

# Oxford City Council

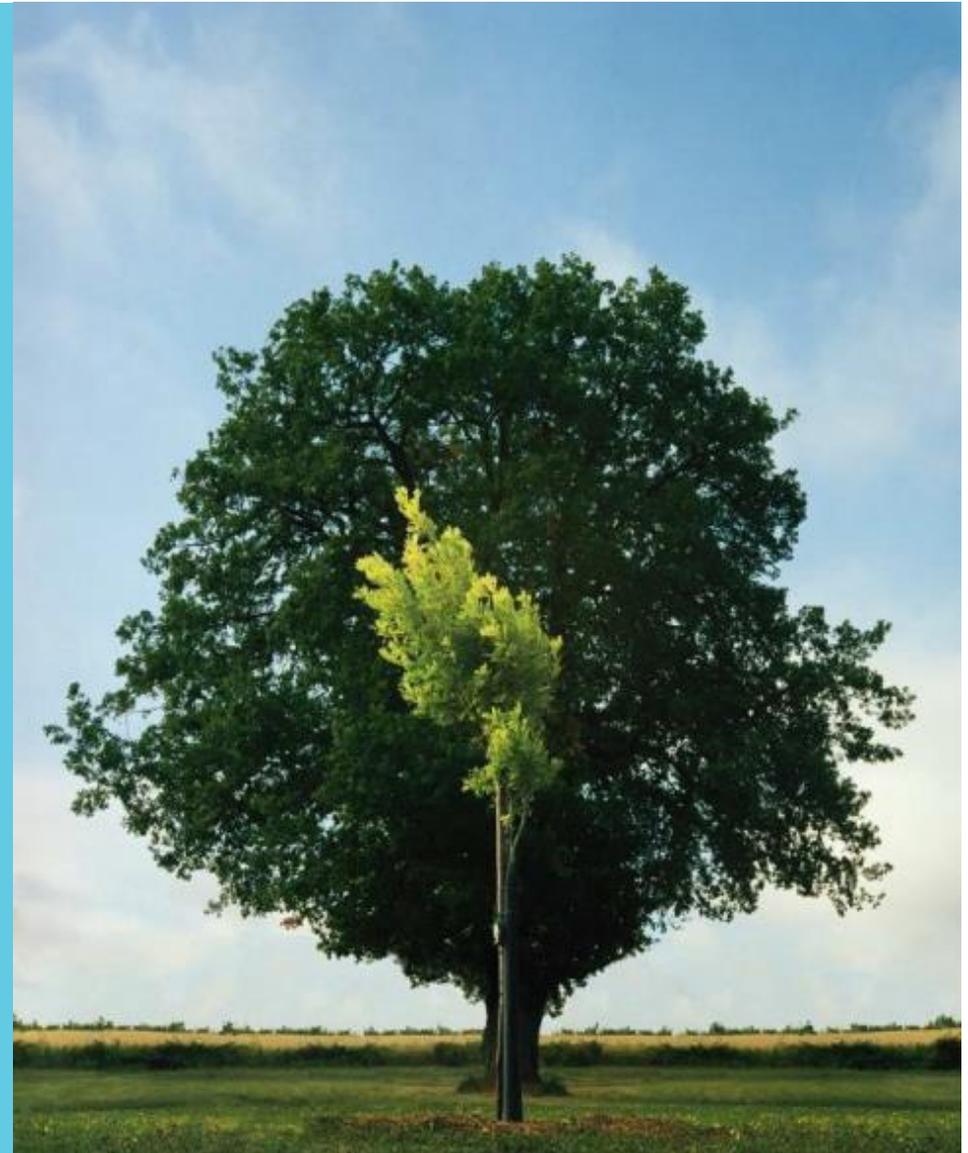
## INTERNAL AUDIT REPORT

Audit. 1a Accounts Payable

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December 2015

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
MODERATE	LIMITED



**FINAL**



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REPORT STATUS	
Auditors:	Yasmin Ahmed, Audit Senior and Gurpreet Dulay, Audit Manager
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## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY

## OXFORD CITY COUNCIL STRATEGIC OBJECTIVE THIS REVIEW RELATES TO

Efficient, Effective Council: A flexible and accessible organisation, delivering high-quality, value-for-money services

## LEVEL OF ASSURANCE (SEE APPENDIX IV FOR DEFINITIONS)

Design	Moderate	Generally sound system of internal control designed to achieve system objectives with some exceptions
Effectiveness	Limited	Non-compliance with key procedures and controls places the system objectives at risk

## SUMMARY OF RECOMMENDATIONS (SEE APPENDIX IV FOR DEFINITIONS)

High  2

Medium  3

Low  1

**Total number of recommendations: 6**

## OVERVIEW

Oxford City Council's (the Council's) account payables central team is led by the Strategic Payments and Procurement Manager who is supported by the Payments Team Leader and four Payment Officers. The Council is currently in the process of upgrading their main financial system Agresso, to reflect a more efficient process within accounts payables and wider Council activities.

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During the review we noted the following areas of good practice:

- Adequate financial regulations and policies and procedures are in place promoting a strong strategic framework for accurate, complete and timely transactions
- The accounts payables team carried out sufficient due diligence procedures for new suppliers
- Amendments to transactions were carried out appropriately by management within the accounts payables team.

However we also found the following areas for improvement:

- The Authorised Signatory Listing (ASL) did not specify budgetary limits for each individual included within the ASL (Detailed Finding 1)
- A segregation of duties was not identified between entering and uploading new supplier information onto the Council's accounting system, Agresso (Detailed Finding 2)
- A breach to the Council's delegated authority limit occurred whereby, one in 10 of purchase orders was authorised by individuals who did not have sufficient budgetary limits within the ASL to authorise the purchase order, although they were of reasonable seniority (Detailed Finding 3)
- The control arrangements with regards to the DCAL system (procurement credit card system) are deemed to be inadequate as credit card transactions can be authorised without management approval and without sufficient review of receipts to verify the accuracy and regularity of transactions (Detailed Finding 4)
- Monthly management meetings are currently not formally held within the accounts payables team and as a result management are limited in implementing action plans for issues identified directly from the monthly management information reports (Detailed Finding 6).

### Conclusion

We have issued two high, three medium and one low level recommendation. The Council has a sound system of internal controls, derived primarily from the electronic P2P system embedded within Agresso which automates many controls to achieve system objectives. However, there were two significant weaknesses identified in the operation of controls, relating to weak controls over procurement cards and a breach of delegated limits over purchase order authorisation. This has led us to conclude on a moderate assurance on the design of the controls and a limited assurance on the operational effectiveness of the controls.

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Inadequate financial regulations, policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions

Ref.	Finding	Sig.	Recommendation
1	<p>The accounts payables department hold two sets of Authorised signatory listings (ASL), a hard copy ASL that is accessible to all members within the accounts payable department and an electronic ASL embedded into the workflow of the P2P (accounts payable) system.</p> <p>All requisitions of purchase orders and authorisations of payments to suppliers are verified through the ASL. This is to ensure an appropriate individual listed on the ASL has raised and approved the transaction prior to payment.</p> <p>Where requisitions of purchase orders are raised through the P2P system, authorisation for the payment of the supplier invoice is automatic; providing the initial purchase order was approved by an individual within the correct cost centre, with an appropriate budget limit and the goods have been appropriately receipted.</p> <p>We would expect the accounts payable ASL to consist of a list of budget holders, the corresponding cost centres for each line of service and a budget limit that each individual on the ASL is permitted to approve for payments. In addition we would also expect the ASL to consist of the individuals who are authorised to raise purchase orders for each line of service. As part of this review we obtained the hard copy ASL held within the accounts payable department updated at various dates within the financial year. From our review we found:</p> <ul style="list-style-type: none"> <li>• The hard copy ASL does not specify budgetary limits for every individual within each service area</li> <li>• The hard copy ASL is not updated on a timely basis; a number of service areas had not been updated since 2013. Therefore, the hard copy ASL did not reflect all staff changes made to date</li> <li>• We could not identify the cost centres that each individual was authorised to approve for a number of service areas.</li> </ul> <p>We did note that the ASL is effectively in three places: it is on the P2P system, it is in hard copy format and it is also available on the intranet. The P2P system is the most up-to-date listing as it is the source and acts as a constant live update, with the hard copy and intranet not being updated as frequently. The Council should consider this disparity amongst ASL logs and find a way to have one central source. It should be noted that not all staff have access to P2P which has led to other formats being used alongside this.</p>	M	<p>Short term solution:</p> <ol style="list-style-type: none"> <li>a) For each approver included within the hard copy ASL the appropriate budget limits and corresponding cost centres should be clearly outlined for each service area</li> <li>b) The Council should distribute the hard copy ASL on a quarterly basis to reflect any changes and updates to all relevant departments and individuals</li> <li>c) If there are staff changes prior to the quarterly update, the hard copy ASL should be amended to reflect these changes immediately and distributed to all relevant departments</li> </ol> <p>Long term solution:</p> <ol style="list-style-type: none"> <li>a) Ensure one ASL central electronic source is available to all staff which is a live update against which delegated limits can be verified</li> </ol>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Inadequate financial regulations, policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions

Ref.	Finding	Sig.	Recommendation
1 cont.	If the hard copy ASL does not contain budget limits for each budget holder authorised to approve payments to suppliers there is a risk that non-P2P invoices will be inappropriately approved for payment which may exceed the budget limits of a given cost centre.	M	
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed. We will update an annual ASL listing and distribute this to all relevant staff. We will also issue quarterly ASL listings with amendments only so that these can be appended to the annual full distribution list.			Responsible Officer: Caroline Wood  Implementation Date: March 2016

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: New or existing customer/ supplier change controls are inadequate to safeguard the integrity of changes made to data held

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Ref.	Finding	Sig.	Recommendation
2	<p>When setting up new suppliers it is a requirement to complete a new supplier form prior to the new supplier being created on the Council's accounting software, Agresso. All suppliers must undergo due diligence procedures prior to being set up as a registered supplier.</p> <p>Furthermore, in order to set up a supplier on the Agresso system a two step process is in place. The first stage of the process requires one individual to enter all supplier details onto a Boot Information File (BIF). A second individual is required to counter check the information entered and subsequently upload the supplier details onto the Agresso system.</p> <p>Due to the high risks associated with creating new suppliers we would expect the accounts payables team to carry out all due diligence procedures necessary to ensure that the supplier is fit to be a Council creditor and maintain association with the Council. Furthermore, we would also expect the accounts payables team to ensure that the supplier details entered are checked for inconsistencies and are correctly uploaded onto the system.</p> <p>Therefore, it is essential that the entering, checking and uploading of supplier information is processed by separate individuals. As part of this review, we tested a sample of three new suppliers created from 1 April 2015 to 14 October 2015 and upon review we found:</p> <ul style="list-style-type: none"> <li>For one out of three new suppliers created by the accounts payables team there were no segregation of duties maintained; the individual who checked and entered supplier details onto the BIF file also reviewed the details entered by themselves and subsequently uploaded these onto the Agresso system.</li> </ul> <p>Whilst the above sample is not extensive, it is sufficient to demonstrate that it is possible for one individual to process a new supplier and upload the details onto the Agresso system without the expected scrutiny.</p> <p>If there are no segregation of duties maintained between confirmation and subsequent uploading of supplier details there is a risk that the supplier details are improper which may increase the Council's exposure to fraudulent activity.</p>	M	<p>a) Parameters should be created within the Agresso system where the individual who enters supplier details onto the BIF cannot upload these details onto the Agresso system</p> <p>b) The Payments Team Leader should verify that the individual who entered supplier details did not simultaneously upload the file to the Agresso system without following due procedure</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
<p>Agreed. The Council are upgrading their Agresso system and by March 2016 all new supplier forms will go through a work-flow via the Agresso system; therefore this will override the need to use the BIF process currently in place. This will automatically ensure segregation of duties. In the intervening time we will reinforce expectations over setting up new suppliers.</p>		<p>Responsible Officer: Caroline Wood</p> <p>Implementation Date: March 2016</p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Ineffective and inadequate controls are in place to ensure that transactions are raised, approved and paid in an accurate, complete and timely manner

