



Dacorum Borough Council

Final Internal Audit Report

Accounts Payable

December 2014

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

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Key Dates:

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1. Executive Summary

1.1 Background

As part of the Internal Audit programme for 2014/15, we have undertaken an audit of the Council's systems of internal control in respect of Accounts Payable.

1.2 Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of the current controls over Accounts Payable, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Policies, Procedures and Legislation; Creditor Transactions and Records; Standing Data Amendments; Purchase Order Processing; Goods Receipting; Invoice Processing; Payments; Payments Processing; Management Reporting; Security of Data 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 and the controls are being consistently applied.

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	Full

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

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 one priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Officers should be reminded of the need to raise a Purchase Order for all items of expenditure via the Council's Purchase Orders Processing system (POP). (Priority 3).

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

1.5 Management Response

We have received the management responses and have included them in our Final report.

1.6 Acknowledgement

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 objectives 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, 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 the 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 placed for goods/services are completely, accurately, validly and timely received, processed and recorded in line with management requirements.























- *Goods Receipting*

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 received, produced and secured to facilitate effective monitoring and decision making.
- *Security of Data*
Creditors' data is adequately protected and prevents unauthorized access to the data.
- *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
Policy, Procedures and Legislation			
Creditor Transactions and Records			
Standing Data Amendments			
Purchase Order Processing			
Goods Receiving			
Invoice processing			Recommendation 1
Payments			
Payments Processing			
Management Reporting			
Security of Data			
Follow-up Previous Audit Recommendations			

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: Invoice processing (Priority 3)

Recommendation

Officers should be reminded of the need to raise a Purchase Order for all items of expenditure via the Council’s Purchase Orders Processing system (POP).

Observation

In order to raise a commitment on the General Ledger for items of expenditure Purchase Orders should be raised for all Goods and Services using the Purchase Ordering Processing system (POP). This will also provide a means to verify goods received.

During the testing of the raising of Purchase Orders, it was found that currently only 40% of payments are processed via POP. It was also found that this situation can cause delays the payment of invoices.

Where Purchase Orders are not raised for items of expenditure, there is a risk that a commitment will not be raised, it will be difficult to verify the goods and services received and there could be a delay in the payment of invoices.

Responsibility

Group Manager – Financial Services

Management response / deadline

All staff will be reminded of the need to raise Purchase Orders.





The process for compliance monitoring will be reviewed immediately. Compliance will be monitored frequently enough to enable targeted communication and training to be provided whilst maintaining a cost-effective service.

Whilst budget monitoring could be improved by including commitments that would arise from full compliance with the PO process, any risk arising from failure to raise PO’s is mitigated by monthly meetings between accountants and budget holders and the calculation of a robust forecast outturn position.

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:

- Cat Hamilton - Finance Manager

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

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 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 our 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

December 2014

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