

Dacorum Borough Council - Internal Audit Final Report

Accounts Payable

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Key dates:

Date of fieldwork: November 2011

Date of draft report: January 2012

Receipt of responses: January 2012

Date of final report: January 2012

This report has been prepared on the basis of the limitations set out in Appendix C.

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1. Executive summary

1.1. Background

As part of the Internal Audit programme for 2011/12, approved by the Audit Committee in February 2011, we have undertaken an audit of the Council's systems of internal control in respect of Accounts Payable.

1.2. Objectives and Scope

The overall objectives of this audit was to assess the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to Accounts Payable.

In summary, the scope covered the following areas: Policies, Procedures and Legislation, Creditor Transactions and Records, Standing Data Amendments, Purchase Order Processing, Goods Receiving, Invoice Processing, Payments, Payments Processing, Management Reporting, Security of Data, Construction Industry Scheme and Follow-up of previous recommendations. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary assessment

Our audit of DBC's internal controls operating over Accounts Payable found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Government Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for Accounts Payable is shown in Section 3.

1.4. Key findings

We have raised two priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Purchase orders should be raised for all goods and services ordered;
- Creditor terms should be complied with for all payments; and
- Documentation should be kept in respect of all Accounts Payable weekly management meetings.

Full details of the audit findings and recommendations are shown in Section 4 of the report.

As a result of the follow up of recommendations raised in the 2010/11 report, two recommendations were raised in regards to:

- The raising of purchase orders prior to invoice receipt; and
- Purchase orders being raised where appropriate

Following the re-testing of purchase orders, we have again raised a recommendation in regards to purchase orders.

1.5. Management Response

We received the management response in a timely manner and this has been included in the body of the report.

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of assignment

2.1 Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Accounts Payable, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner

2.3 Areas covered

























The audit was carried out to evaluate and test controls over the following areas:

- *Policy, Procedures and Legislation*
All staff act consistently in compliance with legislative and management requirements and the administration of the Accounts Payable function is conducted in an economic, efficient and effective manner.
- *Creditor Transactions and Records*
The reliability, integrity, confidentiality and security of the creditors system and records is maintained through the reliable operation of the system and its interfaces to the main accounting and feeder systems.
- *Standing Data Amendments*
Additions, deletions and amendments to creditor standing data are completely, accurately and validly processed in a timely manner.
- *Purchase Order Processing*
Purchase orders places for goods / services are completely, accurately, validly and timely processed and recorded in line with management requirements.
- *Goods Receiving*
Goods / services are completely, accurately, validly and timely received, processed and recorded in respect of goods / services ordered.
- *Invoice Processing*
Invoices received are completely, accurately, validly and timely coded, processed and recorded in respect of goods / services received.

- *Payments*
BACS and cheque payments to suppliers for goods / services received are completely, accurately, validly and timely made and recorded in line with legislative requirements.
- *Payments Processing*
Emergency payments to suppliers are completely, accurately, validly and timely processed and recorded in a secure manner.
- *Management Reporting*
Creditors' information is completely, accurately, validly and timely produced and secured to facilitate effective monitoring and decision making.
- *Security of Data*
Creditors' data is adequately protected and prevents unauthorised access to the data.
- *Construction Industry Scheme*
CIS returns are in line with legislative requirements and payments are completely, accurately, validly and timely made for registered contractors and recorded in the authority's accounts as specified by CIS rules.
- *Follow-up Previous Audit Recommendations*
Recommendations raised in the previous audit report have been implemented.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
<i>Policy, Procedures and Legislation</i>			
<i>Creditor Transactions and Records</i>			
<i>Standing Data Amendments</i>			
<i>Purchase Order Processing</i>			Recommendation 1
<i>Goods Receiving</i>			
<i>Invoice Processing</i>			Recommendation 2
<i>Payments</i>			
<i>Payments Processing</i>			
<i>Management Reporting</i>			Recommendation 3
<i>Security of Data</i>			
<i>Construction Industry Scheme</i>			
<i>Follow-up Previous Audit Recommendations</i>			Recommendation 1

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Raising of Purchase Orders (Priority 2)

Recommendation

Management should continue to remind service lines that purchases should have a purchase order raised and authorised prior to the receipt of an invoice unless there is an approved exception.