Ref.	Finding	Sig.	Recommendation
3	<p>The Council use three individual systems to raise, approve, and receipt purchase orders and invoices. The system used is determined by the type of purchase order raised. These are:</p> <ul style="list-style-type: none"> <li>• P2P system (Main accounts payables system)</li> <li>• Key2 system (system used by the Council Depots for Motor Transport)</li> <li>• Servitor system (system used by the Depots for Housing Management).</li> </ul> <p>The three payables systems serve the same purpose where initially a requisitioner must raise a purchase order for a prescribed cost centre. Subsequently, the purchase order is authorised by an individual listed on the Authorised Signatory Listing (ASL) for a particular cost centre. Once goods are received these are receipted by the requisitioner who originally raised the purchase order. If the quantity and value on the goods received note and the purchase order match the supplier invoice, it is paid.</p> <p>We would expect a segregation of duties for each stage of the payables process. In addition, we would expect all purchase orders to be raised by a requisitioner within a given department and approved by an individual listed on the ASL. We would further expect the approver to authorise purchase orders that are within their cost centre domain and to have the relevant budget limit to cover the purchase order value. We would also expect all goods to be receipted promptly to ensure suppliers are paid within appropriate timescales. As part of this review we selected a sample of 10 payable transactions from 1 April 2015 to 14 October 2015 and upon review we found:</p> <ul style="list-style-type: none"> <li>• One in 10 of our payables sample was authorised by individuals who did not have sufficient budgetary limits in accordance with the Councils officer delegated authority list within the ASL to authorise the purchase order. The transaction was for over £485,000 and it would have been expected to be approved by an Executive Director however, this was approved by two individuals both of whom have a delegated limit capped at no greater than £150,000; one of which was the Section 151 Officer. When this was raised it was explained that although the Council's delegated authority limit requires Executive Director approval for transactions over £150,000 this can be challenging to obtain due to the availability and turnaround time of the request for Executive Director approval. Therefore a culture has developed where those without sufficient authority are approving transactions. It should be noted that in this particular case that although Executive Director approval was not obtained that those who approved the transaction were of noteworthy seniority within the Council including the Section 151 Officer</li> <li>• One in 10 of our sample could not identify the individual who raised a purchase order in relation to the Key2 system. Therefore, it was not possible to ascertain whether segregation of duties were maintained between the raiser and the approver of a purchase order</li> <li>• One in 10 purchase orders were raised by an individual who was not identified within the ASL in relation to the Servitor system. We would expect all requisitioners to be included within the ASL for each line of service</li> </ul>	H	<ul style="list-style-type: none"> <li>a) Individuals listed within the ASL should not authorise purchase orders/Invoices that are beyond their authorisation limits. Communication should take place between the Section 151 Officer and the Corporate Management Team to review delegates limits and training needs</li> <li>b) In relation to the Key2 and Servitor system, it must be ensured that all individuals listed within the ASL have the appropriate limit to authorise the payment. Should this not be the case the purchase order should be returned and an appropriate authorisation should be sought</li> <li>c) The software providers to the Key2 and Servitor system should be contacted to request that electronic work flows functionality are upgraded into the systems</li> <li>d) In relation to the Key2 and Servitor system, communication should be given about following procedures where the individual who authorised the purchase order should not be the individual who initially raised the purchase order</li> <li>e) The functionality to goods receipt on an individual transaction line basis is available in the Agresso system; reinforcement of this functionality to Agresso users and training should be given</li> <li>f) Sufficient training should be provided to all users of the Key2 system</li> </ul>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Ineffective and inadequate controls are in place to ensure that transactions are raised, approved and paid in an accurate, complete and timely manner

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Ref.	Finding	Sig.	Recommendation
3 cont.	<ul style="list-style-type: none"> <li>Users of the Key2 system have not been provided with sufficient training. Therefore, at the time of our review it was difficult for these individuals to navigate around the Key2 system and source the information required. As a result, for one in 10 of our sample we could not identify the individual who raised the purchase order and the individual who approved the purchase order. It should be noted that this system came into operation in 2015 and therefore as it is not fully established, it is reasonable to expect that the control environment would not be at full strength at the time of this review</li> <li>One in 10 purchase orders raised through the Servitor system identified that the purchase order was raised and approved by the same individual. Therefore, a segregation of duties was not maintained</li> <li>To receipt goods an Agresso user must confirm the goods have been receipted against the invoice directly onto the system. It can often be the case that the goods receipted do not reflect all the items on the purchase order i.e. there may be more items on the purchase order than receipted. When goods are receipted the Agresso system disallows goods to be receipted on an individual basis. Therefore, all goods must be receipted in full as Agresso is currently incapable of recognising that goods could potentially be delivered in stages. The implication of this is that when the remainder of the goods are receipted which arrive subsequently to the initial delivery, another purchase order must be raised for these to be paid. This creates an inefficiency in the system which could be eliminated with a more sophisticated functionality in the Agresso system.</li> </ul>		
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed. In relation to training on Key2 this took place on 24 November 2015 and we will continue with further training/guidance to reinforce the operation of the system. We will reinforce communication around raising purchase orders and the requirement to agree the authoriser to the ASL and for there to be a segregation of duties to those staff who perform these functions on Key2 and Servitor.</p> <p>In relation to the exceeding of authority of delegated authority, we anticipate the extension of delegated limits to be agreed and implemented as outlined.</p>			<p>Responsible Officer: Nigel Kennedy (recommendation a) and Caroline Wood (all other recommendations)</p> <p>Implementation Date:</p> <p>a) January 2015</p> <p>b) to g) March 2016</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Procurement card payments are not monitored, verified and approved appropriately to ensure accuracy and validity of transactions undertaken

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Ref.	Finding	Sig.	Recommendation
4	<p>Selected individuals within the Council are authorised to expense Council related expenditure to an allocated procurement credit card. All individuals have a prescribed credit limit and a transaction limit that they can spend against at any one time. Furthermore, all expenditure incurred on the procurement card is recorded within the Council's expense system DCAL.</p> <p>Individuals who have used their procurement cards within a given month are required to access the DCAL system within eight days from the first day of the statement date and allocate each transaction to a relevant account code and cost centre. After this, the individual's line manager reviews the transactions expensed against the cost centre and authorises the transactions for payment. This is required to be authorised within 14 days from the first day of the statement date.</p> <p>We would expect all individuals to comply with the Council policy and only undertake expenditure on the procurement card for the purpose of the Council objectives only. In addition, we would expect all individuals to maintain receipts for each transaction incurred and complete a short narrative to describe the purpose of the expenditure. Furthermore, we would expect management to complete a thorough check of receipts, the nature of the transaction and to ensure that the transaction has been expensed to the appropriate account code and cost centre prior to approval. As part of this review we selected a sample of 10 procurement card transactions between 1 April 2015 to 14 October 2015 and upon review we found:</p> <ul style="list-style-type: none"> <li>• One out of 10 procurement card transactions were not allocated to any given cost centre or account code. However, the transaction was approved for payment, despite not having an authorised approver set up on the DCAL system</li> <li>• Eight out of 10 procurement card transactions did not have an appropriate narrative attached to the expenditure of the transaction, however the transactions were still approved for payment. Without sufficient narrative it is difficult for management to identify the nature of the transaction and whether the correct cost centre and account code was allocated</li> <li>• For one of our sample the procurement card transaction was not reviewed by the card holder within the expected timescale of eight days from the first day of the statement date</li> <li>• Three out of 10 procurement card transactions were approved after the 14 day timescale from the first day of the statement date</li> <li>• Procurement card transaction receipts are not formally reviewed by management prior to approval. Furthermore, it was found that there is not a central location where individuals store all expense receipts. Therefore individuals may or may not retain receipts and therefore for the purposes of this audit we could not verify all transactions back to receipts</li> </ul>	H	<ul style="list-style-type: none"> <li>a) DCAL system users should be reminded of the minimum expectations around the narrative to be placed into the system</li> <li>b) Receipts must be kept in an agreed format and location with communication made to set out clearly the procedures required to be followed to retain hard copy receipts to all users</li> <li>c) If approvals are not completed within a timely manner these should be escalated to the Management Accounting Manager</li> <li>d) Individuals that are set up as card holders within the DCAL system should not be able to approve their own transactions</li> </ul> <p>As a measure of good practise we have included procurement card controls adopted within other Councils - see appendix I.</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Procurement card payments are not monitored, verified and approved appropriately to ensure accuracy and validity of transactions undertaken

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Ref.	Finding	Sig.	Recommendation
4 cont.	<ul style="list-style-type: none"> <li>There are currently no parameters within the DCAL system which prevents individual card holders from raising and approving their own expense; individuals who are registered as card holders within the DCAL system can approve their own expenditure.</li> </ul> <p>The DCAL system should have the potential of including all necessary parameters to ensure expenditure incurred on procurement cards are charged to the correct cost centre and account code. Furthermore, parameters can be embedded within DCAL to ensure expenditure is authorised by an individual listed within the ASL.</p> <p>We do understand the benefits procurement cards can bring to the Council in terms of efficient procurement. We also note that significant efficiency gains have been made from the use of the procurement cards; therefore we are not recommending the removal of procurement cards. However, the Council must make significant improvement in the control arrangements around procurement cards to give confidence over the accuracy and regularity of the expenditure incurred. It should also be noted that we did not identify any instances where the purchase card had been used to circumvent procurement processes.</p> <p>If the necessary action is not taken to implement essential parameters within the DCAL system and sufficient scrutiny of the expenditure incurred, there is a risk that transactions are made by individuals with insufficient approval. This may lead to the Council exposing itself to increased risk to inaccurate and/or irregular transactions being undertaken.</p>		
<b>MANAGEMENT RESPONSE</b>			<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>
<p>Agreed. We will reconsider the functionality requirements for a procurement card system and take appropriate action to put this in place. Furthermore, we will re-issue the guidance on the procurement card programme and expectations for recording transaction information and retaining receipts; this will include the ability to remove procurement card access if guidance is not followed.</p>			<p>Responsible Officer: Caroline Wood</p> <p>Implementation Date: January 2016</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Interface data posted from Key2 and Servitor to the Agresso system is not accurate and/or complete

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Ref.	Finding	Sig.	Recommendation
5	<p>All transactions from the Key2 and the Servitor systems (Payables finance systems) are required to be uploaded to the Council’s accounting system, Agresso.</p> <p>An AP025 report is run from both the Servitor and the Key2 system. The report essentially details all purchase orders raised for a given period and where goods have been receipted. The accounts payables team manually check each invoice entry and reconcile this to a hard copy invoice. Once these checks have been completed the AP025 reports for the Key2 and Servitor system are uploaded onto Agresso.</p> <p>We would expect all invoice entries to be reconciled to an invoice and where differences occur we would expect these to be investigated and corrected prior to the Agresso upload. In addition, there should be a segregation of duties between the individual who reconciles the invoice entries to the invoices and the Agresso upload. Furthermore, we would expect all reconciliations to be reviewed and approved by an appropriate person prior to upload. As part of this review, we sample tested two uploads each from the Key2 and Servitor system respectively and upon review we found:</p> <ul style="list-style-type: none"> <li>For one out of two Key2 uploads we could not determine the individual who reconciled the invoice entries from the AP025 report to the invoices. As a result we cannot determine whether segregation of duties between the reconciliation and the Agresso upload were maintained</li> <li>For one out of two Key2 uploads we could not identify the individual who authorised the reconciliation for the Agresso upload. Furthermore, we could not identify the individual who uploaded the entries to Agresso. As a result we cannot conclude that segregation of duties were maintained between the reconciliation, approval and upload to Agresso.</li> </ul> <p>It should be noted that although segregation of duties were not demonstrated, we did not identify any concerns with the substance of the reconciliations themselves hence why the Detailed Finding is considered of low significance.</p> <p>If segregation of duties are not maintained between the reconciliation, approval and upload between the AP025 report and Agresso there is an increased risk that potential errors may not be identified in this process.</p>	L	<p>a) There should be a segregation of duties between the reconciliation of each invoice entry in the AP025 report to manual invoices, approvals and the manual upload to Agresso</p> <p>b) All individuals involved within each stage of the interface process must print and sign their names on the reconciliation document</p> <p>c) The Payments Team Officer/Leader should ensure that all reconciliations and uploads to Agresso are signed and completed appropriately</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed. This will be immediately acted upon to ensure all reconciliations are evidenced as prepared and approved to ensure that it is clear when this occurred and who completed the task of preparation and review.</p>	<p>Responsible Officer: Caroline Wood</p> <p>Implementation Date: December 2015</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Ineffective management information is reported and inadequate key performance indicator information is assessed to monitor the activities undertaken

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Ref.	Finding	Sig.	Recommendation
6	<p>The accounts payables team maintain a number of management information reports; these are as follows:</p> <ul style="list-style-type: none"> <li>• Accounts payable key performance indicator information</li> <li>• Invoice maintenance report</li> <li>• Supplier master file report</li> <li>• Retrospective purchase orders raised report</li> <li>• Payment method report</li> <li>• Aged creditor listing.</li> </ul> <p>We would expect management within the accounts payable team to maintain and review management information reports on a monthly basis. In addition, we would expect management to discuss the results from the management information reports within management meetings. Monthly meetings allow management to maintain an insight of all potential issues identified within the management information reports and where required these issues can be escalated further.</p> <p>As part of this review an interview was held with the management within the accounts payable team who explained that there are no formal management meetings held to discuss the issues arising from the management information reports. Furthermore, all reports are produced on an ad-hoc basis as a result management are not as up to date as they could be with underlying issues that may affect the accounts payables team.</p> <p>If management information reports are not produced and discussed on a monthly basis there is a risk that management are not aware of the underlying issues that may be affecting the accounts payables department. If this is not addressed this can be detrimental to the performance of the Council. Furthermore, if underlying issues are not addressed in a timely manner and action plans are not implemented there is a risk that these issues could cause reputational damage to the Council.</p>	M	<p>a) The Management within the accounts payables team should hold a meeting and understand the key management information reports that provide relevant information to ensure effective day to day running of the accounts payables department</p> <p>b) Management should produce these relevant reports on a monthly basis to be formally discussed within a monthly management meeting</p> <p>c) The Council should set out an agenda and timetable of events for each month which sets out the date the meeting must take place post the previous months activity.</p> <p>d) The Head of Service should also attend (or have sight of minutes of) the meeting to understand the underlying issues within the accounts payables department</p> <p>e) A monthly action log should be retained detailing the following key areas:</p> <ul style="list-style-type: none"> <li>• Issue identified</li> <li>• Risk relating to the issue</li> <li>• Action plan to mitigate the risk identified</li> <li>• Severity rating for the level of risk as high, medium or low</li> <li>• Responsible officer to implement the action plan</li> <li>• Due date of the action to be implemented</li> <li>• Due date to follow up the action implemented</li> <li>• The responsible person to oversee the action log.</li> </ul> <p>As a measure of good practise we have included a number of KPI to be included within monthly management information reports - see appendix II.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. KPI information has become more visible in 2015 with as information has been extracted from the system and emailed to the Section 151 Officer and Heads of Service along with a narrative to explain trends/themes requesting any thoughts on action to be taken - this is leading to a workshop to be undertaken in January 2016. This was conducted in November 2015 for the first seven months of 2015/16. Looking ahead this will be sent out on a monthly basis. Furthermore we currently do hold monthly meetings however, will formalise this process as outlined.</p>		<p>Responsible Officer: Caroline Wood</p> <p>Implementation Date: December 2015</p>	

# APPENDIX I - PROCUREMENT CARD TRANSACTIONS

Effective controls of procurement card transactions gives tax payers reassurance of Council’s essential spending strategy, prevents inappropriate expenditure and saves council’s costs. This appendix details areas of good practice adopted by a Council from our portfolio that could be followed by Oxford City Council. Furthermore, we have included areas of the transparency code adopted by other Councils which may prove to be beneficial to Oxford City Council.

