

Law and Governance

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To Members of the Audit and
Governance Committee

31 January 2012
Our ref:
Your ref:

Dear Councillor

AUDIT AND GOVERNANCE COMMITTEE - MONDAY 6 FEBRUARY 2012

I attach the following report(s) which were/was not available when the main agenda was dispatched. Please bring these documents to the meeting

Agenda No Item

9. **Creditors Audit - Pricewaterhousecoopers (PWC) (Pages 1 - 26)**

The Head of Finance has submitted a report on behalf of the Council's Internal Auditors, Pricewaterhousecoopers (PWC) which details the 2011/12 report on the controls around the purchases and payables.

The Committee is asked to comment on and note the report.

Yours sincerely

Mathew Metcalfe, Democratic Services Officer
Democratic Services Officer
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Oxford City Council

Creditors

FINAL

Internal Audit Report
2011/2012
January 2012

Contents


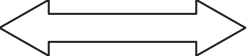
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Distribution List

For action	Pete Johnson (Revenues Manager)
For information	Nigel Kennedy (Head of Finance) Jackie Yates (Corporate Director – Finance and Efficiency) Peter Sloman (Chief Executive)

1. Executive summary

Report classification	Trend	Total number of findings					
 Medium Risk (14 points)	 Performance in this area is comparable to prior year		Critical	High	Medium	Low	Advisory
		Control design	0	0	0	0	0
		Operating effectiveness	0	0	1	0	0
		Open prior year findings	0	0	3	2	0
		Total	0	0	4	2	0

Summary of findings:

The Council has made good progress with the 12 agreed actions from last year, 7 of which have been completed. Processes for following up differences in invoice/order values have now been introduced and exception reports are now produced for the creditors function. No new control design issues were noted in year which implies that processes are improving in a way that mitigates against the risks associated with creditors.

The key points in the five remaining actions which we checked again this year are:

- Non compliance with the purchase order process. We noted a large number of issues with transactions not following procedures and documentation not evidencing checks and authorisation;
- Inconsistency of working practices. There continue to be differences in processes for authorisation, processing and matching of transactions in different departments, although a new role of revenue manager covers this area;and
- Lack of segregation of duties. We were not always able to evidence that segregations of duties had been maintained in the purchase order process. This was either because the systems used (most notably Fleetplan) do not record the initiator of the transaction or manual signing processes had not been followed.

Given these issues, the Council should ensure that systems and processes are reviewed and reiterated to departments. The use of different systems for purchasing continues to be an issue for internal control and efficiency and standardisation of processes should be considered.

2. Background and scope

Background

Oxford City Council has a centralised Creditors function which is overseen by a dedicated Revenues Manager, with day to day operations being covered by the Payment Team Leader. Responsibility for raising and authorising orders lies within individual departments, with central finance processing all payments. The total value of short term creditors in 2010/11 was £22,246k. Currently three systems are used by the Authority to raise creditors:

- Fleetplan: Direct Services fleet and stock purchases
- Servitor: Housing repairs purchases and stock
- Agresso: All other purchases

The three systems interface regularly to the Council's general ledger, and then payments are processed on. A separate review, interrogating the data from these systems using Computer Assisted Auditing Techniques (CAATs) is planned for 2011/12 and is to be reported separately.

The Council is currently planning the implementation of the Purchase to Pay (P2P) module within Agresso. This process will facilitate commitment accounting and an automated workflow for authorisation of purchase orders.

Scope and limitations of scope

Scope

We have reviewed the design and operating effectiveness of key controls in the Creditors process. Our work in this area has concentrated on the follow up of prior year issues and review of key controls identified by Internal Audit and the Audit Commission. In addition, we have enquired as to any changes in the systems and processes from prior year and documented these accordingly. The sub-processes and related control objectives included in this review are:

Sub-process	Objective
Orders	Purchase orders are authorised within delegated financial limits.
Goods receipt checks	Goods and services received are checked to ensure that prices and quantities agree to what is quoted on purchase order forms and that the quality of the goods/service meets the Council's expectations.
Invoice receipt and processing	Invoices received are matched against purchase orders and goods received notes to agree that all goods have been received and that differences are investigated on a timely basis. Invoices, once matched to purchase order and goods received notes, are authorised for payment at an appropriate level.
Changes to standing data	Changes to the creditor payment standing data are authorised. All changes to standing and permanent data are reported by the system.

