Final Internal Audit Report 2011/12

London Borough of Hammersmith and Fulham

HFBP Inventory Management

March 2012

This report has been prepared on the basis of the limitations set out on page 12

Introduction	As part of the 2011/12 Internal Audit Plan, agreed by the Audit and Pensions Committee on 17 February 2011 and as requested by the Assistant Director Procurement (Corporate Services) we have undertaken an internal audit of HFBP Inventory Management.
	This report sets out our findings from the work and, where practical, raises recommendations to address areas of control weakness and / or potential areas of improvement.
	The additional sample testing for 2010/11 was selected for the purposes of confirming whether items were classified as growth or replacement items in the 2010/11 annual calculations. We acknowledge that some of the current procedures were not in place in 2010/11 and have recognised the changes in procedures within the body of the report. It should also be noted that the growth calculation process could not be determined during the audit as the individual responsible for 2010/11 calculations had moved to a different team within Agilysis.
	The agreed objective and scope of our work is set out in the Audit Brief issued on 07 November 2011.

Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
		L		

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Policies and Procedures			1	1	0
Requests			0	0	0
Inventory Records			0	1	0
Acquisitions and Disposals			0	2	0
Redeployment	*		0	0	0
Key Programmes Targets			1	0	0
Monitoring			0	2	0

*Weaknesses in this area are included under the Acquisitions and Disposals area.
Please refer to the attached documents for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Key Findings	Key Statistics
• Although separate procedure documents such as a fit for purpose definition and asset lifecycle diagrams are in place, the set of procedures is not extended to describe the inventory management process for growth and replacement items as well as the level of detail required to be documented within the Magic system;	• The Magic system is used to record all inventory items and produce management reports;
• The procedure for calculating the growth of desktop inventory at Hammersmith and Fulham Bridge Partnership (HFBP) could not be established as the individual who was responsible for the 2010/11 calculation has moved to another division;	• HFBP provide monthly information on the desktop inventory estate movements to the Contract Monitoring Office (CMO);
• From the annual growth calculation provided to the Council, we identified one order that may have been misclassified as a replacement item; however, we were unable to establish formal criteria for determining whether an item should be classed as a growth or replacement item;	• The desktop inventory consists of 'thin client' Standard PCs, Power PCs, laptops or notebooks, Blackberry PDA's, digital cameras, printers, scanners, and other miscellaneous items. The data submitted in June 2011 shows that the total asset portfolio is 6000 items; and
• From examination of twenty acquisitions and twenty disposals (ten in 2010/11 and ten in 2011/12 each) we identified a number of exceptions that are detailed in the summary of findings and recommendations;	• The growth target is calculated by HFBP Business Office on an annual basis. The 2010/11 movement reported by HFBP indicates that there was a net growth of over £100k in the estate.
• The rationale for purchasing an item instead of using an existing fit for purpose item are not clearly documented within the Magic system;	
• There is no formal mechanism established to link the inventory records to key Council programmes. However, we were informed that this information is available through the Project Managers;	
• A Work Package Request (WPR) was raised in January 2011 requesting improved reporting on inventory management. This had not been actioned as at February 2012; and	
• The Contract Monitoring Office receives inventory reports monthly and growth figures annually. They scrutinise the growth figures only on an annual basis leading to delays in resolution of discrepancies.	

Summary of Findings	**Policies and Procedures**
	Separate procedure documents including Fit for Purpose Definitions and Inventory Life Cycle Requirements have been developed; however, this set of procedures is not extended to describe the inventory management process for growth and replacement items as well as the level of required detail to be documented within the Magic system. Furthermore, we were unable to establish formal criteria for determining whether an item should be classed as a growth or replacement item as the individual undertaking the calculation within HFBP Business Office in 2010/11 had moved division.
	We have raised two recommendations as a result of our work in this area.
	Requests
	Work package requests (WPRs) are required for all additions to the inventory and provide evidence of client approval. WPRs are raised through the Magic system which records the officers raising and approving WPRs. HFBP also maintain a list of valid requesters and approvers which was introduced in 2011/12. We were informed that prior to this HFBP were informed that any officer could request equipment such as laptops or Blackberries as part of the Smartworking Programme.
	We have not raised any recommendations as a result of our work in this area.
	Inventory Records
	Inventory records are maintained on the Magic system. Items are set to 'active' and 'inactive' when they are purchased and disposed off respectively. From a sample of ten 2010/11 acquisitions and ten disposals tested, all nine relevant acquisitions and all eight relevant disposals were updated promptly within the monthly inventory records provided to the Council.
	A stock of fit for purpose equipment is maintained. The monthly reports sent to the Council include stock figures and the number of items in stock can be checked at any point in time. However, it is not possible to establish retrospectively whether a fit for purpose item was available in stores at any point in time.
	We have raised one recommendation as a result of our work in this area.
	Acquisitions and Disposals
	Technical Officers are responsible for making the decision whether new acquisition or replacement equipment is required to satisfy the client needs specified in the Work Package Request (WPR). We were informed that Technical Officers or Project Managers will check if suitable fit for purpose equipment is available prior to purchasing new equipment. Evidence of this check is not available on the Magic system.
	Decommissions (or disposals) usually arise from a fault being reported or identified after an office move. An incident is raised through the Magic system and can be raised by anyone within the Council. The technical officers are responsible for assessing whether the item should be repaired or replaced with a new item. There are formal definitions of the specification for standard PCs, Power PCs and Laptops/Tablets that can be classified as fit for purpose. Items below these specifications should be replaced with a higher specification. Evidence of the fault with the device should be recorded on the Magic system.

From testing of twenty items decommissioned over two years, we identified the following:

- Five 2011/12 decommissions did not have reasons for decommission recorded on the Magic system (4001102, 1010402, 4001975, 4001196 and 4002090); We were informed that the incident record includes information on how the incident was resolved but this is not linked to the inventory record;

- One 2010/11 item tested (4007962-DUP) was added in error and then decommissioned on the same day. We could not determine whether this resulted in a charge to the Council;

- Two 2010/11 decommissions tested (4003339 and 3001436) did not have reasons for replacement on the Magic System. These are in the same period as the laptop encryption programme and could have formed part of this programme; and

- One item (4007557) was purchased for 'stores' but then later sold to Agilysis. We were unable to determine whether the Council was charged for this.

We have raised two recommendations as a result of our work in this area.

Redeployment

As described above, HFBP maintain a fit for purpose (FFP) stock of assets that are available for deployment across the Council.

Although the monthly reports sent to the Council includes stock figures and the number of items in stock can be checked at any point in time, it is not possible to check retrospectively what items were available at the time the purchase decisions were made.

The decision making process for whether to use items from FFP stock or purchase new items was not documented in the twenty acquisition cases tested (ten in 2010/11 and ten in 2011/12), We were informed that the Technical Officers are responsible for taking the decisions to acquire, replace or dispose of an item.

Weaknesses identified in this area are raised under the recommendations within the Acquisitions and Disposals Area.

Key Programmes Targets

There is currently no mechanism to link the Council's key programmes and projects to changes in inventory. From our testing of acquisitions, we identified that the comments within the Magic system include details of the programmes and we were informed that the Project Managers have access to the information and this can be provided upon request.

We have raised one recommendation as a result of our work in this area.

Monitoring

Monthly reports including items by type and by Department and number of items within stores are produced and sent to the Contract Monitoring Office. Annual growth figures are calculated and sent to the Contract Monitoring Office for approval. Variances are investigated and followed up through requests from departments for verification of figures. The growth figures were still being agreed at the time of the audit.

	The Council had requested the reporting format to be improved via WPR 44270 in January 2011. At the time of the audit this had not yet been actioned.
	We have raised two recommendations as a result of our work in this area.

Acknowledgement	We would like to thank the management and staff of the Hammersmith and Fulham Bridge Partnership (HFBP) and the Contract Monitoring Office (CMO) for their time and co-operation during the course of the internal audit.

1. Policies and Procedures

Priority	Issue	Risk	Recommendation
2	Although guidance notes and protocols including fit for purpose definitions and asset lifecycle diagrams have been developed, the procedures do not include the process for the calculation of growth and replacement items or the level of detail required to be documented in the Magic system.	Where policies and procedures are not in place for all key tasks, there is an increased risk that inconsistent working practices may develop leading to discrepancies in the inventory management records.	Inventory Management procedures should be extended to include processes for calculating growth and replacement items and the level of expected documentation within the system. Procedures should be agreed by both HFBP and the Council and communicated to relevant staff.

Management Response		Responsible Officer	Deadline
Agreed.		Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	31/03/2012

2. Policies and Procedures - Classifying Growth Items and Replacement Items

Priority	Issue	Risk	Recommendation
1	We were unable to identify formal criteria for determining whether items should be classed as a growth or replacement as the individual undertaking the calculation within HFBP Business Office in 2010/11 had moved division. For example, where items are replaced with equipment of a higher specification it is not clear if these should be classified as growth or replacement.	Where criteria for classifying growth and replacement items are not formally defined and agreed, there is an increased risk that the calculations of growth may be inaccurate leading to inaccurate charges to the Council.	A set of criteria to classify growth items and replacement items should be formally agreed, documented and made available to relevant staff and any new staff. The criteria should apply to the treatment of items at the overall level of inventory and at each category level in determining any changes to the charging model.

Management Response		Responsible Officer	Deadline
Agreed.		Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	31/03/2012

3. Inventory Records - Stock

Priority	Issue	Risk	Recommendation
2	HFBP maintain a fit for purpose (FFP) stock of assets that are available for deployment across the Council. Although the monthly reports sent to the Council includes stock figures and the number of items in stock can be checked at any point in time, it is not possible to check retrospectively what items were available at the time the purchase decisions were made. The decision making process for whether to use items from FFP stock or purchase new items was not documented in the twenty acquisition cases tested (ten in 2010/11 and ten in 2011/12), We were informed that the Technical Officers are responsible for taking the decisions to acquire, replace or dispose of an item.	Where movements into and out of stock are not documented and the decision on whether to use existing stock or purchase new items is not documented, there is an increased risk that HFBP may not be able to justify the purchase of new equipment.	A transparent process should be in place for determining the decision making points when a recommendation is made to purchase new equipment. The process should include a link to the fit for purpose stock available at the time of the decision being made. A note indicating that fit for purpose equipment was not in stores at the time of purchase should be recorded within the Magic system for every item purchased.

Management Response		Responsible Officer	Deadline
Agreed.		Senior Finance & Contract Monitoring Officer (LBHF), Business Office Manager (HFBP) and Field Engineering Manager (HFBP).	31/03/2012

4. Acquisitions and Disposals - Justification of Decommissions

Priority	Issue	Risk	Recommendation
2	From examination of twenty disposals (ten in 2010/11 and ten in 2011/12), we identified the following: • Five 2011/12 decommissions tested did not have a reason for decommission recorded on the Magic system (4001102, 1010402, 4001975, 4001196, and 4002090); and • Two 2010/11 decommissions tested (4003339 and 3001436) did not have reasons for decommissioning on the Magic System. These occurred in the same period as the laptop encryption programme and therefore may have formed part of this programme. We were informed that the information on volume and reasons for decommissions is not provided as part of the monthly report.	Where the reason for decommissioning items is not documented on the system, there is an increased risk that the decision to dispose of items instead of retaining them as FFP stock cannot be justified.	The process for decommissioning decisions should be formalised. Reasons for decommissioning items should be recorded on the Magic system in all cases. Decommissions should be subject to periodic spot checks to gain assurance that valid reasons are being recorded. The information on volume for decommissions and reasons for decommissioning items should be provided to the Council within the monthly reports.

Management Response		Responsible Officer	Deadline
Agreed.		Senior Finance & Contract Monitoring Officer (LBHF), Business Office Manager (HFBP) and Field Engineering Manager (HFBP).	31/03/2012 for formalising the process 01/05/2012 for providing the information within the monthly report

5. Acquisitions and Disposals - Treatment of Decommissions

Priority	Issue	Risk	Recommendation
2	From examination of twenty disposals (ten in 2010/11 and ten in 2011/12), we identified the following: • One of ten items tested in 2010/11 (4007962-DUP) was added in error and then decommissioned on the same day; and • One item (4007557) was purchased for 'stores' but then later sold to Agyisis. We could not determine whether these cases resulted in a charge to the Council.	Where the reasons for decommissioning items are not documented and it is not clear if these should result in a charge to the Council, there is an increased risk that the Council may be incorrectly charged.	The Council should investigate the transactions noted and confirm if they have been correctly treated. Where these items were treated incorrectly, the financial impact of this should be determined and corrected.

Management Response		Responsible Officer	Deadline
Agreed. HFBP have stated that this would not result in a growth to the Council because it does not affect the overall desktop inventory figures. Evidence is to be provided to the Contract Monitoring Office.		Senior Finance & Contract Monitoring Officer (LBHF)	31/03/2012

6. Key Programme Targets - Tracking

Priority	Issue	Risk	Recommendation
1	The inventory records do not include a reference to enable reporting on key programmes. We were informed that the information on change requests can be provided by the HFBP Project Managers separately if required; however there is no clear evidence that the inventory records are linked to key programmes as part of the standard monthly report provided to the Council.	Where the inventory records do not enable reporting on IT aspects related to key programmes, there is an increased risk that the required benefits from the programmes are not achieved and this is not identified.	A mechanism should be implemented to allow tracking of changes to inventory arising from Council projects and programmes. If requested by the Council, HFBP should be able to record and report on the impact that specified projects or programmes may have on the number of desktop items deployed, returned to stores or decommissioned. The Council should agree with HFBP on the project documentation required to demonstrate this. This may form part of project closure reports or end of phase reports. An example of this would be the review and validation needed when checking the independently collated figures of desktop equipment returned and decommissioned in 2010/11 as a result of the Smartworking programme.

Management Response		Responsible Officer	Deadline
Agreed.		Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	31/05/2012

7. Monitoring - Reporting of Growth Figures

Priority	Issue	Risk	Recommendation
2	The growth figures report is provided to the CMO on an annual basis. This results in delays in resolving discrepancies, determining an accurate growth figure and settling the final bill.	Where regular monitoring of growth figures is not undertaken, there is an increased risk that the discrepancies are not identified and addressed promptly. This may lead to increased resources being required to correct errors at a later date and delays in agreeing the final bill.	Monitoring and validation of growth figures should be undertaken on a monthly basis.

Management Response		Responsible Officer	Deadline
Agreed.		Senior Finance & Contract Monitoring Officer (LBHF), Business Office Manager (HFBP) and Field Engineering Manager (HFBP).	01/05/2012

8. Monitoring - Reporting

Priority	Issue	Risk	Recommendation
2	A WPR 44270 was raised in January 2011 after the Council identified the need for improved inventory reporting. As at February 2012, this WPR had not been actioned.	Where the content of the inventory management reports is not aligned with Council requirements, there is an increased risk that relevant, reliable and accurate information is not available for effective decision making.	The content of the monthly reports provided to the Council should be agreed based on WPR 44270.

Management Response	Responsible Officer	Deadline
Agreed. HFBP are waiting for the outcomes of the audit before agreeing on the content of the required reporting going forward. The first report including the recommendation will be provided to the Council on 01/05/2012.	Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	01/05/2012

Statement of Responsibility	We take responsibility for this report which is prepared on the basis of the limitations set out below.
	The matters raised in this report are only those which came to our attention during the course of our internal audit 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 internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.
	Deloitte & Touche Public Sector Internal Audit Limited
	London
	March 2012
	In this document references to Deloitte are references to Deloitte & Touche Public Sector Internal Audit Limited.
	Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 4585162.
	Deloitte & Touche Public Sector Internal Audit Limited is a subsidiary of Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.
	Member of Deloitte Touche Tohmatsu Limited