Councils	Control practice on procurement cards	Monthly Reports	Application	Procurement card best practice
Plymouth City Council	<ul style="list-style-type: none"> <li>✓ Detailed monthly limit outlined by an individuals grade levels</li> <li>✓ A VAT invoice/receipt must be presented, checked, coded and certified for payment</li> <li>✓ In every case, a different officer from the person checking and certifying the VAT invoice/receipt authorises the payment</li> </ul>	<ul style="list-style-type: none"> <li>✓ Monthly reports are produced and presented for payments incurred over £500</li> </ul>	<ul style="list-style-type: none"> <li>✓ DCAL System</li> </ul>	<ul style="list-style-type: none"> <li>✓ Local transparency guidance - publishing spending and procurement information 2015 requires local authority to report all credit card payments, at least quarterly</li> </ul>
97 Oxford City Council	<ul style="list-style-type: none"> <li>✓ Approval is required for credit card transactions prior to payment</li> </ul>	<ul style="list-style-type: none"> <li>X No monthly reporting is produced and presented</li> </ul>	<ul style="list-style-type: none"> <li>✓ DCAL System</li> </ul>	<p>Ministry of Justice Government Procurement Card policy sets:</p> <ul style="list-style-type: none"> <li>✓ All new cards at a standard £1,000 (inclusive of VAT) single transaction limit and a £5,000 (inclusive of VAT) monthly limit</li> <li>✓ Each purchase must be recorded on a purchase transaction log, and signed by both card holder (or delegated individual) and card administrator</li> </ul>
				<ul style="list-style-type: none"> <li>✓ Implement advanced software for recording payment transactions and relevant cost centres including the approval of transactions</li> <li>✓ Issue periodic transparency report on all card transactions</li> </ul>

# APPENDIX II - MANAGEMENT INFORMATION

Action planning is a process which will help the Council to focus on ideas and to decide on what steps to take to achieve particular goals that the Council may have. As a measure of good practise we have included areas that the Accounts payables team may wish to consider further to implement within their management information reports and the areas to include when setting up an action plan.

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Accounts payables Function/ KPIs
✓ Invoices processed per FTE
✓ Processing cost per supplier invoice
✓ % of invoices with Purchase Order
✓ % of invoices paid within agreed payment terms
✓ Total cost of the Accounts Payable process per £1,000 revenue
✓ Total cost of the Accounts Payable process per £1,000 purchases
✓ Total number of active vendors in the Masterfile per £1,000 purchases
✓ % of invoices under query
✓ % of low value invoices (less than £x)
✓ % of invoices received electronically
✓ % of invoices paid electronically
✓ % of prompt settlement discounts that are taken
✓ % of time spent resolving queries
✓ Number of duplicate supplier accounts as a % of total

We have included the recommended areas that can be used to set up action plans within monthly management meetings

Ref.	Issue identified	Risk to Mitigate	Action Plan	Status rate of risk (Red / Amber / Green)	Responsible officer	Due date of action	Status of action plan at the next management meeting/ specify a date to follow up

# APPENDIX III - STAFF INTERVIEWED

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

NAME	JOB TITLE
Nigel Kennedy	Section 151 Officer
Anna Winship	Management Accounting Manager
Caroline Wood	Strategic Payments and Procurement Manager
Nicki Pierce	Payments Team Leader
Sue Allen	Payments Officer
Harald Schulz	Agresso Consultant
Stacie Tomkins	IT Administrator

# APPENDIX IV - DEFINITIONS

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LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX V - TERMS OF REFERENCE

## BACKGROUND

The Council's main financial system is Agresso within which accounts receivable and payable transactions are recorded. Agresso is a long-standing system at the Council and in 2013 the Council rolled out the Agresso Purchase to Pay (P2P) module which included invoice entry using scanning technology, electronic purchase ordering with workflow and a contracts module. The main aim of the P2P was to aid the Council in its end to end process of purchasing its goods and services and paying for them in a timely manner. In December 2015 the Council will be upgrading the P2P module which will impact the functionality of the system including areas such as invoice registration.

The central team is led by the Procurement and Payments Manager who is supported by the Payments Team Leader and four Payment Officers. The past six months has seen changes to the members of staff in the team. A significant number of accounts payable transactions are recorded on the Council's main financial system, Agresso. The Agresso system records all aspects of the payment process from the order being raised, goods receipted, invoice received and payments being made. Those transactions which relate to core Council services and central costs in regards to the operation of the Council are on Agresso.

