

**FINAL INTERNAL AUDIT REPORT**  
**CHIEF EXECUTIVE'S DEPARTMENT**

**REVIEW OF CREDITORS FOR 2017-18**

**Issued to:** Claudine Douglas-Brown, Assistant Director - Exchequer Services

**Cc:** Peter Turner, Finance Director (final report only)  
John Nightingale, Head of Revenues and Benefits (final report only)  
David Bradshaw, Head of Education, Care and Health Services Finance (final report only)

**Prepared by:** Internal Auditor (Audit contractor on behalf of LBB) and Principal Auditor

**Reviewed by:** Audit Manager (Audit contractor on behalf of LBB) and Head of Audit

**Date of Issue:** 26 October 2018

**Report No.:** CEX/02/2017/AU

## REVIEW OF CREDITORS AUDIT FOR 2017-18

### INTRODUCTION

1. This report sets out the results of our systems based audit of Creditors. The audit was started in quarter 4 as part of the programmed work specified in the 2017-18 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 original scope of the audit was outlined in the Terms of Reference issued on 26 February 2018.

### AUDIT OPINION

4. Overall, the conclusion of this audit was that limited assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

### MANAGEMENT SUMMARY

5. Controls noted to be in place and working well based on the audit work conducted included:
  - The ledger control account was reconciled to the creditors control account on a monthly basis;
  - Regular duplicate payment monitoring was taking place;
  - Appropriate goods and services received checks were being evidenced prior to payments being made;
  - Payments were being correctly coded in the accounting records; and
  - VAT payments were correctly identified.

## REVIEW OF CREDITORS AUDIT FOR 2017-18

- Invoices are paid promptly.
6. Our testing identified the following issues, which we would like to draw to management's attention:
- The set-up/amendment form required for all new set-ups/amendments made to the Creditor Masterfile did not require authorisation by a Budget Holder or other designated manager within the Business Service Area, which has requested the set up/amendment;
  - There was no regular monitoring arrangement in place to identify purchase orders (POs) raised retrospectively to invoices. For seven iproc transactions sampled, the POs were raised retrospectively;
  - The code to the safe where blank cheques were kept was not changed periodically;
  - One case, for a non-iproc payment of £230,382.91, was authorised by an officer with insufficient delegated financial authority;

### SIGNIFICANT FINDINGS (PRIORITY 1)

7. The following significant finding was identified:
- A set-up/amendment form is required for all new set-ups/amendments to the Creditors' Masterfile. Whilst section 1 of the form is completed by an officer in the business service area which requires the supplier to be set-up/amended, the form is not checked or signed off by the budget holder or other designated manager within that business service area.

### DETAILED FINDINGS / MANAGEMENT ACTION PLAN

8. 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**

9. We would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p><b><u>Set-up/Amendment Forms</u></b></p> <p>A set-up/amendment form is required for all new set - ups/amendments to the Creditors' Masterfile.</p> <p>It was identified that, whilst section 1 of the set-up/amendment form is completed by an officer in the business service area which requires the supplier to be set-up/amended, the form is not checked and signed-off as approved by the budget holder or other designated manager within that business service area.</p>	<p>Where the set-up/amendment form is not checked and authorised by a budget holder or other designated manager within that business service area, there is a risk that inappropriate set-ups/amendments to suppliers accounts are made, which could lead to fraud.</p>	<p>The Council should ensure that before the supplier set-up/amendment form is processed, it is checked and authorised by a budget holder or other designated manager within that business service area to confirm that the change is valid.</p> <p>The details of the designated manager should be made known to the Exchequer contractor to check the authorised signature before making the change accordingly.</p> <p><b>(Priority 1)</b></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><b><u>Retrospective Purchase Orders</u></b></p> <p>Testing of a sample of 10 iproc orders identified seven cases where the PO was raised retrospectively to the invoice. These were for the following cases:</p> <table border="1" data-bbox="282 571 1178 1169"> <thead> <tr> <th data-bbox="282 571 584 683">Invoice Number</th> <th data-bbox="584 571 880 683">Purchase Order Date</th> <th data-bbox="880 571 1178 683">Invoice Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="282 683 584 751">418666004APR17</td> <td data-bbox="584 683 880 751">24/04/2017</td> <td data-bbox="880 683 1178 751">04/04/2017</td> </tr> <tr> <td data-bbox="282 751 584 820">F0030259</td> <td data-bbox="584 751 880 820">07/09/2017</td> <td data-bbox="880 751 1178 820">24/08/2017</td> </tr> <tr> <td data-bbox="282 820 584 888">BAAIV000035</td> <td data-bbox="584 820 880 888">20/04/2017</td> <td data-bbox="880 820 1178 888">11/04/2017</td> </tr> <tr> <td data-bbox="282 888 584 957">67693</td> <td data-bbox="584 888 880 957">06/04/2017</td> <td data-bbox="880 888 1178 957">22/03/2017</td> </tr> <tr> <td data-bbox="282 957 584 1026">1838</td> <td data-bbox="584 957 880 1026">29/06/2017</td> <td data-bbox="880 957 1178 1026">09/05/2017</td> </tr> <tr> <td data-bbox="282 1026 584 1094">40820</td> <td data-bbox="584 1026 880 1094">19/10/2017</td> <td data-bbox="880 1026 1178 1094">30/09/2017</td> </tr> <tr> <td data-bbox="282 1094 584 1169">1457684191504</td> <td data-bbox="584 1094 880 1169">11/08/2017</td> <td data-bbox="880 1094 1178 1169">16/05/2017</td> </tr> </tbody> </table>	Invoice Number	Purchase Order Date	Invoice Date	418666004APR17	24/04/2017	04/04/2017	F0030259	07/09/2017	24/08/2017	BAAIV000035	20/04/2017	11/04/2017	67693	06/04/2017	22/03/2017	1838	29/06/2017	09/05/2017	40820	19/10/2017	30/09/2017	1457684191504	11/08/2017	16/05/2017	<p>Where POs are raised retrospectively to invoices, the authorisation requirements are being bypassed and there is a risk that inappropriate purchases are made.</p>	<p>A retrospective Purchase Orders report should be run on a periodic basis by a designated officer in Finance Directorate. The results should be provided to Directors who should enquire from the relevant officer as to why an order was raised retrospectively.</p> <p><b>(Priority 2)</b></p>
Invoice Number	Purchase Order Date	Invoice Date																									
418666004APR17	24/04/2017	04/04/2017																									
F0030259	07/09/2017	24/08/2017																									
BAAIV000035	20/04/2017	11/04/2017																									
67693	06/04/2017	22/03/2017																									
1838	29/06/2017	09/05/2017																									
40820	19/10/2017	30/09/2017																									
1457684191504	11/08/2017	16/05/2017																									

