

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF CREDITORS AUDIT FOR 2015-16

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REVIEW OF CREDITORS AUDIT FOR 2015-16

INTRODUCTION

1. This report sets out the results of our systems based audit of Creditors for 2015-16. The audit was carried out in quarter 4 as part of the programmed work specified in the 2015-16 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.

AUDIT SCOPE

3. The scope of the audit is detailed in the Terms of Reference and the period covered by this report is from 1 March 2015 to 31 January 2016.
4. In addition to this, we followed up the nine recommendations made in the 2014/15 audit of creditors to confirm that those recommendations had been implemented. We found that seven of the recommendations had been implemented and two have been re-recommended below relating to authorising of invoices and reconciliation of cheque stationery.

AUDIT OPINION

5. Overall, the conclusion of this audit is that substantial assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

REVIEW OF CREDITORS AUDIT FOR 2015-16

MANAGEMENT SUMMARY

We found that controls were in place and working well in the areas of payments being charged to the correct cost centre, and authorised at an appropriate level. VAT was correctly accounted for. All invoices in our sample had been paid by the Exchequer Contractor within 30 days of receipt by them. The percentage of payments made by cheque has remained at an average of 11% since the last audit.

The ledger control account is regularly reconciled to the creditors control account and we confirmed that there is a process in place carried out by the Finance Officer to identify duplicate payments made to suppliers. We examined this process and confirmed that, where there were duplicate payments identified during the past twelve months, that appropriate action had been taken to recover those overpaid amounts.

Our sample testing showed that credit notes had been applied promptly and credited against invoices from the supplier.

6. During the audit we identified the following issues:

- Two instances were found in our sample where invoices had been paid but there was no evidence of a signed authorisation form completed by the individuals concerned. We raised this with the Exchequer Contractor and signed authorisation forms have now been obtained by them.
- We have also recommended that the process for maintaining and updating the authorised signatory list every six months as set out in the existing Service Level Agreement with the Exchequer Contractor is reinforced.
- The arrangements for processing and managing petty cash claims locally should be reviewed and guidance provided to imprest holders. We found one claim for £49.00 where the claim was recorded on the batch header but there was no individual supporting claim form and other instances where there was incomplete information recorded by claimants on the individual claim form. Our sample included different styles of claim form used and which did not all have appropriate control features such as a certifying statement that the expenditure was for official purposes.

REVIEW OF CREDITORS AUDIT FOR 2015-16

- There were ten cases out of twenty five in our iproc sample where the purchase order had been raised after the invoice had been received. Two of these relate to annual or quarterly payments for services (Contractor A and Contractor B). The remaining eight cases relate to temporary accommodation. This issue was part of the previous Priority 1 recommendation on retrospective orders detailed below.
- The latest report covering the three month period June 2016 – August 2016 shows 1,366 retrospective orders being raised and is a decrease from the quarter to May 2016 when 2,129 were raised retrospectively. 11% of the orders related to Housing which is a decrease from 28%. We are aware that since the beginning of this financial year Housing raise a purchase order for each provider for each quarter, and establish trends that occur during that quarter to raise a new purchase order for the following quarter, based upon this evidence and prior to the receipt of any of that period's invoices. Confirmation is now sent to the FIS Team of allocated but unspent money to ensure that there are no PO's with financial commitments outstanding. This was raised as a Priority 1 recommendation in the creditors audit report last year. In view of the overall decrease, but because it remains an area of concern, we have repeated it as a Priority 2 recommendation to ensure it continues to be addressed.
- Whilst the Exchequer Contractor had processed invoices within the timescale set out in the SLA agreed between London Borough of Bromley and themselves, there were seven invoices where Departments had not checked, processed and passed them to the Exchequer Contractor for payment within 30 days. Five of these related to temporary accommodation. We are aware that for two of those invoices payment was delayed due to concerns raised with the supplier and satisfactory explanations were received from Housing for the late payment of the other three invoices. One invoice was for the quarterly payment to NAFN already referred to and where we evidenced an email from Trading Standards to the Exchequer Contractor stating that the invoice had been mislaid. For the heating and air conditioning maintenance works invoice we contacted the officer who had authorised the invoice and he informed us that authorisation had been delayed due to IT problems.
- There were seven instances where no formal contract, agreement or quotations for expenditure incurred could be found. Six of these relate to temporary accommodation where we were informed that a new contract/agreement with suppliers was due to be introduced. The other instance relates to a 'No recourse to public funds' case which will be addressed during our audit of that area.

