

# APPENDIX

## INTERNAL AUDIT Purchases & Payments (VJB)

### Issued To:-

Brian Byrne	Assessor and Electoral Registration Officer
Linda Pirie	Office Manager, Assessors
Susan Mackay	Revenue and Payments Manager

Annual Plan	2010-11
Date Report Issued	January 2011

## 1. INTRODUCTION

- 1.1 This report details the recommendations arising from the Internal Audit review. Internal Audit reviewed the Purchase and Payment processes within Assessors. This review was approved at the Central Scotland Valuation Joint Board meeting of 18 June 2010.
- 1.2 Responsibility for a sound internal control environment rests with management. The role of Internal Audit is to ensure that such controls exist and are being adhered to at all times. The audit work undertaken is designed so that material irregularity has a reasonable probability of being uncovered; however, collusive fraud can override even sound control systems.
- 1.3 The matters raised in this report are only those which came to the attention of the Internal Audit Officer during the course of the Internal Audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made.

## 2. SCOPE AND OBJECTIVES

- 2.1 The scope of the audit included review of controls in place within the purchasing and payment arrangements at the Assessors to manage the risk affecting this area. The scope did not include review of Purchase Card use.
- 2.2 The objective of the audit was to provide assurance on the controls within the Assessors purchasing and payment arrangements. Six key controls were identified and tested and the adequacy of the internal controls was established. These internal controls can only provide reasonable and not absolute assurance against misstatement or loss. A definition of the assurance assessments is provided in Appendix A. The key controls and assessments are as follows:

Key Control	Assurance Assessment	Number of Recommendations
Officers are aware of the Financial Regulations and Contract Standing Orders and documented guidance is available corporately and at a service level.	Reasonable	2
Purchase orders are raised, completed and authorised appropriately.	Limited	3
Purchase invoices are checked, matched, authorised appropriately and passed for payment timeously.	Reasonable	3
Payments through the purchase ledger are approved by the Authorised Signatory(ies) and for items which have been appropriately authorised and reconciled.	Reasonable	1*
Payments made for items other than trade creditors are duly checked and authorised.	Reasonable	2

Payments made directly from the Council's bank account(s) are authorised and reconciled.	Significant	None *
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- \* Two areas for improvement were identified, one within control objective 4 and one within control objective 6 for the Creditors section of the Council. However, as they have been already raised and incorporated within the Action Plan for the Purchasing and Payments audit report issued in May 2010, they are not reraised in the Action Plan in Appendix B. The areas for improvement are however summarised in paragraph 3.5.

### 3. SYSTEM OVERVIEW AND AUDIT OPINION

- 3.1 The Assessors invoices are classified as invoices in Corporate Services and are keyed in by officers within Creditors in Finance Services. Internal Audit maintains an authorised database of all authorised signatories within the Council and this includes officers at the Assessors. The number and value of Assessors invoices processed in 2009/10 was 547 and £631,773 respectively. The number and value of Assessors invoices processed from 1 April 2010 to 31 October 2010 was 260 and £358,502, respectively.
- 3.2 There are reasonable controls in place in relation to the Purchase and Payment processes at the Assessors. There is guidance available to officers at the Assessors in the Central Scotland Valuation Joint Board Financial Regulations and Standing Orders. Both of these documents can be accessed electronically through the Assessors intranet site. There is clear segregation of duties, together with independent verification of transactions. The Office Manager at the Assessors raises the Purchase Orders and the Assessor authorises the majority of invoice payments.
- 3.3 The three Creditors officers within Finance Services who input invoices to the Purchase Ledger system, also input the invoices for the Assessors.
- 3.4 From the testing undertaken, the following strengths were identified:
- Assessors:**
- The Office Manager at the Assessors is very aware of trying to achieve best value when purchasing goods and services. This will include purchasing from Council contracts;
  - Assessor officers responsible for purchasing and payments have been made aware of the Central Scotland Valuation Joint Board Financial Regulations and Standing Orders;
  - Invoice Certification Forms selected in the sample for the Assessors were signed by an authorised signatory and within their authorised signatory limit;
  - Invoice Certification Forms were authorised timeously by the Assessor and forwarded to Creditors promptly for processing.
- Creditors:**
- The Assessors invoice details are being accurately input to the Purchase Ledger by the three Creditors staff;
  - Assessors invoices and Daily Payment Vouchers are being coded to the correct ledger codes;
  - From the sample of bank reconciliations selected, all agreed to the creditors account in the general ledger and the Council's Number 2 bank

account.