**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
	<p>This issue was raised during the previous audit of Creditors in November 2016 and a retrospective Purchase Orders report was run by the Head of Exchequer Services at the request of Internal Audit. The information was provided to Heads of Service who were asked to address the issue with their budget managers and staff who were responsible for raising the PO's.</p> <p>There is no arrangement in place for a retrospective Purchase Orders report to be run by someone in Finance Directorate on a regular basis and for the results to be reported to senior management for any action they may wish to take.</p>		
3	<p><b><u>Custody of Blank Cheques</u></b></p> <p>Blank cheques should be stored in a secure location.</p> <p>The location to the key for where the safe is stored, containing the blank cheques, is known by three staff members.</p> <p>Audit was also advised that the code to the safe is not changed on a regular basis. It is not known when the safe code was last changed/updated.</p>	<p>Where the safe code is not changed on a regular basis, there is a risk of unauthorised access to the blank cheques which could result in inappropriate spends being made.</p>	<p>The safe code should be changed on a regular basis in addition to when one of the three key staff leave the Council/job role.</p> <p><b>(Priority 2)</b></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
4	<p><b><u>Authorisation Limits for Payments</u></b></p> <p>Payments for goods and services are required to be authorised in line with the Council’s Financial Regulations.</p> <p>Testing of 10 non-iproc payments identified one case (invoice no. PGBCS000018) where a payment of £230,382.91 was authorised by the Head of Operations on behalf of the SEN Operations Manager.</p> <p>According to the authorisation limits set out in the Council’s Financial Regulations for placing orders and payments, payments between £100,000 and £249,000 should be authorised by the Assistant Director or Director.</p>	<p>Where payments are not approved according to the authorisation limits set out in the Council’s Financial Regulations, there is a risk that inappropriate or incorrect payments are processed by the Council and cannot be recovered.</p>	<p>When checks carried out by the Exchequer contractor identify invoices for payment which have not been authorised by an officer with the correct level of authority as per the Council’s Financial Regulations, the invoice should not be processed for payment.</p> <p>The information should then be referred to the Head of Exchequer Services.</p> <p><b>(Priority 2)</b></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**

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	<p>The Council should ensure that before the supplier Set-Up/Amendment Form is processed, it is checked and authorised by a Budget Holder or other designated manager within that Business Service Area to confirm that the change is valid.</p> <p>The details of the designated manager should be made known to the Exchequer contractor to check the authorised signature before making the change accordingly.</p>	1	<p>The supplier set up form and process has been revised in consultation with Internal Audit and now includes the requirement for authorisation by the budget holder or other designated manager. This will either be a manager within the business service area or within the Contracts and Commissioning team (e.g. for changes to suppliers of care services). The new form will be rolled out to all service departments by 31st October 2018.</p>	Assistant Director - Exchequer Services	31 October 2018

**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

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
2	A retrospective Purchase Orders report should be run on a periodic basis by a designated officer in Finance Directorate. The results should be provided to Directors who should enquire from the relevant officer as to why an order was raised retrospectively.	2	A retrospective Purchase Order report will be run twice a year and the results will be provided to Directors.	Interim Contract and Operations Manager (Exchequer)	31 October 2018
3	The safe code should be changed on a regular basis in addition to when one of the three key staff leave the Council/job role.	2	The safe code will be changed on a quarterly basis from now on and also when one of the three key staff leave the Council or change their job role.	Head of Revenues and Benefits	31 October 2018
4	When checks carried out by the Exchequer contractor identify invoices for payment which have not been authorised by an officer with the correct level of authority	2	The Exchequer contractor has been instructed to ensure no invoice is processed where it has not been properly authorised in accordance with Financial	The Exchequer contractor's Operations Manager/Interim Contract and	Implemented

**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**



## 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.

<b>Assurance Level</b>	<b>Definition</b>
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.