

Internal Audit Report

Key Financial Controls – Accounts Payable

December 2015

Distributed to:

- Chief Operating Officer
- Director of Resources
- Operations Director, CSG
- Finance Director, CSG
- Assistant Director of Finance, CSG
- Head of Exchequer Services, CSG

	No	Limited	Satisfactory	Substantial
Audit Opinion				

Acknowledgement	We would like to thank the Accounts Payable Team within CSG for their time and co-operation during the course of the internal audit.
------------------------	--

Introduction

The review of key financial controls has been agreed in the Internal Audit, CAFT and Risk Management Plan 2015-16.

Background & context

Audit work was undertaken in September 2015, covering the period from 1 April 2015 to 31 August 2015, focussing on key controls in place across a number of financial systems that are integral to the Council's day to day operation. The result of this work was reported to the November Audit Committee as follows:

- Accounts Receivable - Satisfactory
- General Ledger – Satisfactory
- Schools Payroll - Satisfactory
- Council Tax - Satisfactory
- Housing Benefits - Satisfactory
- NNDR - Satisfactory

Our work also included work on Accounts Payable. This was not included in the original report to the November Audit Committee as we identified potential issues around the creation of new suppliers and amendments to supplier details. We performed additional follow up work to validate the initial management response provided before the results were formally reported.

Our work has now been completed in line with the Terms of Reference dated 8 September 2015. This report presents the detailed results of the Accounts Payable testing.

1. Summary of initial Accounts Payable testing results

As per the summary below, in our initial testing in September 2015 we identified specific issues around the creation of new suppliers and amendments to supplier details. We then performed additional follow up work in November 2015 to validate the initial management response provided. This is presented in Section 2.

Control Ref	Control Tested	Exceptions	Exception details
AP1	<p>Reconciliation between Accounts Payable (AP) and General Ledger (GL)</p> <p>Reconciliations are performed between AP and GL which are reviewed and authorised.</p>	0	No exceptions identified.
AP2	<p>Three way match is performed</p> <p>Automated three way match, between Purchase Order (PO), goods receipt and invoice is completed before payment is made.</p>	0	No exceptions identified.
AP3	<p>New supplier form</p> <p>A new suppliers form is completed which is signed by an appropriate individual.</p> <p>Access to supplier standing data is restricted controlled and monitored to ensure only limited people can add new suppliers and segregation is enforced.</p>	4	<p>A sample of 25 new suppliers created between 1 April 2015 and 31 August 2015 were tested. We identified the following exceptions:</p> <ul style="list-style-type: none"> • In one case, there was no documentation available to demonstrate that the supplier set up had been requested by the business; • In one case, the supplier set up was authorised after the date the supplier was set up; • In one case, management were unable to provide any evidence to support the setup of the supplier; and • In one case, the supplier was setup from an invoice and no

Key Financial Controls

Control Ref	Control Tested	Exceptions	Exception details
			vendor form had been completed in line with procedure.
AP4	<p>Supplier bank account amendments</p> <p>A supplier bank account changes form is completed with evidence of the new account details attached.</p> <p>Access to supplier standing data is restricted, controlled and monitored to ensure only limited people can amend supplier standing data and segregation is enforced</p>	1	A sample of 20 changes to supplier bank details made between 1 April 2015 and 31 August 2015 were tested. We identified one case where there was no evidence available to demonstrate that the change had been confirmed with the supplier and there was no documented evidence that the change had been authorised before being processed.
AP5	<p>BACs Reconciliation</p> <p>BACs files authorised for payment have been checked to ensure that the BACs run being paid is the same as the BACs run raised from the AP system.</p>	0	No exceptions identified.

2. Follow-up work to verify management response regarding key controls AP3 and AP4

AP3. New supplier form

General comments

As per management, new supplier forms are only required when a 'procurement vendor' is to be created. However, at the time of agreeing the key controls within the Terms of Reference for this review, this distinction was not made to us by management, and therefore we expected the new supplier form control to be in place for our entire sample of 25 new suppliers.

When a vendor is created the Accounts Payable team have the option of marking it to determine if the vendor is available for requisitions and purchase ordering, or creating the vendor as a 'non-procurement vendor'. Non-procurement vendors would not require approval from CSG Procurement. If subsequently procurement activity is required for the vendor, then a vendor creation form would need to be completed before the status is changed.

All 4 exceptions identified related to 'non-procurement' activity, namely, foster care payments, SEN travel costs and a court ordered payment.

We requested a copy of the documented procedures that ensure the different approaches for Procurement vendors and Non-Procurement vendors (using API form or API debit notes) are clearly understood and applied by all parties. These written procedures were not supplied. Without this clear documentation there is a risk that, should the Head of Exchequer leave or be absent from work, colleagues would not know or follow the correct process. Lack of updated procedure documents for the Accounts Payable process in SAP had been noted by audit in 2011 and 2012 (see section 3 below) at which time it was stated that there is an annual review process of procedure documents. However, we have seen no evidence that Accounts Payable procedure documents have been agreed or annually updated since the introduction of Integra in April 2014.

As per management, an e-form developed by CSG Procurement for the creation/amendment of vendors will shortly be introduced, although at the time of the audit a clear timetable for this was not available. This will route changes by workflow to all relevant parties, originator, manager, CSG procurement etc. and the involvement of the Accounts Payable team will become minimal. This will strengthen the process by limiting the intervention in the vendor creation/amendment process and maintaining a full audit trail. It will also ensure that segregation of duties is maintained.

Key Financial Controls

Exception details – September 2015	Results of further investigation	Recommendation – December 2015	Priority
<p>1. In one case, there was no documentation available to demonstrate that the supplier set up had been requested by the business;</p>	<p>No evidence could be provided by the Delivery Unit or Accounts Payable team to support the creation of the supplier.</p>	<p>a) Documented procedures should be prepared to clarify the different arrangements around Procurement and Non-Procurement vendors and how to process them in Integra, to ensure a consistent and well controlled approach to these forms of expenditure. These procedures should be communicated to all relevant staff and regularly updated as necessary.</p>	<p>1</p>
<p>2. In one case, the supplier set up was authorised after the date the supplier was set up;</p>	<p>The Integra audit record indicates that this supplier was created at 18:11pm on 19 July. The next working day, 20 July, the vendor creation was checked. The supplier was therefore set up and was live on Integra for payments to be made before the supplier was authorised on 20/07/2015.</p> <p>There is a risk that payments could be made to suppliers prior to the new supplier having been checked and authorised by a second party. Management indicated that the risk of a fraudulent transaction being initiated in this way was low as there would be a delay between a supplier being set up and the next payment run occurring. However, in our view although the likelihood of this occurring may be low, the impact could be high – and therefore until the new e-form workflow is introduced an interim control should be considered to mitigate the risk of suppliers being paid before their creation has been authorised.</p> <p>Management noted that this control was also not present in the previous finance system, SAP. This had been noted as a potential improvement to SAP (and any subsequent system) by audit in 2011 and 2012 (see section 3 below).</p>	<p>b) A clear timetable should be agreed between the Council and CSG for the introduction of the e-form workflow system within Integra.</p> <p>c) In the meantime, management should consider introducing an interim control to mitigate the risk of suppliers being paid before their creation has been authorised.</p> <p>d) Management should continue to remind officers of the importance of retaining evidence to support the creation of new suppliers or supplier bank account amendments.</p>	

Key Financial Controls

Exception details – September 2015	Results of further investigation	Recommendation – December 2015	Priority
	<p>We confirmed that this particular payment was made to a Carer. The Accounts Payable team received an email from the Panel Coordinator on 14/07/2015 requesting the payment to the Carer’s bank account. This email included authorisation from the Delivery Unit for the payment. This was then processed by the Accounts Payable team.</p>		
<p>3. In one case, management were unable to provide any evidence to support the setup of the supplier; and</p>	<p>The prime document used to create this vendor has now been located.</p> <p>We confirmed that the change related to a non-procurement vendor. In these cases, the documentation relating to the change is completed within the Delivery Unit. The change is processed by the Accounts Payable team once there is evidence of authorisation from the Delivery Unit.</p> <p>An API Debit Note was reviewed and we confirmed this had been authorised by the Delivery Unit.</p>		
<p>4. In one case, the supplier was setup from an invoice and no vendor form had been completed in line with expected procedure.</p>	<p>This supplier was created to enable a court ordered payment to be made. This type of transaction is one of a number of exceptions that the CSG Procurement team are aware of and have agreed with the service that a vendor form is unnecessary.</p> <p>The Accounts Payable team were sent an invoice by the Delivery Unit. The invoice had been authorised by the Delivery Unit. We reviewed the invoice and no exceptions were noted.</p>		

AP3 December 2015 recommendations - Management Response

<p>Action:</p>	<ul style="list-style-type: none"> a) A chart detailing the vendor categories and their creation workflow will be compiled and agreement sought between Procurement, Accounts Payable and Audit to ensure that the most appropriate route is used when creating/amending the different categories of vendors. Once this has been determined the outcome will be communicated to all relevant parties. In the longer term the creation/amendment of vendors will be performed on an e-form designed to reduce the delay in vendor creation while improving the audit trail. b) The e-form will initially be rolled out to selected users to ensure that any issues are identified and resolved before full introduction. This has already been agreed with the Council and communication will be sent out in sufficient time to all affected parties. c) For a supplier to be paid, in the period between vendor creation/amendment and this record being double-checked requires a considerable number of processes to take place however, it is recognised that there is a risk and the Accounts Payable team have introduced a process to ensure that all vendor creation/amendments are checked before the daily payment run in order to mitigate this risk. d) All documentation relating to vendor creation/amendment is held and during the selected audit period in excess of 1800 vendor records had been either created or amended generating a large number of paper documents. These are regularly referred to by the AP team and others which sometimes causes disorder and difficulty in locating and retrieving the document.
<p>Responsible Officer:</p>	<p>Head of Exchequer, CSG</p>
<p>Target Date:</p>	<p>April 2016</p>

AP4. Supplier bank account amendments

Exception details – September 2015	Results of further investigation	Recommendation – December 2015
<p>A sample of 20 changes to supplier bank details made</p>	<p>We confirmed that the change related to a non-procurement vendor. In these cases, the documentation relating to the change is completed within the Delivery Unit. The change is processed by the Accounts Payable team once there is evidence of authorisation from</p>	<p>See recommendations (a), (b) and (d) above for AP3.</p>

Key Financial Controls

Exception details – September 2015	Results of further investigation	Recommendation – December 2015
<p>between 1 April 2015 and 31 August 2015 were tested. We identified one case where there was no evidence available to demonstrate that the change had been confirmed with the supplier and there was no documented evidence that the change had been authorised before being processed.</p>	<p>the Delivery Unit. However, at the time of agreeing the key controls within the Terms of Reference for this review, this distinction was not made to us by management, and therefore we expected the changes to supplier bank details to have been confirmed by Accounts Payable with the supplier for our entire sample of 20 supplier bank account amendments.</p> <p>An API Debit Note dated 09/07/2015 was examined for this change. The change was required as the bank details were not recorded on the form correctly. The form had been authorised on 09/07/2015 by the Delivery Unit. The form was also signed as processed by the Accounts Payable team.</p> <p>As with AP3 above, it was confirmed that this process is to be changed so that all authorisations are processed through workflows in Integra. This will provide a clearer audit trail to demonstrate authorisation and will also ensure that segregation of duties is maintained.</p>	

AP4 December 2015 recommendations - Management Response	
Action:	As per AP3
Responsible Officer:	Head of Exchequer, CSG
Target Date:	April 2016

3. Policies and procedures

The policy and procedure document is part of the control environment rather than a key control in the process; it is therefore not tested specifically as part of the Continuous Audit Methodology (CAM) approach adopted in 2014/15 and 2015/16 for the audit of the Key Financial Systems. However, during the September 2015 audit of Accounts Payable we found that the lack of documented Policies and Procedures was an issue.

For management reference, below is a summary of relevant previous audit work undertaken looking at Accounts Payable policies and procedures, and the management responses to the recommendations raised at that time.

Date	Finding	Recommendation	Management response	Responsible Officer / Deadline
November 2011	The policies and procedures were reviewed. It was found that for 16 of the 22 procedures in place there was no evidence to demonstrate review of the procedures since 2005/06.	<p>As part of the annual review of policies and procedures, all procedures should be considered.</p> <p>Where amendments to the policies and procedures are not required, the policy should be evidenced to confirm the date of review, and that no amendments are necessary through effective version control.</p>	All procedures are reviewed on an annual basis and updated only where necessary. In future when procedures are reviewed they will be dated, even when there have been no amendments made.	Accounts Payable Manager Implemented
	<p><i>In addition, there was one area for consideration by management to enhance the control environment which merits attention if action is applicable.</i></p> <ul style="list-style-type: none"> <i>It was noted that the SAP system does not enforce secondary review of creation and amendments made to vendor standing data. There is a manual process in place where new vendors and amendments to vendors are processed by one officer and reviewed by another, which mitigates this risk; this was tested with no exceptions noted. However, management could consider implementing automated review through the SAP workflow to strengthen this control.</i> 			
August 2012	The policies and procedures were reviewed. It was found that for 3 of the 20 procedures in place there	As part of the annual review of policies and procedures, all procedures should be considered.	Agreed	Head of Exchequer & Head of Procurement 31 January 2013

Key Financial Controls

	<p>was no evidence to demonstrate review of the procedures since 2005.</p>	<p>Where amendments to the policies and procedures are not required, the policy should be evidenced to confirm the date of review, and that no amendments are necessary through effective version control.</p>		
	<p><i>In addition, there was one area for consideration by management to enhance the control environment which merits attention if action is applicable. This was also highlighted in the previous accounts payable review:</i></p> <ul style="list-style-type: none"> <i>It was noted that the SAP system does not currently enforce a secondary review of creation and amendments made to vendor standing data. There is a manual process in place where new vendors and amendments to vendors are processed by one officer and reviewed by another, which mitigates this risk; this was tested with one exception noted. However, management could consider implementing automated review through the SAP workflow to strengthen this control.</i> 			

Timetable	
Terms of reference issued	8 September 2015
Fieldwork completed	5 October 2015
Draft report issued	15 December 2015
Management responses received	12 January 2016
Final report issued	13 January 2016

Appendix A: 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.

Appendix B: Guide to assurance and priority

The following is a guide to the assurance levels given:

	Substantial Assurance	There is a sound system of internal control designed to achieve the system objectives. The control processes tested are being consistently applied.
	Satisfactory Assurance	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the system objectives at risk.
	Limited Assurance	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the system objectives at risk.
	No Assurance	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Priorities assigned to recommendations are based on the following criteria:

1. **High** – Fundamental issue where action is considered imperative to ensure that the Council is not exposed to high risks; also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
2. **Medium** – Significant issue where action is considered necessary to avoid exposure to significant risk. Action to be effected within 3 – 6 months.
3. **Low** – Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 months to 1 year.