

HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

28 January 2015

Agenda Item	6
Report No	VAL 3/15

Internal Audit Report – Accounts Payable

Report by Head of Audit & Risk Management, Highland Council

Summary

This report provides details of an audit of Accounts Payable which has been completed since the last report to the Board on 11th September 2014.

1. Introduction

1.1 Whilst the normal reporting method is to provide the Report Summary and Action Plan only, which are attached for consideration by Members, it should be noted that full copies of reports are available if requested.

Each Internal Audit report contains an audit opinion based upon the work performed in respect of the subject under review. There are five audit opinions which can be provided:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iii) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iv) **Limited Assurance:** Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
- (v) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

2. Internal Audit Report – Accounts Payable

2.1 This report has an audit opinion of Reasonable Assurance due two main areas where the expected key controls were not fully adhered to:

- only 15/30 of the paid invoices examined were supported by a purchase order;
- the requirements of Contract Standing Orders with regard to obtaining competitive quotations and/ or formal tendering was not met for two areas of expenditure examined; contract building cleaning, and printing and postage services. It should

be noted that the approved contract supplier for printing and postage is now used.

- 2.2 Both of these points have been graded high; in addition the action plan contains another 4 recommendations comprising 1 medium and 3 low grades. 3 recommendations have already been completed with the remainder (1 high and 2 low) due to be implemented by 01/02/15.

Recommendation

Members are asked to consider the information attached and discuss any other matters of interest with the Audit & Risk Manager.

Designation: Head of Audit & Risk Management, Highland Council

Date: 6th January 2015

Ref:

Background Papers

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AUDIT REPORT SUMMARY

Report Title

Assessor's Department – Accounts Payable

Report No.	Type of Audit	Issue Date	
AT18/002.bf	Systems	Draft Report	29/10/14
		Final Report	16/12/14

1. Introduction

- 1.1 This audit was undertaken as part of the 2013/14 audit plan and records the findings of a recently completed audit in respect of the Assessor's Accounts Payable system.
- The Assessor's Department uses the Highland Council's PECOS and Oracle Accounts Payable systems for the ordering and payment of goods and services.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 There is an adequate control framework over access to and operation of the accounts payable system.
- 2.2 Expenditure is properly authorised and recorded in the accounts payable ledger in a consistent and timely manner and is complete, accurate and valid.
- 2.3 Payments are made only to valid suppliers, authorised and properly recorded in the accounts payable ledger.

3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was fully achieved as there are appropriate levels of access and authorisation within PECOS and the Accounts Payable system.
- 3.2 This objective was partially achieved as a number of areas were found to be operating satisfactorily; all 14 PECOS orders reviewed were approved by an appropriate officer, all 30 invoices were paid timeously and an appropriate segregation of duties existed between the officer recorded as processor and authoriser for the orders and invoices examined. However, various issues were found with non-compliance with Financial Regulations and the associated guidance notes including:
- Official orders were only raised for 50% of the sample of 30 payments examined (14/30) with 1 order covering 2 invoices. Further review of the 15 invoices which were manually entered onto Oracle showed that 14 were from suppliers who are on PECOS and so orders could have been raised.
 - The accuracy of the PECOS order information and coding of invoices:
 - 4 PECOS orders were inaccurate with details such as VAT wrongly being included, incorrect coding or fuel costs/ service fees not included on the order.
 - All 14 PECOS orders still had the status "Order is open", after the invoice had been received and paid, which would enable further invoices to be processed against these orders.
 - 4 invoices from 3 suppliers for different types of expenditure had been coded to the same subjective. It transpired that this subjective is used to record all cost relating to Appeals Hearings.
 - The failure to use of contract suppliers where this would be expected with regard to an invoice for hire of a vehicle and 1 for postages.
 - 2 invoices (1 order) from a travel agent for travel arrangements incurred an additional small expense in the form of a service fee. In addition, travel arrangements are made by the Administrative Assistants on behalf of their colleagues. The Assessor's

Department currently do not make use of the Council's Travel Desk for travel arrangements.

- Under the Assessor's Contract Standing Orders, limits dictate when competitive quotations or formal tendering is required for goods, services or works. These limits are £3,000 and £25,000 respectively. For 2 suppliers of contract building cleaning and printing and postages, no written quotations/ formal tendering was undertaken. The gross amount paid to these suppliers over the course of financial years 2012/13 and 2013/14 was £10,395.52 and £76,833.57 respectively. It should be noted that the approved contract printing and postages supplier is now used.
- The accuracy of goods received notes and invoices processed through PECOS, in that:
 - 4 orders where PECOS had been inaccurately updated including 1 order which required a 2nd invoice to be input to include details missed from the original invoice, 2 orders recorded items being received on incorrect delivery notes and 1 order showed an incorrect invoice number.
 - 4 processed delivery notes had not been signed to evidence that the goods had been received.
 - 1 invoice was amended before processing rather than returning it to the supplier for amendment.

3.3 This objective was not examined as part of this audit as all of the Assessor's transactions are captured within the overall payment process operated by the Highland Council's creditors staff. This was reviewed as part of an audit of creditor payments and the objective was fully achieved.

4. Conclusion

4.1 This audit highlights a need to ensure the requirements of the Assessor's Financial Regulations and associated Guidance Notes are adhered to, in particular the need to issue official orders. In addition, the requirements of Contract Standing Orders (CSOs) must be met where the level of expenditure requires that quotations or formal tenders should be obtained. The requirement to issue official orders and comply with CSOs are key controls within the Accounts Payable system and the failure to comply with these are a concern. As a result there are a total of 6 recommendations in this report classified as: 2 high, 1 medium and 3 low grade recommendations. 3 of these recommendations have already been implemented and the remaining recommendations (1 high and 2 low) are due to be implemented by 01/02/15.

5. Audit Opinion

5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Assessor's Department – Accounts Payable

AT18/002.bf

The Action Plan contains **6** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Total recommendations

Priority Number

High 2

Medium 1

Low 3

6

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1	High	Official orders have not been raised in all applicable cases as only 15 out of 30 invoices had a supporting order. Of the 15 invoices manually entered onto Oracle, 14 of these were from suppliers on PECOS and so orders could have been raised.	All staff within the Assessor's Department should be reminded of the need to comply with Financial Regulations in that the official ordering systems; PECOS and/ or Purchase cards should be used for all goods/ services ordered.	Carry out recommendation	Assessor	Completed
3.2.2	Low	Some minor issues were found with the accuracy of order details or the coding of expenditure: (1) There were some inaccuracies with the information recorded on 4 PECOS orders. (2) All 14 PECOS were still had the status "Order is open" on the system which would permit further invoices to be processed against these orders. (3) All costs relating to the Valuation Appeals Committee Hearings are coded to the subjective "EF1003 - Voluntary Associations / Other Bodies". This means that the different types of cost cannot be easily identified.	(1) All staff within the Assessor's Department should be reminded of the need to ensure the accuracy of orders issued. (2) When processing invoices for payment, the Approver should ensure that the relevant PECOS orders are also closed. (3) The Assessor should discuss with the relevant Accountant whether it is possible to set up a separate cost centre for the Valuation Appeals Committee Hearings which will aid the accurate recording and monitoring of these costs.	Carry out recommendation	Assessor	Completed
				Carry out recommendation	Assessor	Immediate for new orders and retrospective by 31/01/15
				Separate cost centre for VAC already exists. Retrospective allocation to subjective code being implemented	Assessor	05/01/15

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Assessor's Department – Accounts Payable

AT18/002.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.3	Medium	2 of the 30 invoices examined were from non-contract suppliers. 1 was for car hire and the supplier used was not on the framework agreement. The other was for postage but the contract supplier is now used.	All staff within the Assessor's Department should be reminded that contract suppliers should be used where applicable as required by Financial Regulations.	Carry out recommendation	Assessor	Completed
3.2.4	Low	Travel agents are used which incurs service fees.	The Assessor should investigate with the Council whether it is possible to use the Council's Travel desk function and if this will provide a more efficient and economic approach than at present.	Stop using travel agents and implement recommendation	Assessor	01/02/15
3.2.5	High	No written quotations or formal tender procedures were undertaken for 2 suppliers. The gross amounts paid over the course of financial year 2012/13 and 2013/14 were: <ul style="list-style-type: none"> £10k for Contract building cleaning, £77k for Printing and postages. 	(1) All staff within the Assessor's Department should be reminded that the requirements of Contract Standing Orders should be adhered to with regard to the need to obtain quotations and/or formal tenders. (2) Action should be taken to review all areas of expenditure and ensure that where this exceeds the limits in CSOs then quotations are obtained or formal tendering is undertaken as required.	Carry out recommendation	Assessor	Completed
				Carry out recommendation and review as applicable	Assessor	01/02/15

