



## INTERNAL AUDIT

### FINAL REPORT

**Title: Creditors Review – Invoice Payment and Contract Payment Processes**

#### **Report Distribution**

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Contents	Page
Executive Summary	2
Introduction	4
Detailed Findings	5-13
Annex A – Audit Definitions / Responsibilities	14-15

## **EXECUTIVE SUMMARY**

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### **Introduction**

In April 2006 the Council installed a new finance system called AGRESSO, combining the general ledger and creditor and procurement modules. This has had an effect on the work processes performed by staff with legacy data being input to the new system. New system procedures were still being updated at the time of the audit.

The Creditor section of the Finance department processes invoices for payment. Departments order goods and services using requisitions, which when authorised become official purchase orders. When the goods are received or service completed a Goods Received Note (GRN) entry against the order is completed.

Invoices are received by the Creditor section and scanned in batches, one with orders and one without orders. Invoices with orders will be posted for payment if the GRN entry is completed for that order. Invoices without orders are routed electronically to the department for coding and authorisation.

In addition there are feeders from departmental systems (e.g. Housing) to process invoices and sundry payments from certain departments to creditors. Payments for utilities are processed as invoices without orders, and are authorised prior to posting.

In certain cases a payment voucher is completed to facilitate payment to a supplier or reimburse the officer. The voucher requires authorisation to confirm compliance with the authorities Financial Regulations.

The central creditors team undertake checks to ensure that only bona fide invoices are registered. Following authorisation the creditor team post the invoices for payment ensuring the supplier is correct, the due date is correct and an appropriate VAT indicator is stated. On average approximately 600 invoices per week, are processed into the creditors system. Currently approximately 40% of the invoices are processed against orders and 60% without orders.

There are two payment runs per week. The due date is determined from the invoice-received date or manually inserted when posting ensuring the inclusion of that invoice in the run. Payment is made by cheque or BACS. Cheques are dispatched in accordance with any special handling instruction; otherwise they are posted.

The purpose of the review was to provide assurance that the new creditor processing system and procedures in place are effective in providing adequate control to ensure only valid and accurate payments are processed.

## Principal Findings

	High	Medium	Low
Number of recommendations	0	3	11

The detailed findings and associated recommendations are provided in the second part of the report. The medium risk recommendations relate to:

- The duplicate payment of invoices.
- Payment amounts over £10,000.00 should be subject to additional authorisation as per the Authority's Financial Regulations.
- The BACS transition file is not protected from unauthorised amendment.

## Assurance Statement

Internal Audit can provide **limited assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

## **INTRODUCTION**

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### **Objective & Scope**

To ensure the authority pays the correct amount to the correct supplier(s) for the goods and services it has received in a timely manner and ensures that purchases are accurately and correctly account for.

The scope of the review will incorporate the Invoice and Contract payment processes and the adequacy of control arrangement with respect to the new creditor system.

Review of progress against outstanding recommendation from previous audit could not be followed up as the system had changed, therefore it was not undertaken

The key risks associated with the system objectives are:

- Failure to comply with Financial Regulations and Standing Orders of the council and current legislation
- Penalties for breach of VAT legislation.
- Unauthorised requisitions [including payment vouchers] made resulting in the risk to control budgetary expenditure.
- Incorrect and duplicate payments are made.
- Unauthorised and payments exceeding the respective limits are processed.