Observation

Service lines are responsible for raising purchase orders for all goods and services ordered. Purchase orders are raised electronically, via the Agresso system and workflowed to the appropriate budget holder for electronic authorisation. Once authorised, the purchase order will be sent to the supplier. Exceptions to raising purchase orders include utilities. Invoices which are received without purchase orders, and are not deemed an exception, are sent to the appropriate service line for a purchase order to be raised.

Currently changes are being undertaken by the Accounts Payable team, in conjunction with the Group Manager (Financial Services), to manage the raising of purchase orders and communicate with service lines on their responsibilities. However, for a sample of twenty purchases and invoices tested since April 2011 we found that six purchase orders were retrospectively raised after the invoice was received.

Additionally, one out of the ten non purchase order payments tested should have had a purchase order raised and authorised prior to the invoice being paid. This invoice was for the purchase of a porch canopy and a purchase was required.

Where purchase orders are not raised before receiving an invoice, there is a risk that payment commitments may not be known, which may lead to an overspend on the budget or inaccurate budget management. Additionally, where a purchase order has not been raised, the audit trail in respect of the procurement process is weakened and inappropriate invoices maybe processed.

Responsibility

Sundry Debtors Lead Officer

Management response / deadline

Agreed.

A project has already commenced to address Council-wide compliance with the Accounts Payable process as a whole.

This will consist of additional training and enhanced compliance reporting to identify specific areas of the business that consistently fail to comply with the process.

Whilst I agree that budget monitoring is improved by the inclusion of commitments generated on the raising of a PO, the current risk arising from failure to raise POs is mitigated by monthly meetings between management accountants and budget holders where the forecast outturn position is rigorously scrutinised.

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Recommendation 2: Payments made within creditor terms (Priority 2)

Recommendation

Service lines should be reminded to ensure that purchase orders are raised when ordering goods / services. Goods received should be noted in a timely manner to ensure invoices are paid promptly. Where invoice and purchase order amounts differ, officers should be reminded to re-authorise the invoice in a prompt manner.

Observation

Invoices are received by the Accounts Payable Team, date stamped and input onto the Agresso Financial Management system. Where the invoice amount reconciles to the purchase order and the goods received note, the payment will be made in the next payment run. Where the amounts do not match, or there is no purchase order or no goods received note, the invoice will be sent to the appropriate department for raising a purchase order, receipting the goods or authorisation of the invoice.

Sixteen out of thirty invoices tested were not paid within the creditor terms. The payment terms were exceeded by, on average, eight days, with the actual range between 1 day and 31 days late.

Where payments are not made within the payment terms agreed, there is a risk that the Council will face penalties and / or reputational damage amongst its suppliers.

Responsibility

Sundry Debtors Team Leader

Management response / deadline

Agreed.

As part of the project outlined in my previous response, tardy completion of duties by the business is being addressed through enhanced compliance reporting. These reports map the stages of an invoice from receipt to payment, identifying where delays are occurring, and allow for the current Prompt Payment performance indicator to be analysed by directorate, which will allow for focussed training.

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Recommendation 3: One-to-one meetings (Priority 3)

Recommendation

The actions arising from the one-to-one meetings between the Sundry Debtor Lead Officer and the Group Manager should be recorded and followed up at subsequent meetings.

Observation

The Sundry Debtor Lead Officer has weekly one-to-one meetings with the Financial Services Group Manager where Accounts Payable performance is discussed.

It was found that the one-to-one meetings are not minuted and that there was no evidence of what was discussed and any actions arising from the meetings.

Where the actions arising from the meetings are not documented, there is a risk that actions agreed at the meetings are not implemented / followed up at subsequent meetings.

Responsibility

Sundry Debtors Team Leader and Group Manager (Financial Services)





Management response / deadline

Agreed. This has already commenced via email documentation. Immediate.

Appendix A – Reporting definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B – Staff interviewed

The following personnel were consulted:

Clare Dempsey	-	Sundry Debtors Lead Officer (Accounts Payable)
Tracy Claridge	-	Assistant Accountant

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

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