



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

CARDIFF CHECKS

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 09 April 2010

Purpose of Report:

To inform Members of the findings of Internal Audit regarding three paid invoices, selected by Members during 2009. The report also sets out the response of management to the findings and recommendations.

CONTACT OFFICER

Name : Neil Timms
Head of Finance and Resources

Tel : 0115 967 0880

Email : neil.timms@notts-fire.gov.uk

Media Enquiries Contact : Elisabeth Reeson
(0115) 967 5889 elisabeth.reeson@notts-fire.gov.uk

1. BACKGROUND

- 1.1 Members will recall that, at the meeting on 4 September 1998, approval was given to the introduction of a system of 'Cardiff Checks', involving the selection of a number of paid creditor invoices for detailed investigation by the Service's Internal Auditors.
- 1.2 Internal Audit has prepared separate reports for the three invoices selected by members and the comments of the Chief Fire Officer have been appended to each. These, together with copies of the invoices, are attached to this report as appendices.

2. REPORT

- 2.1 The invoices selected for review covered the following range of services; A) purchase of reclining chairs, B) purchase of a stock item of equipment and C) water bill for the Clifton Community Safety Centre. The detailed findings are provided in appendices A, B and C attached to this report.
- 2.2 The issues identified in this report are not significant if taken in isolation but are significant if they are representative of the normal procurement practices across NFRS.
- 2.3. The more significant issues arising from these reviews relate to:
 - i) Non compliance with NFRS Financial Regulations: There is a lack of awareness regarding the need to maintain a register, and report, instances of non-compliance with financial regulations.
 - ii) Review of Stock Levels: There is no regular review of stock re-order levels or stock re-order quantities which could result in excessive or inappropriate stock levels being held.
 - iii) Value for money: A review of water services provided to NFRS premises is required to ensure that correct tariffs are being used.

Management Response

- 2.4 The issue of non-compliance with financial regulations relates to the maintenance of a register of instances where financial regulations exemptions have been applied as in the case of the Calcott Chairs. The auditors are correct that a register is not maintained and this will be rectified forthwith.
- 2.5 The auditors have made two recommendations as a result of their findings the first being related to the review of stock and re-order levels. This recommendation is accepted in full and will be implemented as part of the move to the new financial system which is planned for the summer of 2010. The second recommendation is accepted in principle however it is not considered practical to implement this in full. The Auditors recommend that price comparisons are carried out annually but in practice with over 1,100 stock items this will not be possible to achieve. However, it is proposed that the service should get as many items as possible onto tendered contracts

which can be reviewed at each tender stage and the remainder of stock price checked on the basis of high value/volume items most regularly checked but in any even all items checked every three years.

- 2.6 The Auditors have made a number of recommendations connected with this invoice most of which have already been implemented. The Auditors have been commissioned to carry out further work in this area as they have specific skills related to water charge assessments.

3. FINANCIAL IMPLICATIONS

There are some value-for-money implications arising from the issues identified and the associated recommendations.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITY IMPACT ASSESSMENT

There are no equality implications arising directly from this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

There is some risk that procurement regulations are not being complied with fully and that the charges for water supply, sewerage services and surface water drainage may be incorrect.

9. RECOMMENDATIONS

That the recommendations in the report, which have been agreed with the Chief Fire Officer, are implemented without delay.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

- Copies of the invoices selected by CFA Members for Cardiff Check review, and individual reports for each invoice.

Peter Hurford
TREASURER TO THE FIRE AND RESCUE AUTHORITY

Invoice 1 Supply of reclining chairs

1. Invoice Information

- 1.1 The supplier is 'Godfrey Syrett Limited', invoice number 5193 dated 10 September 2008, purchase order reference ET001472.
- 1.2 This invoice relates to the purchase of four Calcot heavy duty reclining chairs. The provision of these chairs was linked to the Service's decision to remove dormitories from all of its fire stations. The creation of smaller "quiet rooms" for each fire station is part of the redesign concept. This invoice was one of the initial purchases of the chairs for 'wear testing'.
- 1.3 The cost of the goods supplied was £1,948.00 plus VAT (£340.90), giving an invoice total of £2,288.90.

