



Internal Audit FINAL REPORT

CREDITORS & VAT 2008-09

To: **Adrian Webb** **Interim Director of Central Services**

For information: John Mitchell Chief Executive
Michael Perry Assistant Chief Executive
David Bradley Interim Head of Finance
Alison Martin Payments Coordinator
Sandra Ashley Payments Administrator

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Audit Assurance Opinion	Adequate
Sufficiently robust controls	Yes
Recommendations made	Three
Risk Level 4	One
Risk Level 3	One
Risk Level 2	One
Risk Level 1	None

Report Author: **Jonathan C. Smith**
Internal Auditor

Reviewed and Issued By: **Sheila Bronson**
Audit Manager



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1. Introduction

- 1.1 An audit of Creditors & VAT has been carried out as part of the 2008-09 audit plan. The audit was assessed as risk level **4** as part of Internal Audit's planning approach.

Previous Audit

- 1.2 The previous audit of this service was completed in February 2008. When planning that audit it was anticipated that the Purchase Ordering system would shortly be fully implemented and therefore it was agreed that the audit would be treated as an interim audit, on the understanding that this year's audit would consider the new system. Unfortunately, the new system has still not been implemented, although we understand that ICT's current plans are to introduce it into ICT during August, and at the Newport Depot and in Building Control during September.

The 6 recommendations made in the 2007-08 audit time were reviewed as part of this audit, and we can report the following: -

Recommendation	Position as at August 2008	Audit Opinion
Contingency plans should be produced against the risk that sufficient staff might not always be available to administer Creditor payments. (This recommendation was a reiteration of one made in the 2006-07 report.)	The new payments system is still not operational but when it is there will be significant changes to procedures connected with Creditors.	This recommendation can be withdrawn pending the introduction of the new system and restructuring of Financial Services and Exchequer.
Officers administering the Creditors processes should prepare adequate, more comprehensive procedures. (While acknowledging the Exchequer Assistant's efforts in maintaining her procedures, we recommend that (a) The procedures are reviewed in the light of the new system, (b) An index is prepared, and (c) The 'paper' procedures are supplemented by electronic copies on the departmental 'R' drive.)	The new payments system is not yet implemented. Therefore procedures cannot be reviewed, or indexed until it is.	This recommendation can be deferred pending implementation of the new Purchase Order module and the restructuring of Financial Services and Exchequer.



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<p>Controls, such as a second officer check, should be put in place to ensure that regular Disbursements and General Bank Accounts reconciliations are carried out. (This recommendation was a reiteration of one made in the 2006-07 report.)</p>	<p>No second officer checks are being carried out. Although she agrees that the recommendation is in part for her own protection, the officer concerned seemed unaware that it had been made.</p> <p>Internal Audit accepts that operational procedures will be subject to change when the new Principal Accountants take up post,</p>	<p>This recommendation has <u>not yet been implemented.</u> This is in part due to lack of the necessary resource.</p>
<p>(a) Immediate action should be taken to resolve VAT account anomalies identified during the 2004-05 audit, and (b) all in-time errors are declared to HM Revenue & Customs as soon as possible. (This recommendation was a reiteration of one made in the 2006-07 report.)</p>	<p>Progress is being made and the Accountancy Officer concerned is being assisted by a colleague.</p> <p>Accounting entries are to be reviewed to ensure that the amounts concerned are correct.</p>	<p>Implementation of this recommendation is in progress but is <u>not fully implemented.</u></p>
<p>A full review and update of Financial Regulations should be undertaken to ensure that they reflect both the internal and external changes that have taken place. (This recommendation was a reiteration of one made in the 2006-07 report.)</p>	<p>This recommendation was not agreed after the 2007-08 Interim audit, because there were no resources available to carry out this task at present.</p> <p>It was agreed that it would be completed after the new SMB structure was determined and responsible officers identified.</p> <p>It is anticipated that the Financial Regulations can be developed when the new Chief Financial Officer takes post</p>	<p><u>Not yet implemented</u></p>
<p>In accordance with the APACS recommendation, all un-presented cheques over 6 years of age should be cancelled and the sums involved be written-back.</p>	<p>This was completed by the end of February 2008</p>	<p>This recommendation has been <u>fully implemented</u></p>

It was pleasing to establish during audit fieldwork that a recruitment exercise was in progress to engage senior Financial Services staff, in the roles of Chief Financial Officer, Principal Accountant (Capital & Technical) and Principal Accountant (Services). Filling these posts will permit restructuring of the department and in Exchequer.



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Scope and Objectives of Audit Work

- 1.3 The scope of and the approach to this audit were agreed with the Chief Auditee, David Bradley, Interim Head Of Finance and defined in the Terms of Reference.