The control areas included within the scope of the review are:

- The invoice payments process, specifically controls to prevent duplicate payments,
- Contract payments comply with the authority's financial regulations and records maintained ensure that the payments do not exceed contract sum.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authorities objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

### **Acknowledgement**

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

## DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 1 - Invoice Payments (Duplication)</b> <b>Level of Risk – Medium</b>			
<p>A creditors transaction report (historical and open items) for the period April – July 2006 was obtained and reviewed. The following issued were identified:</p> <p>Supplier 1001320 - Cyfran Builders. Transaction 60606435 was an invoice for £8,561.00 which was processed and paid. Transaction 60607091 was a receipt for the above invoice which had been processed ready for payment. As a result of audit findings this has been prevented.</p> <p>Supplier 1002193 - Gullivers Truck Hire. Transaction 60600277 was an invoice for £940.00 which was processed and paid. Transaction 60600291 was a statement for the above and was also paid. Direct Services were notified and a credit has been received.</p> <p>Supplier 1001372 - Transco Motor Factors. Transaction numbers 50600496 and 50600879 for £282.00 were processed against the same order [20600595].</p> <p>The first invoice was processed automatically as the order matched the invoice. The second invoice against the same order, but with a different supplier invoice number, was processed and authorised by the Business Support Manager. Direct Services have been notified and a refund has been requested.</p>	<p>Failure to prevent duplicate payments being processed.</p>	<p>A full review of the creditor process should be undertaken to ensure duplicate payments are prevented.</p> <p>Consideration should be given to introducing a duplicate payments process and reporting channel.</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> -Duplicate invoice number parameter activated in system. -Duplicate payment report written by Integra (consultants).</p> <p><b>Timescale:</b> Completed.</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 2 – Invoice Payments (Overpayment)</b> <b>Level of Risk – Low</b>			
<p>A creditors transaction report (historical and open items) for the period April – July 2006 was obtained and reviewed to identify any overpayments payments. The following issue was identified:</p> <p>Supplier 1000580 Orange.</p> <p>Transaction 60604429 was an invoice for £3,659.70, which included a brought forward balance of £2,152.97. The whole amount was paid. The Assistant Accountant discovered this overpayment and recovery against subsequent invoices is underway.</p>	<p>Failure to prevent overpayments being processed.</p>	<p>A review of the creditor process should be undertaken to ensure that invoice amounts do not include any brought forward balances.</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> Staff reminded only to input this month's amount.</p> <p><b>Timescale:</b> Completed.</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 3 – Payment Vouchers (VAT)</b> <b>Level of Risk – Low</b>			
<p>Payment Vouchers are used for transactions where an invoice would not be received e.g. subscription.</p> <p>A sample of 25 Payment Vouchers were obtained and reviewed. It was revealed that VAT was claimed on 16 vouchers without a receipt or invoice being attached. Respective departments may hold the invoice/receipt.</p>	<p>Failure to comply with VAT legislation.</p>	<p>Where VAT is recovered the VAT invoice / receipt must be attached to the associated payment voucher otherwise VAT should not be separated.</p> <p><b>Action: Mark Kimberley – Head of Finance</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> A paper will be presented to SMT as a reminder of the correct process.</p> <p><b>Timescale:</b> 31/01/07</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 4 – Payment Vouchers (BACS Transmission)</b> <b>Level of Risk – Low</b>			
A payment voucher is created by the creditor section for a rejected / failed BACS transmission. This is not referenced to the particular BACS payment. The payment voucher is scanned and authorised, which is not necessary and may lead to duplication of the payment.	Failure to prevent duplicate BACS payments.	<p>The practice of scanning and authorising rejected / failed BACS transmissions should cease.</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> This practice has ceased.</p> <p><b>Timescale:</b> Completed</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 5 – Payment Vouchers (Validation Checks)</b> <b>Level of Risk – Low</b>			
<p>When examining transactions on the system it is not possible to determine whether the transaction is an invoice or payment voucher without viewing the scanned image.</p> <p>This may lead to both invoices and payment vouchers being processed resulting in duplicate payments.</p>	Failure to prevent duplicate payments.	<p>Payment vouchers should only be used in exceptional circumstances. Control checks should be carried out to ensure that an invoice has not previously been paid with respect to payment vouchers.</p> <p><b>Action: Mark Kimberley – Head of Finance</b></p>	<p><b>Management Comment:</b> Action agreed</p> <p><b>Planned Corrective Action:</b> A paper will be presented to SMT as a reminder to management to check the status of transactions prior to authorisation.</p> <p><b>Timescale:</b> 31/01/07</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 6 – Payment Vouchers (Authorisation)</b> <b>Level of Risk – Low</b>			
Payment vouchers raised do not always indicate the reason for raising the payment voucher, and in some instances the boxes are not initialled to indicate compliance with financial regulations.	The use of Payment Vouchers is not minimised.	Payment vouchers should be subject to adequate authorisation and clearly state the reason for raising it.  <b>Action: Mark Kimberley – Head of Finance</b>	<b>Management Comment:</b> Action agreed  <b>Planned Corrective Action:</b> A paper will be presented to SMT as a reminder of the correct process.  <b>Timescale:</b> 31/01/07

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 7 – Authorisation Procedures</b> <b>Level of Risk – Medium</b>			
The process of authorisation is governed by the structure set up on the system Payment amounts over £10,000.00 should be subject to additional authorisation as per the Authority's Financial Regulations. Whilst cheque payments over £10,000.00 are countersigned, the BACS payments over £10,000.00 are not.	Failure to comply with Financial regulations.	Amounts over £10,000.00 should be subject to additional authorisation as per the Authority's Financial Regulations.  <b>Action: Nicola Gascoigne – Principal Accountant</b>	<b>Management Comment:</b> Action agreed.  <b>Planned Corrective Action:</b> BACS over £10k report has been written and is now part of payment process.  <b>Timescale:</b> Completed



Observation	Risks	Recommendation	Management's Response
<b>Recommendation 8 – Authorisation Procedures</b> <b>Level of Risk – Low</b>			
<p>The process of authorisation is governed by the structure set up on the system. If an order is authorised then no further authorisation is required when the invoice is processed against that order. Where an invoice is received without an order and /or a payment voucher is raised this is forwarded for authorisation in accordance with the system authorisation structure.</p> <p>The system work flow diagram provides evidence of authorisation. For invoices with orders, the order authorisation is through AGRESSO Logistic, whilst those without orders it is through AGRESSO Financial – creditors.</p> <p>The system authorisation structure implemented is for the goods value only and adequate and appropriate.</p> <p>The following issue was identified:</p> <ul style="list-style-type: none"> <li>• In certain circumstances the officers authorising the requisition are not the same for invoice authorisation causing conflict and resulting in duplication.</li> </ul>	<p>There is a possibility that authorisation could be carried out by another officer without the knowledge of the designated officer.</p>	<p>To stipulate within the Financial Regulations and the index of authority list that the amounts and limits indicated are values exclusive of VAT.</p> <p><b>Action: Mark Kimberley – Head of Finance</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> A paper will be presented to SMT as a reminder of the correct process.</p> <p><b>Timescale:</b> 31/01/07</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 9 – BACS Transition File</b> <b>Level of Risk – Medium</b>			
<p>The BACS payment run involves transferring the payment file from AGRESSO to PAYBASE. If there are any errors in the data [i.e. bank details] no transmission will take place.</p> <p>When this occurs the file is copied to another location and amended to ensure the transmission completes. It is possible to edit or amend any record before transmission.</p> <p>In addition the previous payment files are retained in the folder, resulting in the possibility that the file could be picked up and transmitted in error.</p>	<p>Ineffective controls over the BACS transition file resulting in potential unauthorised and invalid changes.</p>	<p>The BACS transition file should be protected (e.g. read only) to ensure that unauthorised amendments cannot be made. The folder should only contain current file.</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> IT to investigate possibilities to rectify this.</p> <p><b>Timescale:</b> 31/03/07</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 10 – Invoice Scanning</b> <b>Level of Risk – Low</b>			
<p>A walk through test of the AGRESSO system identified that it is possible to register "invoices" without a scanned image or document. Once the associated transaction number is deleted it disappears and cannot be traced.</p> <p>Within any sequence checks such documents cannot be traced. Registrations rejected can be viewed via the document status.</p>	<p>Inadequate system audit trail resulting in inability to trace documents effectively.</p>	<p>If a registered transaction is deleted then this should be logged along with the reason to maintain an effective audit trail.</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> To set up a register of deleted transactions to record this.</p> <p><b>Timescale:</b> 31/03/07</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 11 - Segregation of Duties</b> <b>Level of Risk – Low</b>			
