

Ordering and Creditor Payments

City of York Council

Internal Audit Report 2013-14

Business Unit: CBSS, Financial Procedures
Responsible Officer: Director of Customer and Business Support Services
Service Manager: Head of Financial Procedures
Date Issued: 28 July 2014
Status: Final
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	P3	P2	P1
Findings	2	2	0
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

Creditor payments is a key service within the council, processing over £420m of payments a year and over 10,000 invoices each month.

It is important that invoices are paid in a timely manner to maintain the council's reputation, comply with contractual requirements and minimise the risk of interest claims and administration fees due to late payments.

Completion of purchase orders is a key part of the council's financial regulations and since December 2012 the council has had a 'no purchase order, no payment' policy. Purchase orders are vital in controlling council expenditure, achieving best value and realising efficiencies in the 'purchase to pay' system.

Ordering and creditor payment systems are audited annually because of their importance to the council's operations, the value of transactions and the potential for fraud.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- ordering and creditor procedures comply with the council's financial regulations, relevant legislation and best practice
- the ordering process is robust and the official system is used for purchasing goods and recording when these have been received
- payment systems are secure, payments are only made for valid invoices and for the correct amount
- invoice processing systems are efficient and timely and there are appropriate performance management arrangements in place
- creditor transactions are correctly accounted for by the creditors system and the related accounting records.

The audit included the processes and systems, from the ordering and receiving of goods and services to the authorisation and payment of invoices. It also included disputed invoices and the arrangements for minimising the risk of fraud.

Key Findings

It was found that since the implementation of the 'No Purchase Order No Payment' policy, significant progress has been made in the levels of compliance with the requirement to complete purchase orders. However, problems remain with achieving the efficiencies intended in the P2P system and the volume of invoices that require manual intervention remains high. This seems to be due to a mixture of delays in goods receipting and inaccurate ordering or receipting but also seems to include some inherent difficulties in raising purchase order lines that will automatically match to invoices. Continuous monitoring and improvement action is likely to be needed to achieve the objectives of the P2P system and information needs to be available to target improvement action more effectively.

In addition, it seems that there are areas of the council where orders are not being raised before goods or services are delivered, which undermines the control intended through the use of orders and means officer time is being spent on processes that do not strengthen controls. This also appears to be causing invoices to be paid late but not being recorded as such because of delays in the invoices being logged as received. Improvements also need to be made to the processes for XX.

Overall Conclusions

It was found that the arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

Area Reviewed: Identification of training needs

Severity
Probability



1 Issue/ Control Weakness Risk

Identifying incorrect or inefficient use of the purchasing system so action can be taken to improve it.

There is a risk that the efficiencies of the P2P system will not be achieved and the increased control provided by the ordering and receipting process are undermined.

Findings

Training in the use of the purchasing system is good and considerable effort is put into training new users and providing refresher training. However, delivering more training to all purchasing system users does not seem likely to add sufficient value for the resources that it requires. Therefore, it now seems as if further training or other action should be targeted specifically at users that are not using the system correctly or efficiently.

Better management information could be used to identify whether users are making errors due to a lack of knowledge, lack of care or whether some users are consistently failing to complete GRNs as promptly as possible (which remains a key blockage in the efficiency of the system). This would enable training to be targeted more effectively but would also mean reminders could be issued to specific departments or staff members who are not using the system correctly. Follow up action could then be taken where this does not result in improvements in the process of requisitioning and receipting orders, which is needed in order to increase the amount of invoices that are automatically matched to orders and paid without additional intervention being required.

1.1 Agreed Action

Management information will be produced and reviewed to monitor usage of the P2P system.

This will include existing reports on matching rates, payment timeliness and levels of non PO invoices.

A new report on items in the voucher register will be used to identify where particular departments or suppliers are causing delays in the P2P process.

Priority

2

Responsible Officer

Systems Accountant

Timescale

September 2014

1.2 Agreed Action

A policy / procedure will be developed to offer training to individuals / departments

Priority

2

identified through this, issue reminders about correct and efficient use of the system and escalate this to an appropriate level where improvement does not take place.

This will be included in a more general 'refresh' of the P2P policy.

