



Carlisle City Council

Report to Audit Committee

Report details

Meeting Date:	08 July 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Creditors
Report of:	Corporate Director Finance & Resources
Report Number:	RD15/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of Creditors

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

- 1.1. An audit of Creditors was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 1 high and 5 medium-graded recommendations.

2. Risks

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

- 3.1 Not applicable

4. Conclusion and reasons for recommendations

- 4.1 The Committee is requested to
i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

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Appendices attached to report:

- **Internal Audit Report – Creditors – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

Audit of Creditors

Draft Report Issued: 17th May 2022
Director Draft Issued: 17th June 2022
Final Report Issued: 22nd June 2022



Audit Report Distribution

Client Lead:	Head of Financial Services Accountancy Services Manager
Chief Officer:	Corporate Director of Finance and Resources Chief Executive
Others:	
Audit Committee:	The Audit Committee, which is due to be held on 8 th July 2022 will receive a copy of this report.

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

1.0 Background

- 1.1. This report summarises the findings from the audit of Creditors. This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.
- 1.2. Creditors are the organisations and individuals that the Council owes money to. Management of creditors involves the processing of orders, recording of transactions, authorisation and payment.
- 1.3. Forming part of the Council's main financial system, creditors is audited on a cyclical basis.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 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.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was Finance Officer (Systems, Controls and Development) and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
 - Failure to pay suppliers accurately and timely
 - Unauthorised spending to budgets
 - The Council incurs greater expenditure than necessary when processing creditor payments
 - Fraudulent invoices are paid
 - Inappropriate or inefficient use of petty cash
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

- 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.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	2
3. Information - reliability and integrity of financial and operational information (see section 5.3)		1
4. Security - safeguarding of assets (see section 5.4)	1	2
5. Value – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
Total Number of Recommendations	1	5

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 Findings Summary (good practice / areas for improvement):

Performance of invoice payment within 30 days is consistently maintained to high standard, even though incomplete orders and invoice 'blue slips' submitted for process to Creditors, are common.

There is a single high-level recommendation for verification of creditor bank details across the Council. It is common for fraudsters to provide false bank change notifications to gain monies through deception and a similar issue was raised in the previous audit report in February 2019. The risk exposure to the Council has increased because bank details have been provided to creditors during the COVID lockdown period on a significant scale, via other services.

Local arrangements in place to verify bank details do not include the completion of a file note in line with documented guidance. An agreed action from the last audit to consider if a report could be adapted to provide a meaningful monitoring report to allow regular spot checks was unsuccessful. Enhanced oversight of the arrangements to verify bank details will increase assurance that the required checks and verification are being undertaken across the Council.

Director's schemes of sub-delegation are all in place, including authorisation bands for purchase orders and invoices.

Officers have adapted well to agile working and weekly/ emergency creditor payment runs can now be carried out remotely.

Creditors is proactively moving towards a digital service and cheques are no longer issued.

Creditor stationary is almost all electronic and controlled to a high standard.

The process to demonstrate that segregation of duties is maintained, would benefit from further review.

Reminding officers of their responsibilities and flagging any non-compliance to management will further increase robustness of the petty cash arrangements.

Introducing document management arrangements will further demonstrate that guidance remains current.

Periodic management oversight of financial system access will further enhance the controls already in place.

Reviewing the current processes in place for identifying duplicate invoices would be beneficial.

