

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Head of Finance
C.C. Chief Executive
Deputy Chief Executive (AJ)
Exchequer Manager
Finance Administration
Manager
Portfolio Holder (Cllr Whiting)

SUBJECT: Payment of Creditors
DATE: 31 December 2018

1 Introduction

- 1.1 In accordance with the Audit Plan for 2018/19, an examination of the above subject area has been completed and this report presents the findings and conclusions for information and action where applicable. This topic was last audited in June 2015.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated where appropriate, in the below report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 The 'TOTAL' financial system is used to process the creditors transactions, from the ordering of goods and services through to the payment of the receipted invoices.
- 2.2 For the period 1 April to 30 September 2018, the overall amount processed totalled £44.5m. For the same period last year, the total amount processed to payment was £39.6m.

3 Scope and Objectives of the Audit

- 3.1 This audit covered the CIPFA matrices for the payment of creditors. Detailed testing was performed to confirm that controls identified have operated, with documentary evidence being obtained where possible, although some reliance has had to be placed on discussions with relevant staff.
- 3.2 The expected controls for these matrices are categorised into the following main headings:
- Payment of Creditors:
- (1) General
 - (2) Ordering
 - (3) Receipt of orders
 - (4) Invoice checks

- (5) Payments
- (6) Cheque controls
- (7) Management information

3.3 Some specific tests were not performed as they were either considered not relevant to the operations of the Council or are covered under separate audits. The scope did not include purchasing cards / credit cards, the provision of assurance that the expenditure was necessary, or that value for money was achieved from expenditure committed.

4 Findings

4.1 Recommendations from Previous Reports

4.1.1 The previous audit, reported in June 2015, gave Substantial assurance. The current position in respect of the recommendations from the audit was also reviewed. The current position is as follows:

	Recommendation	Management Response	Current Status
1	The Creditors manual should be updated to include sufficient detail relating to the process in place for goods and service receipting and the creditor reports available to the Financial Services staff, in order to assist with the managing of the creditor function and to document the complete creditor control environment.	The creditor’s manual is an FS Team procedure manual, the FS Team do not receive goods and therefore there is no need for a goods and receipting process. The manual isn’t a corporate document; it details tasks that are only relevant to the FS Team. However, the manual will be added to in respect of reports and in particular the year-end Orders process. Following the audit this has been discussed and agreed with the Senior Internal Auditor.	It was confirmed by the Finance Admin Manager (FAM) and evidenced upon review that this has been actioned. A new Creditors manual has been developed and is being updated to reflect desk-top procedures and guidance. It is viewed as an evolving document.
2	An invoice grid stamp should be forwarded to the Royal Spa Centre.	Recommendation implemented following review.	Following implementation of the auto matching process, within TOTAL, the recommendation has been superseded and is no longer relevant.

4.2 General

4.2.1 The Code of Financial Practice provides clear high-level details of the processes for purchase ordering, receipting and payment for goods and services within the Council, as well as reference to the roles, responsibilities and policies for the creditor payment function.

- 4.2.2 The Council uses an online system known as TOTAL for raising purchase orders, approving them and 'receipting' goods and services. Users of TOTAL are assigned profiles and access rights in accordance with their job role and the expenditure limits list. Access to TOTAL is username restricted and password protected.
- 4.2.3 Daily operational responsibility is assigned to the FAM who is supported by a Senior Finance Administration Officer (SFAO), three administrative officers and an apprentice who started with the team in September 2018 for an eighteen-month period.
- 4.2.4 A Financial Services Team Instruction Manual for processing creditor transactions has been developed. This is continuing to evolve into a comprehensive document with detailed procedural guidance. The manual is reflective of the documents, processes and controls that need to be undertaken to complete the creditor transaction cycle. At the time of the review the SFAO was in the process of updating this.
- 4.2.5 The Council's intranet provides additional guidance in respect of placing orders, creditor invoices and creditor requests along with contact details for the FS Team, quick links and access to documentation for requesting the setting up of a new creditor.

