



INTERNAL AUDIT
FINAL REPORT

Title: Creditor Procedures

Report Distribution

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EXECUTIVE SUMMARY

Introduction

An audit of Creditors was undertaken as part of the approved internal audit periodic plan for 2007/08.

The Council process creditors and perform a payment run twice a week. The Council work to national and local targets of 100% and 97.5% respectively for prompt payments to creditors within 30 days of receipt of invoices. As at 31 July 2007 the Council are currently operating at 98.2% for prompt payments to creditors.

A review of Creditors has not previously been undertaken by Internal Audit, however it has been considered within a Financial Management Systems review.

Testing on the current audit reviewed reports and data from between April 2007 and August 2007. The Council have implemented a new creditors system. The AGRESSO system has been live for just over a year. There are plans for the Council to upgrade the AGRESSO creditors system around September 2008.

Principal Findings

| | High | Medium | Low |
|---------------------------|------|--------|-----|
| Number of recommendations | 0 | 0 | 8 |

The detailed findings and associated recommendations are provided in the second part of this report. There were no high/medium recommendations made.

Assurance Statement

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

INTRODUCTION

Objective & Scope

The objective of our audit was to evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The key risks associated with the system objectives are:

- Staff do not know what they are responsible for, or how they should carry out their duties, leading to non-compliance with legislation, laws or organisational policy and procedures.
- Failure to control expenditure.
- Responsibilities for creditors is not set out in job descriptions and staffing structures.
- A signatory listing is not in place to identify the authorisation levels of staff with creditor responsibility.
- Losses due to fraud or error, inefficient processing or inappropriate activity.
- There is a lack of segregation of duties.
- Ordering goods, authorising payments of invoices, inputting creditor payment details and authorising payment runs.
- Access to the creditor system is not restricted.
- Invoices are not appropriately authorised prior to payment.
- Poor decision making, due to poor quality or timeliness of information provided to management.

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

- Financial Regulations detailing responsibilities for creditors;
- Authorised signatory listing with specimen signatures;
- Contingency arrangements in the event of system failure;
- Segregation of duties;
- Access levels and protection over the creditors system.

The following limitations to the scope of the audit were agreed when planning the audit:

- We will not seek to identify fraud.

Confidential

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 |
|--|---|---|--|
| <p>Recommendation 1 - Operational Procedures Level of Risk - Low</p> | | | |
| <p>It was confirmed by the Senior Assistant Accountant that there are documented procedure notes in place although they do need up dating as there have been a number of changes made to the processes since AGRESSO was first introduced.</p> | <p>There is a risk that staff, especially any new members of staff are not fully aware of how tasks are to be performed and whether any changes have been made to the procedure notes they have been provided with to follow.</p> | <p>Finance should ensure that a formalised set of procedure notes are documented and made available to staff.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: General system procedure notes have been updated and are available to view via Excel on the authorities G-Drive.</p> <p>Planned Corrective Action: Security procedures and other 'one-off' routines are still to be updated.</p> <p>Timescale: 31st January 2008</p> |

| Observation | Risks | Recommendation | Management's Response |
|--|--|---|---|
| <p>Recommendation 2- Unutilised Creditor Accounts Level of Risk - Low</p> | | | |
| <p>It was confirmed by the Senior Assistant Accountant that a review of any unutilised supplier accounts has not been performed but was looking to be done by the end of the year.</p> | <p>There is a risk that supplier's accounts no longer being utilised are used for miscellaneous items or not for actual purchase orders.</p> | <p>The Authority should consider performing a review of unutilised supplier accounts on a periodic basis and delete/suspend them where necessary.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: Recommendation Agreed.</p> <p>Planned Corrective Action: Planned for the last quarter of 07/08.</p> <p>Timescale: 31st March 2008</p> |

