
EXECUTIVE SUMMARY

Introduction

The purpose of this report is to provide management with assurance that the controls operating within the Creditors procedures are adequate in regard to the key risks of fraud or error. Creditors is considered a fundamental system by the external auditors and is therefore included in the Internal Audit Plan every year as part of the managed audit approach.

The Creditors function is delivered in-house with elements of the process being performed by different teams across the Council. Processing and despatch of payments and is administered in Exchequer Services. In the region of 10,000 invoices are processed each year.

Manual orders are raised and authorisation of invoices for payment is the responsibility of budget holders.

A number of errors in payment amount (compared to invoice / precept amount) have been identified by third parties and the Deputy Chief Executive commissioned a full detailed audit of the Creditors System as a matter of urgency.

Overview

Overall the processing of Creditor invoices for payment is well controlled. Established controls over system referencing and record keeping are sound and there is an appropriate audit trail for all transactions. Assurance was gained that payments have been appropriately authorised and are subject to appropriate checks prior to despatch; in addition, the Exchequer Services Manager reviews all payments over £5,000. The data on the Creditors System is properly registered with the Information Commissioner, is secure and access is restricted to a limited number of appropriate officers.

Two errors had been identified by third parties over the past 12 months. One related to a parish precept payment which was the result of a keying error in the Exchequer Team. Controls were strengthened immediately, and the Exchequer Services Manager now checks all precept payments to the Precept Register prior to despatch, regardless of the amount.

The second error related to a grant payment, where the originating officer had made a clerical error when completing the payment requisition form. Detailed testing did not detect any other similar errors and assurance can be gained that this is an isolated incident that does not materially affect the Council's accounts. However, as a result of the findings, a recommendation to improve controls is included in the action plan to this report.

A number of other areas for improvement were also identified as:

- Improvements to procedure notes to promote better understanding of separation of duties;
- Reducing the use of manual payments to a minimum;
- Improvements to control checking of cost codes;
- Reminding all officers processing invoices of the need for proper VAT invoices where applicable; and,
- Improving staff awareness of the Data Protection Act and how it affects their work

These issues are addressed through the recommendations in the report. As a result of these findings, the overall assurance rating is given below.

As only minor risks have been identified and some recommendations made, the assurance rating following this audit is

Sound

Scope

The audit included an examination of the key controls to give assurance that:

- All transactions are properly matched to orders and authorised for payment by appropriate officers
- All invoices are accurately recorded in the Creditors System, including evaluating data entry controls and matching to prime documents
- All payments are subject to appropriate accuracy checks prior to despatch
- Appropriate levels of separation of duties and managerial controls exist and are operating effectively
- Security of key financial data and review of master file amendments

Testing was focused to identify the extent of errors of the type already discovered by the client, and the strength of internal checks and controls.

Recommendations have been made as appropriate to strengthen controls and mitigate risks of future errors.

The recommendations are listed on the action plan, followed by the detailed report.

Acknowledgements

The help and co-operation of the Head of Financial Services, Exchequer Services Assistants, Exchequer Services Manager, Central Administration Team and Systems Administrator was much appreciated by the Auditor.

Rosanne Fleming
Audit Manager

ACTION PLAN

RECOMMENDATION	Section number	Priority	Officer Responsible	Agreed Action and completion date
Procedural Instructions could be further improved by explicitly identifying the need to include at least two officers in the ordering / goods receiving / authorisation process.	01.04.01	3 - Low	H of Fin Services	Procurement instructions are being revised in conjunction with the development of the e-procurement module. Contract procedures are also in the process of being revised to include e-procurement. 01/07/2010
The Head of Financial Services should inform all authorised signatories that supporting evidence must be attached to cheque requisition forms, and remind those officers of their responsibilities to check that the form has been completed accurately before signing to authorise payment. The Exchequer Services Assistant should cross check supporting documents to the requisition form, and where evidence is insufficient, the form should be returned to the originator. For grant payments this should include a copy of the Council approval and reference to the appropriate Committee minute.	03.03.01	1 - High	H of Fin Services	Guidance will be reissued 01/07/2010
The Head of Financial Services should consider authorising all manual payments before issue to monitor appropriate use. The Exchequer Services Manager should consider reviewing the payees for manual payments and identify any groups or patterns where efficiency improvements might be made by switching to alternative payment methods.	03.08.01	3 - Low	H of Fin Services	Manual payments will only be used as a last resort and this will be incorporated into revised procedures 01/07/2010
Central Administration Team reviews the top line of the input window that shows the narrative of the cost code at the time of inputting the order or invoice to the system, and matches it for reasonableness to the type of goods or services being procured. Where queries exist, the order or invoice should be returned to the originator to identify an appropriate code.	07.01.01	3 - Low	H of Fin Services	Guidance to be issued 01/07/2010
The Head of Financial Services to remind all staff of the requirement to pay on original documents and that original VAT invoices including VAT registration number and VAT rate (or rate category).	09.03.02	1 - High	H of Fin Services	Guidance to be issued 01/07/2010
Head of Change to ensure that 'The Learning Pool' DP awareness module is made available to all staff and appropriate records are maintained to demonstrate that this training has taken place.	10.06.01	3 - Low	H of Change	Plans are already in place for implementation in 2010/11. 01/10/2010