- 3.5 From the testing undertaken, the following areas for improvement were identified:

**Assessors:**

- The Central Scotland Valuation Joint Board Financial Regulations and Standing Orders had not been reviewed since 2005;
- The Assessors procedures for the Ordering and Passing of Invoices and Receipt of Goods had not been reviewed since 2005;
- Of 46 Purchase Orders selected for testing, 36 were raised after the invoice had been received.

**Creditors:**

- The three officers within Creditors who input invoices, have access to the suppliers master file and can therefore amend and add new suppliers; \*
- The purchase ledger control account in the general ledger is not agreed on a monthly basis to the reports totals in the Aged Creditors Report in the purchase ledger;\*
- On average 400 BACS Remittance Advices are posted by second class mail to suppliers each week, rather than being sent by email;
- Creditor officers did not query that 1 out of 7 Daily Payment Vouchers received, had not been properly authorised at the Assessors.

\* As detailed in paragraph 2.2, these areas for improvement have already been raised in the Purchasing and Payments audit report issued in May 2010 and are not reraised in the action Plan within this report.

## 4. RECOMMENDATIONS

- 4.1 A summary of the recommendations raised from this audit is included in a Management Action Plan in Appendix B. Management comments, the date for implementation and Responsible Officer have been reflected within the Action Plan.
- 4.2 The Management Action Plan contains the following priority of recommendations. Definitions for the priority assessments are provided in Appendix B.

Priority Assessments	Number	
	Assessors	Creditors
Priority 1		
Priority 2	1	1
Priority 3	7	1
Priority 4	1	

## 5. HISTORY OF THE AUDIT REPORT

- 5.1 The table below sets out the history of this report.

Issue of Draft Report	10 November 2010
Issue of Revised Draft Report	20 December 2010
Receipt of Management Comments	23 December 2010
Issue of Final Report	11 January 2011

## Assurance Assessments

Assurance	Definitions
Significant Assurance	There are sound controls operating within the system and these are complied with and adhered to consistently.
Reasonable Assurance	There are controls operating within the system, however adherence does not always occur and the control environment could be further improved.
Limited Assurance	There are minimal controls operating within the system and the control environment requires to be improved.
No Assurance	There are no controls operating within the system or no reliance can be placed on the controls and a control environment must be established.

## MANAGEMENT ACTION PLAN

Ref	Finding	Risk Implication	Recommendation	Priority	Comments	Officer	Target Date
Control Objective 1							
6.1	The Assessor recognises that the Central Scotland Valuation Joint Board, Financial Regulations and Standing Orders are due for a review, as the last review took place in 2005.	Potential risk of misinterpretations or errors if staff are referring to outdated procedures.	The Assessor should ensure that a review of the Central Scotland (VJB) Financial Regulations and Standing Orders are carried out in financial year 2010/11 and updated as required.	3	Agreed. The Clerk for the VJB to review the Standing Orders and the Treasurer to review the Financial Regulations. Assessor to liaise with Clerk and Treasurer to ensure reviews are carried out.	Assessor.	30/06/11
6.2	The Assessors procedures for the Ordering and Passing of Invoices and Receipt of Goods prepared by the Assessors Office Manager have not been updated since 2005.	Potential risk of misinterpretations or errors if staff are referring to outdated procedures.	The Office Manager should ensure that a review of the Assessors procedures for the Ordering and Passing of Invoices and Receipt of Goods is carried out.	3	Agreed.	Office Manager, Assessors.	31/03/11
Control Objective 2							

