

Cumbria Shared Internal Audit Service

Internal Audit Report for Cumbria Constabulary



Audit of Main Financial Systems: Creditors

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Audit Resources

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Audit Report Distribution

For Action:	Ann Dobinson, Head of Central Services
For Information:	Michelle Bellis, Deputy Chief Finance Officer Roger Marshall, Joint Chief Finance Officer Stephen Kirkpatrick, Director of Corporate Support
Audit Committee	The Joint Audit & Standards Committee, which is due to be held on 19 th July, will receive the report:

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Cumbria Shared Internal Audit Service

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1. Background

- 1.1. This report summarises the findings from the audit of creditors. This was a planned audit assignment which was undertaken in accordance with the 2017/18 Audit Plan.
- 1.2. The creditor payment function, including administration of corporate credit cards, is managed by the Central Services Department (CSD), and comprises a mix of electronic procurement and non-electronic procurement ordering. Changes to the procurement system to introduce 'No purchase order, no pay' are currently being considered. It is anticipated that this will reduce the instances of non-order invoices being received from suppliers which is currently around 12.5% of invoices processed.
- 1.3. There are currently 11 corporate credit card holders with a combined monthly credit limit of £61,000, with monthly spend on average around £3,000.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Head of Central Services. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Corporate credit card purchases
 - Goods receipting
 - Non-purchase order invoices
 - Follow up of previous audit recommendations

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within creditors provide **Reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There is one audit recommendations arising from this audit review and this can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	-	-	-
3. Information - reliability and integrity of financial and operational information	-	-	-
4. Security - safeguarding of assets	-	-	-

5. Value - effectiveness and efficiency of operations and programmes	-	-	-
6. Other considerations from previous audits (see section 5.1) - Implementation of previous recommendations/impact of outstanding recommendations.	-	1	-
Total Number of Recommendations	-	1	-

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Up to date Financial Regulations and Financial Rules have been produced and include details on corporate credit cards, the requirement for official orders to be raised and goods receipting.
- Corporate card procedures for the three types on credit cards: General cards, Chief Officers & Staff Officers and Business Continuity cards have been produced and were last updated in 2017. They include identification of post holders, requirements for keeping cards secure, transactional and monthly limits, acceptable expenditure types and monthly reconciliation / authorisation requirements.
- The Joint Chief Finance Officer approves new corporate credit card holders.
- Invoice on hold reports are reviewed weekly to ensure supplier payments are not unduly delayed by non-receipting.

4.4 From the areas examined and tested it has been confirmed that:

- Corporate credit card holders have signed to accept the terms and conditions of card usage;
- Monthly and transactional limits on the Corporate Credit Cards are known to all card holders;
- Monthly Corporate Credit Card transactions are supported by VAT receipts and are approved in line with written procedures;
- Segregation of duties exists between ordering, receipting and processing orders;
- Outstanding goods receipting is reviewed on a weekly basis and followed up with the relevant staff; refresher training is provided as required;
- Official orders are required to support purchases with a small number of authorised exceptions;
- Quarterly reports are produced for the Director of Corporate Support and include percentage of invoices paid to terms and percentage of unmatched invoices processed (white slip);

4.5 The previous audit raised three audit recommendations for action.

- Two recommendations have been successfully implemented (summarised at Section 4.6)
- One recommendation has not been actioned (summarised at Section 5.1)

4.6 **Recommendations fully implemented:**

- Procedure notes for the Central Services Department have been produced and are available to all staff via a shared One Note folder. Only current documents are shown and these are dated.
- All Central Services Department staff receive 15 week reviews and annual Performance Development Reviews (PDRs).

4.7 **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.7.1 High priority issues: *No high priority issues were identified.*

4.7.2 Medium priority issues:

- The process for annual review of dormant supplier accounts is not fully established.

4.7.3 Advisory issues: *No advisory issues were identified*

Comment from the Director of Corporate Support

I am pleased that this audit of Creditors functions and processes has provided Reasonable assurance and that there are no new areas for action identified. I am, however, concerned that a recommendation from the March 2016 audit, which had been successfully addressed, has now been identified once more as being an area of concern.

I am very pleased that the report identifies numerous areas of strength, particularly around the use and management of corporate credit cards and the regular administration of invoices on hold. The report also highlights strong adherence to the necessary policies and procedures in place around these important areas of business.

As already noted, I am disappointed that the agreed approach to the annual review of dormant suppliers has not been fully embedded and will ensure that the Procurement Team work with appropriate colleagues to ensure that steps are taken to review the dormant suppliers and also to put in place embedded arrangements for an annual review as detailed in the 2016 recommendations.

Despite the above concern, I remain pleased with the overall review of the Creditors functions which recognises the ongoing efforts of the numerous departments involved.

5 Matters Arising / Agreed Action Plan

5.1 Outstanding Actions from Previous Audit Review

Audit Finding

(a) **Supplier Maintenance** (Medium priority)

The previous audit undertaken in March 2016 identified that “There is a process in place to report on suppliers that haven’t been active for a period of time and consider them for deactivation within the accounts payable system. The last exercise was undertaken in December 2015 and over 600 suppliers were deactivated within the system. Management have not defined and agreed the frequency of this process or the period of inactivity consequently the process is not included in current procedures”.

Outcome from follow up:

We were informed that the first annual exercise to review and deactivate suppliers where there was no transactional activity for 15 months or more was carried out in April 2016 by the Head of Procurement. This exercise resulted in 1,000 suppliers being removed from the database. We were informed that an annual exercise was scheduled for completion in January / February 2017 and that this was undertaken by Stores staff, on behalf of Procurement. This annual exercise has not been undertaken in 2018.

The arrangements have not been defined and set out in procedures and the risks that the accounts payable system becomes unmanageable and of excessive retention of supplier data remain.

Recommendation:

Arrangements for deactivating suppliers should be defined, agreed, communicated and monitored.

● **Medium priority**

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.