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

- a) Invoices are not confirmed as valid and correct, or goods or services invoiced for were not ordered or have not been received;
- b) Payments to suppliers are not correctly authorised;
- c) IT systems used fail or do not support the service adequately;
- d) Credit terms are not adhered to and discounts are not taken wherever possible;
- e) Invoices are paid incorrectly, or are paid late and additional costs are incurred;
- f) Arrangements for the storage, issue and disposal of cheques are inadequate;
- g) Credit notes are incorrectly identified or are not processed appropriately;
- h) The scanning of invoices into the FIS system to facilitate operation of the new Purchase Order module is not done correctly;
- i) Electronic or 'paper' remittance advices are sent to the wrong address;
- j) Invoices are paid twice, both by cheque and by BACS;
- k) Insufficient skilled staff are available to administer the Creditors system;
- l) Staff operating the service are poorly or inadequately trained;
- m) There is inadequate Separation of Duties;
- n) Invoices are incorrectly posted to the Purchase Ledger Day Book;
- o) Financial Regulations are not complied with;
- p) There are Insufficient funds available in the bank to pay creditors;
- q) Direct Debit payment mandates are not correctly authorised;
- r) Legislation, such as VAT; the Data Protection Act; the Late Payment of Commercial Debts Act; the construction Industry Tax Deduction Scheme, is not complied with;
- s) Information is recorded inaccurately;
- t) Management information is inadequate.

In anticipation of the implementation of the Purchase Ordering system, Exchequer staff have recently started to scan invoices passed to them for payment. We were asked to include a review the scanning process in this audit.

Methodology

- 1.5 The methodology stated in the Terms of Reference was used to establish and test the controls that management have in place for mitigating or reducing the above risks to an acceptable level.



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2. Executive Summary

- 2.1 Taking into account the issues identified in paragraphs 2.2 to 2.8, in our opinion the controls within the service as currently laid down and operated provide **Adequate** assurance that risks material to the achievement of the objectives for this service are managed and controlled

Conclusion on the Adequacy and Application of Controls

- 2.2 Based on the evidence obtained from our testing, we have concluded that the adequacy and application of controls **is** sufficiently robust to provide assurance that the activities and procedures in place will achieve the objectives for the service

Recommendations

- 2.3 We have made **3** recommendations -
- 1 risk level 4 matter that is fundamental and requires immediate attention and priority action;
 - 1 risk level 3 matter that is considered significant and should be addressed within six months;
 - 1 risk level 2 matter that is considered important and should be addressed within twelve months.
 - 0 risk level 1 matters.
- 2.4 This report has been prepared by exception. We have therefore included in Section 3, Findings and Recommendations, only those areas with scope for improvement of controls or examples of lapses in control identified from our testing, and not the outcome of all the audit testing undertaken.
- 2.5 In addition to the findings described in detail in Section 3, we also found the following examples of good practice in the management of risk achieved through the effective design and consistent application of controls:
- It was apparent from interviews and informal discussions with Exchequer staff, and from observation, that they take great care to process invoices passed to them for payment accurately and with minimal delay. Changes will no doubt be made in line with the introduction of the new Purchase Order system but this audit focussed on the system in place.
 - Shortly after scanning of invoices was introduced the Payments Coordinator took the trouble to email all staff to announce the new procedure and to explain the reasons for it, attaching a document explaining how users can access the images. This should save time for all staff and reduce interruptions on Exchequer staff time.



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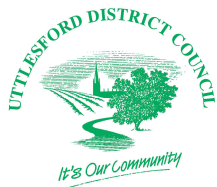
Acknowledgement

- 2.6 A number of staff in Exchequer, in Financial Services, ICT, the Newport Depot and elsewhere gave their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

Audit Assurance Opinion – definitions

2.8

Opinion	Definition
Substantial	Good effective management of risk; no significant recommendations arising. Overall there should be no more than six recommendations of which: none are risk level 4 or 3 recommendations and no more than two are risk level 2 recommendations
Adequate	Sound satisfactory management of risk; identification of some elements of the control framework that merit attention; Marginal identification of deficiencies in the control framework that result in some risks not being managed effectively and must be addressed. Overall there should be no more than ten recommendations of which: no more than one recommendation is at either a risk level 4 or 3 and no more than six are risk level 2 recommendations
Limited	Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention. Overall there should be no more than fourteen recommendations of which: no more than four recommendations are at risk levels 4 and 3 and no more than ten recommendations are at risk level 2
Little	Major controls have failed and/or major errors have been detected. There will be: more than fifteen recommendations or more than four recommendations at risk level 4 and 3 or more than ten recommendations at risk level 2

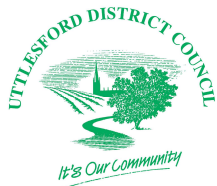


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3. Findings and Recommendations