Exception reporting	Monitoring reports are produced on a regular basis and are subject to evidenced review and action by management.
Reconciliation of creditor payment system to the general ledger	Reconciliations are performed regularly between the information held on the payment system and the general ledger.
Segregation of duties	Adequate segregation of duties is in place.
System access	Access to the creditor payment system processing and programme is restricted to appropriate personnel.

Limitations of Scope

The scope of our work has been limited to those areas outlined above. The scope of the review did not cover the Council's procurement process.

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3. Detailed current year findings

1. Goods receipts checks- Operating Effectiveness

Finding		
<p>It is the responsibility of individual departments to ensure that the price and quality of goods received agree to original purchase orders raised. Goods receipt checks are evidenced on a creditor payment form which is completed by the department and sent to Finance to authorise payment. For Fleetplan, goods receipts checks are documented on the system against the order. The following issues were noted when testing 30 invoices paid in year:</p> <ul style="list-style-type: none"> • 8 Agresso invoices were not supported by a creditor payment form and there was no other evidence of goods receipts checks being performed; and • Evidence of goods receipt checks were not provided to audit for 3 Fleetplan transactions. 		
Risks		
Payments may be made incorrectly if goods have not been delivered correctly.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	A notification will be issued to departments reiterate the process in relation to goods receipting. Invoices will not be processed for payment if no creditor payment form is in place.	Pete Johnson
		Target date:
		With Immediate Effect

4. Prior year findings

Authorised signatory listing - Control design

Issue Noted		
Responsibility for setting Authorised Signatories Lists (ASLs) currently rests with individual departments. We found that 9/14 lists reviewed did not specify any limits for authorisation and that there was considerable variation in the format of the ASLs. In addition, testing of 45 purchase orders and invoices paid in year highlighted that eight staff members' signatures were not able to be agreed to ASLs.		
Original agreed action		
There is no requirement to specify limits for authorisation of invoices. Finance hold a copy of all approved signatory listings centrally, and these are used to cross check with signatures on invoices. Updates will be requested from all departments on a periodic basis.		
Status update		
<p>The continue to be inconsistencies in the format of ASLs. 9/15 lists tested did not specify any limits for authorisation of purchase orders or invoices. In addition, 1/15 lists did not specify limits for purchase orders and 3/15 omitted invoices.</p> <p>In addition, testing of authorisation of a sample of 30 expenditure transactions in year identified that:</p> <ul style="list-style-type: none"> • Goods Received checks were signed by individuals not included on the ASL for 7 Agresso transactions; • In 3 cases the authoriser of the purchase order was included on the ASL, but were not permitted to authorise purchase orders; • 1 Agresso purchase order had not been authorised; and • In 2 cases where differences occurred between the value of the order and invoice, there was no documentation to validate that this difference had been followed up. These were in relation to Fleetplan purchases. <p>Open prior year issue. To be used in calculation of overall risk rating.</p>		
Action plan		
Finding rating	Revised action	Responsible person / title
Medium	A standard ASL form is to be introduced with P2P. This will also allow for an automated authorisation workflow within Agresso.	Pete Johnson
		Revised target date:
		1 st July 2012

Exception reports – Control Design

Issue Noted		
The Authority does not currently use the Agresso system to produce exception reports for the creditors function. The current Agresso system has the full capability to produce such information.		
Original agreed action		
Officers will consider a suite of exception reports to be run and monitored on a regular basis.		
Status update		
The Council has introduced a suite of exception reports.		
Action plan		
Finding rating	Revised action	Responsible person / title
Low	Issue addressed. No further action required	n/a
		Revised target date:
		n/a

Investigation of purchase order/invoice discrepancies – Control design

Issue Noted		
There is currently no set threshold for following up differences between order and invoice values. Differences are investigated at the discretion of managers		
Original agreed action		
<p>Servitor, which is an electronic purchase order system used by OCH, has a threshold of 5p +/- per item.</p> <p>As manual purchase orders do not have a threshold, this would be difficult to administer.</p> <p>In the short term, penalties for non-compliance will be implemented including explanation to the Section 151 officer for excessive variance.</p> <p>In the longer term, the implementation of P2P will resolve some of these issues.</p> <p>As we progress with the centralisation of the creditors and debtors function we will embed uniformity, consistency and appropriate controls in the areas highlighted.</p>		
Status update		
The Council has now implemented the set threshold of 5p +/- per item for investigating differences between orders and invoice values.		
Action plan		
Finding rating	Revised action	Responsible person / title
Medium	Issue addressed. No further action required.	N/a
		Revised target date:
		N/a

