to their impact on the Council. There were no Severe or Major risks identified as part of this review.

2.4 Management response

Management welcomes the findings of the Internal Audit review, which identified a reasonable level of assurance over stores stock control for Buildings, Roads, and Fleet services.

It is recognised that efficiencies and improvements to the accuracy and timely recording of stock movements can be obtained by moving away from current manual processes. A transformation project is planned to review, update, and where appropriate further develop digital stock management and stores processes. We are currently reviewing coding and labelling with a view to making improvements.

There are generally good reasons for larger stock holdings, retention of stock lines, and for logging all materials through the stock system to aid visibility and efficiency of stock replenishment. However, we have committed to reviewing these areas periodically to identify proportionate options balancing efficiency and control. Reports on adjustments and deviations will also be prepared and reviewed by management on a regular basis.

A joint review of stock valuation practice, with Finance, to provide assurance this is aligned with accounting policy is also planned.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Minor
1.1	<p>Stores Systems Utilisation and Coding – The Job Control and Stores System used by Buildings and Roads services was introduced in 2008. It brought a more modern approach to stock management with handheld devices used to scan shelf barcodes, allowing stock to be booked directly to jobs. This reduced the amount of data input required of stores personnel thus reducing the risk of error which can affect service delivery.</p> <p>Although system upgrades have been available since 2009, these have not been applied. The Service reported issues with the use of the handheld devices. As a result, more manual input is now involved in processing stock receipts and stock requisitions, and operatives regularly revert to paper-based processes, with forms used to record stock movements prior to input to the system. Whilst no errors were identified in the sample of purchase orders and requisitions tested, manual entry presents an increased risk, and impacts on the efficiencies that the system should offer.</p> <p>The Fleet Management System was replaced shortly before the COVID-19 pandemic. The pandemic interrupted system implementation, and although this was further exacerbated by experienced staff leaving the organisation, the stores and job control modules appear to be operating effectively. The system has many functionalities that will be advantageous for Fleet Management, however resource pressures have restricted further expansion of management reporting to date. Changes in financial code mapping also require manual intervention to ensure accurate budget monitoring. The potential of the system, the benefits of having access to robust management information, and the resolution of areas that impact on financial and other internal controls still need to be addressed. Whilst associated processes have not changed substantially, written procedures still refer to the previous fleet management system and require to be updated.</p> <p>Stock coding is an important feature of control within a stores environment, which enables staff to communicate precisely regarding the stock required on a particular job. Although it can be difficult for a standard approach to be adopted, that approach should be methodical and should facilitate the store's operation. Fleet's stock coding is generally based on the manufacturers' own stock codes, which is more likely to ensure deliveries will be correct. In recent years Building Services has attempted to group codes according to trade where new stock lines are introduced. Store staff indicated that stock coding and labelling across the warehouse needs to be reviewed. This could be done as part of a larger review of depot storage and layout and should be considered at all three depots. Effective stock coding, layout and labelling provides for a more efficient stores function.</p>		
IA Recommended Mitigating Actions			
<p>Written procedures should be revised for all three service areas to reflect the current systems, controls and practice which governs the stores functions. These should be reviewed annually to capture system developments and other change.</p> <p>In conjunction with IT, the Service should explore options to improve the efficiency and accuracy of the job and work order management system used for managing Buildings services and Roads services. Fleet should develop an iterative system development plan which it can work through with the software supplier, with the support of Digital and Finance to ensure the full potential of the fleet management system is realised.</p>			