To support remote operations at two depots at Horspath Road and Cowley Marsh the Council also have the systems Key2 and Servator; these are accessed by Council staff who provide services such as Motor Transport and Housing Management. These systems record the process from the order being raised, good receipted and the invoice being received however, payments are not made from these systems. Once a week an interface is created and uploaded into Agresso to transfer data to ensure payments are made.

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## PURPOSE OF REVIEW

To review the design and effectiveness of controls in relation to accounts payable activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.

## SCOPE OF REVIEW

This review will consider the design and operational effectiveness of the key controls relied on by External Audit relating to accounts payable in addition to the Key Risks identified in this Terms of Reference.

## EXCLUSIONS

Processes for payable transactions in relation to council tax, business rates, housing benefit overpayments and rents, and cash collection are outside the scope of this review.

# APPENDIX V - TERMS OF REFERENCE

## APPROACH

Obtain an understanding of the risk and controls with regards to accounts receivable and payable through discussions with key personnel, review of systems documentation and substantive tests. Our approach includes:

- Identifying the key risks relating to accounts payable
- Evaluating the design of the controls in place to address the key risks
- Testing the operating effectiveness of the key controls.

## KEY RISKS

Based on the risk assessment carried out during the creation of the internal audit operational plan, our discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- Inadequate financial regulations, policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions
- Access to systems and data is not effectively managed extending the risk that data may be amended or deleted without appropriate approval
- New or existing customer/supplier change controls are inadequate to safeguard the integrity of changes made to data held
- New customers/suppliers are not subject to sufficient due diligence to provide reasonable comfort over the nature and background of the customers/suppliers
- Ineffective and inadequate controls are in place to ensure that transactions are raised, approved and paid in an accurate, complete and timely manner
- Amendments to transactions are not subject to sufficient oversight and approval procedures to validate their accuracy
- Ineffective management information is reported and inadequate key performance indicator information is assessed to monitor the activities undertaken.
- Insufficient procedures are in place to confirm the validity of data and approval of payment runs
- Procurement card payments are not monitored, verified and approved appropriately to ensure accuracy and validity of transactions undertaken
- Interface data posted from Key2 and Servitor to the Agresso system is not accurate and/or complete
- Insufficient arrangements are in place to ensure the successful transition to the Purchase to Pay (P2P) upgrade.

# APPENDIX V - TERMS OF REFERENCE

## DOCUMENT REQUEST



Where available, please ensure that electronic copies of the following documents have been forwarded to us in advance of the review:

- The latest Financial Regulations pertaining to the Council
- The latest Delegated Authority list
- Procedures notes for any aspects of the accounts receivable or accounts payable process including Agresso, Key2 and Servitor.
- A listing of all new suppliers set-up for the period 1 April 2015 to date
- The predecessors Internal Audit report with regards to the Procurement Card arrangements
- Document showing the overview of interfaces with upload to Agresso
- A transaction listing of all accounts payable transactions for the period 1 April 2015 to date
- Once a sample has been selected we will require:
  - The invoice received by the Council
  - Evidence of approval of the order raised
  - Evidence of the goods receipt note
  - Evidence the payment was made and appeared in the Council bank account i.e. copy of the payment run and bank account transaction.

These documents will assist the timely completion of our fieldwork, however this list does not necessarily constitute a complete list of all documentation and evidence that we may need as part of our review.

# APPENDIX V - TERMS OF REFERENCE

## TIMETABLE

Audit Stage	Date
Commence fieldwork	13 October 2015
Number of audit days planned	12
Planned date for closing meeting	23 October 2015
Planned date for issue of the draft report	6 November 2015
Planned date for receipt of management responses	13 November 2015
Planned date for issue of proposed final report	20 November 2015
Planned Audit Committee date for presentation of report	16 December 2015

## KEY CONTACTS

BDO LLP	Role	Telephone and/or email
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Yasmin Ahmed	Internal Audit Senior	t: 07870 510 196   e: yasmin.ahmed@bdo.co.uk
Oxford City Council		
Nigel Kennedy	Section 151 Officer and Audit Sponsor	t: 01865 252708   e: nkennedy@oxford.gov.uk
Anna Winship	Management Accounting Manager	t: 01865 252517   e: awinship@oxford.gov.uk
Caroline Wood	Strategic Procurement and Payments Manager	e: cawood@oxford.gov.uk
Nicki Peirce	Payments Team Leader	e: npeirce@oxford.gov.uk

## SIGN OFF

On behalf of BDO LLP:		On behalf of Oxford City Council:	
Signature:		Signature:	NIGEL KENNEDY
Title:	HEAD OF INTERNAL AUDIT	Title:	SECTION 151 OFFICER
Date:	7 October 2015	Date:	8 October 2015



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