Early settlement discounts listing – Control Design

Issue Noted		
The Council does not have a comprehensive list of discounts which have been negotiated with suppliers. Finance staff must rely on suppliers specifying on their invoices that a discount may be granted if the Council pays within a certain time frame.		
Original agreed action		
A list of some of the discounts that have been negotiated is available on the intranet. All of these organisations will be marked for immediate payment. Departments are responsible for processing the invoices within the negotiated terms. Therefore the list will be re-circulated.		
Status update		
Negotiated supplier discounts are now listed on the Council intranet.		
Action plan		
Finding rating	Revised action	Responsible person / title
Low	Issue addressed. No further action required.	N/a
		Revised target date:
		N/a

Distribution of leavers reports – Operating effectiveness

Issues Noted		
Finance does not currently receive a leavers listing of all staff members who have left the Authority. This was previously the responsibility of Payroll however reports have not been received since April 2010.		
Original agreed action		
Leavers reports are now received on a monthly basis.		
Status update		
Leavers reports are now received on a monthly basis.		
Action plan		
Finding rating	Revised action	Responsible person / title
Low	Issue addressed. No further action required.	N/a
		Revised target date:
		N/a

Reconciliation review – Operating effectiveness

Issue raised

Testing of reconciliations between the general ledger and accounts payable ledger noted that:

- The June reconciliation had not been reviewed until 13/08/10.
- The August reconciliation had not been reviewed until 17/10/10.

Original agreed action

Reconciliations will be reviewed on a timely basis going forward.

Status update

No issues were noted during testing of reconciliations. All reconciliations tested had been reviewed on a timely basis.

Action plan

<u>Finding rating</u>	<u>Revised action</u>	<u>Responsible person / title</u>
Low	Issue addressed. No further action required.	N/a
		<u>Revised target date:</u>
		N/a

Urgent payment documentation – Operating effectiveness

Issue raised

During testing of urgent payments it was noted that:

- 1/10 urgent payments tested did not have documentation to support whether the payment was urgent or not.

Original agreed action

We now require the reason for the urgent payment to be recorded.

Status update

All urgent payments tested had supporting documentation.

Action plan

Finding rating

Revised action

Responsible person / title

Low

Issue addressed. No further action required.

N/a

Revised target date:

N/a

Creation/amendments of creditors – Operating effectiveness

Issue raised

Testing of creditors created or amended in year highlighted the following issues:

- 7/45 cases no supporting documentation was in place to support the amendment;
- 1/45 the creditor amendment form had not been filled out to state what the nature of the change was;
- 1/45 there was no evidence of a secondary checks on input being performed;
- 2/45 no amendment form has been completed, there was no supporting evidence to support the change or evidence of review; and,
- 1/45 the supporting amendment form had not been signed or dated.

Original agreed action

Checks are carried out on creditor sets ups – and will continue to be actioned on a timely basis. It will also be ensured that forms are completed correctly and checking is evidenced appropriately.

Status update

A supplier amendment form must be completed for all changes in supplier information. This should be signed by the preparer, inputter and an independent reviewer. All amendments must be supported by a request from the supplier.

4/20 creditor amendments tested were not accompanied by supporting documentation from the supplier.

Open prior year issue. To be used in calculation of overall risk rating.

Action plan

Finding rating	Revised action	Responsible person / title
Low	A notification will be issued to the creditors team to reiterate that creditor amendments should not be made without supporting documentation from the supplier.	Pete Johnson
		Revised target date:
		With Immediate Effect

Consistency of policies and procedures – Operating Effectiveness

Issue raised

Several inconsistencies have been noted across Council departments in respect of creditor procedures. Policies on raising orders and matching invoices differ across the Council. In addition, the Council has limited procedures on segregation of duties. It is not currently a consistent requirement across the Council for the officer raising an order to be separate from the officer authorising that transaction. Furthermore it is not policy for the goods receipting officer to be separate from either the officer ordering the goods, or authorising payment of invoices. Testing of 45 purchase orders and invoices paid in year highlighted six instances where segregation of duties was not in place.