Ref	Description	Risk Rating	Minor
	<p>Management should consider whether stock coding across Building Maintenance and Roads Services could be more informative and effectively structured to aid stores operations, layout, and stock control.</p> <p>Stock labelling should be included as part of the wider review of systems and storage to ensure stock labelling facilitates stores stock control and service delivery.</p>		
Management Actions to Address Issues/Risks			
<p><i>Written procedures will be reviewed for all three service areas to reflect the current systems, controls and practice which governs the stores functions. As processes are likely to change as a result of scheduled system upgrades, any further updates will be kept under review by Management, with consideration for improvements through system functionality. In conjunction with other stakeholders, Management will explore options to improve the efficiency and accuracy of the job and work order management System. The Service is currently reviewing the stock coding and labelling as part of a larger project, reviewing the stock codes, grouping together codes where possible to aid stores operations and layout. Fleet continue to expand knowledge and use of the Jaama Key2 system using the Jaama document sets which will be adapted to comply with the recommendation.</i></p> <p><i>Fleet continue to expand knowledge and use of the Jaama Key2 system using the Jaama document sets which will be adapted to comply with the recommendation.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Building Services Manager	December 2024
		Fleet Manager	December 2024

Ref	Description	Risk Rating	Moderate
1.2	<p>Stock Lines – Only stock that is used in the provision of services, or held for re-sale, requires to be actively managed and recorded on the stock system(s). There is a cost involved in processing the receipt and issue of stock items, but there is currently no categorisation or threshold below which the services have determined items do not need to be recorded as stock. For example, out of 2205 Building services stock lines, 397 (18%) had an average cost per item of under £1, e.g. screws, bolts, nails. From 531 Roads stock lines, 50 (9%) had an average cost per item of under £1. Similarly Fleet holds stock of multiple items under £1 (e.g. automotive light bulbs)²</p> <p>Removing low value items from the stock system could free up capacity without presenting a material financial risk. Low value stocks could be redesignated as consumable items, and replenished as necessary. Costs could be monitored to identify unanticipated variances, and recovered via a proportional overhead charge on parts costs or labour hours. This may not be appropriate in every case – for example if there is a requirement to demonstrate that specific parts have been fitted/used.</p> <p>Some items are listed on the stock system that should be on an inventory list rather than in stock. This includes pasting tables in building services and crowd barriers in roads which are brought in and out of stock as necessary. Stock and job valuations may be affected depending on the point in time reports are run.</p> <p>Other smaller tools used by individual tradespersons (e.g. saws, tape measures, shovels) are frequently booked out against the next available job following their purchase for general</p>		

²It was not possible to extract data from system reports in their current format for further analysis.

Ref	Description	Risk Rating	Moderate
	<p>use. These items do not directly relate to and will not be used up on that job, and will not be returned to stock thereafter. Whilst this facilitates internal cost recovery, it means the cost of some jobs will be inflated, and there is less assurance of control over these items as their overall use and cost is spread amongst multiple job records. As with consumable items, these are a cost of delivering the service, rather than a cost relating to a specific job – and should be managed and charged accordingly.</p> <p>Finance data indicated year-end valuations of £1.82m for Roads in 2022/23, and £956k for Building services. Stock turnover was recorded as £1.97m for Roads, and £3.84m for Building services. Whilst the timing of specific stock movements or planned jobs, and the impact of inflation, will impact on the year-end valuation, these figures could indicate a substantial level of stock being held continuously throughout the year, presenting a risk of deterioration and obsolescence. Management information on slow moving stocks is available from the systems, but this has yet to be developed for the fleet management system. In each case, decisions have not been made by management regarding thresholds and relevant action. If there are stock lines that are no longer required, this could impact on available storage, and if not identified promptly their value in disposal could be reduced.</p>		
	IA Recommended Mitigating Actions		
	<p>Management should periodically review all stock lines in the stock systems to ensure only appropriate and relevant items are recorded. Assets that are not technically stock should not be included in the stock valuation; the movement of such items should however continue to be controlled by appropriate means. Consideration should be given to items which can be reclassified as consumables, and to the continued retention or disposal of slow moving stocks.</p>		
	Management Actions to Address Issues/Risks		
	<p><i>There are generally good reasons for larger stock holdings, e.g. Roads purchase large quantities of items in advance to meet programmed upgrades such as light fittings and other electrical stocks, and salt quantities may be substantial at year-end depending on winter conditions.</i></p> <p><i>We will review usage of all slow-moving codes, to establish need to keep such items, in consultation with Operational Teams as to an alternative strategy should there be a need for such an item (including assets not technically stock) e.g. replacing/upgrading/ fitting. The service will review these items annually.</i></p> <p><i>With regard to consumables, whilst there are no doubt benefits in treating them as so, because on occasion these are recharged, the Service preference is to continue to record and issue them as stock items. Additionally, as they are counted as part of stock, the system “automatically” generates replenishment orders when required, If no controls are in place there is a risk of stock-outs. Consideration to be given to reclassify as non-stock items.</i></p> <p><i>Hand tools (not technically stock) etc are also re-ordered through the system. Consideration will be given to alternative means of recording and charging for their use. Consideration to be given to reclassify as non-stock items.</i></p> <p><i>Fleet will review stock lines, classifications, and movements in conjunction with Finance, taking into consideration the values of the stock held.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Building Services Manager	October 2024
		Fleet Manager	October 2024