| Observation | Risks | Recommendation | Management's Response |
|---|--|--|---|
| <p>Recommendation 3 - Responsibilities of Staff Level of Risk - Low</p> | | | |
| <p>It was noted that the Amendment Logging reports had not been reviewed for the past four weeks due to the Principal Accountant being off on sick leave.</p> | <p>There is a risk that new creditors and amendments to creditors are being set up without the knowledge of Senior Management.</p> | <p>The Authority should ensure that the responsibilities of staff when they are off are passed on to a relevant member of staff to take over their duties.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: Recommendation Agreed.</p> <p>Planned Corrective Action: It has been agreed that a member of Accountancy will review these reports in the absence of the Principal Accountant.</p> <p>Timescale: Immediate</p> |

| Observation | Risks | Recommendation | Management's Response |
|---|---|---|---|
| <p>Recommendation 4 - Duplicate Payments Level of Risk - Low</p> | | | |
| <p>From a discussion with the Senior Assistant Accountant it was stated that there is duplicate payment report that can be produced off the system that lists any duplicate payments or what appears to be duplicate payments. However it was also stated that this report is not reviewed due to issues with the information being collated on the report not being accurate. The Authority currently rely on the authorising officers to notice any duplicate payments that have been made.</p> | <p>There is a risk that duplicate payments may be being paid to suppliers to which monies may be lost or not known about to be recovered in a timely basis.</p> | <p>The Duplicate Payment report issues should be looked into and the report then be produced and reviewed on a weekly/fortnightly basis to ensure any duplicate payments are investigated and resolved in a timely basis.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: Recommendation Agreed.</p> <p>Planned Corrective Action: The duplicate payment report is now part of the weekly update procedures and reviewed by the Senior Assistant Accountant each week.</p> <p>Timescale: Immediate</p> |

| Observation | Risks | Recommendation | Management's Response |
|--|---|---|---|
| <p>Recommendation 5 - Deleted / Return Scanned Invoices Level of Risk - Low</p> | | | |
| <p>466 sequential transactions were reviewed from May 07 consisting of 210 non order invoices (Transaction no 60626329 to 60626539) and 256 order invoices (Transaction no 50608286 to 50608642).</p> <p>A review of the files noted that a total of 22 transactions were not on file. These were checked against the 'Deleted Invoices' spreadsheet, 15 were matched to the spreadsheet. Checks to the system also identified that no transactions had been made for those invoices.</p> <p>7 invoices could not be found, were not included on the 'Deleted Invoices' spreadsheet and no transaction made on the system.</p> | <p>There is a risk that invoices go missing without being paid or inappropriate documents have been scanned if no sequential trail is maintained.</p> | <p>All scanned invoices that have been deleted should be appropriately recorded in order to provide an audit trail.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: All deleted Invoices should be recorded on the excel control sheet as an Audit trail.</p> <p>Planned Corrective Action: Will ensure all deleted transactions are recorded onto the spreadsheet. Will also investigate the possibility of reconciling the spreadsheet each month to a list of 'missing' invoices from the Agresso' system.</p> <p>Timescale: Immediate</p> |

| Observation | Risks | Recommendation | Management's Response |
|---|--|--|--|
| <p>Recommendation 6 - BACs and Cheques Authorisation Level of Risk - Low</p> | | | |
| <p>A sample of 20 payment runs from 10 weeks between May 07 and August 07 were tested.</p> <p>17 out of 20 runs had been appropriately processed and authorised on a timely basis. The 2 payment runs for week 16 had a weeks delay from the BACs remittance confirmation report being produced and authorised. In week 9 there was only one payment run for the week.</p> <p>For 9 payment runs it was noted that there were individual payments amounting to £10k plus. These had not been reviewed or authorised.</p> <p>Individual cheque payments amounting to more than £10k had been appropriately identified and then authorised by the Head of Corporate Services for 8 payment runs. The other 12 payment run did not have any individual payments over £10k.</p> | <p>There is a risk that payments in excess of £10k are being paid without being reviewed by Senior Management for appropriateness.</p> <p>There is also a risk that any variances between the BAC's remittance confirmation and the payment run would not be picked up and investigated in a timely basis.</p> | <p>Remittance confirmation reports for both BACs and cheque payments should be appropriately reviewed and authorised on a timely basis. An exception report should be produced and appropriately authorised for individual payments over £10k.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: All payments >£10k should be authorised by the Principal Accountant prior to making payment.</p> <p>Planned Corrective Action: Integra have now corrected the >£10k Bacs report which will be passed for authorisation each week prior to submitting for payment.</p> <p>Timescale: Immediate</p> |