Original agreed action

We have and will continue to update and circulate procedures and good practice guides to all officers, reminding them of the correct policies, procedures and responsibilities for these functions within the departments.

As we progress with the centralisation of the creditors and debtors function we will embed uniformity, consistency and appropriate controls in the areas highlighted.

Procedures and guidance are referenced back to the Councils Financial Regulations and will be reinforced. No penalty is proposed for non compliance.

Status update

Our work identified inconsistencies between departments in goods receipting and use of creditor payment forms. In addition, the policy on segregation of duties differs considerably between the creditor systems. Segregation of duties could not be confirmed for all Fleetplan invoices tested (10/30 transactions). This is because Fleetplan does not record who has authorised goods received notes or invoices

Open prior year issue. To be used in calculation of overall risk rating.

Action plan

Finding rating

Medium

Revised action

A dedicated revenues manager is now in post and will be responsible for reviewing policies and procedures to ensure consistency across the different purchase order systems. Segregation of duties will be explicitly considered in this process.

Responsible person / title

Pete Johnson

Revised target date:

With Immediate Effect

Automated purchase order system and commitment accounting – Operating effectiveness

Issue raised

In the course of testing a sample of 45 purchase orders we noted that in 15 cases no purchase order had been raised. We also noted some more minor issues regarding full completion of purchase orders.

In addition we noted that as at October 2010, the Council was not meeting its prompt payment targets (94.59% of invoices were being paid within 30 days against a target of 97.5%).

Original agreed action

It is acknowledged that commitment accounting would be beneficial and this is currently being considered. Purchase orders are not always attached to the invoices, as in certain circumstances this is not necessary, for example, the part payment of an order or a refund. In some instance a purchase order number is quoted but not attached as the original remains in the initiating department. The BVPI results are circulated to all Heads of Service and other operational managers on a monthly basis to enable them to ensure any reasons for late payment are addressed.

Status update

There is currently no commitment accounting at the Authority as orders are placed manually in Agresso. 12/30 transactions tested were not supported by a purchase order, 9 for Agresso and 3 for Fleetplan.

As at September 2011 the Authority was not meeting its prompt payment targets (85.96% of invoices were being paid within 30 days against a target of 97%). Some issues have been noted with the quality of data in this area. In September 2011, 2.1% of invoices (45/2109) were stamped after being paid.

Open prior year issue. To be used in calculation of overall risk rating.

Action plan

Finding rating	Revised action	Responsible person / title
Medium	<p>Commitment accounting will be introduced through the P2P system. For Fleetplan and Servitor, journals showing open purchase orders will be processed each month to reflect commitments.</p> <p>Issues in relation to prompt payment are due to a number of grant payments set up at the start of the year. In these cases an estimated “date stamp” was used which has adversely affected performance. These will be reviewed for inclusion in the indicator going forward to ensure an accurate reflection of performance. Performance on prompt payment is due to Accepted on the BVPI</p>	<p>Pete Johnson</p> <p>Revised target date:</p> <p>Purchase to Pay: 1st July 2012</p> <p>Prompt Payment: With Immediate Effect</p>

Invoice receipt – Operating Effectiveness

Issue raised

The following exceptions were noted when testing 45 invoices paid in year:

- 6/45 creditor payment forms have not been date stamped on receipt by Finance; and, 6/45 invoices have not been date stamped on receipt by the department.

Original agreed action

Invoices should be date stamped on receipts. However this will not lead to invoices being paid without appropriate authorisation.

Departments do not always date stamp invoices, but continual instructions are circulated to ensure departments are aware of this requirement.

Status update

The following exceptions were noted when testing 30 invoices paid during the year:

- 8/30 Agresso invoices did not have a creditor payment form and there was no other evidence of stamps to show receipt by finance ;
- 11/30 invoices were supported by a creditor payment form which had not been stamped by finance ;
- 6/30 invoices had not been date stamped by the ordering department

Open prior year issue. To be used in calculation of overall risk rating.

