



**GEDLING**  
BOROUGH COUNCIL



# INTERNAL AUDIT

# *Report*

2005-2006

## **CREDITORS**

Key Financial System  
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June 2005

**GEDLING BOROUGH COUNCIL**  
**INTERNAL AUDIT REPORT**  
**KEY FINANCIAL SYSTEM AUDIT**  
**CREDITORS**

**C O N T E N T S**

	<b>PAGE</b>
1. Introduction	1
2. Conduct of the Audit	1
3. Executive Summary	2
Implementation Plan	3
<b>4. Current Findings and Recommendations</b>	
4.1 Introduction	6
<b>Recommendations</b> Creditors	
4.2 Ordering and receipts of goods	7
IRONGATE - on line ordering system	11
4.3 Certification and authorisation of payments	12

**APPENDIX**

A Summary Audit Matrix	
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## **1. INTRODUCTION**

- 1.1 An audit of the Creditor system has been carried out in accordance with the 2005/06 Audit Plan and the audit work undertaken as detailed in the audit planning and monitoring record.
- 1.2 The review identified and examined the current procedures, internal controls and system of processing Orders, Invoices, contract and subcontractor invoices and payments to creditors. Thereby evaluating their effectiveness in ensuring the control objectives stated below:
- Ordering and receipt of goods is done in accordance with the financial regulations of the Authority.
  - Certification and authorisation of payments are validated in accordance with financial regulations
  - The central processing section controls ensure the correct treatment of sub-contractor and contract payments.
  - The central processing section controls ensure timely and accurate payment of creditors.
- 1.3 The senior and clerical Assistants are responsible for processing invoices received from the departments to the system for payments. This includes the feeder system whereby the invoices are processed by the department. Over all the assistant account is responsible for creditor payment, authorisation and transaction records.

## **2. CONDUCT OF AUDIT**

- 2.1 The audit terms as referenced in the Matrix for Creditors and compiled for this assignment were reviewed against the expected controls of the system.
- 2.2 Discussions were held with assistant accountant, to establish the system and procedures that are established in processing invoices and subsequent payment.
- 2.3 System notes were updated and the audit conducted for inclusion in the audit file.
- 2.4 Testing was undertaken on the key controls to assess compliance with financial regulations and provide assurance that they are operating effectively. The testing reviewed the ordering procedures, the goods received procedures, invoice authorisation process, central creditor system of processing of payments, security for cheques and BACS payments and recording and reconciliation of transactions.
- 2.5 Substantive testing undertaken of sample invoices this year to ensure the validity of payment and that they were properly recorded in the system and all inputs properly authorised.

- 2.6 Review of processing of sub-contractors and contract payments was also undertaken.
- 2.7 The assistance and co-operation from staff involved in this audit assignment is acknowledged and appreciated.

### **3. EXECUTIVE SUMMARY**

- 3.1. The controls identified by this audit assignment for the Creditor system, the ordering, receipt of goods, payment of invoices, sub-contraction and contractor payments and timely payments and reconciliation with the control accounts are operating satisfactorily.
- 3.2. The areas of weaknesses identified and recommendations are made in the following areas:
- Completion of orders, goods receipts, budget monitoring by departments
  - Invoice payment authorisation by departments.
- 3.3. The Audit Commission Fraud Module check was applied and controls verified and were found to be satisfactory.
- 3.3. Audit has highlighted some control weaknesses that are considered to be of **Low to Medium** risk and included in this report together with the recommendations.

### **3.4 CONCLUSION**

The procedures and systems in place for Creditor system are adequate and compliance to financial regulation of the Authority. The implementation of recommendations identified in this report will serve to improve internal controls of this and proposed system.

### **AUDIT ASSURANCE**

As a result of the work undertaken during the audit, it is concluded that the Creditor system is well controlled and the majority of controls are satisfactory.

## ACTION PLAN

### CREDITORS

CENTRAL

<b>REC (Risk)</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>MANAGEMENT COMMENT</b>	<b>IMPLEMENTATION DATE</b>
4.2.3. <b>Med</b>	That all departments comply with financial regulation when placing orders, using official stationery, ensure budget monitoring by stating the FMS code on the copy order and recording the expenditure, recording the goods receipt and completing the invoice payment box when processing the invoice for payment.	Heads Of Service	Agreed mostly by all the departments.	Immediate
4.2.31. <b>Med</b>	That the IRONGATE contract terms agreed do not include the Authority's terms and condition. In future any such contract should incorporate Authority's terms and condition.	Head of Finance Head of Personnel & Organisational Development	Agreed	Immediate
4.2.32. <b>Med</b>	That all departments of the Authority adopt a unified procedure of ordering on line. Manual orders should <b>not</b> be used for IRONGATE, and each department should give an alphanumeric sequential reference when ordering. Delivery notes once agreed to the goods received can then be checked to the order when the invoice is received.	Head of Finance & Financial Services Manager	Agreed	Immediate
4.3.3 <b>Med</b>	That an updated authorisation list is obtained from all departments and that the list is maintained to ensure that all officers permitted and any changes to authority is notified to Creditors promptly.	Financial Services Manager	Agreed	Immediate

Departments

REC (Risk)	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT COMMENT	IMPLEMENTATION DATE
4.2.5. <b>Med</b>	That: <ul style="list-style-type: none"> <li>All delivery notes should be matched to orders and the goods received column initialled</li> <li>No blank orders should be permitted</li> <li>All verbal orders are confirmed with a completed order and stated as being confirmation orders.</li> </ul>	Head Of Legal & Democratic Services	Agreed	Immediate
4.2.7. <b>Med</b>	That orders are authorised in accordance with financial regulations and old outstanding orders are followed up to verify whether there is an outstanding commitment.	Head of Personnel & Organisational Development	Agreed	Immediate
4.2.9 <b>Low</b>	That wherever possible an account should be opened with the supplier. Where this is not possible, any payments made on a payment voucher must record the total cost i.e. no VAT will be recovered. To recover VAT a receipt or invoice should be obtained and attached to the original payment voucher and transfer VAT amount by a journal to the VAT code.	Head of Housing	Agreed	Immediate
4.2.12 <b>Low</b>	That a system to record bookings made for train tickets with a cross reference to invoices is introduced in order to comply with financial regulations.	Head of Planning & Environment	Agreed	Immediate
4.2.14 <b>Low</b>	That: <ul style="list-style-type: none"> <li>All orders are authorised by designated officers</li> <li>All old orders are reviewed to assess whether there are any ongoing commitments that need to be considered in budget monitoring.</li> </ul>	Head Of Direct Services	Agreed	Immediate
4.2.16 <b>Low</b>	That a system to record bookings made for train tickets with a cross reference to invoices is introduced in order to comply with financial regulations.	Head Of Leisure Services	Set up in conjunction with Finance [Assistant Accountant]	October 2005
4.2.18 <b>Low</b>	To write the FMS code on all orders placed, which would indicate that it has been recorded accurately on the budget-monitoring schedule, and avoid any duplication.	Head Of Leisure Services & Manager of	Agreed	18/11/2005

		Richard Herrod		
4.2.20 <b>Med</b>	That reserved expenditure relating to order number 98631 is investigated. If the order had not been placed prior to 31 <sup>st</sup> March then this could not be reserved.  Also that all committed expenditure is included in the budget monitoring schedule.	Head Of Leisure Services & Manager of Calverton	Order number 98631 not officially reserved in schedules  Agreed	Verified with Central Operations Manager  16/11/2005
4.2.22 <b>Low</b>	That orders are only authorised by the designated officers.	Head Of Leisure Services & Manager of Calverton	Agreed	16/11/2005
4.2.24 <b>Med</b>	That all orders are only authorised by the designated officers and the necessary adjustment required for the miscoding is to be carried out in consultation with accountancy so that the appropriate accounts are correctly recorded for the period.	Head Of Leisure Services & Manager of Redhill	Agreed  Accountancy notified in July 2005	Immediate
4.2.26 <b>Low</b>	That all old orders are reviewed to assess whether there are any ongoing commitments that need to be considered in budget monitoring.	Head Of Leisure Services & Manager of Redhill	Agreed Reminders e-mailed	18/11/2005