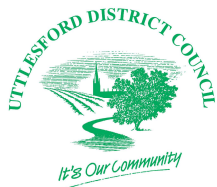
No	Expected Controls	Test Results and Implications	Recommendations	Risk * 1- 4
3.1	<p>Training provided to users of the Purchase Order module which is about to be implemented.</p>	<p>At the outset of this audit we were given to understand that the Purchase Order module was to be implemented in ICT in August, followed by Newport Depot and Building Control in September. We now understand that this plan has been delayed.</p> <p>We discussed the original plan with staff at one of the locations, and with other staff with an interest in ordering services and goods and arranging payment for them. This established that no-one appeared in overall control of the implementation, which seemed to be led jointly by IT and Financial Services.</p> <p>Significantly, the Finance & Systems Officer 'understood' that Depot Management had agreed to trial the new module. We established that Depot staff had clearly not accessed the system since January 2008 and only did so when we arranged a visit to discuss it for this audit. There has been no oversight to ensure that the system was actually being trialled.</p> <p>There has been only minimal consultation with user and Exchequer staff, who have not been trained in preparation for the implementation. Many of their questions remain unanswered.</p>	<p>Discussions should be held with Exchequer and Newport depot staff to prepare a plan for implementing the Purchase Order module in London Road departments and at the depot, as a matter of urgency.</p> <p>Exchequer and Depot staff should be trained in all aspects of its use. Plans should be made to conduct meetings and provide training to other users in advance of the implementation in their departments.</p>	4



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No	Expected Controls	Test Results and Implications	Recommendations	Risk * 1- 4
3.2	<p>In preparation for the implementation of the new Purchase Ordering system, Exchequer staff are scanning invoices. This enables users to refer to them without visiting Exchequer. It is important that the image quality permits easy reading.</p>	<p>A few images were seen to be of dubious quality. Retrieving the originals from Exchequer's files and conversations with Exchequer staff established that this was often the result of flimsy paper, or the suppliers' use of dot matrix printers, or graphic designs incorporated into the invoice.</p> <p>When the new Purchase Ordering system is implemented, Invoices will be delivered to Exchequer for registration and scanning, and the ordering departments will have only the scanned image to refer to. Illegible scanned images may cause difficulties and delay payment.</p>	<p>Departments ordering goods and services should be asked to assess the quality of the invoices they currently receive, and if necessary contact their suppliers to demand better quality. They should explain to the suppliers that poor quality invoices may delay payment.</p>	3

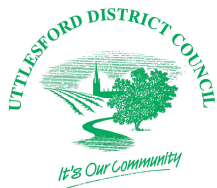


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No	Expected Controls	Test Results and Implications	Recommendations	Risk * 1- 4
3.3	Credit Notes from suppliers are registered into the Creditors system and the Credit used to offset later invoices received. If it is decided to cease the arrangements with a supplier any unused credit should be recovered as cash.	<p>An Aged Creditors report generated by Internal Audit identified a small number of credit balances over 120 days old, and it was clear that in several instances no business had been transacted with the suppliers for some time.</p> <p>Exchequer provided an Unallocated Credit Notes Report which included unused Credit Notes dating back to 2004. The Payments Coordinator's records confirm that she has been trying to recover these unused Credits but is having difficulty in contacting the suppliers or convincing them that there is a credit balance due to the Council</p>	Senior Financial Services staff should review the aged credit balances and decide whether recovery is economically justified. Where it is decided that it is not the credits should be written-off.	2

- *
 4. Catastrophic effect - immediate action required. Matters that are considered fundamental that require immediate attention and priority action.
 3. Significant impact – action required. Matters that are considered significant that should be addressed within six months.
 2. Some impact – action necessary. Matters that are considered important that should be addressed within twelve months.
 1. Little or no impact. Matters that merit attention and would improve overall control levels.



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MANAGEMENT ACTION PLAN CREDITORS & VAT 2008-09

4. Management Action Plan

For completion and return by **29 October 2008**

Ref	Recommendation	Risk 1-4	Agreed / Not agreed	Officer Responsible	Officer Comments	Implementation date
3.1	Discussions should be held with Exchequer and Newport depot staff to prepare a plan for implementing the Purchase Order module in London Road departments and at the depot, as a matter of urgency. Exchequer and Depot staff should be trained in all aspects of its use. Plans should be made to conduct meetings and provide training to other users in advance of the implementation in their departments.	4	Agreed, subject to Depot being agreed as a test site in implementation plan.	Chief Finance Officer/ICT Manager/Heads of Division	The implementation plan for the purchase module will incorporate appropriate training for all affected staff. It has not yet been determined who will be a test Division using the new system other than ICT, but if there is, that will also be included in the plan.	Full module to be implemented by 31 st March, although testing will commence work from November onwards,
3.2	Departments ordering goods and services should be asked to assess the quality of the invoices they currently receive, and if necessary contact their suppliers to demand better quality. They should explain to the suppliers that poor quality invoices may delay payment.	3	Agreed	Chief Finance Officer/ICT Manager	To be incorporated into the implementation plan for the Purchase Order module	See above.
3.3	Senior Financial Services staff should review the aged credit balances and decide whether recovery is economically justified. Where it is decided that it	2	Agreed	Chief Finance Officer	This will be completed as part of the budget process	31 st January 2009



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MANAGEMENT ACTION PLAN CREDITORS & VAT 2008-09

Ref	Recommendation	Risk 1-4	Agreed / Not agreed	Officer Responsible	Officer Comments	Implementation date
	is not the credits should be written-off.				as there may be implications for service budgets	

Agreed _____ D Bradley _____ Interim Head of Finance Date __03/11/08_____