Ordering and Creditor Payments 2018-19

City of York Council

Internal Audit Report

Business Unit: Customer and Corporate Services Directorate
Responsible Officer: Director of Customer and Corporate Services
Service Manager: Head of Business Support
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	P1	P2	P3
Actions	0	0	2
Overall Audit Opinion	Substantial Assurance		

Introduction

Ordering and creditor payment systems are audited regularly because of their importance to the council's operations, the value of transactions and the potential for fraud. Creditor payments is a key service within the council, processing over £330m worth of payments and nearly 50,000 invoices between April 2017 and May 2018.

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' (P2P) system.

The creditor payments service is also responsible for ensuring that invoices are appropriately authorised before payment and that they are paid promptly according to council targets and supplier requirements.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system 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
- Non-standard (i.e. without an order or invoice) creditor transactions are correctly accounted for by the creditors system and related accounting records

Key Findings

Invoices with an associated purchase order as a proportion of all invoices processed by the council has declined since this was reviewed as part of the previous audit undertaken in 2016-17. Invoices with associated purchase orders were found to represent in excess of 80% of all invoices in 2015-16 but in 2017-18 this was 69%. Purchase-to-payment system objectives could be put at risk if the proportion of invoices with an associated purchase order declines further.

A significant control improvement has been made in that the council's scheme of delegation is now directly linked to the Civica Purchasing application. This enables any changes that are made to be immediately reflected in the system. There is also now an established annual process for reviewing system permissions and delegated authority limits. Procedure notes are in place for the higher risk processes undertaken by the Creditors team and evidence available on Civica Financials showed that officers are following verification procedures for changes to supplier details where a request is made, thus reducing the council's exposure to mandate fraud.

Access to the Civica Purchasing application is well controlled and reasonable explanations were provided for the existence of all generic and duplicate accounts. New user requests had been appropriately authorised and processed via the ICT self service desk as per the agreed procedure. There is an appropriate segregation of duties in the requisitioning process and orders are approved within delegated authority limits. No instances were identified where an order had been both approved and goods receipted by the same officer.

All unmatched invoices exceeding the tolerance limits had received additional approval and by an appropriate member of staff with sufficient delegated authority. Evidence of budget holder approval was also available on Civica Financials for all CRINV transactions (invoices without an associated purchase order) tested. However, the control weakness identified as part of the previous audit in relation to invoice processing and authorisation remains. Creditors staff still have the ability to both process and authorise invoice transactions once they are interfaced to Civica Financials. No occurrences of an officer both processing and authorising an invoice were identified and procedures are in place within the team to ensure that the same officer does not both process and authorise an invoice but expected system controls are not in place to enforce this fundamental segregation of duties. The possibility of automatically enforcing this segregation will be revisited after Financials Web is implemented and system permissions will be reviewed again during the next audit.

There is an acceptable separation of duties in the payment run process, with control totals and potential duplicate payments checked by the Creditors team and BACs files processed by ICT. A small number of duplicate payments were identified during the audit, amounting to £4,800. However, the Creditors team had already taken action to resolve all but one of these duplicate payments.

FMS Support now produces a dashboard on a monthly basis in order to monitor P2P performance. At the time of audit testing the dashboard was almost fully developed but further improvements were planned. Some limited intervention had been undertaken in poorly performing service areas but it is likely that this will increase significantly in time as a performance baseline is established. The operation of the P2P dashboard will be kept under review during future audits.

No issues were observed with the requisitioning, authorisation or processing of CRREQ manual creditor transactions. There is not a standard pro forma for CRINM transactions (manual payment requisitions) and a number of different requisition forms were in use at the time of this audit. Not all of these forms enabled segregation of duties in the request to be determined. Furthermore, some CRINM transactions were found to have been approved by officers without the requisite delegated authority. Appropriate documentary evidence had been indexed to Documentum to confirm the legitimacy and accuracy all urgent creditor payments tested.

Overall Conclusions

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.

1 Purchase-to-payment cycle

Issue/Control Weakness	Risk
There has been a decrease in the proportion of transactions going through the full purchase-to-payment cycle.	Inefficiencies and loss of purchase control.

Findings

Invoices with associated purchase orders (CRIPO transactions) were found to represent in excess of 80% of all invoices raised to the council in 2015-16. The previous audit also found that this proportion had been above 80% since the 2013-14 financial year. The proportion of invoices with associated purchase orders in 2017-18 decreased to 69%. In excess of 11,000 sundry invoices (i.e. with no associated purchase order) were raised in 2017-18. This represents an absolute increase of 2,700 invoices from the number raised in 2015-16 in the context of a 9% decrease in the total number of invoices (i.e. all CRIPO and CRINV transactions) in 2017-18 relative to 2015-16.

Comparison between 2015-16 and 2017-18 for those sections to which a significant proportion of invoices are raised identified an increase in the proportion of sundry invoices in Admin, Finance, Depot & Transport and in Waste within the Economy and Place directorate. The Admin, Finance, Depot & Transport and Waste sections had had lower relative proportions of CRIPO transactions in 2015-16, with sundry invoices comprising 83% and 62% of all invoices raised. This increased to 93% and 90% respectively in 2017-18. There was also a significant absolute increase in CRINV transactions raised in the Assets and Property Management section (Economy and Place) in 2017-18 and, despite a marginal increase the proportion of CRIPO transactions, this was in the context of an already lower proportion (90% of transactions were CRINVs in 2017-18) and so has had a significant net negative effect.

The Financial Regulations state that official purchase orders must be issued for all purchases including those under contract, albeit with some exceptions. CRIPO transactions still represent the comfortable majority of all invoices raised to the council but their proportion has nonetheless decreased quite considerably since the 2015-16 financial year. Continued decline in this proportion could put the system objectives at risk.

Agreed Action 1.1

The Creditors and Procurement teams will perform a transaction review to identify the source and nature of CRINV transactions processed during the 2018-19 financial year, including Transman transactions. The results of this review will be used to update the exemptions list so that it is clear which types of expenditure are excluded from the requirement to raise purchase orders. Once the exemptions list has been finalised, the possibility will be explored of producing a monthly report to identify CRINVs that have been processed despite not being exempt.	**Priority**	3
	Responsible Officer	Head of Business Support/Corporate Finance & Commercial Procurement Manager
	Timescale	October 2019

2 Processing and authorisation of manual payment requisitions

Issue/Control Weakness	Risk
It is difficult to conclude whether there is an acceptable separation of duties in the authorisation process for CRINM (manual creditor) payments or whether they are always authorised within delegated limits.	Inappropriate or inaccurate payments are made.

Findings

There is not a standard requisition form for CRINM transactions and there are multiple forms in use across the council. These are generally sufficient to establish the identity of the requisitioner and approver and thus ensure that segregation of duties has been maintained and that the transaction is approved within delegated authority limits. However, there were two requisition forms within the sample of transactions tested where this was not possible to establish.

One such form was for travel allowance entitlements for York Training Centre Trainees. An extract from a database listing the travel allowance entitlements is submitted for these requisitions and only a single 'Authorised by' field is included, with no explicit evidence of second officer involvement. There were two of these transactions in the sample and segregation of duties in the requisition could not be determined for either. It also appears that these transactions were authorised by an officer without sufficient delegated authority. The other form was a payments account direct debit form which was prepared and then seemingly authorised by the same officer who did not have delegated authority. The form has a 'signed by originator' field but nowhere to record the identity of the authoriser.

Agreed Action 2.1

The specific issue with the York Training Centre allowances requisition form has been resolved. Travel allowances and pay lists are now being sent electronically with the correct email authorisation and bursaries are submitted using the new electronic payment requisition form developed by the Creditors team. A 'Creditor Manual Payments' shared mailbox has been created to which all manual payment requisitions will be sent going forward.	**Priority**: 3
	Responsible Officer: Business Support Manager
	Timescale: October 2019

A review will be undertaken of all existing manual payment requisition forms. Amendments will be made where necessary to ensure that separation of duties is clear and authorisation will be given electronically, via email, on submission to the shared mailbox.

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Audit Opinions and Priorities for Actions

Audit Opinions
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. Our overall audit opinion is based on 5 grades of opinion, as set out below.

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.
Reasonable 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.

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