1	There is a fundamental absence of control(s) which should be addressed immediately.
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2	There is an absence of control(s) which should be addressed at the earliest opportunity.
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3	There is an immaterial breakdown in control(s) which should be addressed as soon as practically possible.
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4	A matter for consideration which is a point of good practice or could improve the effectiveness of the arrangements.
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Ref	Finding	Risk Implication	Recommendation	Priority	Comments	Officer	Target Date
6.3	The Office Manager is raising Purchase Orders after the invoice has been received. This occurred in 36 out of 46 Purchase Orders selected for testing. This contravenes the Central Scotland (VJB) Financial Regulation number 10.3.	Goods are ordered that have not been approved by an officer with the proper authorisation.	Purchase Orders should be raised before invoices are received.	2	Agreed.	Office Manager, Assessors.	31/03/11
6.4	1 out of 46 Purchase Orders selected in the sample had been authorised for an amount above the authorisation limit of the officer concerned.	Inappropriate goods and services could be purchased.	All relevant Assessor officers should be reminded that they must not authorise Purchase Orders above their authorisation limit. .	3	Agreed. To be discussed at the next Assessor's Management Team Meeting on 2 February 2011.	Assessor.	31/03/11
6.5	35 out of 46 Purchase Orders selected in the sample did not have the address of the supplier clearly shown on the order.	The Purchase Order could be sent to the wrong address if the address details are not clear.	All Purchase Orders should be fully completed, to ensure that the Assessor can agree the invoice to the order.	3	Agreed. Practice already corrected.	Office Manager, Assessors.	31/03/11
Control Objective 3							

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Ref	Finding	Risk Implication	Recommendation	Priority	Comments	Officer	Target Date
6.6	In 2 out of 46 Purchase Orders selected, the Assessor countersigned the Purchase Orders, as the value was above the Office Manager's authorisation limit of £5,000. The Assessor also authorised the invoices for these Purchase Orders.	No segregation of duties if the same officer is authorising the Purchase Order and Invoice.	Consideration should be given to increasing the Purchase Order authorisation limit to £10,000 for certain Assessor officers.	3	Agreed. Assessor has contacted Internal Audit and Principal Accountant to get limits changed for nominated officers.	Assessor.	31/03/11
6.7	In 1 out of 46 invoices selected, it took more than 30 working days to pay the invoice from the date invoice was received. There was a query with the ledger code and this was not resolved until the Assessors Accountant returned from holiday.	Overdue delays in the authorising invoices at the Assessors could have a knock on effect of paying invoice within 30 days. If payment was over 30 days the Council could be financially liable under Late Payment legislation.	All invoices should be authorised timeously.	3	Agreed. Authorised signatory limits have been reviewed and amended.  To look at streamlining the authorisation process.	Assessor.  Assessor.	31/03/11  31/03/11

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Ref	Finding	Risk Implication	Recommendation	Priority	Comments	Officer	Target Date
6.8	In 11 out of 12 cases where goods were received the date had not been recorded on the Purchase Order. However, the Goods Received Note had been attached to the yellow copy of the Purchase Order.	If a claim is to be made against a supplier about the condition of goods received, the date received could be critical, if a claim is to be raised within a tight timeframe.	The date should be recorded on Purchase Orders when goods are received.	4	Agreed. Practice already corrected.	Office Manager, Assessors.	31/03/11
Control Objective 4							
6.9	On average 400 BACS Remittance Advices are posted by second class mail to suppliers each week rather than being sent by email.	BACS Remittance Advices could get lost in the post. Also there is the unnecessary financial cost to the Council.	It should be investigated to find out if it would be possible to email the Remittance Advices to suppliers each week.	4	Agreed	Revenue Payments Manager and	30/06/11
Control Objective 5							
6.10	Creditors officers did not query that 1 Daily Payment Voucher had not been properly authorised at the Assessors.	A lack of proper authorisation of payments with a risk of inappropriate payments being made.	Creditors should ensure that all Daily Payment Vouchers are authorised by officers who have the authorisation to do so.	2	Agreed.	Revenue Payments Manager and	31/03/11

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Ref	Finding	Risk Implication	Recommendation	Priority	Comments	Officer	Target Date
6.11	1 out of 7 Daily Payment Vouchers checked had not been properly authorised at the Assessors. The two officers who signed for the DPV are not authorised to sign for cheque requests as per their authorisation limits. However, both officers have the authority to authorise invoice payments and the value was within their authorisation limits.	A lack of proper authorisation of payments with a risk of inappropriate payments being made.	The Assessor should ensure that all Daily Payment Vouchers are authorised by officers who have the authorisation to do so.	3	Agreed. Depute Assessor authorisation has been changed to include signing cheque requests.	Assessor.	31/03/11

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