

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive - Resources & People Services

SUBJECT: Internal Audit Report – Creditors

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Creditors.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Creditors.

3 BACKGROUND

- 3.1 A review of Creditors was undertaken as part of the audit plan for 2013/14.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Creditors were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CREDITORS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of the Creditors process was carried out as part of the Audit Plan for 2013/14. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate procedures are in place for the processing of creditor payments.
- All creditor payments are supported by appropriate documentation.
- Systems are in place to ensure that the total value of creditor payment runs reconcile to the amounts posted to the Great Plains ledger system.
- Reconciliations are undertaken by the Creditors Section to ensure that BACS payments agree to creditor payment runs.

1.3 Areas with Scope for Improvement

- There was a lack of detailed guidance in place for the ordering, receipting and authorising of creditor payments. *Risk – inconsistencies may occur.*
- The authorised signatory list in place had not been updated following recent changes to the Council's organisational structure – a number of inconsistencies and anomalies were identified. *Risk – inappropriate payments may be made.*
- There was a lack of adequate separation of duties – a number of Pecos users had been set up as self approvers with authority to both raise and approve orders for transactions up to a value of £1,000. *Risk – errors and irregularities may occur and remain undetected.*
- The monitoring arrangements for outstanding credit notes require review to ensure that all amounts are recovered promptly. *Risk – loss of income to the Council.*
- There was a lack of checking procedures in place for cheque payments processed by the Creditors Section. *Risk – errors and irregularities may occur and remain undetected.*
- The procedures in place for creating new supplier accounts and monitoring amendments to the Creditors masterfile require review. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of a consistent approach for the retention of supplier invoices. *Risk – lack of an audit trail.*
- The procedures for reviewing payments in excess of £100,000 require review. *Risk – inappropriate payments may not be detected.*

1.4 Summary

Our review of Creditors identified areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

May 2014

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that detailed guidance is available to staff responsible for the ordering, receipting, authorising and processing of creditor payments.	Medium	Service Manager – Corporate Finance	Agreed – some guidance is in place however management agree to review and update this.		September 2014
3.2.1	<p>Management should ensure that the authorised signatory list held by Corporate Finance is updated to reflect the recent changes to the Council’s organisational structure.</p> <p>The authorised signatory list should be reviewed to ensure consistency – authorisation limits should reflect the roles and responsibilities of the post holder.</p> <p>The authorised signatory list held by Corporate Finance should be regularly reviewed and updated where anomalies are identified.</p>	Medium	Service Manager – Corporate Finance	Agreed – a Statement of Current Working Method setting out a revised Financial Authorisation Signatory (FAS) Scheme has been approved and is due to be rolled out. The new scheme links authorisation limits to roles and includes provision for an annual review.		March 2015

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	<p>Management should ensure that guidance issued to staff clearly outlines that an order form should be completed when goods and services are ordered and that the order form should be attached to the invoice prior to the invoice being passed to the Creditors Section for processing.</p>	Medium	Service Manager – Corporate Finance	See 3.1.1		September 2014
3.3.2	<p>Management should ensure that all purchase orders raised on the TASK system are approved by an authorised signatory.</p> <p>The current practice of completing retrospective purchase orders after the invoice has been received should cease.</p> <p>Management should ensure that all purchase orders raised on the TASK system are matched to the corresponding invoice and passed for payment.</p>	Medium	<p>Senior Area Officer West</p> <p>Transport Services Manager</p>	<p>Agreed</p> <p>Agreed</p>		<p>May 2014</p> <p>May 2014</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>Management should ensure that a list of all Pecos approvers and their authorisation limits is held by Corporate Finance.</p> <p>Management should ensure that the authorisation limits on Pecos are consistent with the authorised signatory list currently held by Corporate Finance.</p> <p>Management should ensure that adequate separation of duties exists between the requisitioner and the approver – self approvers’ status should be reviewed for all Pecos users.</p> <p>Management should ensure that adequate separation of duties exists between the requisitioner and the person who inputs the invoices on the system.</p> <p>Management should ensure that a report of all forced settlements is produced and is reviewed by an independent person.</p>	Medium	Service Manager – Corporate Finance	<p>Agreed – a list will be reviewed jointly by Corporate Finance and Internal Audit in order to assess the risk of the current policy.</p> <p>Agreed</p>		<p>July 2014</p> <p>June 2014</p>

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3.4.1 (cont)	<p>Management should ensure that the report listing all invoices processed for payment is passed to Service Departments for checking.</p> <p>Management should ensure that error reports together with details of the action taken are retained by the Creditors Section.</p>	Medium	Service Manager – Corporate Finance	Agreed		June 2014
3.5.2	<p>Management should ensure that guidance available to staff clearly outlines that for all invoices passed for payment authorisations should be within the approved limits.</p> <p>All invoices received by the Council should be checked by Service Departments to ensure that they are accurate and complete.</p>	Medium	Service Manager – Corporate Finance	See 3.1.1		September 2014
3.5.4	Management should ensure that a consistent approach is adopted for the retention of records – all supplier invoices should be submitted to the Creditors Section.	Medium	Service Manager – Corporate Finance	Agreed – invoices will be scanned and retained electronically by Creditors.		June 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1	Management should ensure that staff inputting invoices to Pecos take appropriate action when the system prompts a mismatch.	Medium	Principal Amenity Officer	Agreed – amounts to be correctly input to the system.		May 2014
3.7.1	<p>The BACs pre-submission reports should be signed and dated as evidence of payments being authorised.</p> <p>For all individual payments exceeding £100,000 checks should be carried out to supporting documentation to ensure that payments are valid and genuine.</p> <p>All individual payments in excess of £100,000 in the pre-submission reports should be checked by an employee with the appropriate authorisation level.</p>	Medium	Service Manager – Corporate Finance	Agreed		May 2014
3.7.2	Management should ensure that a sample of cheque payments is reviewed by a person independent of processing.	Medium	Service Manager – Corporate Finance	Agreed		May 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.3	Regular monitoring should be undertaken to ensure that amounts due in respect of outstanding credit notes are promptly recovered.	Medium	Service Manager – Corporate Finance	Agreed – procedures will be reviewed to ensure that a quarterly review is undertaken in future.		June 2014
3.9.1	Management should ensure that New Supplier Request Forms are approved by a person independent of the preparer. Management should ensure that new suppliers are only created following approval by an authorised signatory.	Medium	Service Manager – Corporate Finance	Agreed		June 2014
3.9.2	Management should ensure that a sample of amendments to the Creditors masterfile is checked by a person independent of processing.	Medium	Service Manager – Corporate Finance	Agreed		June 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.