



Internal Audit Report
Corporate and Democratic Services
Creditors System
Assignment No. 17- 20
February 2018

Final Report

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
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Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 27 September 2017. Audit testing was carried out in January and February 2018.

The Creditors system is one of the key financial systems of the Council, and is the process used by all Services to pay for supplies and services both requested and received. The Council’s Creditors system involves full usage of the PECOS system and Integra for ordering, approving, receipting and payment of goods and services. This audit concentrated on both PECOS purchase orders, and supplier invoices, and the co-ordination of the Purchase Ledger payment run. The audit samples were selected from payments of over £500 in value within the current financial year. A total of 25 invoices with supporting PECOS orders were sampled, plus 25 invoices not processed were also sampled. Paid invoices are predominantly retained and filed by Service-based Finance Service teams – secondary schools store their own, however, copy invoices were supplied by school staff as required. Orders are retained by the ordering division.

Scope and Limitations

In order to arrive at an opinion on the effectiveness of the control objectives within the Creditors system, the audit included visits to Services, interviews with relevant staff and review of the relevant procedures and documentation. Compliance with procedures was tested as appropriate. The audit did not include purchases by Procurement cards or credit cards.

As an audit of Housing Repairs & Improvements Service Financial Controls is included in the current annual plan, Housing and Community Safety has been excluded from this audit to avoid duplication.

Internal Audit undertook work with the Financial Systems Team within Corporate and Democratic Services (CADS) to consider whether there is scope to utilise data matching software, which has recently been purchased by the Internal Audit team, to assist in enhancing existing controls within the Creditors system.

Internal Audit Report

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 1: To confirm that appropriate regulations, policies and procedures are in place for the requisition, purchase, receipt and payment of goods and services.

Audit Comments: Internal Audit testing can confirm that Financial Regulations, policies and procedures are easily accessible through the Council's SharePoint to guide staff on the requisition, purchase, receipt and payment of goods. There are also "Best Practice" documents available and a comprehensive Integra Purchase Ledger manual.

PECOS and the Integra system are being used efficiently and effectively on a daily basis to complete the order production, invoice registration and payment processes. Financial administrative staff are aware of and complying with guidance and have demonstrated that there is appropriate segregation of duties. Checks are being carried out at each stage of the Creditors system including any changes to supplier bank account details. Sample testing found that invoices are being processed correctly in accordance with the Council's procedures and are filed securely.

A new Authorised Signatory database was introduced by the Financial Systems team in late 2017, which is now accessible through the Integra system. Although sample testing confirmed that officers are authorising within their own services financial limits, it was revealed that 4 purchase ledger invoices were authorised by officers of other Services/Divisions, who did not have the appropriate documented authority to do so. The services took action during the audit to rectify the position and ensure appropriate documented authority was in place.

Services have advised that an annual review of authorised signatories is carried out, but only in respect of invoices relating to their own service. There is therefore scope to update procedures in this regard.

Strength of Internal Controls:

Moderately Strong

Control Objective 2: To confirm that adequate system controls are in place to ensure the integrity of the system.

Audit Comments: Audit testing confirmed that adequate systems controls and procedures are in place to ensure the integrity of the system.

Interviews with the Financial Systems team confirmed that they regularly liaise with the Council's IT department in regards to Purchase Ledger systems, and a daily

Internal Audit Report

back-up procedure is in place to prevent data older than 24 hours from being lost in the event of a system failure.

Testing of the BACS authorisation process confirmed its effectiveness. The Financial Systems staff implement 3 payment runs per week in order to meet the invoice payment credit terms of 30 days. Additional authorisation is required for payments over £75,000. Reports are run before commencing the payment run to prevent duplicate payments and there is a strong password policy in operation throughout the process.

The Authorised Signatories Database is maintained and updated on a regular basis. This is evidenced by reports provided by the Financial Systems team which confirm that updates and/or amendments have been submitted within the last 3 months.

Strength of Internal Controls:	Strong
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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. Appendix 3 details additional work that has been carried out during the assignment.

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.

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.

Acknowledgements

Internal Audit acknowledges with thanks, the co-operation of the Finance division of each Service during this audit.

Feedback

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

Internal Audit Report

Distribution

This report will be distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive Environment (Sustainability, Strategic & Entrepreneurial Development)

B Renton, Director (Environment)

S Devlin, Executive Director, Education & Children's Services

G Taylor, Head of Democratic Services

K McNamara, Head of Strategic Commissioning and Organisational Development

L Simpson, Head of Legal and Governance Services

S MacKenzie, Head of Finance

S Walker, Chief Accountant

C Robertson, Central Services Manager

J Cockburn, Finance & Governance Manager

F Crofts, Finance & Resource Manager

S Walsh, Finance & Governance Team Leader

External Audit

Authorisation

The auditor for this assignment was M Craig. The supervising auditor was M Morrison.

This report is authorised for issue:

Moirra Morrison
Senior Internal Auditor
Date: February 2018

Internal Audit Report

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	VAT Registration Numbers	Low
2	Authority to Sign Invoices	Medium

Appendix 2: Action Plan

Action Point 1 - VAT Registration Numbers

The Council's VAT Guidance states that "an authenticated receipt can be issued in lieu of a tax invoice and can be treated as evidence to support a tax claim provided it shows the necessary details required to be shown on a tax invoice" One of the necessary details required is the VAT registration number of the supplier.

Audit testing revealed that 1 of the invoice samples was an Interim Certificate and the corresponding authenticated receipt did not state the company's VAT registration number as required.

Management Action Plan

The service advised that in this instance the authenticated receipt was automatically generated through the Concerto system. The service will ensure that the company VAT registration number will be displayed on all future authenticated receipts. This action was completed during the audit.

Risk/Importance:	Low
Responsible Officer:	S Welsh, TES Finance & Governance Team Leader
Lead Service:	The Environment Service
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	A sample authenticated receipt stating the VAT registration number

Auditor's Comments

Satisfactory

Internal Audit Report

Action Point 2 - Authority to Sign Invoices

The Council's Financial Regulations require Services to put in place arrangements to ensure that invoices are correct and authorised for payment by an appropriate person.

Audit testing revealed that 4 purchase ledger invoices were signed by officers of other Services/Divisions, who do not have the appropriate documented financial authority to do so. Whilst there are operational reasons for such, this is contrary to procedures.

Management Action Plan

1) to 3) Services will carry out a review of officers who approve invoices for other Services.

4) to 6) This procedure will then be included in the annual review

Risk/Importance:	Medium
Responsible Officer:	1) & 4) S Welsh, Finance & Governance Team Leader 2) & 5) J Cockburn, Finance & Governance Manager 3) & 6) C Robertson, Central Services Manager
Lead Service:	1) & 4) The Environment Service 2) & 5) Education and Children's Services 3) & 6) Corporate and Democratic Services
Date for Completion (Month / Year):	1) to 3) March 2018 4) to 6) August 2018
Required Evidence of Completion:	1) to 3) Evidence of review taking place 4) to 6) Confirmation that procedure is included in annual reviews.

Auditor's Comments

Satisfactory

Appendix 3: Additional work undertaken

Internal Audit are undertaking work with the Financial Systems team within CADS to consider whether there is scope to utilise data matching software, which has recently been purchased by the Internal Audit team, to assist in enhancing existing controls within the Creditors system.

This work is ongoing and will be included within the 2018/19 audit plan.