



Internal Audit Report

CDC Creditors

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Distribution:

Name	Job Title
Paul Shevlin (Final only)	Chief Executive
Nicola Chick	Strategic Manager Financial Services (S151 officer)
Claire Hudson	VFM and improvement Manager

1 Background

- 1.1 This audit is being undertaken as part of the 2014/15 audit plan. As agreed with the Strategic Manager – Financial Services, this is an interim audit to focus is on the control weakness identified in the 2013/14 audit and the actions taken by the service to address those weaknesses. Creditors is one of the authority’s major financial systems and as such is audited annually.
- 1.2 The creditors function is responsible for the distribution and the payment of invoices for the authority. Other duties include monitoring of invoice and authorisation statuses to ensure that invoices are correctly authorised and that invoices are paid within local targets. The Creditors section is also responsible for the creation and amendment of supplier details.
- 1.3 In November 2011, Craven District Council implemented an upgrade of the Creditors module on Agresso to improve the efficiency and effectiveness of the Creditors process. Staff can now order and pay for goods and services directly through Agresso, while orders and invoices can be automatically completed online, reducing the need for manual signatures and manual input of invoice details. Invoices are scanned directly into Agresso so that budget holders are able to view invoice details prior to payment.
- 1.4 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

2 Audit Details

2.1 The following testing was undertaken:

KCO	Recommendation	Original Implementation Date	Actual Date	Findings	Conclusion
To ensure that there are consistent and formally documented creditors procedures in place that comply with legislation and the council's Financial Procedure Rules, and measures are in place to detect and prevent fraud.	Financial procedure rules should be updated as necessary.	February 2015	Sept 2014	<p>The Financial Procedure Rules (FPR) were updated in September 2014 and included changes relating to the removal of the requirement for the use of payment certificates and the alteration of counter signature authorisation levels from £20'000 to £50'000: working practises and the FPR are now in alignment. Although the updated rules have been approved by the Audit and Governance Committee there is no evidence to show that policy was distributed to staff or staff were made aware that the policy had been updated. The 'old intranet' folder only contained the previous version of the policy and such is therefore unavailable to all staff. These were the findings at the time of the audit however we have been instructed that they have now been added to the intranet document folder.</p> <p>Management Comments: The financial Procedure Rules have now been posted to the Intranet Document Folder And were available to staff via the committee meeting documents. The Updates were minor and largely changes to job titles etc. therefore it was not considered necessary to circulate wider on a formal basis.</p>	<p>Partially met</p> <p>Recommendation To ensure the current Financial Procedure Rules are available to staff. This will be reviewed in the 2015/16 audit</p>

<p>To ensure that segregation of duties exists between ordering and payment</p>	<p>Manual distribution should be avoided where possible; however in those instances where it is unavoidable, care should be taken to ensure that it does not go back to the original requisitioner.</p> <p>The workflow log and the workflow map should agree</p> <p>Investigate workflow stages to ensure that the outcome for the task action (i.e. where the workflow map shows the last step to be abort, the action does not show approve, as testing found it currently does)</p> <p>Where a requisition requires amendment this workflow needs to be reviewed and amended to include an authorisation stage.</p>	<p>February 2015</p>	<p>Testing identified 39 occasions out of 1039 transactions where the Requisitioner was also the authoriser. This breaches the Council's Financial Procedure Rules and therefore further testing was undertaken on a sample of 5 to determine whether there was a weakness in the authorisation controls.</p> <p>Testing found:</p> <ul style="list-style-type: none"> • One requisition in the sample related to the depot which is covered under separate arrangements that have been agreed by internal audit in the past. (6 out of the 39 occasions found related to the depot and can be discounted) • The remaining four requisitions in the sample, numbers 2002633, 2002644, 2002759 and 2002814 were rejected by the authoriser which results in the requisition being workflowed back to the Requisitioner to either close or amend. This action appears to result in the system bypassing the need for the authorisation step. This represents an incomplete workflow set up or an incomplete audit trail. <p>Evidence from the log book and the map of a transaction show differing versions of events, the map states that the requisitions last action was abort and not authorised, whilst the logbook states that the requisition was approved by the Requisitioner and the authoriser and then progressed into a purchase order being created. This indicates that the error could be in the display of workflow event. Segregation of duties is a key</p>	<p>Not met</p>
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				<p>control of any system and needs to be in place to prevent fraud and error becoming embedded in the system.</p> <p>Management Comment Consider this to be low risk given low error rate. Some investigation has been undertaken to try and pin point problems more clearly and we are aware of the specific occurrence on 1 workflow. Further action not yet taken due to other priorities, as investigation and problem solving will prove time consuming. The system is to be upgraded in within the next six months and all workflows will be reviewed as a matter of course in preparation for the upgrade.</p>	
<p>To ensure that there is an efficient and robust process in place to ensure payments are accurate and authorised by appropriate officers.</p>	<p>Whilst the level of duplicate payments is low (0.9%) staff need to be vigilant when making payments to suppliers and should ensure that the supplier on Agresso and the orders always matches to the supplier details on the invoice</p>	<p>February 2015</p>	<p>Feb 2015</p>	<p>Only 2 instances out of 3793 transactions tested were found to have been paid twice in error, but both of these had been identified and corrected.</p>	<p>Met</p>

<p>To ensure that system data is accurate and reasonable.</p>	<p>The Section 151 Officer needs to review those currently granted system administration access and reduce this to a more reasonable number, thus protecting the integrity of Agresso</p>	<p>February 2015</p>		<p>Systems admin logins have been reduced from 10 to 8. The generic audit login has been confirmed as read only. Internal Audit considers 8 system administrators still to be too high and we have seen evidence that best practise is approximately 1 administrator per 60 employees. Taking the current workforce of around 300 employees this would equate to 5 system administrators. Management Comment We consider this met. Whilst it may be possible to put further restrictions on access for 3 members of the Finance team, it is not considered cost effective/ priority for the systems administrator to look into doing this. Low risk. Will be looked at as a matter of course as part of the upgrade preparation.</p>	<p>Partially Met. Duplicates and leavers 'have reduced the list however there is still scope to reduce this to appropriate users only.</p>
<p>To ensure that suppliers are being paid on time</p>	<p>Amend the performance statistics so that calculation takes in to account the receipt date and not the invoice date when determining whether the payments exceeds the EU 30 day rule.</p>	<p>February 2015</p>		<p>The VFM and Improvement Manager is now including late payment indicator from receipt date in the performance report in addition to the performance against invoice date indicator.</p>	<p>Met</p>

	<p>All invoices should be addressed to the Finance section in Belle View Square. Utility bills are by their nature less risky and more complex as such these can be omitted from the recommendation initially to review separately as they may require an alternative solution. Original invoices received by Finance should not be sent out to the departments for additional processing; instead a scanned image could be emailed to the relevant individual along with the request for the absent info.</p>			<p>Twenty invoices were selected for testing, the results are as follows: Five were discounted, one of these was in dispute and the other four were paid by direct debit and the input is simply to update the ledger. Three were waste management depot invoices; these have an alternative arrangement in place due to the difficulties with this particular type of payment. This area is under review and for this reason they have not been reported on. 3 invoices were received by post at either the services address or at Customer services and then forwarded to the service rather than finance. The nine remaining invoices showed no explanation for the late payment and although they were all addressed to Belle View Square they did not appear to have been posted and it therefore is likely that they have been emailed to the purchaser.</p> <p>Management Comment: Agreed</p>	<p>Partially met Recommendation: Processes need to be in place to identify and rectify invoices that have come via a section and not directly from the supplier especially in cases where email invoices are used as these often have the correct postal address on but do not display the email address used. A creditors invoice email could be added to the address details on the purchase order stationery.</p> <p>Determine whether it is feasible to put in place central receipt of all invoices across the council and implement as appropriate</p>
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Any queries or requests for further information regarding this report should be directed to Internal Audit on 01423 556714

Internal Audit would like to thank the officers involved for their assistance during this audit.