



Building a Better Bournemouth

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# **Internal Audit**

**Final Report**

**Strategic Finance**

**Creditors**

**July 2015**

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### DISTRIBUTION LIST

Final Report to:      Acting Executive Director, Finance  
                                 Service Director, Finance  
                                 Partnership Contract Manager  
                                 Partnership Service Delivery Manager  
                                 Operations Manager - Revenue and Benefits

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## **EXECUTIVE SUMMARY**

### **AUDIT OPINION**

Internal Audit can provide **Minimal Assurance** to Management. The risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk.

The role of Internal Audit is to consider the robustness of the control framework and the extent to which it operates. However during this audit review, internal audit have been made aware of wider issues that are affecting the ability of creditors to deliver the service effectively. Discussions with the Service Director, Strategic Finance identified that there are currently nearly 3,000 invoices waiting to be processed by the Creditors Team and as a result there are significant delays in paying the Council's creditors which not only presents a reputational risk to the authority but also has an impact on suppliers' cash flows.

A review of the Key Performance Indicator (KPI) has confirmed that this is not an isolated issue as Creditors have consistently failed to meet the minimum requirement of processing 95% of invoices within 30 days, for example in October 2014 only 77.75% of invoices were processed within 30 days.

The Service Director, Strategic Finance also identified that the above issues are not helped by the fact that Creditors have no resilience as certain functions can only be carried out by specific officers and as such the team is not equipped to cope with absences or high volumes of work, which results in further delays in processing invoices.

In addition to the issues identified by the Service Director, Strategic Finance, the audit review has highlighted a number of significant issues in respect of the control framework which are set out in the audit findings section of the report below.

Management should consider the wider issues identified by the Service Director, Strategic Finance when determining appropriate actions to address the recommendations set out in this report.

All audit conclusions will be signed off by the Head of Audit & Management Assurance to provide consistency and confirm that the opinion is appropriate given the issues identified in the audit.

## **SCOPE & DETAILED OPINION**

The Internal Audit Review of the Creditors system has been carried out in accordance with the Internal Audit Plan for 2014/15. Key risks to the delivery of the Service's objectives were defined at the outset of the audit.

The following table records the gross risk (the risk of exposure with no controls in place) and the Auditor's assessment of the risk exposure after the control environment has been tested.

Areas identified as significant corporate risks (ie those assessed as high risk areas) should be addressed as a matter of urgency.

Risks	Gross Risk Assessment	Auditor's Assessment
1. Goods and services are not procured in line with Financial Regulations	High	Medium
2. Invoices are not correctly processed for payment	High	Medium
3. Invoices are not paid within the stated timescales	High	High
4. Access to the Creditor system is not restricted	High	Medium

## **SUMMARY OF RECOMMENDATIONS AND PRIORITIES**

Impact	Number	Action
High	2	High priority recommendations identify weaknesses which have serious implications for the effective delivery of objectives and which must be addressed by management immediately. Monitoring of the effectiveness of the actions agreed is essential.
Medium	8	Medium priority recommendations identify weaknesses which have implications for the effective delivery of objectives and which must be addressed by management within a reasonable timescale. Monitoring of the effectiveness of the actions agreed is necessary.
Low	3	Low priority recommendations identify weaknesses which may have implications for the effective delivery of objectives and which management should address. Monitoring of the effectiveness of the actions agreed should be carried out.
Improvement Suggestions	1	Improvement suggestions identify enhancements which could support the achievement of objectives.

The Action Plan on page 25 has been proposed by management to address these recommendations.

**Note: The Action Plan will be agreed with and completed by management prior to the issue of the Final Report.**

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## **OVERVIEW AND AUDIT OBJECTIVES**

### **OVERVIEW**

This Internal Audit follow up and additional testing review forms part of Bournemouth Borough Council's Internal Audit Plan 2014/15.

The Creditors Team was outsourced to Mouchel in February 2012 and has continued to provide services for the Council since then. The team consists of a Payments Manager, a Duty Payments Officer and five Clerical Assistants. The Creditors Team processes payments to suppliers on behalf of the Council through receipt of appropriate documentation.

The Council's Service Units order services, goods or works, and then submit payment requests to the Creditors Team via an invoice with a payment slip attached, or a combination of an invoice, payment slip and electronic information managed via Market Place, the electronic system for raising and recording official orders. Oracle is used to process invoices and to raise the payment, from the 1<sup>st</sup> April 2015 this and Market Place have been replaced by Oracle Fusion.

This report provides Management with a summary of the findings from this follow up and additional testing review.

This report also provides Management with a Green, Amber, Red traffic light summary of the progress made implementing each recommendation raised in the 2013/14 internal audit report, and the current effectiveness of controls. Where implementation has been found to be incomplete, or additional weaknesses were identified a recommendation for improvement is offered to assist in managing the risk.

Due reference was given throughout the review to the possible risks of fraud and corruption.

We would like to thank all staff for their assistance and co-operation throughout the course of this review.

### **CONTROL OBJECTIVES**

The objectives of the audit are to seek assurance that controls and procedures put in place by managers are effective and ensure that:

- Recommendations arising from the 2013/14 audit have been effectively implemented.
- Goods & services are procured in line with Financial Regulations.
- Invoices are being correctly processed.
- Invoices are paid within 30 days of the invoice date.
- Access to the Creditor system is restricted to authorised officers.

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This audit has been undertaken as part of a risk based Internal Audit plan. This means that:

- The objectives and risks have been discussed and agreed with managers prior to the start of the audit.
- The controls established to manage risks have been discussed with key staff and relevant documentation reviewed.
- The controls have been evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively.
- At the end of the audit review, findings have been discussed with managers at a close out meeting and suggestions for improvement have been agreed.

## AUDIT FINDINGS

Risk 1	Assessment
Goods and services are not procured in line with Financial Regulations	MEDIUM

<b>2013/14 INTERNAL AUDIT RECOMMENDATION 1:</b>	Priority Rating: Medium
<b>It is recommended that the payment slip should be updated to state whether the goods or services have been received, this will be in line with Market Place.</b>	

Has the recommendation been implemented	GREEN	Assessment of risk remaining	AMBER
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### **1.1 Action taken to improve control**

1.1.1 Following the implementation of the recommendation from the 2013/14 audit, the payment slip has been amended and now includes a section to confirm whether the goods or services have been received. However, testing has identified that the newly designed payment slip is not being used by all Service Units.

### **1.2 Continuing implications of the control environment**

1.2.1 It is the responsibility of Service Units to ensure that the payment slip is attached to the relevant invoice. It has been noted that on occasion, payment slips are either not being attached or have become detached from the invoice either prior to being signed by the Budget Holder or being received by Creditor's for processing. There is a risk that the budget holder could authorise a payment which does not relate to the relevant invoice, and subsequently the payment slip could be attached to a fraudulent invoice.

1.2.2 At present the Authority is implementing Oracle Fusion which will replace the current Oracle system. Once Oracle Fusion has been implemented payment slips will no longer be used to process invoices as the authorisation process will be electronic. Creditors will continue to receive invoices and these will be matched against an order which has been raised on the system. Where an order has not been raised, a retrospective order will have to be created and authorised by relevant budget holder.

1.2.3 At the time of writing this report the new process, which went live on 1<sup>st</sup> April 2015, has not been reviewed by Internal Audit but will be considered during the 2015/16 audit review of the creditors system.

**2013/14 INTERNAL AUDIT RECOMMENDATION 2:**

Priority Rating: High

**It is recommended that the revised Authorised Signatory form be agreed with the Service Director for Strategic Finance and:**

- a. Service Units are regularly reminded to ensure that Authorised Signatory Lists are kept up to date and are in agreement with the list that is currently held on Market Place.**
- b. The Authorised Signatory List includes an authorisation limit for each officer, specifying the maximum invoice value they can approve,**
- c. There is a process in place to ensure that any future changes within either list are mapped.**

Has the recommendation been implemented

**GREEN**

Assessment of risk remaining

**GREEN****1.3 Action taken to improve control**

1.3.1 A revised Authorised Signatory form has been agreed and issued to all Service Units for completion and return. The Authorised Signatory list provides the Creditors Team with a reference to compare the signatures on the payments slips which are attached to the invoices received for payment. The revised form also states the amount the officer can authorise, which should be in line the Service Unit's Scheme of Delegation.

**1.4 Continuing implications of the control environment**

1.4.1 It was noted that not all Authorised Signatory lists had been returned, and as a result the Creditors Team are still working from previous out of date Authorised Signatory lists. There is therefore a risk that budget holders are authorising invoices which exceed their authorisation limit.

1.4.2 However, with the implementation of Oracle Fusion, and the removal of the payment slip, the Creditors Team will no longer need to check the signatures, as an electronic authorisation will be required as part of the new system. The electronic authorisation process will be set up and monitored by Strategic Procurement. An invoice should therefore only be raised once an order has been approved by the relevant budget holder.

1.4.3 The arrangements in place within Oracle Fusion would appear to address the weakness in the control framework previously identified by Internal Audit. This will be tested as part of our 2015/16 Creditors audit work.



**2013/14 INTERNAL AUDIT RECOMMENDATION 5:**

Priority Rating: Low

It is recommended that Service Units are reminded that all expenses for out of pocket expenses should be processed through the payroll system and where an out of pocket expense has been identified, it should be referred back to the relevant officer.

Has the recommendation been implemented

**GREEN**

Assessment of risk remaining

**GREEN****1.5 Action taken to improve control**

1.5.1 A reminder was issued by HR on BIZ to remind staff and managers that 'out of pocket' expenses should be raised via payroll and not through the Creditors system. Any suspected out of pocket expenses received by the Creditors Team will be forwarded to HR for them to liaise with the relevant budget holder.