4.3 **Ordering & Receipt of Orders**

- 4.3.1 The FS Team operates a 'No Purchase Order, No Pay' policy. A purchase order must be created on TOTAL and in order to do this, the user must have appropriate access rights on the system. New users are required to be authorised by their line manager and undergo one-to-one training with a member of the FS Team. On completion, an Access to Total form must be completed and passed to the Systems Administrator.
- 4.3.2 The privileges for all users are listed in TOTAL and these are also documented in an annual review monitoring spreadsheet held by the FAM and the Systems Administrator (SA).
- 4.3.3 Once a purchase order has been created this is sent to the contractor / supplier with the requirement that the order number is quoted on the invoice in order for them to receive payment.
- 4.3.4 To ensure that separation of duties are maintained, an annual review is undertaken by the FAM and the SA of all TOTAL users against their access levels. Email communication from September 2017 and 2018 was provided to evidence the reviews undertaken. Each service area is requested to review their area of responsibility and confirm that everything is correct and that access should remain or, alternatively, highlight anything that is incorrect and the changes that are required.
- 4.3.5 A sample of invoices was chosen (see 4.4.2 below) and traced back to the associated orders to ensure that they had been processed in accordance with the relevant sections of the Code of Financial Practice (i.e. controls

pertaining to separation of duties for creating and authorising the order within assigned limits are in place).

- 4.3.6 The orders were also checked to ensure that goods, were consistent with the orders raised and had been appropriately receipted. The testing confirmed that the processes were operating satisfactorily.

4.4 **Invoice Checks**

- 4.4.1 Invoices received through the post or via email are scanned prior to being paid. As part of the auto-matching process on TOTAL, invoices are checked to ensure that they are consistent with delivered orders, they have not been previously paid, are arithmetically correct, and contain appropriate VAT details. Invoices are matched to purchase orders twice a day, at 1pm and 7pm. Where an invoice cannot be matched to a purchase order (e.g. the purchase order has not been delivered or the amounts do not agree) an alert is sent to the service user to resolve and resubmit.
- 4.4.2 Testing was undertaken on a random sample of five invoices where the payment was in excess of £500,000 and a further twenty invoices to ensure that the automated process had operated as expected, the invoice cleared for payment and the payment agreed to the BACS payment listing and related authorisation controls.
- 4.4.3 Testing was also undertaken on a sample of ten payments undertaken where there was no purchase order (i.e. where valuation payments were being made in relation to Housing Services or Asset Management works). In these instances, the orders are placed and the checks are undertaken on Active H by either the Housing or Assets teams, with the relevant details being imported into a folder on TOTAL to allow the invoice to be paid.
- 4.4.4 These are transferred via the MS Interface live for payment and passed to the FAM or the SFAO to authorise. It was noted that in all cases the supplier was VAT registered; a valuation certificate had been submitted; the valuation certificate / invoice was approved in accordance with delegated limits; appropriate segregation of duties were in place; and two Accountancy signatories had signed where the payment was greater than £50,000.
- 4.4.5 As a means of improving and maintaining quality the FS Team perform a one in ten creditor invoice check after processing. They also maintain an invoice checking spreadsheet which notes the issues and errors found along with the actions taken to resolve them (including the subsequent clearance for payment). The maintenance of the spreadsheet is considered to be good practice.

4.5 **Payment of Invoices**

- 4.5.1 Payments relating to creditor invoices are made on a twice-weekly basis; on a Monday and Wednesday.

4.5.2 As part of the audit, time was allocated to observe and undertake a walkthrough of a Monday payment run (22 October 2018) with a member of the FS Team. The 'Checklist for Creditors Payment Run' was used as the basis of the observation which includes the processing of all payments; a review of controls pertaining to safe keeping of cheques by the Corporate Support Team; the requisitioning, printing, and callout of cheques; and reconciliation by FS Team staff. This process was found to be well managed with appropriate separation of duties in place with no concerns being identified.