2. Summary of Findings

- 2.1 Because the chairs were intended to replace beds in all NFRS establishments, a full risk assessment had to be carried out to make sure the chosen chairs complied with relevant health and safety standards. NFRS were aware that Staffordshire FRS were using Calcot chairs for the same purpose and had already carried out a full risk assessment. NFRS chose to rely on the Staffordshire risk assessment rather than carry out a further, separate assessment of their own because it would save time and avoid duplicated effort. However, no documentary evidence of the risk assessment is held by NFRS.
- 2.2 The decision to rely on the Staffordshire FRS risk assessment constrained NFRS to buying Calcot chairs. We were informed that Godfrey Syrett Limited was the only supplier of Calcot heavy duty reclining chairs and, therefore, it was not possible to obtain competitive quotations. Brief enquiry via the internet appears to confirm this statement.
- 2.3 There is some evidence of authorisation prior to the order being placed with the supplier based on information contained in a series of emails from the Head of Procurement and Estates. However, NFRS procurement procedures require a non-stock requisition form to be completed and signed by an appropriate budget holder prior to ordering and this did not take place.
- 2.4 NFRS Financial Regulation 10.5 also requires that:- *"The Chief Fire Officer shall maintain a written register of all instances where Financial Regulations 10.1 to 10.3 have not been complied with, together with the reasons and will present an annual report on these instances to the Fire Authority."* NFRS do not currently maintain such a register. This was raised in our internal audit report reference FRS/1001 issued in September 2009 and NFRS agreed to review this as part of the purchasing review that is to be carried out before 31 March 2010.
- 2.5 Purchase order number ET001472 was raised on 10 July 2008 by the Stores Department and was authorised on the same day by the Head of Procurement and Estates. The value of the purchase order was £1,948.00, which was the net cost of the

chairs. This amount is within the authorisation limit of the Head of Procurement and Estates.

Appendix A (continued)

- 2.6 The chairs were delivered to Newark Fire Station. The delivery note was signed and dated 4 September 2008 and a Goods Receipt Note (GRN) no.1829 was raised by the stores department to record receipt of this delivery.
- 2.7 The corresponding invoice was dated 10 September 2008 and was received at NFRS HQ on 12 September 2008. It was logged on the financial system on 17 September 2008 and was approved for payment on the same day. Because the invoice details matched those on the purchase order and there was a valid GRN, the invoice was approved for payment by a member of the Finance Department and did not require further authorisation.
- 2.8 The invoice was paid on 9 October 2008 via a BACS transfer; the payment for this invoice was one part of a larger transfer. The BACS paperwork was checked and signed by two different members of the Finance Department before the payment was sent.
- 2.9 The total cost of Calcot heavy duty reclining chairs purchased in 2008/09 was £15,034. This was charged to the modernisation fund budget. However, £15,034 was vired from the capital account to the furniture purchase cost centre to cover this cost.
- 2.10 The chairs have not been charged to capital expenditure or included on the authorities Fixed Asset Register because they were not part of a refurbishment project. NFRS were informed by their external auditors that fixtures and fittings only need to be recorded on the Fixed Asset Register when purchased as part of a refurbishment project; any items purchased separately can be posted against a revenue budget, as has been done here.

3. Recommendations

- 3.1 A non-stock requisition form should be completed for all non-stock purchases before the order is placed. This is to ensure there is clear authorisation from the appropriate budget holder for the order being raised.
- 3.2 A register of non-compliance with Financial Regulations 10.1 to 10.3 should be maintained in accordance with Financial Regulation 10.5. This was recently reported in internal audit report FRS/1001 and was responded to by the Head of Procurement and Estates at the time. A purchasing review is due to be carried out before 31 March 2010 to address this, and other issues raised in internal audit report FRS/1001.

4 Response of the Chief Fire Officer

- 4.1 The issue of non-compliance with financial regulations relates to the maintenance of a register of instances where financial regulations exemptions have been applied as in the case of the Calcott Chairs. The auditors are correct that a register is not maintained and this will be rectified forthwith.
- 4.2 It is correct that non-stock requisitions should have been used for this purpose. Current procedures ensure that this happens.

Invoice 2 Supply of 'Throwlines'

1. Invoice Information

- 1.1 The supplier is 'Desperate Measures', invoice number 5207, dated 12 September 2008, purchase order reference ET000659.

- 1.2 This invoice relates to the purchase of ten 20-metre Pro Throwlines at a unit cost of £28.33 which includes a 10% discount off the recommended retail price of £31.48. The net cost for the ten Throwlines was £283.32 plus VAT (£49.58) giving an invoice total of £332.90.

2. Summary of findings

- 2.1 The 20-metre Pro Throwlines are a stock item (stock item code SB0369) and have been standard issue within Nottinghamshire FRS for over ten years. It is possible to purchase this item direct from the manufacturer but NFRS negotiated a discount when purchasing through Desperate Measures, a canoe and kayak shop in West Bridgford. There has been no comparison of prices from alternative suppliers carried out recently. Staff could not recall when the last price comparison was carried out.

- 2.2 Re-ordering of stock items is carried out each week triggered by the weekly 'Low Stock' report based on the re-order level and re-order quantity held on the stores system. For Throwlines, the trigger level is 4 units or less and the re-order quantity is 24 units. These levels were set some years ago and have not been reviewed since.

- 2.3 Between 1 October 2008 and 30 September 2009, 31 throwlines were issued from stock. The monthly issues fluctuated widely between none and twelve including two instances where the quantity issued exceeded the re-order level (4). Because Throwlines are safety equipment, it is important that they are always available and these two issues indicate that the review of re-order levels is overdue.

- 2.4 The NFRS order number was quoted incorrectly by 'Desperate Measures' on their invoice and delivery note which caused some confusion. Initially goods were booked in and invoices allocated against the wrong purchase order. This confusion has been resolved by comparing the records of items received with invoice records. From this check it is clear that NFRS have only paid for the goods that have been received.

- 2.5 Purchase order ET000659 for 20 Throwlines was raised on 21 April 2008 by the Stores Department and was authorised on 22 April 2008 by the Head of Procurement and Estates. The expected delivery date included on the order was 25 April 2008. There were two GRNs raised against this order on 16 September 2008 and 18 November 2008. We are satisfied that the confusion resulting from the use of incorrect order numbers by the supplier explains the time delay between the date of the order and the date of the GRN (see para 2.4 above). Records show that 5

Throwlines were received on 12 May and a further 19 Throwlines were received on 16 September.

Appendix B (continued)

- 2.6 Stock records are updated by the system when goods are received and when they are issued. The current value of stock held is calculated by the financial system as invoices are entered onto the system. A weekly reconciliation is carried out by a member of the Finance Department to ensure the value of stock shown in the accounting system agrees with the stock records. Physical stock checks are carried out monthly on a rolling basis which ensures that all stock records are verified at least once per year.
- 2.7 The invoice is dated 12 September 2008 and was received at NFRS HQ on 15 September 2008. The invoice was logged on the financial system and the details of the invoice were input on 17 September 2008. It was authorised on the same day by the Head of Procurement and Estates.
- 2.8 The invoice was paid via BACS transfer on 9 October 2008; this was the same BACS transfer as the payment for the invoice looked at in Appendix A.

3. Recommendations

- 3.1 The re-order levels and re-order quantities for stock items should be reviewed periodically to ensure they are still appropriate and to reduce the risk of a stock out or holding excessive stocks of an item. This recommendation was responded to in internal audit report FRS/1001 and we are informed these issues will be resolved by the introduction of a new financial system.
- 3.2 There should be a comparison of prices carried out, at least once per year, to ensure that best value is being achieved.

3 Response of the Chief Fire Officer

- 3.4 As the recommendation states, the issue of stock and re-order levels is being considered as part of the new finance project which is anticipated to go live in the summer of 2010.
- 3.5 In a large stores operation it is acknowledged that annual validation of prices would be ideal. However with a small staff and over 1,100 product lines it is difficult to achieve this. What is suggested is that wherever possible contracts should be put in place, with these being reviewed as they come to an end. Other lines can be checked periodically using some sort of Pareto analysis but with all lines checked at least every three years. and other lines checked on a rotational basis such that
-

Invoice 3 **Supply of Water, Sewerage and surface water drainage**

1. Invoice Information

- 1.1 The supplier is Severn Trent Water (STW) plc, invoice number 13675, dated 25 February 2009. There is no purchase order reference.
- 1.2 The invoice is for 'Water Supply, Sewerage and Surface Water Drainage' for the period 1 April 2009 to 31 March 2010 supplied to the Clifton Community Safety Centre. A notice of court action dated 14 May 2009 was sent to NFRS because the bill had not been paid at that time. The bill has subsequently been paid.

