

**To:** Director of Resources

**For information:** Chief Executive  
Assistant Chief Executive  
Head of Finance

### **1. Introduction**

An audit of Creditors & VAT has been carried out as part of the 2006-07 audit plan. Detailed tests have been carried out on the systems of control and the management of risk within this area.

### **2. Findings and recommendations**

The detailed findings and recommendations are set out in the attached appendices and agreed Management Action Plan. A satisfaction survey form has been sent to the Head of Finance for completion.

### **3. Conclusions**

Creditors continue to be paid promptly and accurately within acceptable time scales and no significant problems were identified by our audit fieldwork. It can therefore be concluded that the systems of control are functioning satisfactorily and the risk of error or misadministration is low.

Previously identified staffing issues continue to raise concerns and should be addressed in the near future to prevent the deterioration of this status. Recommendations have been made concerning the reconciliations, administration of the VAT account, contingency plans, procedures and Financial Regulations.

Sheila Bronson  
Acting Audit Manager  
25 May 2007

## **CREDITORS & VAT 2006-07**

### **1.1 AREAS COVERED DURING THE AUDIT**

The key areas of possible risk identified at the planning stage of the audit were as follows:

- a) Invoices are invalid / incorrect and payments are not correctly authorised by a recognised signatory;
- b) Payee details are incorrect;
- c) Payments can be duplicated or an incorrect amount is paid on an invoice;
- d) Invoices are incorrectly posted to the Purchase Ledger Day Book;
- e) VAT incorrectly accounted for or failure to comply with VAT legislation;
- f) Inadequate procedures for storage, issue and disposal of cheques;
- g) Goods or Services have not been received or invoices are received and paid for Goods or Services which were not ordered;
- h) Insufficient skilled staff available to administer the Creditors system, poor or inadequate training and inadequate separation of duties;
- i) Reconciliations are not carried out between Disbursements and General Bank Accounts or on Invoice System, Cheques issued, Direct Debit System and Unpresented cheques;
- j) Insufficient funds available in the bank to pay creditors;
- k) Direct Debit payment mandates incorrectly authorised.

The methodology stated in the terms of reference document was used to establish and test the controls that management have in place for mitigating or reducing the above risks to an acceptable level.

### **1.2 OVERALL AUDIT OPINION**

**Subject to the matters raised below it was confirmed that the systems of control are functioning well.**

**Staffing issues continue to raise concerns and can be held responsible for the reconciliation and VAT administration problems below. Failure to address these issues in the near future may have a profound effect on the level of service currently being achieved.**

### **2005-06 AUDIT**

### **1.3 PREVIOUS RECOMMENDATIONS**

The previous audit made seven recommendations of which three relating to purchase vouchers, invoice processing time within departments and electronic payments have been implemented.

Progress towards implementing the recommendations dealing with contingency planning, documented procedures and Financial Regulations was assessed as part of the fieldwork for this year's audit, and is discussed below.

## 2006-07 AUDIT

### 1.4 CONTINGENCY PLANNING and DOCUMENTED PROCEDURES

Our previous audit identified that there was a risk that sufficient staff might not always be available to administer creditor payments and recommended that contingency plans should be produced to protect against this eventuality.

Staffing issues within Finance and Exchequer Services continue to cause concern over the ability of staff to maintain the current level of service provided. A permanent Principal Accountant – Services with the management responsibility for Exchequer staff has yet to be appointed and, although immediate staff cover issues have been addressed, current staffing arrangements necessitate urgent consideration be given to longer term contingency planning.

The initial response to our previous recommendations was that the process of preparing Procedure Notes for all departments within Financial Services had commenced and that Contingency Plans should be within that task list. However, testing during the audit has confirmed that these Procedure Notes have not yet been completed. **We therefore re-iterate the recommendation that** contingency plans should be produced against the risk that sufficient staff might not always be available to administer creditor payments **and re-iterate the recommendation that** the officers currently administering the Creditors processes are asked to prepare adequate / more comprehensive procedures.

### 1.5 RECONCILIATIONS

Monthly reconciliations should be carried out on Disbursements and General Bank Accounts. However, during the audit we were informed that due to the lack of officer and management time these reconciliations have not been carried out since July 2006. **We therefore recommend that** immediate action is taken to bring reconciliations up to date **and that** management action is taken to ensure that controls are put in place to prevent this problem recurring.

### 1.6 VAT

We have concerns that it appears VAT management is still not afforded the priority it warrants and that there is the risk that the Council may be disadvantaging itself financially.

Testing during the audit has identified that VAT control account anomalies identified in our 2004-05 audit have not yet been resolved, partly due to the lack of staff in place to deal with it and partly due to limited access to the data required being held within the old Radius system. We have also identified that errors on recently submitted VAT returns have been discovered and that a Voluntary Disclosure of these errors is in the process of being drafted for submission to HM Revenue & Customs.

Errors on VAT returns can only be notified to HM Revenue & Customs for VAT accounting periods ending 3 years ago or less, i.e. currently from 01 February 2004. Any error in the Council's favour on returns prior to this and any subsequent repayment has now been lost.

By the nature of its business, the Council receives repayments of VAT each accounting period for which it submits returns but has not exercised the option to submit monthly VAT returns rather than the quarterly VAT returns submitted at present. In practical terms this means that monies due to the Council from HM Revenue & Customs are repaid between one and three months later than they could otherwise be and that there will also be a loss to the Council of interest on those monies. Additionally, the VAT returns currently submitted are for accounting periods which do not align with the Council's financial year end, giving rise to additional work required to calculate VAT due for the period straddling the year end.

**We therefore recommend that** immediate action is taken to resolve the VAT account anomalies identified during our 2004-05 audit **and that** all in time errors are declared to HM Revenue & Customs as soon as possible.

**We further recommend that** consideration is given to changing to monthly VAT returns or, if this is not considered possible, to having the Council's VAT return periods changes to align with the financial year end.

Despite the introduction of the new FMS accounting system in July 2005 which includes a VAT analysis module, VAT return calculations continued to be carried out using Nominal Ledger reports and manually input of data into an Excel spreadsheet. **We therefore recommend that** as part of the proposed re-implementation of FMS that the use of the VAT Account within FMS for the calculation of VAT return figures is investigated.

## 1.7 INVOICE PROCESSING

The majority of UDC suppliers continue to be paid within the 30 day target. However, invoices continue to be sent in the first instance to departments for checking and certification before being forwarded to Exchequer for payment. There are currently no controls in place to monitor the processing time being taken by departments and testing during the audit of a sample of 151 invoices has identified an average departmental processing time of 8.5 working days. This can be further analysed as 53.9% of undisputed invoices processed by departments within 10 working days (84.3% processed within 15 working days) which affords Exchequer adequate time to complete the payment processing within the required 30 days. However, as the remaining 14.7% included processing times of 21 day and 33 days, **we would recommend that** a targeted reminder be sent to the relevant departments to highlight the need for the prompt processing and forwarding of invoices to Exchequer.

To allow the monitoring and control of supplier invoice payments, **we further recommend that** consideration be given to a review and modernisation of the whole invoice processing system, possibly incorporating as part of the proposed re-implementation of FMS, the use of the integrated purchase order, invoice register and authorisation system within FMS is investigated.

## 1.8 FINANCIAL REGULATIONS

Examination of Financial Regulations confirmed that although in substance Financial Regulations are in line with current VAT Legislation, they are in need of review and updating to reflect both changes internally and externally e.g. the amalgamation of Inland Revenue and HM Customs & Excise. **We therefore recommend that** following the appointment of Heads of Division under the Uttlesford 2011 project, a full review and updating of Financial Regulations is undertaken to ensure that they reflect both the internal and external changes that have recently taken place.