REVIEW OF CREDITORS AUDIT FOR 2015-16

- There was one case in our sample of payments where a purchase order could not be found and where we considered it should have been raised. This will be addressed with the relevant Head of Service outside of this audit report.
7. Due to time constraints we did not carry out testing in the areas of cheque control or the set up and amendment of supplier details. We will include those areas as a priority in our 2016/17 audit of creditors to be carried out in the final quarter of this financial year.

SIGNIFICANT FINDINGS (PRIORITY 1)

8. There were no significant new findings. The Priority 1 recommendation in respect of raising retrospective orders and made during the audit last year, has been re-recommended as a Priority 2 recommendation because the level of retrospective purchase orders has decreased overall but should continue to be addressed.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

9. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

10. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>There were ten cases in our iproc sample of 25 where the purchase order had been raised after the invoice had been received. Two of these related to annual or quarterly payments for services (Contractor A and Contractor B). The remaining eight cases related to temporary accommodation.</p> <p>The latest report covering the three month period June 2016 – August 2016 shows 1,366 retrospective orders being raised and is a decrease from the quarter to May 2016 when 2,129 were raised retrospectively. 11% of the orders related to Housing which is a decrease from 28%. We are aware that since the beginning of this financial year Housing raise a purchase order for each provider for each quarter, and establish trends that occur during that quarter to raise a new purchase order for the following quarter, based upon this evidence and prior to the receipt of any of that period’s invoices. Confirmation is now sent to the FIS Team of allocated but unspent money to ensure that there are no PO’s with financial commitments outstanding.</p>	<p>If orders are not raised commitments will not be reflected in the budget monitoring report. The risk of purchasing unnecessary goods/services is increased where order authorisations controls are bypassed.</p>	<p>Ensure that the issue of iproc orders raised after the invoices have been received is raised with CLT who should take this forward.</p> <p>[Priority 2*]</p> <p>(This was raised as a Priority 1 recommendation in the creditors audit report last year. In view of the overall decrease, but because it remains an area of concern, we have repeated it as a Priority 2 recommendation to ensure it continues to be addressed.)</p>

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
2	<p>We provided the Exchequer Contractor with a list of officers who had authorised invoices from our sample. We were provided with images of their signatures and informed that there are two officers on our list for whom they did not have authorised signatories Those officers have now completed the appropriate form.</p> <p>Separately, the Accounts Payable SLA states on page 9 that the Service Provider will 'Maintain and update the Authorised Signatory List every 6 months by requesting up to date information from the Council service departments and informing the Council Contract Monitoring Officer of all customers who do not respond.' We understand that in this case it is the Head of Exchequer Services.</p>	<p>Invoices may be paid without correct authority and expenditure incurred which should not have been.</p>	<p>Invoices which have not been authorised by an authorised signatory are not paid but referred to the Head of Exchequer Services.</p> <p>The procedure whereby the Service Provider will 'Maintain and update the Authorised Signatory List every 6 months is adhered to.</p> <p>[Priority 2]</p>
3	<p>We checked a sample of ten individual petty cash claims totalling £293.49 for authorisation, arithmetical accuracy and documentation to support the claim.</p> <p>We found the following :-</p> <p>- one claim for £49.00 was recorded on the covering</p>	<p>Risk of misappropriation of expenditure and/or incomplete and inaccurate accounting records and information recorded on claim forms.</p>	<p>Review the arrangements which should be in place locally for processing and managing petty cash claims and the guidance provided to imprest holders to include:-</p>

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	<p>reimbursement claim but there was no supporting individual claim form. The £49.00 referred to voucher V496 but voucher V496 was actually voucher V497 showing a different total amount. We were unable therefore to verify this claim.</p> <ul style="list-style-type: none"> - different styles of claim form had been used which did not all have control features such as a printed statement certifying that the expenditure was for official purposes and complied with the Council's Financial Regulations, - the petty cash forms did not have a box for the claimant or authorising officer to print their names so it was difficult to identify who had signed and authorised individual claims, - the date when reimbursement had been received was not shown/recorded by claimant, - no VAT has been claimed for any items reimbursed including cleaning of suits, shoes and ties and hospitality (refreshments), - no specific box for VAT to be recorded separately. Where this had been claimed, it was either recorded in writing at the bottom of the form or on the covering reimbursement claim. 		<p>(i) defining the information which should be completed by claimants on the claim form, including the claiming of VAT, and</p> <p>(ii) creating a definitive style of claim form for individual claims and the reimbursement claim form with appropriate control features and which should be used by all claimants in future.</p> <p>[Priority 2]</p>