2. Summary of Findings

- 2.1 No requisition or purchase order was raised for this invoice as it is a utilities bill and doesn't require either under Financial Regulation 11.2.
- 2.2 The invoice was stamped as received at NFRS HQ on 4 March 2009 and was logged on the financial system on 19 May 2009. There was no explanation given as to why it took so long for the invoice to be logged on the financial system or where the invoice was between its arrival at NFRS HQ and being logged onto the financial system.
- 2.3 The invoice was for a total of £2,062.56 with an option to pay in two instalments:- £1,031.29 by 1 April 2009 and £1,031.27 by 1 October 2009. When the notice of court action was received, the invoice was paid in full.
- 2.4 The invoice was authorised on 20 May 2009 by a member of the Finance Department and the cost was within their authorisation limits. Payment was made by BACS on 26 May 2009 as part of a larger payment to STW. The BACS paperwork was checked and signed by three members of the Finance Department as required.
- 2.5 The charges raised by STW were based on the rateable value of the property. However, because the premises are classed as a non-domestic, the STW terms of supply indicate the charge for water supply and used water services should be based upon the actual usage recorded by a water meter. In addition, the surface water drainage charge should be based on the site area of the premises, rather than the rateable value.
- 2.6 We located a water meter installed at the boundary of the property which indicated that water usage is being recorded.
- 2.7 Comparison of the current water charges based on rateable value with our estimated charges based on a metered supply indicates a potential saving of £1,700 per year for this property.

Appendix C (continued)

- 2.8 We contacted STW regarding the meter at the property and the issue of charges being levied based on rateable value. We met a STW inspector at the premises on 21 January 2010 who confirmed the meter did supply the premises.
- 2.9 The inspector also indicated that the premises will be classed as a 'Community Centre'. He also confirmed that water service charges based on the rateable value of the property will be cancelled and recharged based on estimated consumption. The estimate will be calculated by taking two meter readings at least two weeks apart and the consumption recorded used to assess the water consumption since NFRS became responsible for the premises. He also suggested there was a slight leakage on the supply which he advised should be repaired before they returned to take meter readings. We estimate that the change to charging based on metered consumption should result in a refund of approximately £4,600 for the period from 17 November 2006 to 31 March 2010. If STW accept that the property is a 'Community Centre', the refund will be increased to approximately £5,500.
- 2.10 We also identified that NFRS had been over charged for water service charges because STW had assumed the date of occupation of the premises to be 7 April 2006 whereas it was actually 17 November 2006. STW have been contacted and this has already resulted in a credit of £1,069.08.

3. Recommendations

- 3.1 Invoices should be logged on Kypera when they are received and the option to pay water bills in instalments should be taken up.
- 3.2 The NFRS Estates Officer should arrange for the internal water supply and fittings at Clifton Community Centre to be checked for leakage. Any defects found should be repaired. Once this has been completed, STW should be contacted to make arrangements for two meter readings to be taken at a fortnight's interval so that the assessment of water usage can be made since NFRS became responsible for the premises.
- 3.3 NFRS should progress the re-calculation of water service charges with STW to ensure a prompt refund of the amounts over-charged by STW and paid by NFRS.
- 3.4 Arrangements should be made to read the meter and record water consumption every month. This will help to identify any abnormal consumption, e.g. leakage, at an early stage as the meter will only be read half yearly by Severn Trent Water.
- 3.5 The water charges at other NFRS premises should be checked to ensure the correct tariffs are being applied.

4. Response of the Chief Fire Officer

- 4.1 These recommendations are agreed in full. Internal Audit have been asked to assist with the 5th recommendation as they have particular skills in this area. This work has been programmed in as part of their activity for 2010/2011.