



## **Internal Audit Report**

Customer Services  
Creditors Review

February 2013

## **1. INTRODUCTION**

- 1.1 As part of the Annual Audit Plan for 2012/13 Internal Audit undertook a review of the Creditor Payment system.
- 1.2 The Council makes payments for goods, services and utilities. The processes for undertaking these payments are considered as part of the auditor's risk appraisal or audit needs assessment. A robust internal control environment should therefore cover all forms of payments, reconciliation and monitoring of all monies paid, commensurate with the risks and sums involved.
- 1.3 The creditors section which is based in Campbeltown process some 12,000 invoices monthly and 150,000 invoices per annum. Creditors will, over the coming months, incur a number of fundamental changes to its operations, namely the introduction of Oracle purchasing, the upgrade to Oracle version 12, the upgrade of the Myview system and lastly, the move to the Purchasing Card Consultancy Limited agreement (PCCL). Consequently, the scope of the audit was limited to checking that there were fundamental controls operating around the creditor payment systems.
- 1.4 Controls were reviewed to ensure that:
  - Procedure manual is up to date and reflects changes
  - Payments are only made for Bona Fide charges or liabilities
  - Payments are made per the correct amounts
  - That all payments are properly accounted for within Council Financial records and systems.
  - Those payments meet required contractual terms and conditions

## **2. AUDIT SCOPE AND OBJECTIVES**

- 2.1 An Audit Agreement Document (AAD) was prepared and forwarded to the Creditors Supervisor for his agreement. The Agreement set out the main objectives of the audit approach and scope. The following areas were looked at:
  - System input and output controls will be reviewed;
  - The system will be reviewed for completeness, quality and accuracy of data streams;
  - Data reports produced will be evaluated for their relevance and usefulness;
  - Recommendations from the 11/12 audit report have been implemented.

## **3. RISK ASSESSMENT**

- 3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system;

RA03: Inaccurate management information.

**4. CORPORATE GOVERNANCE**

4.1 There were no Corporate Governance issues to be reported as a result of this audit.

**5. MAIN FINDINGS**

5.1 The user manual for Creditors and Payments has not been updated for some time.

5.2 The Authorisation limits on the Council’s hub require to be brought up to date.

5.3 The Council should consider making adequate resource available to eliminate the backlog of invoices waiting to be scanned into Comino.

5.4 The monthly reporting of payment statistics by the Creditors section can be generated more efficiently by the adoption of various Excel functions.

**6. RECOMMENDATIONS**

6.1 Four recommendations were identified as a result of the audit. The recommendations have the following priority ranking, one at high, 2 medium and one low. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of senior management.

6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.

6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definitions of each classification are set out below:-

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|---|
| <p><b>High</b> - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p><b>Medium</b> - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not</p> |
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necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## **7. AUDIT OPINION**

- 7.1 It is Internal Audits view that based on the findings of the audit that there are sufficient controls in place to ensure that invoices are being paid correctly for the goods and services delivered and that the accounting treatment thereof properly reflects the service being paid for.
- 7.2 The enhancement of reporting to user departments was identified as an issue but plans are in place to address this.
- 7.3 Recommendations arising from the audit work should be implemented by the nominated responsible officer/s within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## **8. ACKNOWLEDGEMENTS**

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:
- Procurement and Commissioning Manager
  - Creditors Supervisor
  - Creditors section
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2****ACTION PLAN**

| <b>No.</b> | <b>FINDINGS</b>   | <b>PRIORITY</b> | <b>RECOMMENDATION</b>  | <b>RESPONSIBLE OFFICER</b>                  | <b>IMPLEMENTATION DATE</b>           |
|------------|---|-----------------|--|---|--------------------------------------|
| 1          | The Creditors Section relies heavily on the operations carried out by departmental creditor staff under the direction of local management. To assist with this process a user manual was issued for guidance to all departments by the Creditors Section describing in detail the accounts payable procedures. This manual needs to be updated.   | Medium          | Bearing in mind that Oracle purchasing is being introduced it is recommended that the procedural manual be updated as these changes are implemented.                 | <b>Creditors Supervisor</b>                 | <b>31<sup>st</sup> December 2013</b> |
| 2          | Authorisation limits have been assigned to all personnel who are responsible for the purchase of goods and services within the Council. A sample of invoices was chosen from the financial year 11/12 and the corresponding payments made were checked to ensure that authorisations were within agreed limits as laid out on the Council's website. It was found on numerous occasions that limits set per invoices been paid did not agree to the authorisation list. | High            | A complete review of all authorised signatories should be carried out to bring the authorised signatories database as published on the Council's website up to date. | <b>Creditors Supervisor and Departments</b> | <b>31st July 2013</b>                |

| No. | FINDINGS  | PRIORITY | RECOMMENDATION   | RESPONSIBLE OFFICER  | IMPLEMENTATION DATE          |
|-----|---|----------|--|----------------------|------------------------------|
| 3   | The Council has adopted a policy of scanning all invoices into Comino in order to facilitate tracking of invoices which in turn enhances the Council's ability to meet its policy of paying invoices within 30 days of invoice date. At present there is a significant backlog of invoices waiting to be scanned into Comino. | Medium   | The Council should consider making adequate resource available to eliminate the backlog of invoices other than local invoices waiting to be scanned into Comino. i.e. Pecos , Tranman and Carefirst invoices | Creditors Supervisor | 31 <sup>st</sup> August 2013 |