Responsible Officer

Systems Accountant

Timescale

March 2015



3 Issue/ Control Weakness Risk

Breaches of the no purchase order no pay policy and receipt of invoices not being recorded promptly or accurately.

Non-compliance with the council's no purchase order no pay policy. If an exemption is not granted where appropriate then unnecessary processes may be followed that take officers' time and effort but do not strengthen controls.

Late payment of invoices may result in interest claims or debt recovery charges being made against the council.

Findings

Testing revealed that in some cases a purchase order is created after invoices are received. These were for the building maintenance section and enquiries were made with the officers involved. They advised that as costs of work are not known when the service is being requested, and that many jobs are emergency jobs (e.g. broken windows), an order is not raised in advance because it will probably not match the invoice and this then creates additional work which is hard to manage with the high volumes of this kind of job. Therefore, invoices are requested to be sent directly to the EcoDepot where an officer subsequently creates the order, adds the PO number and then e-mails the invoice to creditors.

The analysis of payment performance information (noted below in issue 4) also indicates that invoices sent directly to the EcoDepot are not dealt with or forwarded to West Offices to be scanned in a timely manner. This appears to be causing invoices to be paid late and this is not being identified because the invoice is only recorded as received by the council when it is scanned at West Offices.

3.1 Agreed Action

Instructions will be given to staff at the Eco Depot that all invoices received directly must be forwarded to West Offices within 5 days so that they are scanned into FMS and the received date is recorded more accurately.

Priority

2

Responsible Officer

Systems Accountant

Timescale

September 2014

3.2 Agreed Action

A list of suppliers used by services based at the Eco Depot will be identified for

Priority

2

investigating whether consolidated invoices and orders could be used to produce efficiencies for the P2P system.

An action plan will be produced, in conjunction with procurement, for liaising with suppliers to discuss the possibility of using consolidated orders and invoices. Discussion will also take place with relevant operational departments and finance officers to establish how these could be implemented to achieve efficiencies whilst maintaining appropriate levels of operational and financial control.

Responsible Officer

Systems Accountant

Timescale

December 2014

3.3 Agreed Action

Following this action plan, decisions should be made for each supplier, whether to:

- a) agree monthly, consolidated, invoices will be produced;
- b) agree to grant exemptions and deal with invoices through the sundry invoice process;
- c) agree that normal P2P processes for ordering and goods receipting will be followed.

Priority

2

Responsible Officer

Systems Accountant

Timescale

March 2015

Area Reviewed: Payment Performance Information

Severity 
Probability 

4 Issue/ Control Weakness Risk

Payment performance has not been accurately reported and practices may be causing invoices to be paid late without this being identified.

Poor performance may not be identified and addressed and decisions may be made on the basis of inaccurate information.

Findings

Testing revealed that the payment performance report that is run on a monthly basis and distributed to relevant managers has included payment interfaces and manual transactions as well as supplier invoices. This report was run to for supplier invoices only and this found 92% of invoices had been paid within 30 days for 2013-14 (as opposed to 95% with the incorrect parameters that have been in use).

Discussions also revealed some misunderstanding about whether payment performance is calculated from the invoice date or received date. The payment performance statistics are calculated based on the date an invoice was scanned by the West Offices facility management team. Analysis done by internal audit found that, when calculated from invoice date, the payment performance figure is 75% for 2013-14 (compared to 92% when done from received date).

This is a significant discrepancy and further analysis revealed that 14% of all invoices processed in 2013-14 had a received date that was 30 days or more after the invoice date. The highest volumes of these were amongst suppliers used by services based at the Eco Depot. This suggests invoices may be being received by the council at this site but are not promptly sent to West Offices to be scanned. This relates to the practice identified in finding 3 above and means that the received date on the financial system may not be accurate, resulting in payment performance figures being misstated. It also suggests that this practice might be causing payments to be made late.

4.1 Agreed Action

Payment performance statistics will be reported from received date.
 Whilst there is a significant discrepancy between the received date and invoice date, payment performance will be monitored by both to identify where received dates may be inaccurate.
 The payment performance report will be amended so that it is run for payments made against supplier invoices only (CRIPO & CRINV) and will be scheduled to run automatically on a monthly basis and distributed to all appropriate officers.

Priority	3
Responsible Officer	Corporate Transactional and Business Services Manager
Timescale	September 2014

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.