**1.6 Continuing implications of the control environment**

1.6.1 Implementation of this recommendation was reviewed as part of the Business Travel & Subsistence Audit 2014/15, and has not been tested during the course of this audit; it was recommended that Strategic HR liaise with the Creditors Team to ensure that all creditor payments officers refer all travel and subsistence expense claims from employees to HR, so that these can be returned to the submitting staff member for recording on the Envoy system.

1.6.2 The process for creating a new supplier, as would be the case if any 'out of pocket' expenses were being processed by Creditors, is changing as part of the implementation of Oracle Fusion. Strategic Procurement have developed a new Creditors supplier set up form; if the supplier is a named individual it will be passed to HR for approval to confirm that the person is not an employee of the Authority.

1.6.3 The proposed new control in Oracle Fusion should address the weakness in the control framework previously identified by Internal Audit. This will be tested as part of our 2015/16 Creditors audit work.

**2013/14 INTERNAL AUDIT RECOMMENDATION 9:**

Priority Rating: Low

**It is recommended that the Creditors Team ascertain whether Oracle can be used to record the officer who has authorised the invoice, or whether there are planned system improvements which would allow this.**

Has the recommendation been implemented

**GREEN**

Assessment of risk remaining

**GREEN**

**1.7 Action taken to improve control**

1.7.1 A review was undertaken to ascertain whether Oracle could be used to record the officer who has authorised the invoice. However, the system could not record this information but it would be raised as part of the Oracle Fusion implementation.

**1.8 Continuing implications of the control environment**

1.8.1 It has been confirmed that the arrangements for processing an invoice will be changing and Oracle Fusion will show the officer who has authorised the invoice. The proposed new control in Oracle Fusion should address the weakness in the control framework previously identified by Internal Audit. This will be tested as part of our 2015/16 Creditors audit work.

**2013/14 INTERNAL AUDIT RECOMMENDATION 10:**

Priority Rating: Medium

**It is recommended that a specific vendor type should be created for one off creditor's payment refunds. This should be integrated as part of the new Oracle Fusion system.**

Has the recommendation been implemented

**GREEN**

Assessment of risk remaining

**AMBER**

**1.9 Action taken to improve control**

1.9.1 The option to create specific vendor types for one off creditor's payment refunds is not available within Oracle, but has been included for implementation as part of the Oracle Fusion project.

**1.10 Continuing implications of the control environment**

1.10.1 As identified in the 2013/14 internal audit review, one of creditor payments for refunds, e.g. Housing Benefits, Housing Rents, Council Tax, and other non standard business suppliers, are not clearly identifiable from regular business suppliers. As a result it is difficult to identify the different types of creditor payments refunds. This has been raised as part of the Oracle Fusion implementation project and will be reviewed once the system has been fully implemented.

**Recommendation 1:**

**The 2013/14 Internal Audit recommendation that a specific vendor type should be created for one off creditor's payment refunds is reiterated. This should be integrated as part of the new Oracle Fusion system.**

**2013/14 INTERNAL AUDIT RECOMMENDATION 11:**

Priority Rating: Medium

**It is recommended that the Procurement Team in liaison with Creditors develop a system to ensure that all invoices which have not been processed through Marketplace are checked to ascertain if an appropriate exemption exists. Where an exemption is not in place, the Service Unit should be contacted to obtain the required exemption.**

Has the recommendation been implemented

**RED**

Assessment of risk remaining

**AMBER****1.11 Action taken to improve control**

1.11.1 Recommendation 11 has not been implemented. It has been confirmed that Creditors do not check if an appropriate exemption exists for invoices which have not been raised through Marketplace. Strategic Procurement used to undertake a review of invoices that were processed outside Marketplace to ensure that there was an adequate exemption in place, however this review is no longer being undertaken.

**1.12 Continuing implications of the control environment**

1.12.1 Financial Regulations (Part E – Financial Systems & Procedures – paragraph 13) state that “the S151 is responsible for providing a corporate system for raising and recording official orders. The system used for this purpose at the Council is the Marketplace. Services must use this system except in the case of emergencies or if prior approval has been given by the S151 Officer to an alternative arrangement”.

1.12.2 Testing was undertaken to ascertain whether those invoices which have not been processed via Marketplace have the relevant exemption in place. Strategic Procurement has produced a document which details those suppliers which are exempt from being processed via Marketplace. However, from the review it was not possible to evidence that the relevant exemption had been obtained for all the invoices tested which had not been processed through Marketplace.

1.12.3 Oracle Fusion replaced Marketplace with effect from 1<sup>st</sup> April 2015 and so the arrangement for processing invoices has changed, as previously stated in this report. Consequently, a supplier will need to be created within the purchasing side of Oracle Fusion before the payment can be processed. The proposed new control in Oracle Fusion should address the non compliance to Financial Regulations. However, this will be reviewed by Internal Audit to confirm compliance during 2015/16.

**Recommendation 2:**

**It is recommended that the Service Director, Strategic Finance should liaise with Internal Audit to ensure that the revised procedure for processing an invoice where an order has not been raised contributes to a robust control environment.**

Risk 2	Assessment
Invoices are not correctly processed for payment	MEDIUM

<b>2013/14 INTERNAL AUDIT RECOMMENDATION 3:</b>	Priority Rating: Medium
<p>It is recommended that all Comensura invoices are reconciled back to the Comensura system before being passed to Creditors for payment, and that where an agency staff timesheet has been automatically approved, this should be raised with the relevant manager for retrospective approval.</p>	

Has the recommendation been implemented	GREEN	Assessment of risk remaining	GREEN
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**2.1 Action taken to improve control**

2.1.1 All Comensura invoices are reconciled back to the Comensura system before being passed to Creditors for payment.

**2.2 Continuing implications of the control environment**

2.2.1 The actions taken satisfactorily address the previously identified control weakness.

**2013/14 INTERNAL AUDIT RECOMMENDATION 6:**

Priority Rating: Medium

It is recommended that:

- a. A formal procedure is implemented for the chasing of credit notes.
- b. Prioritisation is given to the pursuit of credits of the highest value or most aged debt, and
- c. Where aged credits are found to be unreclaimable, they should be written off.

Has the recommendation been implemented

GREEN

Assessment of risk remaining

GREEN

**2.3 Action taken to improve control**

2.3.1 A formal procedure has been put into place for the chasing of outstanding credit notes

**2.4 Continuing implications of the control environment**

2.4.1 A review was undertaken to ascertain the total amount of outstanding credit notes in comparison to the previous year. The total amount owing to the Authority as at the date of the audit was £47,238 (of which £35,755 relates to the 2014/15 financial year). This is a 36% reduction on the value of credit balances from £74,257, as highlighted in the 2013/14 audit report.

2.4.2 The review has confirmed that the actions taken have satisfactorily addressed the previously identified control weakness. Also the Strategic Procurement Team are current undertaking a review of the credit note process, with a view in reducing the numbers that are involved.

## ADDITIONAL AUDIT WORK

### 2.5 Procedure Documents

- 2.5.1 Examination was made of the current creditors' procedures to ensure that they are up to date and reflect the current working practices.
- 2.5.2 The procedure notes are available in hard copy as well as electronic format. From the review it was noted that parts of the procedure notes were not up to date and did not reflect current working practices, also several versions of the procedure notes were found to be held electronically. There is a risk that staff are therefore not following the current agreed working practices of the team and inappropriate payments are made.

#### **Recommendation 3:**

**It is recommended that the current procedure notes are reviewed and updated to reflect the current working practices, including Appendices and hyperlinks, that these are effectively disseminated to all relevant officers, and that all out of date versions of the procedures are identified and archived.**

### 2.6 Processing of Invoices

- 2.6.1 A sample of invoices were reviewed to ensure that they have been processed correctly in compliance with Financial Regulations. Testing included invoices that were raised via Marketplace.
- 2.6.2 Upon receipt of an invoice, the Creditors Team will date stamp it and confirm if the budget holder section on the payment slip has been completed. Where invoices have insufficient details to be processed they are returned to the Service Unit with an explanation as to why the invoice has not been processed.
- 2.6.3 It was confirmed with the Deputy Payments Manager that the details will only be checked if they prevent the invoice from being processed, e.g. VAT amount, cost code, supplier details, etc... Where the Oracle system does not recognise an expenditure code, the Creditors Team will process the payment with a suspense ('Dump') code; once the correct code has been identified, Accountancy will reallocate the expenditure accordingly.
- 2.6.4 The Creditors Team place reliance on Service Units submitting invoices which are legitimate and which have been appropriately authorised rather than undertaking checks to confirm that the invoice is valid, and that the amounts and cost codes are correct. There is risk therefore that fraudulent invoices could be processed by Creditors due to the absence of appropriate checks.

#### **Recommendation 4:**

**It is recommendation, that as part of the Oracle Fusion implementation, a review should be undertaken on the current processing arrangements in place for creditors to ensure that all appropriate checks are completed when inputting an invoice.**

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## 2.7 Duplicate Invoices

- 2.7.1 Examination was made of the process for identifying duplicate payments. It has been confirmed that the Oracle system will identify any duplicate invoice if the invoice number has already been entered, however, if either the original invoice or the duplicate invoice number has been incorrectly typed, both invoices will be processed.
- 2.7.2 Where a potential duplicate invoice has been identified, the Creditors Team will retain it and file it either as a Marketplace or a manual process duplicate. However, there is no feedback to Service Units to inform them that a duplicate invoice has been submitted. There is a risk therefore that Service Units are not aware that duplicate invoices have been raised, either in error or as a deliberate re-submission.

### **Recommendation 5:**

**It is recommended that where Creditors have identified a potential duplicate invoice the relevant budget holder / Service Unit should be notified so they can identify the reason for the submission of the duplicate and address the causes.**

- 2.7.3 At present as part of the Oracle Fusion project the Strategic Procurement Team are reviewing how duplicate payments are being processed and will introduce controls to reduce the numbers being processed.

## 2.8 Duplicate Match Testing

- 2.8.1 A download of invoices covering the period July to September 2014 was taken and testing undertaken to identify any duplicate matches in respect of the following fields:

- Invoice Date
- Invoice Amount
- Vendor Name

- 2.8.2 Internal Audit reviewed the list of potential matches and identified the following:

- An invoice for Creditor reference 334702 for £12,452.90 had been processed twice. The Oracle system would have rejected the second invoice but a full stop was added at the end of the invoice number.
- An invoice for Creditor Reference 304746 for £390.80 had been processed twice. Although one of the invoices could not be located, it is clear from the Oracle system that a duplicate payment has been made.

The above invoices have been raised with the relevant Service Directors to ascertain why they were processed and to review their current arrangements to prevent this happening in the future.



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## Recommendation 6:

**It is recommended that invoices identified as duplicates arising from this audit review are raised with the relevant Service Directors to investigate further and report their findings.**

- 2.8.3 As part of the National Fraud Initiative (NFI), which was recently completed, duplicate testing was undertaken on the following areas:
- Duplicate records by name, invoice number and amount but different creditor reference.
  - Duplicate records by invoice number and amount but different creditor reference and name.
  - Duplicate record by postcode, invoice date and amount but different creditor reference and invoice number.
  - Duplicate records by postcode, amount but different creditor reference and invoice number and date.
- 2.8.4 From the NFI review 420 potential duplicate invoices were identified of which 14 are being further investigated by the Creditors Team.
- 2.8.5 Apart from the NFI, the Authority does not employ or undertake checks to identify potential duplicate payments. A report produced by INFOR identified that between 0.05% and 0.1% of creditor payments are duplicates payments, and that this could be much higher in the Public Sector; in respect of Bournemouth Borough Council, as at December 2014 for the 2014/15 year to date, this would equate to between £127,148 and £254,297.
- 2.8.6 Internal Audit are currently exploring the option of purchasing a data analysis and file interrogation tool (IDEA), in accordance with discussions held with the Section 151 Officer; which has the option to undertake duplicate invoice detection. Upon successful acquisition of this software, Internal Audit will be able to further support the Authority in its identification of duplicate invoices, and the recovery of monies inappropriately spent.

<b>Risk 3</b>	<b>Assessment</b>
<b>Invoices are not paid within the stated timescales</b>	<b>HIGH</b>

**2013/14 INTERNAL AUDIT RECOMMENDATION 7:**

Priority Rating: Medium

**It is recommended that the Client Team establish an agreed target baseline figure so that the creditors processing rate can be monitored on a regular basis.**

Has the recommendation been implemented	<b>GREEN</b>	Assessment of risk remaining	<b>RED</b>
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**3.1 Action taken to improve control**

- 3.1.1 The Client Team in agreement with Mouchel have set both a minimum (95%) and upper target (98%) for the creditors function on processing invoices.
- 3.1.2 From the review it was noted that between July and October 2014, the Creditors Team did not meet the minimum target of 95%, and that in October, only 77.75% of invoices were processed within 30 days. This occurred due to staff absences, either being on leave or sick, and that there is no resilience within the team to cover for absences.
- 3.1.3 As a result there was a substantial backlog, which was addressed only by staff undertaking overtime and additional hours until the backlog was cleared.
- 3.1.4 There is currently nearly 3,000 invoices still waiting to be processed. There is therefore a risk that the Authority is not complying with the 2011/7/EU directive which requires the paying of invoices within 30 days; failure to comply with this directive places the Authority at risk of being liable to the incurrence of a fine (as discussed further in paragraph 3.4.1 of this report).

**Recommendation 7:**

**It is recommended that the Service Director, Strategic Finance reviews the current work flow and resources of the Creditors Team to ensure that adequate staffing, resilience and appropriate procedures are in place to deliver an EU compliant payments function that achieves the performance deliverable under the Partnership Agreement.**

**3.2 Continuing implications of the control environment**

- 3.2.1 The contractual arrangement for the delivery of the creditors function includes only 1 Key Performance Indicator (KPI F04); this is in relation to the processing of invoices within 30 days from receipt at the Council. The KPI Definition reads:

“The indicator measures the time taken for the Creditors Team to process invoices for payment to Council suppliers and reports on the proportion paid within the timescales prescribed by the Council’s payment terms (30 days) or by the due date.”

- 3.2.2 Whereas the KPI formula reads as follows:

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“Total number of approved invoices processed for payment within 30 days of receipt by the Creditors Team in the period / Total number of approved invoices paid by the Creditors Team in the period.”

- 3.2.3 It should be noted that this formula does not take into account the Council’s payment terms (30 days) as shown in the KPI definition as detailed in the Partnership Contract.

**Recommendation 8:**

**It is recommended that the Service Director, Strategic Finance reviews the KPI formula to bring it in line with the Council’s payment terms.**

- 3.2.4 The overall processing times of invoices, from the date of receipt by the Council, to the date paid, are also impacted by Service Units wherever invoices are not promptly forwarded to the Creditors Team to be processed. A sample of invoices were tested of which 7 showed significant delays between the date received by the Service Unit (based on the date stamp by the Service Unit) and the date received by the Creditors Team. There is a risk therefore that invoices received by Service Units directly will not be processed and paid with 30 days.

**Recommendation 9:**

**It is recommended that the Service Director, Strategic Finance issues an instruction to Service Directors to remind all staff that they are required to forward authorised invoices to the Creditors Team promptly, to ensure compliance with EU directives in relation to the payment of creditors.**

**Recommendation 10:**

**It is recommended that the Creditors Team produce a monthly report detailing all invoices that have not been processed within 30 days of receipt and the reasons for the failure to pay. This report should be reviewed by the Client Team to ensure that the reasons stated are adequate and that appropriate action is being taken to effect payments at the earliest opportunity.**

**2013/14 INTERNAL AUDIT RECOMMENDATION 8:**

Priority Rating: Low

It is recommended that the Creditors Team should identify whether Oracle Fusion can record the dates when the Authority has received the invoice and when it has been passed to Creditors to process. This will allow the Authority to evidence compliance with the 2011/7/EU directive.

Has the recommendation been implemented

**RED**

Assessment of risk remaining

**AMBER****3.3 Action taken to improve control**

3.3.1 Creditors currently record on the Oracle System the invoice date and the date they have received the invoice from the Service Unit so that they can calculate their performance indicator. However, the Head of Strategic Procurement has stated that their priority should be with complying with the EU Directive rather than processing performance. With the implementation of Oracle Fusion invoices will be sent directly to the Creditors Team, thereby rendering this manual record redundant.

**3.4 Continuing implications of the control environment**

3.4.1 The EU has recognised that late payment of invoices is an issue throughout the European Union; as a result directive 2000/35/EC was produced to combat this. This directive was revised (2011/7/EU) in 2011 (coming into force in 2013) to include local authorities. It states that an invoice should be paid within 30 days (or 60 days if it has been agreed with the supplier) upon receipt of the invoice or upon receipt of the goods and services. Where a supplier can prove that the Authority has not paid the invoice within 30 days (or 60 days) the Authority is liable to pay a minimum fixed sum of €40 to the supplier plus additional reasonable costs incurred.

3.4.2 Invoices are usually sent to the Service Unit where it should be date stamped before being passed to the Creditors Team for processing. As previously stated, there are delays by the Service Units in forwarding invoices for payment. When Oracle Fusion is implemented invoices will be sent directly to Creditors for processing, however further delays may be incurred if an order has not been raised and the invoice is sent back to the Service Unit. There is a risk therefore that the Authority could incur additional costs by not processing invoices within 30 days from receipt, as well as the potential reputational damage to the council for not paying invoices promptly.

**Recommendation 11:**

**The Service Director, Strategic Finance should issue guidance to all directorates to ensure compliance with Financial Regulations (Financial Systems & Procedures paragraph 13) that purchases are supported by an order raised via the purchasing module on Oracle Fusion.**

## ADDITIONAL AUDIT WORK

### 3.5 BACS Payments

- 3.5.1 A report is run each day by Creditors, using Discoverer, which details all the invoices which are to be paid.
- 3.5.2 Where the report identifies either a one off payment or a sum of payments to an individual supplier which is over £25,000, the relevant Accountant will review the related invoices.
- 3.5.3 Detailed testing was undertaken on the BACS Payment Run report for 4<sup>th</sup> March 2015 to confirm that it had been reviewed and authorised by Accountancy, and that one off payments or a sum of payments which totalled over £25,000 had been specifically reviewed and authorised. No issues were identified and the form had been signed by the Accountant to state that they had seen and agreed the payments over £25,000.
- 3.5.4 The checks undertaken by Accountancy to confirm the accuracy and validity of the payments were found to be operating satisfactorily. It should be noted that this process could be enhanced through electronic authorisation, and the following suggestion is provided to support this.

#### **Improvement Suggestion**

**The Head of Strategic Procurement and Creditors Manager should investigate whether Accountancy can approve invoices over £25,000 electronically on Oracle Fusion.**

- 3.5.5 The BACS Payment Run is uploaded into the APT Software system, which transfers the Payment Run to the bank. The APT Software is held on a separate PC, which is located in a small office which has a card reader attached to it. Officers who are responsible for accessing the APT Software system are each issued with an individual bank card and password. A bank card has been issued to the following officers:
- Payments Manager
  - Deputy Payments Manager
  - One Clerical Assistant
  - Operations Manager
  - Systems Control Team Leader
- 3.5.6 The system requires one officer to enter the details and another officer to approve; it should be noted that the Clerical Assistant cannot approve. The segregation of duties for the input of the Payment Run was found to be adequate.

<b>Risk 4</b>	<b>Assessment</b>
<b>Access to the Creditor system is not restricted</b>	<b>MEDIUM</b>

<b>2013/14 INTERNAL AUDIT RECOMMENDATION 4:</b>	Priority Rating: Low
<b>It is recommended that the modified supplier report is reviewed promptly and is always countersigned by a supervising officer.</b>	

Has the recommendation been implemented	<b>GREEN</b>	Assessment of risk remaining	<b>AMBER</b>
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#### **4.1 Action taken to improve control**

4.1.1 A Modified Supplier Details report, which shows any changes which have been made to the supplier record on the Oracle system, is produced on a daily basis which is checked by another Creditor Officer and confirmed by the Deputy Payments Manager or the Payments Officer.

#### **4.2 Continuing implications of the control environment**

4.2.1 Testing was undertaken to ensure that the Modified Supplier Details report has been produced on a daily basis, been reviewed by another Creditor Officer and confirmed by either the Payments Officer or the Deputy Payments Manager. It was noted on several occasions that the report had not been reviewed by either the Payments Officer or the Deputy Payments Manager.

4.2.2 A sample of new supplier set up forms and modified supplier set up forms were reviewed to ensure that they had been processed correctly. The following issues were identified:

- 10% of new and 20% of modified supplier set up forms could not be located to confirm that they had been correctly input. This was due to a backlog of filing, there is a risk that suppliers payment details cannot be checked if payment has been made to the wrong account.
- 50% of new and 5% of modified supplier set up form contained unnecessary personal details and does not comply with Data Protection.
- 15% of modified supplier set up forms were submitted late thus resulting in the payment being made outside of 30 days of receipt of the invoice.

#### **Recommendation 12:**

**It is recommended that procedures are put in place to ensure that all new and modified supplier set up forms are completed accurately, contains appropriate details e.g. unnecessary personal information, and are submitted to Creditors promptly to ensure timely processing.**

4.2.3 An invoice was identified that requested the payment to be made to the named individual rather than the company as previously done. Creditors followed the correct process in paying the company as a change of suppliers detail form had not been submitted by the Service Unit. However, the bank processed the payment even though the company's account had been

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closed; as a result the individual is still waiting for the payment. This is currently being resolved by Accountancy.

- 4.2.4 It was further noted that a supplier set up form was raised under a company but the payment would be made to an individual. As a result the supplier record was set up under the individual's name rather the company. There is a risk therefore that a duplicate supplier could be set up when a further invoice is raised under the company's name or that the bank details could be fraudulent.

**Recommendation 13:**

**It is recommended that, where applicable, supplier bank accounts should be set up under the supplier's name, unless this has been confirmed in writing.**

- 4.2.5 It has been confirmed that the control environment will be strengthened by the creation and modification of suppliers' details being passed to Strategic Procurement as part of the Oracle Fusion implementation. In addition, a new supplier form and input process has been developed. A Modified Supplier Details report will be produced and checked by another Strategic Procurement Officer to ensure there is adequate separation of duties.
- 4.2.6 The implementation of Oracle Fusion should address the recommendation made in the previous audit.

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## ADDITIONAL AUDIT WORK

### 4.3 System Access

4.3.1 A review was undertaken of the list of users who have access to Oracle and Market Place. It was noted that some of the information contained on both systems was not up to date, and included staff that had either left the Authority or had moved jobs.

4.3.2 However, as part of the Oracle Fusion project a review has been undertaken of users' access requirements and as such this control weakness will be addressed.



## **ACTION PLAN – Creditors 2014/15**

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R1	1.10.1	Supplier types are not easily identifiable on the Oracle System.	The 2013/14 Internal Audit recommendation that a specific vendor type should be created for one off creditor's payment refunds is reiterated. This should be integrated as part of the new Oracle Fusion system.	Low	As and when all suppliers are paid via BACs, a specific vendor type cannot be set up within Oracle Fusion.	Actioned
R2	1.12.3	Processing of invoices without an official order.	It is recommended that the Service Director, Strategic Finance should liaise with Internal Audit to ensure that the revised procedure for processing an invoice where an order has not been raised contributes to a robust control environment.	Medium	The Service Director, Strategic Finance, has procured a consultant to undertake a review of the current invoice inputting process, and the findings will be discussed at the conclusion of their review.	Service Director, Strategic Finance  October 2015
R3	2.5.2	Creditor procedure notes are not up to date.	It is recommended that the current procedure notes are reviewed and updated to reflect the current working practices, including Appendices and hyperlinks that these are effectively disseminated to all relevant officers, and that all out of date versions of the procedures are identified and archived.	Low	New procedure notes are currently being developed by the Strategic Procurement Team, and will be located on BIZ for easy access.	Head of Strategic Procurement  August 2015
R4	2.6.3	Completeness of invoice checks.	It is recommendation, that as part of the Oracle Fusion implementation, a review should be undertaken on the current processing arrangements in place for creditors to ensure that all appropriate checks are completed when inputting an invoice.	High	The Service Director, Strategic Finance, has procured a consultant to undertake a review of the current invoice inputting process, and the findings will be discussed at the conclusion of their review.	Service Director, Strategic Finance  October 2015

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R5	2.7.2	Service Units are not aware potential duplicate invoices have been identified.	It is recommended that where Creditors have identified a potential duplicate invoice the relevant budget holder / Service Unit should be notified so they can identify the reason for the submission of the duplicate and address the causes.	Medium	Where a duplicate invoice has been identified a copy will be sent back to the relevant budget holder / service unit for an explanation.	Head of Strategic Procurement August 2015
R6	2.8.2	Duplicate invoices have been processed.	It is recommended that invoices identified as duplicates arising from this audit review are raised with the relevant Service Directors to investigate further and report their findings.	Medium	2 invoices have been raised with the appropriate Service Directors and relevant action has been taken to reclaim the monies.	Actioned
R7	3.1.4	Invoices not being processed in 30 days.	It is recommended that the Service Director, Strategic Finance reviews the current work flow and resources of the Creditors Team to ensure that adequate staffing, resilience and appropriate procedures are in place to deliver an EU compliant payments function that achieves the performance deliverable under the Partnership Agreement.	High	The Service Director, Strategic Finance, has procured a consultant to undertake a review of the current invoice inputting process, and the findings will be discussed at the conclusion of their review.	Service Director, Strategic Finance October 2015
R8	3.2.3	The KPI calculation does not reflect the definition.	It is recommended that the Service Director, Strategic Finance reviews the KPI formula to bring it in line with the Council's payment terms.	Medium	A new suite of KPI's and PI's are being developed to monitor staff and team performances.	Service Director, Strategic Finance September 2015

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R9	3.2.4	Invoices not being sent to Creditors in a timely fashion.	It is recommended that the Service Director, Strategic Finance issues an instruction to Service Directors to remind all staff that they are required to forward authorised invoices to the Creditors Team promptly, to ensure compliance with EU directives in relation to the payment of creditors.	Medium	An e-mail will be issued to all Service Directors, to be forwarded to relevant staff, stating that invoices should be forwarded to Creditors promptly.  Also, the Head of Strategic Procurement will undertake a review of the flow of an invoice from when they arrive at the council to identify potential delays.	Service Director, Strategic Finance  August 2015  Head of Strategic Procurement  September 2015
R10	3.2.4	Invoices not being sent to Creditors in a timely fashion.	It is recommended that the Creditors Team produce a monthly report detailing all invoices that have not been processed within 30 days of receipt and the reasons for the failure to pay. This report should be reviewed by the Client Team to ensure that the reasons stated are adequate and that appropriate action is being taken to effect payments at the earliest opportunity.	Medium	As per recommendation 8.	As per recommendation 8
R11	3.4.2	Not complying with Financial Regulations	The Service Director, Strategic Finance should issue guidance to all directorates to ensure compliance with Financial Regulations (Financial Systems & Procedures paragraph 13) that purchases are supported by an order raised via the purchasing module on Oracle Fusion.	Medium	Financial Regulations are currently being reviewed, and the raising of orders will be reviewed.	Service Director, Strategic Finance  October 2015
R12	4.2.2	Supplier set up forms have not been filed.	It is recommended that procedures are put in place to ensure that all new and modified supplier set up forms are completed accurately, contains appropriate details e.g. unnecessary personal information, and are submitted to Creditors promptly to ensure timely processing.	Low	A new process has been developed with the implementation of Oracle Fusion, which is now being undertaken by the Strategic Procurement, this will address this recommendation.	Actioned

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Management Response	Responsible Officer and Target Date
R13	4.2.5	Supplier's details are correctly set up on Oracle.	It is recommended that, where applicable, supplier bank accounts should be set up under the supplier's name, unless this has been confirmed in writing.	Medium	As per recommendation 12.	As per recommendation 12.

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## **EXPLANATION OF AUDIT OPINIONS**

### **Audit Opinion**

#### **Substantial Assurance**

There is sound risk management, internal control and governance processes which are designed to achieve the service objectives, with key controls being consistently applied.

#### **Reasonable Assurance**

Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put service objectives at risk.

#### **Partial Assurance**

There are weaknesses in the risk management, internal control and governance processes which are putting service objectives at risk.

#### **Minimal Assurance**

The risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk.