



# Ordering and Creditor Payments

## City of York Council

### Internal Audit Report 2021/22

Business Unit: Corporate Services  
Responsible Officer: Director of Customer and Communities  
Service Manager: Head of Business Support  
Date Issued: 14 January 2022  
Status: Final  
Reference: 10180/012

|                       | P1                   | P2 | P3 |
|-----------------------|----------------------|----|----|
| Actions               | 0                    | 1  | 4  |
| Overall Audit Opinion | Reasonable Assurance |    |    |

## Summary and Overall Conclusions

### Introduction

Ordering and creditor payment systems are audited regularly because of their importance to the Council's operations, the value and volume of transactions, and the potential for fraud. Creditor payments is a key service within the Council, having processed approximately £261m worth of payments and over 60k transactions in 2020/21 to December 2020 and over £354m and 106k transactions in 2019/20.

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.

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:

- Creditors procedures are complete and up to date, users are trained and user access is suitably controlled.
- The ordering process is robust and the official system is used for purchasing goods and recording when these have been received.
- Payments are only made for valid invoices, for the correct amounts, and to legitimate suppliers.
- Non-standard (i.e. without an order or invoice) creditor transactions are correctly accounted for by the creditors system and related accounting records.

Due to the COVID-19 pandemic, the 2019/20 audit was not finalised. Therefore, the three findings from the 2019/20 audit were revisited as part of this audit. The audit also reviewed changes made to ordering and creditor processes due to the COVID-19 pandemic to establish whether risks arising from these changes were suitably controlled.

### Key Findings

The Coronavirus pandemic had an unprecedented impact on the Council's capacity to maintain its core activities. Team members were required to adjust to remote working and some processes that were previously partly paper-based had to become electronic quickly. Nevertheless, we found that controls largely continued to operate effectively. However, there were several issues identified, some of which were partly the result of the demands placed upon the service by the pandemic.

A robust process is in place for the management of Civica Purchasing user accounts. New users are approved by an appropriate officer and users receive the required training before their account is set up. An annual review of user accounts is also undertaken to ensure that user profiles and authorisation limits are up to date and access removed as necessary.

The Council operates a 'no PO, no pay' policy. Some exemptions are applied, but the supplier has to be approved in advance. Analytical review of transaction types revealed that 73% of transactions in 2020/21 were of the type requiring a purchase order (PO). Although the current trend is downwards (reducing from 80% in 2018/19), overall the ordering system is being used appropriately.

According to the 'no PO, no pay' policy, POs should be raised prior to invoicing to ensure proper budgetary control and to ensure that orders are appropriately authorised. Exemptions to the policy should only be for pre-approved suppliers or types of goods and should only be applied in a small number of cases. However, we found that 44% of transactions associated with POs in 2020/21 had an invoice dated prior to the PO date, indicating a significant number of POs were raised after the order was placed with the supplier.

Purchase orders should only be approved by officers with sufficient delegated authority. The use of data analysis software confirmed that all purchases are authorised and goods receipted correctly, with appropriate separation of duties. Gap analysis of purchase order numbering did not identify any issues with sequencing.

However, an issue was found with the way the purchasing system reports data relating to who has approved purchase orders. Initially, the data appeared to show that the same officer had both raised and approved several orders. Review of audit trails confirmed this was not the case, but there appears to be an issue with how the system reports this information. The same issue was found in the 2019/20 audit.

A review of invoices that could not be matched to purchase orders found that there was evidence of sufficient approval being received and it was attached to FMS. Invoices appeared genuine, recorded the correct details and were appropriate for the section.

There is an agreement corporately that Business Support can raise a PO for anyone in the Council and service level agreements are in place with some service areas. In some instances, the PO will also be authorised by Business Support. In a small number of areas within the authority, we found that the PO request form was not retained and no record was kept of who submitted the request. There is a risk that Business Support staff are not sufficiently protected against fraud and error when raising and authorising POs on behalf of service areas and that evidence is not available that an appropriate person within the service area has authorised purchases.

If an invoice value varies from the value of the PO raised it is automatically paid if it is within a defined tolerance. Variances above the tolerance limit require additional authorisation. A small percentage of POs had invoices that exceeded the tolerance limits. A sample was reviewed and it was confirmed that additional approval was obtained from an appropriate manager with sufficient delegated authority.

Review of new creditor accounts confirmed that the procurement team had authorised the creditor to be used for purchasing. Analysis of active creditor accounts identified around 6% were duplicates based on bank account details. This was also raised in the 2019/20 audit.

Comparison of current creditor accounts to a current staff list identified 1.3k matches between staff and creditor bank account details. Further analysis found many staff had been set up as creditors to receive payments, particularly payroll-related transactions, but where accounts were no longer required they had not been suspended. Some staff bank details matched to multiple creditor records, partly due to the way in which some bank account types were recorded.

A review of non-standard transactions confirmed that a proforma had been completed, contained a segregation of duties, and had been appropriately authorised in most instances. The proforma does not record the name of the raiser or authoriser of the payment, however the email trail authorising the payment is saved to FMS with the form embedded in it.

The third finding from the 2019/20 audit was that the Purchase to Pay (P2P) performance dashboard was not working. No solution has been found and it is not currently being worked on because the dashboard information was not being used.

## **Overall Conclusions**

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

## 1 Purchase orders are raised after the invoice date

### Issue/Control Weakness

A large proportion of purchase orders are raised after the invoice date.

### Risk

Goods and services may be ordered that the Council does not require.

### Findings

Purchase orders (POs) should be raised prior to goods receipting and invoicing to enable proper budgetary control and to ensure that orders are appropriately authorised prior to being raised and goods received.

While we acknowledge that the pandemic will have inevitably caused some disruption, an analytical review of all transactions in 2020/21 showed that 44% of invoices were dated prior to the purchase order (11.2k invoices). On average, these invoices were dated around 37 days prior to the purchase order date. Around 5k were dated within 10 days of the purchase order. However, this leaves a significant number of invoices (over 6k) that were dated more than 10 days before the purchase order date.

Exemptions to the 'no PO, no pay' policy should only be for pre-approved suppliers or types of goods and should only be applied in a small number of cases. However, this result shows that a significant number of purchase orders are raised after the order is actually placed with the supplier.

### Agreed Action 1.1

The Creditors team will review the testing results to identify areas within the authority where there may be issues with the practice of raising POs. Targeted communications will then be issued to internal management reminding them of the current policies.

**Priority**

2

**Responsible Officer**

Business Support Manager

**Timescale**

28 February 2022

## 2 Civica audit trail reporting

### Issue/Control Weakness

Civica Purchasing reports the approver incorrectly for some transactions in data reports run from the system.

### Risk

The system may falsely report a lack of separation of duties.

### Findings

Data analytics software was used to assess whether Civica Purchasing enforces separation of duties for authorisation of purchase orders.

The results indicated that some purchase orders had been approved by the same officer that raised the requisition. Further testing of the audit trails for these transactions confirmed that these orders were approved correctly in all cases, and it was found to be a bug/glitch in the Purchasing system providing a false piece of data and an erroneous audit trail.

Further interrogation of the system revealed that the audit trails were generally because of the officer issuing the requisition to more than one person for approval. One of the two officers that received the request for approval then approved the order, leaving one request for approval outstanding. Civica Purchasing does not automatically cancel this and so it requires either rejecting by the 'approver', or recalling by the officer that raised the requisition. This step generally happens last and it is here that the system collates the information to report the data, thus creating an incorrect reporting of the approving officer.

It was confirmed that, in all cases, the purchase orders were approved with appropriate separation of duties by an officer with a sufficient approval limit. Testing by the P2P team confirmed that users cannot approve an order twice (and so issue two orders) where an approval request has been sent twice

### Agreed Action 2.1

A call log will be raised with Civica to make them aware of the error and requesting that it be corrected as part of a future update

**Priority**

3

**Responsible Officer**

Systems Accountant

**Timescale**

Implemented

### 3 Recording and authorisation of PO requests by business support

#### Issue/Control Weakness

When Business Support staff raise and/or authorise PO's on behalf of service areas the request and approval details are not retained.

#### Risk

Business Support staff are not sufficiently protected against fraud and error when raising and authorising POs on behalf of service areas.

#### Findings

Business Support raise and authorise purchase orders (POs) for services across the Council when requested. However, the requests to do so are not retained. There is an agreement corporately that Business Support can raise a PO for anyone in the Council. Some services have an SLA in place with Business Support, which includes the raising of all POs.

The standard process is that an Outlook form is submitted by the service and sent to Business Support, copying in the budget holder. Business Support then raise the PO and select the budget holder as the authoriser. The budget holder then receives an automated email containing a link to authorise the order.

The original form submitted to Business Support is not retained and no record/note is retained on who submitted the request for a small number of areas within the authority. In some instances, the PO will also be authorised by Business Support. Analysis of POs raised in 2020/21 found that 28% of purchase orders were raised by the Business Support team and 13% of purchase orders were raised and authorised within the Business Support team.

#### Agreed Action 3.1

Business Support procedure notes will be amended to state that the original purchase order requests submitted by the service, and containing the budget holder authorisation, must be retained by Business Support staff.

**Priority**

3

**Responsible Officer**

Business Support Manager

**Timescale**

31 January 2022

## 4 Staff records matched to creditor records

### Issue/Control Weakness

Staff members are set up as creditors or match to creditor records based on bank details.

### Risk

Unauthorised payments may be made causing a financial loss to the council.

### Findings

A comparison of current creditor records with a list of current staff identified a number of instances where staff and creditor bank accounts matched. A total of 1,346 staff records matched to creditor records based on bank account details, with some bank details matching multiple creditor accounts.

We found 125 records where staff bank details matched to more than one set of creditor bank details. Of these, 61 of the 125 occurrences are because of the way in which building society and savings accounts are recorded on the system. They use a unique roll number to identify the account in addition to an account number and sort code, which was not shown in the data provided. Of the remaining 64 occurrences of staff bank details matching to multiple creditor records, a sample was reviewed by the Creditors team and they were found to be for legitimate payments, including reimbursements, salary payments and lottery payments.

We reviewed payments made to staff in 2020/21. We found 540 transactions to staff set up as creditors, totalling £198.5k. Over half of these payments (58%, £115.3k) were for payroll related amounts such as salary payments, advances and expenses.

### Agreed Action 4.1

A data cleansing exercise will be conducted to deactivate staff creditor records that are no longer required.

**Priority**

3

**Responsible Officer**

System Accountant

**Timescale**

31 March 2022

### Agreed Action 4.2

Further analysis of the types of payments made to staff via creditors will be undertaken. Business Support will review and confirm that suitable authorisation was received prior to payment.

**Priority**

3

**Responsible Officer**

Business Support Manager

**Timescale**

31 March 2022



## 5 Duplicate supplier accounts

### Issue/Control Weakness

A large number of supplier accounts appear to be duplicates based on bank account details.

### Risk

Payments may be made to fictitious supplier accounts.

### Findings

Of 41.8k currently active creditor accounts (suspended accounts excluded), it was found that 2.5k records were duplicates (6%) based on bank account details. A review of these records found that in some cases the bank account number is linked to the same organisation (such as a local authority) but the creditor name and address are different, making reference to different departments within the organisation. In most instances creditor accounts appear to be duplicates which have been set up for the same individual, using slightly different variants of the name ('Mrs F Name' and 'Mrs First Name' for example), and some appear to be exact duplicate supplier accounts.

### Agreed Action 5.1

An exercise will be conducted to suspend creditor accounts which have not been used within a set timeframe to be determined by the Council. This will be carried out with input from the Council's Procurement team.

**Priority**

3

**Responsible Officer**

System Accountant

**Timescale**

31 March 2022

### Agreed Action 5.2

Following suspension of accounts a data cleansing exercise will be conducted to remove or amalgamate duplicate supplier record.

**Priority**

3

**Responsible Officer**

Business Support Manager

**Timescale**

31 July 2022

## Audit Opinions and Priorities for Actions

### Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

### Opinion Assessment of internal control

|                       |  |
|-----------------------|--|
| Substantial Assurance | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.  |
| Reasonable Assurance  | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.                     |
| Limited Assurance     | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.                       |
| No Assurance          | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

### 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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