



Ordering and Creditor Payments 2014-15

City of York Council

Internal Audit Report

Business Unit: Customer & Business Support Services
Responsible Officer: Director of Customer and Business Support Services
Service Manager:
Date Issued: 06/08/2015
Status: Final
Reference: 10180/006

	P1	P2	P3
Actions	0	1	2
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

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. Creditor payments is a key service within the council, processing over £240, 000, 000 worth of payments and over 50,000 invoices year to date.

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.

As a result of the CBSS admin review, the Creditors team will be assimilated into a central hub. The ability to raise and authorise payments will be delegated to a broader range of administration staff, many of whom have no previous experience in these processes. Therefore, the audit included a review of the arrangements in place to preserve adequate internal control.

Objectives and Scope of the Audit

The purpose of the 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 planned framework for the new Creditors and Planning team ensures adequate segregation of duties throughout the ordering, receiving and payments process;
- arrangements for the training of new Creditors staff are comprehensive and include review of potential internal and external fraud.

Key Findings

The council continues to make improvements in compliance with the 'No PO, No Pay' policy, with the percentage of invoices matched to PO numbers rising from 80% to 84% since the previous financial year. POs are authorised by employees with appropriate authority and orders are raised, GRN'd and authorised with the required segregation of duties. Appropriate authorisation is obtained for the set up of new purchasing suppliers and for invoices before they are made ready for payment. Pay runs are processed after undergoing appropriate pre-checks and

Payment Performance Information

Issue/Control Weakness

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

Risk

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

Findings

Payment Performance reports were re-examined this year in order to determine whether action had been taken to amend the pre-programmed incorrect parameters and criteria identified in the 13/14 audit.

Payment Performance 10 day report

Payment performance statistics are calculated from the 'received date'. This is the date that the invoice is scanned into the EDRMs system, as opposed to the 'invoice date', the date that the invoice was issued by the supplier. The 13/14 audit agreed that statistics would be monitored by both dates in order to identify instances where the received date may be inaccurate, i.e. where invoices experience a delay between being issued by the supplier and being scanned on receipt. If an invoice experiences a significant delay before it is successfully posted to West Offices, it is possible that we could breach the supplier payment terms and be unable to identify this occurrence.

Payment Performance Dept Summary Table report

The payment performance report still contains incorrect criteria. The 13/14 audit agreed that the report would be amended to include only CRIPO and CRINV transactions codes. This report still monitors payment performance for creditor transaction codes which are exempt from the PO and invoicing processes (e.g. one off creditor requisitions). The purpose of the report is to calculate the percentage of supplier invoices successfully paid within 30 days of the date of receipt. The report was reproduced using only CRIPO and CRINV codes and payment performance for 14/15 was found to be 93%, as compared to 98.13% when ineligible transaction codes are included.

Agreed Action 3.1

Payment performance statistics will be monitored by both the 'received' and 'invoice' dates. Ineligible creditor transaction codes will be removed from the parameters of the Payment Performance report.

Priority

3

Responsible Officer

Systems Accountant

Timescale

01.10.15

Actions outstanding from previous audits

Action	Progress Made	Revised Date
<p>A review of the Council’s scheme of delegation will be undertaken. As part of this review, the approval levels in the Authority Purchasing system will be compared to the authority levels on the manually maintained delegated authority list. Any discrepancies will be identified and corrected.</p>	<p>None. In the future, PBSOs and BSOs will be able to authorise small value purchases, therefore, it would be wise to delay completion of this action until the adjustments to delegated authority levels have been implemented.</p>	<p>Graham Frodsham (Systems Accountant) to complete by 01.02.16.</p>
<p>All bank account changes will be verified by contacting the supplier on the details held on the creditors system or previous legitimate correspondence and not by using the contact details provided with the request for the change. A procedure note will be written and issued to all creditors staff to confirm the minimum requirements to be followed before making any changes to supplier bank accounts.</p>	<p>None. It is essential that this action is completed as soon as possible so that new Creditors staff can refer to a reliable resource.</p>	<p>Jordanna Kelly (PBSO) and Diane Wilkinson (BSO) to complete by 31.08.15.</p>
<p>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.</p>	<p>Work has commenced on the suite of P2P performance reports, but is not near completion.</p>	<p>Graham Frodsham (Systems Accountant) to complete by 01.02.16.</p>
<p>A list of suppliers used by services based at the Eco Depot will be identified for 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.</p>	<p>None. An external consultancy company have recently completed a review of use of contractors by the CANS and CES directorates. Therefore, this internal review was postponed.</p>	<p>This action is now being completed by Veritau on a consultancy basis.</p>

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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