4.5.3 In one case during the payment run a credit note for £564.97 was raised and matched correctly against the invoice. It was noted that the same controls were applied by staff for the input of the credit as for the invoices. Once these checks have been performed, the credit note is referred to the FAM or SFAO for checking, manual authorisation, and update on the system.

4.6 **Control of Cheques**

4.6.1 The creditor manual outlines the procedures and controls for creditors to be paid by cheque as part of the weekly payment runs. Well defined segregation of duty controls continue to operate for the printing, issue and call-out / reconciliation of cheque payments. This was observed during the payment run.

4.6.2 It was observed that the stock of unused cheques is kept in a safe with restricted access and is remote from publicly accessible areas. Effective handover procedures operate in relation to the transfer of cheques between staff and transfer between teams. No concerns have been identified.

4.7 **Signatories & Bank Mandate**

4.7.1 Although outside the responsibilities of the FS Team, a review of the Council's bank mandate was undertaken to ensure that only main authorised signatories were included. It was noted that the Assistant Accountant (Capital & Treasury) had requested HSBC (the Council's bankers) to amend and update the bank mandate in June 2018 to reflect changes that had occurred within Accountancy.

4.7.2 At the time of the audit and based on the copy bank mandate received, it was identified that the bank had not taken timely action as previously requested. Following discussion with the Assistant Accountant (Capital & Treasury) and observations made, a number of actions were undertaken to resolve the anomalies such that the Principal Accountant (Revenues) has now been added to the mandate as appropriate.

4.7.3 To further strengthen control, the FAM has stated that the FS Team have been advised that they should not approach new delegated officers until the FS Team have been provided with a copy of the updated list to evidence. Further, the FAM has agreed and introduced an internal process for delegating authority to a pool of staff who can check and authorise

payments that are above £50,000. It is envisaged that this will be via email on a trial basis utilising the 'jabber' facility to view staff availability.

4.8 Supplier Set-Up & Amendment

- 4.8.1 All requests to set up a new supplier or amend details pertaining to an existing supplier are channelled through an intranet request form to the FS Team to action and must be supported with evidence, principally, bank account details and method of payment.
- 4.8.2 As name changes to an existing supplier are not permitted, a new supplier is created. With respect to change of bank account details, FS Team staff will contact the supplier and ascertain that an amendment has been requested and confirm that the details are correct.
- 4.8.3 A report of supplier amendments was generated by the SFAO for the period April to October 2018. A random sample of 20 amendments were selected and reviewed. Testing confirmed that all amendments to permanent information were valid and authorised and supporting notes had been added in TOTAL.

4.9 Management Information

- 4.9.1 On a monthly basis, management information is produced by the FAM of orders raised compared to invoice dates,. The data is tabled and 'RAG rated' to highlight orders raised correctly; raised on the same date as the invoice; or raised retrospectively i.e. after the invoice date. This detail is provided to SMT for reporting and monitoring compliance.
- 4.9.2 A review of the report for August 2018 was undertaken, which identified that of the 3165 invoices raised, 2706 invoices had been raised correctly (85%). The FAM stated that the aim is to continually improve this percentage although he recognises that there may be occasions where non-compliance could be completely legitimate (e.g. urgent situations or companies that invoice at the time an order is received).
- 4.9.3 On a quarterly basis and as part of the year end process, the FAM requests that all budget managers and teams should be reviewing outstanding orders reports for both 'undelivered' and 'delivered but not yet invoiced' orders. Reports are issued and budget managers and / or team members who create the orders are requested to review the reports and take action as appropriate in order to maintain the quality of the system records, to aid budget management and to help ensure the year-end processes can be completed quickly and easily. Guidance was provided by the FAM of how to close orders and the due date for accurately reporting the Council's end-of-year accounts.

5 Conclusions

- 5.1 Following our review we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for the Payment of Creditors are appropriate and are working effectively.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

6 **Management Action**

6.1 No recommendations were found to be necessary on this occasion.

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