| Observation | Risks | Recommendation | Management's Response |
|---|---|---|--|
| <p>Recommendation 7 - Creditor Control Account Reconciliations Level of Risk - Low</p> | | | |
| <p>A control account reconciliation is produced when each payment run is performed, which is twice weekly. A review of the last 20 reconciliations produced found the following issues:</p> <ul style="list-style-type: none"> - Two reconciliations had been prepared and reviewed by the same member of staff; - One reconciliation had not been signed as being reviewed; - No reconciliations appeared to have not been produced between 26.4.07 - 31.5.07 (35 days) and 19.6.07 - 29.6.07 (10 days); - On the reconciliation dated 9.7.07 there was a difference of £71.95 to which there is no supporting documentation attached to the reconciliation to why this has occurred (this had been cleared by the next reconciliation). <p>There was a difference of £3 noted on three reconciliations (all in a row) which related to an incorrect date being entered on the system.</p> | <p>There is a risk that the process for producing and reviewing control account reconciliations is not being appropriately followed which could lead to inaccuracies not being seen and investigated in a timely basis.</p> | <p>The Authority should ensure that the creditor control account reconciliations are produced in line with their payment runs and appropriately signed by the preparer and an independent reviewer.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: Recommendation Agreed.</p> <p>Planned Corrective Action: The control account reconciliation is now part of the weekly payment run procedures. All reconciliations are carried out immediately after the system update and passed to the Senior Assistant Accountant to be reviewed.</p> <p>Timescale: Immediate</p> |

| Observation | Risks | Recommendation | Management's Response |
|---|--|---|---|
| <p>Recommendation 8 - Supplier Aged Debt Level of Risk - Low</p> | | | |
| <p>A Supplier Aged Debt report is produced on a weekly basis as part of performing the weekly Creditors General Ledger reconciliation.</p> <p>On review of the report it was noted that there was minimal debt over 30 days (Dr £4243 & Cr £918). It was also confirmed by the Senior Assistant Accountant that any supplier credit notes are only requested for payment at the year end.</p> | <p>There is a risk that the Authority may lose money owed to them if credit note payments are not requested in a timelier basis.</p> | <p>The Authority should ensure that supplier credit payments are requested in a timelier basis.</p> <p>Action: Nicola Gascoigne – Principal Accountant (Capital)</p> | <p>Management Comment: Recommendation Agreed.</p> <p>Planned Corrective Action: The aged Debt report will be reviewed each quarter.</p> <p>Timescale: December 2007 onwards</p> |

ANNEX A

Risk & Assurance – Standard DefinitionsAudit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

| Level | Category | Definition |
|-------|---------------|--|
| 1 | High | Action is essential to manage exposure to fundamental risks. |
| 2 | Medium | Action is necessary to manage exposure to significant risks. |
| 3 | Low | Action is desirable and should result in enhanced control or better value for money. |

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect the risk emanating from the controls reviewed. The categories of assurance are as follows:

| Category | Definition |
|--------------------|--|
| No | The majority of the significant risks relating to the area reviewed are not effectively managed. |
| Limited | There are one or more significant risks relating to the area reviewed that are not effectively managed. |
| Substantial | The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern. |

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Head of Finance, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Sub-Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Sub-Committee.

Any Questions?

If you have any questions about the audit report on any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Resource Services Manager on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk