



Internal Audit Report
All Services
11-04 - Creditors /Purchase Ledger Assignment
May 2012

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Internal Audit Report

Background and Introduction

This assignment forms part of the Internal Audit plan for 2011/2012, as approved by Audit Sub-committee on 9 March 2011.

The Creditors/Integra Purchase Ledger system is a key financial system of the Council and is one of the 4 modules that comprise the Integra Financial Management System. It is used to pay for supplies and services which have been ordered and received. The 'Pecos' electronic procurement system is the preferred method for ordering goods and services and will soon be rolled out throughout all Council services and establishments. This audit concentrated on paper orders which are still significant in value terms and there was some coverage of Pecos Orders. The Purchase Ledger is also used to make other non-invoiced payments, including Direct Payments; payments to Childrens Panel members/Safe Guardians, Nursery Partner Providers and other forms of client payments. The audit samples were selected from payments over £250 in value. The audit did not include purchases by Procurement cards or credit cards. A total of 50 invoice payments were sampled. Paid invoices are predominantly retained and filed by Service-based Finance Service teams. Orders are retained by the ordering branch or location. The audit involved visits to the Systems and Purchase Ledger Teams in Chief Executive Service and Finance Teams in all Services. Copy invoices and orders were supplied by primary and secondary schools staff as required.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of all services during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: to confirm that appropriate regulations, policies and procedures are in place for the requisition, purchase, receipt and payment of goods and services.
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Auditor's Comments: Financial Regulations have been issued on a corporate and Service basis which set controls and give guidance. Audit testing has shown that the Integra Purchases Ledger module which has been upgraded since the last audit is a robust system. All relevant staff had received training on Integra Purchase Ledger. There is a comprehensive Integra Purchase Ledger user manual and associated documented policies and guidelines. These are all available on the Council's intranet. Suppliers invoices are matched to authorised orders and delivery notes and paid invoices are filed securely. A central database of Authorised Signatories administered by the systems team in Finance Division's
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Internal Audit Report

Exchequer Section, is now in operation. Testing showed that leavers were timeously deleted from the database. It was noted however that there were no written up-to-date Services Guidelines relating to authorisation procedures

Testing indicated that there were strong control procedures over payments with various levels of checking and separation of duties. Invoices must be registered into the Integra Purchase Ledger system to allow payment. The invoice registration process generates a unique Reference number. Purchase Ledger staff monitor input where the person registering and passing for payment are the same. There are special procedures for payments over £50,000. There are checks to ensure compliance with HMRC for payments to sub-contractors and VAT. A procedure has been introduced to ensure that any changes to suppliers standing information has been validated.

Strength of Internal Controls:

Moderately strong

Control Objective: To ensure that adequate system controls are in place to ensure the integrity of the system.

Auditor's Comments: The access, identity management and back up corporate controls for major systems including Integra have been reviewed by Audit Scotland and found satisfactory. The controls relating to Purchase ledger have been assessed during this audit. The Disaster Recovery Plan has been reviewed in this context and is satisfactory. There is a strong password policy in operation. The Authorised Signatory database and procedures have been reviewed and tested and are satisfactory. The retention of records policy and procedures are operating satisfactorily.

Strength of Internal Controls:

Strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Internal Audit Report

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Irons, Depute Chief Executive

J Walker, Depute Director, Housing, Community Care & Finance

S MacKenzie Acting Head of Finance

S Walker, Acting Chief Accountant

E Sturgeon, Chief Exchequer Officer

F Crofts, Business & Resources Manager

C Crawford, Finance & Business Support Manager

G Boland, Service Manager (Contracts, Facilities & Financial Management)

S Scott, Systems & Payroll Manager

P Dickson, Complaints & Governance Officer

M Kay, Senior Committee Officer

External Audit

Authorisation

The auditor for this assignment was J Cameron. The supervising auditor was D Farquhar.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 31 May 2012

Internal Audit Report

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Breaches of Financial Regulations Ordering Procedure	Medium
2	Lack of written guidelines in Services	Low

Appendix 2: Action Plan

Action Point 1 - Breaches of ordering procedures

Paragraph 11.1.5 of Financial Regulations stipulates that a written order should be issued for all purchases subject to a few limited exceptions. Para 11.1.6 further stipulates that written orders should be issued in advance except in emergency situations.

One of the invoices selected highlighted an occasion where an invoice had been authorised and passed for payment where there was no order completed to support the payment. Discussions with Services revealed that where no order number is recorded, invoices would be paid provided that an appropriate authorised signatory had endorsed the invoice appropriately.

The existence of a written, authorised, issued in advance Purchase Order, which can then be checked against a supplier invoice, is an important control to ensure that purchases made by the Council staff are planned and properly authorised prior to purchase. There are risks that purchases may be made for which there is no budget, no appropriate authorisation and which may not provide value for money for the Council.

Management Action Plan

Financial Controllers will be provided with an email to highlight the requirements of the Financial Regulations and supporting guidelines which highlight the requirements to raise orders for purchases, preferably in advance of the purchase, to be forwarded to all relevant officers within their Service.

Importance:	Medium
Responsible Officer:	S Scott, Senior Exchequer Manager (Systems)
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	June 2012
Required Evidence of Completion:	Copy of email

Auditor's Comments

Satisfactory

Action Point 2 - Lack of written procedures in Services

Financial Regulations (Para 11.3.1) requires that Executive Directors put in place arrangements to ensure that invoices are correct and authorised for payment by an appropriate person. It was observed in the Services during testing that checking was carried out to ensure this.

However page 59 of the Purchase Ledger Manual "Service Guidelines" requires that written guidelines are in place for all administration staff to follow. These must cover all authorisation procedures for non payroll expenditure. Such guidelines were not in existence at the time of the audit.

There is a risk that key controls in these areas may not be performed and 'Best Practice' may not be followed at all times

Management Action Plan

1. Financial Controllers will ensure that guidelines are produced for staff within their Services for the Service-based procedures as required by Financial Regulations and Purchase Ledger Manual guidelines.

2. The Best Practice Guidelines will also be updated.

Importance:	Low
Responsible Officer:	1. Financial Controllers 2. S Scott, Systems & Payroll Manager
Lead Service:	All Chief Executive's Service
Date for Completion (Month / Year):	1. and 2. September 2012
Required Evidence of Completion:	1. Written Guidelines in place for all services 2. Updated Best Practice Guidelines

Auditor's Comments

Satisfactory