<p>The system only confirms the identification of the officer undertaking the final aspect of the transaction.</p> <p>The system does not provide evidence of the individual responsible for the pre-payment processes of registration and posting. Therefore, adequate segregation of duties cannot be confirmed.</p>	<p>Inadequate segregation of duties within the creditor process resulting in exposure to theft or fraud.</p>	<p>Duties need to be segregated to ensure that no one person can process the whole transaction and the system should be able to provide an audit trail of this.</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Duties are currently segregated.</p> <p><b>Planned Corrective Action:</b> Inputters to be trained in posting so that the payment run is not undertaken by the person posting invoices.</p> <p><b>Timescale:</b> 31/03/07</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 12 – Procedure Notes</b> <b>Level of Risk – Low</b>			
<p>System and guidance notes are not available for the creditor section. The procedure notes for the creditor section are currently being drafted.</p>	<p>Lack of relevant procedure notes resulting in inconsistent practices and failure to adhere to the correct control procedures.</p>	<p>Procedure notes should be finalised and distributed to relevant staff as soon as practicable.</p> <p>Once complete these should be subject to periodic review (at least annually).</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> Procedure notes to be finalised.</p> <p><b>Timescale:</b> 31/03/07</p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 13 – Supplier Accounts</b> <b>Level of Risk - Low</b>			
<p>The Review of new AGRESSO creditor system revealed that there are a number of duplicate supplier accounts on the system, examples include:</p> <ul style="list-style-type: none"> <li>• Frank Webb - 1000764 and 1000772.</li> <li>• City of Nottingham - 10007106 and 1000107.</li> <li>• Orange - 1002058 and 1000580.</li> <li>• 1<sup>st</sup> Access Locksmith - 1000393 and 1000521.</li> <li>• West Midlands IRRV - 1001771 and 1003703.</li> </ul> <p>When setting up supplier accounts on the system with a BACS payment method, the system does not prompt for the sort code and account number fields to be populated. This results in errors on the payment run.</p>	<p>Inability to monitor outstanding balances for each supplier.</p> <p>Inadequate system controls allowing users to progress and update the omissions in the mandatory fields.</p>	<p>Supplier accounts should be reviewed to identify any duplicate and/or invalid (unused) suppliers. These should be suspended or deleted as appropriate.</p> <p>The system suppliers should be consulted to establish the feasibility of introducing system prompts for data entry of supplier sort codes and account numbers.</p> <p><b>Action: Nicola Gascoigne - Principal Accountant</b></p>	<p><b>Management Comment:</b> Action agreed.</p> <p><b>Planned Corrective Action:</b> -Supplier account review to be undertaken.</p> <p>-System has been amended by Integra (consultants) to prompt for account and sort code.</p> <p><b>Timescale: 31/03/07</b></p>

Observation	Risks	Recommendation	Management's Response
<b>Recommendation 14 – Reconciliations</b> <b>Level of Risk – Low</b>			
Attempts were made to reconcile the creditor system balances to the General Ledger in the first period, however, no further reconciliations have been carried out.	Failure to identify misbalances and discrepancies resulting in errors in the ledgers.	Reconciliations between the creditor system and General Ledger should be established as soon as possible and carried out on a regular basis. These should be subject to evidenced managerial review.  <b>Action: Nicola Gascoigne - Principal Accountant</b>	<b>Management Comment:</b> Action agreed.  <b>Planned Corrective Action:</b> To be built into payment process.  <b>Timescale:</b> 31/01/07