Sheila Bronson  
March 2007

Management Action Plan For: - CREDITORS & VAT 2006-07

Appendix / Para	Recommendation	Significance * Low ** Med *** High	Agreed / Not agreed	Officer Responsible	Officer Comments	Implementation date
1.4	<b>Re-iterate the recommendation that</b> contingency plans should be produced against the risk that sufficient staff might not always be available to administer creditor payments	***	Agreed in principle	Head of Finance	At present, having four Exchequer Services officers enables continuity of cover for Creditors. The appointment of more staff would be disproportionate to the size of this authority, and cannot be support by budgetary resources. However, a review of the Finance Division will ensure that continuity of cover is maximised as far as possible. Enhanced use of facilities within FMS, extension of payments towards BACS, and a review of purchase ordering are anticipated (subject to budget approval) and, collectively, will	Nov/Dec 2007 (staffing)  Early/mid 2008 (Financial systems enhancements)

					dramatically reduce the risks associated with continuity of service.	
1.4	<b>Re-iterate the recommendation that</b> the officers currently administering the Creditors processes are asked to prepare adequate / more comprehensive procedures.	***	Agreed	Principal Accountant (Services)	This work was commissioned in 2006 but, due to the departure of the temporary Principal Accountant (Services), not completed. This work cannot recommence until after the review of the Finance Division structure and appointment to the vacant Principal Accountant (Services) post.	Early 2008
1.5	<b>Recommend that</b> immediate action is taken to bring the Disbursements and General Bank Accounts reconciliations up to date <b>and that</b> management action is taken to ensure that controls are put in place to prevent this problem reoccurring.	***	Agreed	Principal Accountant (Services)	This has been completed as part of the annual final accounts for 2006/07. A new temporary post-holder has received appropriate training to enable regular reconciliations to occur. Meanwhile, the review of the	n/a

					Finance Division structure will ensure that this work is satisfactorily covered to enable monthly reconciliations to occur.	
1.6	<b>Recommend that</b> immediate action is taken to resolve the VAT account anomalies identified during our 2004-05 audit <b>and that</b> all in time errors are declared to HM Revenue & Customs as soon as possible.	***	Agreed	Principal Accountant (Technical) / Principal Accountant (Services)	This will rely upon successful recruitment to either the Principal Accountant (Services) or HRA Accountant vacancies.	Nov/Dec 2007
1.6	<b>Recommend that</b> consideration is given to changing to monthly VAT returns or, if this is not considered possible, to having the Council's VAT return periods changes to align with the financial year end.	**	Agreed	Principal Accountant (Technical) / Principal Accountant (Services)	Preliminary review of the Finance Division structure has placed greater scope for focus on VAT in future. This is anticipated to support monthly returns.	Sept/ Oct 2007
1.6	<b>Recommend that</b> as part of the proposed re-implementation of FMS that the use of the VAT Account within FMS for the calculation of VAT return figures is investigated.	*	Agreed	Principal Accountant (Technical) / HRA Accountant	The relevant reports in the Creditors System have been identified and run by the Accountancy Officer to enable this recommendation to be implemented.	April 2008



1.7	<b>Recommend that</b> a general reminder be sent to all departments to highlight the need for the prompt processing and forwarding of invoices to Exchequer.	*	Agreed	Principal Accountant (Services)	This will rely upon successful recruitment to either the Principal Accountant (Services).	Sept/ Oct 2007
1.7	<b>Recommend that</b> consideration be given to a review and modernisation of the whole invoice processing system possibly incorporating, as part of the proposed re-implementation of FMS, the use of the integrated purchase order, invoice register and authorisation system within FMS is investigated.	**	Agreed	Head of Finance / Head of ICT	This is scheduled to follow the reimplementation of FMS, although depends upon the availability of financial and staffing resources within the authority.	Early/mid 2008 (Financial systems enhancements)
1.8	<b>Recommend that</b> following the appointment of Heads of Division under the Uttlesford 2001 project, a full review and updating of Financial Regulations is undertaken to ensure that they reflect both the internal and external changes that have recently taken place.	*	Agreed	Head of Finance	A full review of Financial Regulations will occur.	December 2007

Agreed: John Dyson (Head of Service)

Date: 21 May 2007