Action plan

Finding rating	Revised action	Responsible person / title
Low	A dedicated revenues manager is now in post to ensure consistency and compliance with procedures. Procedures will be reiterated to the processing team to reduce exception levels.	Pete Johnson
		Revised target date:
		With Immediate Effect

Use of unapproved suppliers – Operating effectiveness

Issue raised		
All suppliers where spend exceeds £100k should be included on the contracts register. We noted during testing that 1 supplier with expenditure of £174k was not included on the register as required.		
Original agreed action		
The service area using this supplier failed to notify procurement. This will be investigated and entered onto the register before 9th March 2011.		
Status update		
The contract register has now been updated with this supplier.		
Action plan		
Finding rating	Revised action	Responsible person / title
Medium	Issue addressed. No further action required.	N/a
		Revised target date:
		N/a





Appendix 1. Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
Critical	A finding that could have a: <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); <i>or</i> • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High 19	A finding that could have a: <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); <i>or</i> • Significant impact on the reputation or brand of the organisation (quantify if possible).
Medium	A finding that could have a: <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
Low	A finding that could have a: <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

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Appendix 1: Terms of Reference

Oxford City Council

Terms of Reference – Creditors

To: Pete Johnson, Revenues Manager

From: Katherine Bennett, Audit Manager

This review is being undertaken as part of the 2011/12 internal audit plan approved by the Audit and Governance Committee.

Background

Oxford City Council has a centralised Creditors function which is overseen by a dedicated Revenues Manager. Creditor orders and payments are processed on the Council's general ledger system (Agresso). The total value of short term creditors in 2010/11 was £22,246k.

This review seeks to understand and evaluate key controls surrounding the Creditors process with the objective of ensuring that creditors are processed on a timely and accurate basis and in accordance with government guidelines. The review will also follow up prior year findings to ensure that agreed action plans have been implemented.

Scope

We will review the design and operating effectiveness of key controls relied on by the Audit Commission relating to creditors and follow up issues noted during the prior year.

The sub-processes and related control objectives included in this review are:

Sub-Process	Control Objectives
Orders	Purchase orders are authorised within delegated financial limits
Goods receipts checks	Goods and services received are checked to ensure that prices and quantities agree to what is quoted on purchase order forms and that the quality of the goods/service meets the Council's expectations
Invoice receipt and processing	Invoices received are matched against purchase orders and goods received notes to agree that all goods have been received and that differences are investigated on a timely basis
Changes to standing data	Invoices, once matched to purchase order and goods received notes, are authorised for payment at an appropriate level
	Changes to the creditor payment standing data are authorised
	All changes to standing and permanent data are reported by the system
<u>Exception reporting</u>	Monitoring reports are produced on a regular basis and are subject to evidenced review and <u>action by management</u>
Reconciliation of creditor payment	Reconciliations are performed regularly between the information held on the payment

system to the general ledger	system and the general ledger
Segregation of duties	Adequate segregation of duties is in place
System access	Access to the creditor payment system processing and programme is restricted to appropriate personnel
Follow up of prior year issues	Agreed action plans regarding prior year issues have been implemented

Limitations of Scope

The scope of our work will be limited to those areas outlined above. This review will not cover the Council's procurement process.

Audit Approach

Our audit approach is as follows:

- Obtain an understanding of creditors through discussions with key personnel, review of systems documentation and walkthrough tests
- Identify the key risks relating to creditors
- Evaluate the design of the controls in place to address the key risks
- Test the operating effectiveness of the key controls

Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Katherine Bennett	Audit Manager
Charlotte Billsland	Team Manager
Lucy Fenton	Team Member

Key contacts – Oxford City Council

Name	Title	Role	Responsibilities
Pete Johnson	Revenues Manager	Audit Sponsor	Review and approve terms of reference
Denise Sheppard	Payments Team	Audit Contact	Review draft report Review final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

Other Roles and Responsibilities – Oxford City Council

Name	Title	Responsibilities
Nigel Kennedy	Head of Finance	Receive draft and final reports
Jackie Yates	Corporate Director (Finance and Efficiency)	Receive final report
Peter Sloman	Chief Executive	

Timetable

Fieldwork start	31/10/2011
Fieldwork completed	11/11/2011
Clearance Meeting	28/11/2011 (TBC)
Draft report to client	05/12/2011 (TBC)
Response from client	12/12/2011 (TBC)
Final report to client	19/12/2011 (TBC)

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation

Appendix 2. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of creditors subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the creditor review is for the 2011/12 year.

Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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