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No.	Findings	Risk	Recommendation
4	There were seven instances where no formal contract, agreement or quotations for expenditure incurred could be found. Six of these relate to temporary accommodation where we were informed that a new contract/agreement with suppliers is being introduced in the near future. The other instance relates to a 'No recourse to public funds' case which will be addressed during our audit of that area.	Preferential rates, terms and conditions may not be obtained as a contract has not been arranged with a supplier through the formal tender and quotation process.	<p>The Assistant Director, Housing Needs, should confirm if contracts are now in place for temporary accommodation providers.</p> <p>[Priority 2]</p>
5	Examination of the cheque control register found that it is updated every time cheques are used. If discrepancies are found or cheques cancelled, these will be recorded and issues resolved. The register is maintained in an electronic format and therefore there is no documented evidence of the periodic supervisory check carried out by an Independent Officer.	Blank cheque stationery could go missing and not be accounted for.	<p>An Independent Officer to the process should count and sign off a stock count of cheque stationery periodically. This should be evidenced by signing and retaining a hard copy of the spreadsheet cheque stationery balance at the time of the check.</p> <p>[Priority 3*]</p>

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	Ensure that the issue of iproc orders raised after the invoices have been received is raised with CLT who should take this forward.	2*	<p>An email was issued on 26 October 2016 to Heads of Service by the Head of Exchequer Services, attaching the latest retrospective purchase orders report which shows that, although the number has reduced, there is still a need for further improvement.</p> <p>Heads of Service have been asked to address this with their budget managers and staff who are responsible for raising the purchase orders.</p> <p>Audit Note: This will be reviewed as part of the next audit of creditors.</p>	Heads of Service and Budget Managers	Implemented

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
2	<p>Invoices which have not been authorised by an authorised signatory are not paid but referred to the Head of Exchequer Services.</p> <p>The procedure whereby the Service Provider will 'Maintain and update the Authorised Signatory List every 6 months is adhered to.</p>	2*	<p>Agreed. In future any invoices that have not been authorised by an authorised signatory will not be paid and will be referred to the Head of Exchequer Services.</p> <p>The Authorised Signatory List is updated when new information is received. The Service Level Agreement also requires the contractor to update the list annually. The next review will be carried out in January/February.</p>	<p>The Exchequer Contractor Accounts Payable Operations Manager</p> <p>The Exchequer Contractor Accounts Payable Operations Manager/LBB Officers</p>	<p>Completed</p> <p>28/2/2017</p>
3	<p>Review the arrangements which should be in place locally for processing and managing petty cash claims and the guidance provided to imprest holders to include:-</p>	2	<p>The guide to imprest, petty cash and travel warrants will be updated and will be issued to all imprest holders.</p> <p>New forms for individual claims and imprest reimbursement with</p>	<p>Head of Exchequer</p>	<p>31/01/2017</p>

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	(i) defining the information which should be completed by claimants on the claim form, including the claiming of VAT, and (ii) creating a definitive style of claim form for individual claims and the reimbursement claim form with appropriate control features and which should be used by all claimants in future.		appropriate control features will be issued along with the updated guidance.	Services/	
4	The Assistant Director, Housing Needs, should confirm if contracts are now in place for temporary accommodation providers.	2	A quote is always obtained before a placement into temporary accommodation is made and this will always be at the pan London applicable rate or lower. The new contracts have just been approved by Legal Services and meetings are now being arranged with providers for these to be signed.	Assistant Director, Housing Needs	31/1/2017

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
5	An Independent Officer to the process should count and sign off a stock count of cheque stationery periodically. This should be evidenced by signing and retaining a hard copy of the spreadsheet cheque stationery balance at the time of the check. [3*	A reconciliation of the cheque stationery will be carried out periodically and evidenced by the Head of Revenues and Benefits.	Head of Revenues and Benefits.	31/1/2017

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OPINION DEFINITIONS

APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level

Definition

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.