Ref	Description	Risk Rating	Moderate
1.3	<p>Stock Control – Each of the stores systems is set up to ensure a purchase order is raised, following suitable authorisation, to replenish stock when required. On delivery, stock is checked to the delivery note and order, and booked into the stock system. A sample of purchase orders from Building Services and Fleet was reviewed and confirmed that stock receipts had been received in full and booked to the correct stock codes.</p> <p>Samples of stock being requisitioned by tradesmen, roads operatives and mechanics were taken and reviewed to ensure that these were processed to the correct job and stock numbers detailed on the requisition form. In general, testing demonstrated that the accuracy of stock recording is good although where differences between requisitioned and issued stock at Roads were identified, explanations were not noted on the requisition form, which reduces the quality of the audit trail.</p> <p>Stocks are not always being booked out promptly. While the fleet system was fully up to date, it was not possible to confirm fully the accuracy of system stock balances to stock on the shelf at Buildings and Roads stores due to variable timing differences. Of 15 requisition forms checked for Roads, only four had been processed to the system on the same day of issue (27%). In one case (7%) it was 12 days later before the system was updated. Staff indicated that stock is frequently removed from the depot before a requisition form is received by the storeman. Requisitions for Roads are signed by the storeman when they are input to the stock system however the requisitioner, although identified on the form by the storeman, does not sign the form for themselves. There is a greater risk of uncertainty over who received the stock, and the benefit of the audit trail diminishes.</p>		
IA Recommended Mitigating Actions			
Management should review operations and work with staff to ensure that: where stock issued varies from what was requisitioned, the reason for this should be adequately explained, stock should only be issued on receipt of a requisition form, signed by both the storeman and receiver, and all stock issues should be recorded on the stock system promptly.			
Management Actions to Address Issues/Risks			
<i>Management will review operations and work with staff to ensure that where stock issued varies from what was requisitioned, the reason for this will be adequately explained and give consideration to the recommendations from Internal Audit with regards to issue. This review will consider the functionality of any upgraded systems, with a view to ensuring automation where possible. Where manual processes are required these will be considered along with other operational priorities and may not be progressed based on risk appetite.</i>			
Risk Agreed		Person(s)	Due Date
Yes		Building Services Manager	October 2024
		Fleet Manager	October 2024

Ref	Description	Risk Rating	Moderate
1.4	<p>Stock Adjustments – The stock systems have security measures including user accounts, password protection, and an audit trail of activity within the system. User access levels that determine what an individual can view, input, and modify are essential as are financial thresholds which, for the likes of purchase orders, are in place to ensure that the appropriate level of management can approve transactions as their value and nature requires. Similar controls should be in place to ensure adjustments made to stock balances in the systems can be actioned, reviewed, and approved at an appropriate level. This gives Management</p>		

Ref	Description	Risk Rating	Moderate
	<p>the opportunity to consider whether errors between stock on the shelf and that recorded in the system indicate a training need, a system control weakness, loss, or theft.</p> <p>Relevant restrictions are in place for the fleet management system to provide adequate governance over purchase orders, stock issues, and stock balance adjustments. Fleet advised that since the system was implemented, the only adjustments have been as a result of stock count variances. For Buildings and Roads stores, there are few restrictions built into the system, and no financial thresholds for stock adjustments; instead there is a manual adjustment approval form. Whilst there is an opportunity to add reasons for adjustment to the system in a free-text field, there is no requirement to use this consistently, reducing the opportunity to generate informative management information. Robust adjustments information allows management to monitor the quality of stock control and discern where there may be variances between trades or fluctuations and spikes which may merit investigation. It will also allow management to consider the frequency of stock checks required and ensure they are targeted appropriately. Currently in addition to spot checks and the annual stock count, a full mid-year stock check is undertaken by Buildings and Roads services which requires significant planning and resources to be set aside. This may not be necessary, provided an adequate interim stock check regime is in place. However, suitable management information on the frequency and value of errors and adjustments will be necessary to determine a proportionate level of checks.</p>		
IA Recommended Mitigating Actions			
<p>The services should ensure that user restrictions and authorisation thresholds for stock adjustments are set appropriately in the stock systems.</p> <p>Management should have access to robust stock check and stock adjustment information to provide assurance, inform decision making, and determine the appropriate frequency and focus of stock checks required.</p>			
Management Actions to Address Issues/Risks			
<p><i>A quarterly report will be submitted to and reviewed by Senior Management detailing any Stock Adjustments. User access has been reviewed to restrict options where relevant. All adjustments over a defined value require management sign-off. Reporting has been developed which shows the user, values, and reasons for Adjustments – any exceptions will be reviewed.</i></p> <p><i>A schedule will be set up for Interim Stock-checks to alleviate the need for mid-term Stocktake. This will be reviewed annually to reflect and focus resources on potential risk areas.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Operations Manager	June 2024

Ref	Description	Risk Rating	Moderate
1.5	<p>Stock Valuation – The Council’s accounting policy for the valuation of stock states that:</p> <p><i>“Inventories are included in the Balance Sheet at the lower of cost or net realisable value except for the inventories held by Building Services and Roads Services which are valued at latest price and average price respectively.”</i></p>		

Ref	Description	Risk Rating	Moderate
	<p>Within Buildings and Roads services reports are run monthly to identify variations between the system generated average price of stock in the system, and the current purchase price, and adjustments are being made to the average price in order to charge the most up to date prices to jobs. This means that, contrary to the declared accounting policy, both services are valuing stock at the latest price.</p> <p>Fleet stocks are complemented by imprest/consignment stocks, which are held in the store, but belong to the parts supplier until used and paid for. Whilst separately disclosed, these are included in the Council's stock valuation, contrary to standard accounting practice that only recognises goods for which title has been transferred.</p> <p>All stocks must be physically verified as part of the year-end process to provide confirmation of their existence and accuracy. Fleet uses a fuel management system to monitor fuel deliveries, vehicle fuelling and utilisation. This includes live data on remaining volumes of fuel in each tank, based on fuel added and drawn. Whilst there is volumetric monitoring of tank contents, this is only reviewed and used to adjust the stock balance following a 'digital dip' reading being taken. Records indicated that for the 2022/23 year-end count, only three of twelve tanks (25%) had a recent digital dip measurement recorded. Six of twelve had not been updated since 2021 (50%). Placing reliance on system records of stock levels presents risks in the event of system errors or manual intervention.</p>		
IA Recommended Mitigating Actions			
<p>Management should ensure that adjustments made to stock values are appropriate in terms of the stock valuation and job charging policies. Stock valuation practice, and the inclusion of third-party stocks, should be reviewed in conjunction with Finance.</p> <p>All stocks should be physically verified as part of the year-end process.</p>			
Management Actions to Address Issues/Risks			
<p><i>Agreed. Discussions will be held between Finance , Operations and, if necessary, Software supplier to review the charging/valuation processes within the system to ensure that the two are reconciled and aligned with accounting policy.</i></p> <p><i>Physical verifications will be confirmed as part of the year-end process.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Building Services Manager	July 2024
		Fleet Manager	July 2024

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk Level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

Operations is responsible for overseeing the control of stocks held for the purposes of delivering road, building and fleet services. Services include those for the repair and maintenance of the Council's housing stock and operational buildings; the upkeep of roads for which the Council is responsible; and the service and repair of Council vehicles.

Roads and Buildings stock is managed by the Contract Manager – Buildings, while the Fleet Manager oversees stock relating to Council vehicles.

The Buildings Maintenance store is located at Kittybrewster, and vans carry quantities of commonly used Buildings stock. Roads' stock is largely located at the main store in West Tullos, but there are three further satellite stores at Bucksburn, Mundurno and Reedbed. The Fleet depot is at Kittybrewster.

5.2 Rationale for review

The total value of stock held at the 2022/23 year end was £1,817,000 (Roads), £956,000 (Buildings), and £83,000 (Fleet). Fleet also holds stock on behalf of its suppliers for which there is a separate procedure and financial code. The value of this imprest stock was £39,000 at the 2022/23 year end, it is not however Council owned.

The objective of this review is to obtain assurance that stock procedures are adequate and stock movements are adequately accounted for. The audit was last completed in 2019 (Report AC2007) but did not include Fleet stocks. Following that review and as part of an ongoing service redesign, the Service indicated its intention to merge the stores function for Roads and Buildings and amalgamate the associated procedures which would address many of the risks identified in the audit relating to varying practice and procedure for the administration of stock receipts and issues, the authorisation of stock adjustments and write-offs, and consistency and compliance with stock check procedures.

Stock is a vulnerable asset that if not controlled appropriately, properly accounted for, and stored securely can result in financial loss for the Council or misstatement of the value of the Council's assets. In addition to the reputational impact of misappropriation of stock, service delivery across the Council's housing stock, roads network and fleet could be impacted where stock levels are insufficient.

Roles, responsibilities, and correct procedure must be clear, and authority levels set appropriately. Stock ordering and issues, stores security, and stock system access should be adequately controlled to mitigate risk and lessen any potential knock-on effect for service delivery e.g. repair response times, service quality and the safety of tenants and road users. The appropriate Fleet stock must be available in order to ensure the longevity and legality of the Council's vehicles.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the Function level.
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Stores Layout and Security
- Written Procedures
- Compliance Testing (Stock Receipts, Issues, Returns, System Adjustments, Stock write offs)

- Stock Checks (Interim, Year-end, and Spot checks)
- Stock Monitoring, System Reporting and follow up

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, guidance.

Due to hybrid working across the Council, this review will be undertaken primarily remotely with a selection of stores visits being undertaken to confirm on-site application of key controls.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Phil Smith, Auditor (**audit lead**)
- Colin Harvey, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Council key contacts

The key contacts for this review across the Council are:

- Steve Whyte, Director of Resources
- Mark Reilly, Chief Officer - Operations
- Graham Williamson, Operations Manager (**process owner**)
- Neale Burrows, Roads Operation Manager (**process owner**)
- John Weir, Fleet Manager (**process owner**)
- Kenneth Don, Contract Manager – Buildings

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	19-Jun-23
Scope agreed	30-Jun-23
Fieldwork commences	3-Jul-23
Fieldwork completed	21-Jul-23
Draft report issued	11-Aug-23

Milestone	Planned date
Process owner response	1-Sep-23
Director response	8-Sep-23
Final report issued	15-Sep-23