Comment from the Corporate Director of Finance and Resources:

A useful audit review which highlights areas of good practice, especially those procedures adopted during the pandemic which facilitated a paperless process, whilst also highlighting areas for improvement; all of which have been accepted by management. Some processes and procedures must be strengthened as a result, especially those in relation to the high graded recommendation on bank account details. I am assured that all recommendations will be implemented in line with the agreed deadlines as set out in the appendix.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** Director's schemes of sub-delegation are all in place including authorisation bands for purchase orders and invoices.
- 5.1.2** The Finance Officer (Systems, Controls and Development) left the Council recently and a replacement started in June 2022. This increases the risk exposure to Creditors in the short-term because this is a key supervisory role held by an experienced officer.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

- 5.2.1** Ten orders were tested to verify alignment to the purchase ledger procedures manual. The manual requires that the order is signed by an authorised signatory. Scanned documents were available for three of the ten orders, although one was not authorised. Orders were unavailable for seven of the ten tested and this is likely to be due to the electronic purchase order sheets introduced during the pandemic to replace hard copies. The 'authorised by initials/ date' column is now completed on the electronic purchase order sheets, replacing a physical authorising signature.
- 5.2.2** For another order reviewed, the order buyer/ contact, order authoriser and invoice authoriser were all signed by the same officer, although a different officer received the goods. This transaction was of material value. For three of the ten orders tested, the 'goods received' box was not initialled, although this is also likely to be due to the temporary measures introduced during the pandemic.

Recommendation 1 – Review process in place to verify that segregation of duties is maintained.

- 5.2.3** Audit testing highlighted inconsistencies in petty cash transactions and examples were noted where the value spent was over the £50 limit detailed in the Financial Procedure Rules. There were also examples where expenditure would be more appropriate via other procurement channels such as order/ invoice or corporate credit card. Not all petty cash returns had been appropriately certified and several had been certified by an officer who was a lower grade than the officer who had completed and verified the petty cash return.

- 5.2.4** Only minor expenses under the £50 limit should be processed via petty cash and other more appropriate purchasing methods should be used for larger amounts. It is recommended that officers are reminded to comply with the financial procedure rules when operating a petty cash system and that any non-compliance should be flagged with management. It is also recommended that petty cash returns are certified by an officer of a higher grade than the one that completed and verified the petty cash return.

Recommendation 2 – Remind officers of their responsibilities and flag any non-compliance with management.

5.3 Information – reliability and integrity of financial and operational information

- 5.3.1** The Council's Financial Procedure Rules were last updated in September 2018 and include relevant direction for officers on, 'Ordering and Paying for Work, Goods and Services'.
- 5.3.2** A Purchase Ledger Procedures Manual is available on the intranet which has been recently reviewed and updated. Comprehensive creditor staff guidance documents are also available on the shared drive. This suite of guidance documents would benefit from the introduction of document management arrangements to demonstrate regular review and update. A similar recommendation was included in the previous Creditors audit report in February 2019. It is advised that any review of guidance documents is proportionate, given the impending Local Government Reorganisation.

Recommendation 3 – Introduce document management arrangements to demonstrate regular review and update.

- 5.3.3** Authorised purchase orders and invoice 'blue slips' are often not fully completed when submitted to creditors. For example: initials for goods received, initials for invoice details checked, order number, creditor or voucher number missing. Returning the documents to the relevant authoriser to complete accurately is not viable because it impacts on the requirement to pay invoices within 30 days. Further training for authorisers is an option, although given the impending Local Government Reorganisation it is not considered a proportionate response. It is advised that management consider if further advice to authorisers, reminding them that completion of purchase orders and invoice 'blue slips' should be checked for completion, prior to authorisation.

5.4 Security – Safeguarding of Assets

5.4.1 Financial system access rights to creditors are generally maintained to a good standard although it may benefit from an additional layer of oversight. During audit testing, two officers that no longer worked for the Council were still found to have creditor access, although there are likely to be compensating controls within ICT that would prevent them from gaining access to any Council systems. Access was subsequently removed. Two officers with delegated authorisation were also found to have 'Creditor Invoice Entry' access to the financial system which could potentially cause a conflict of interest with segregation of duties. The above scenarios are likely to have arisen because the relevant managers have not informed finance of the change in circumstances.

5.4.2 It is recommended that management oversight should include periodic documented confirmation that access rights have been reviewed, remain appropriate and segregation of duties is maintained.

Recommendation 4 – Periodic management oversight of financial system access.

5.4.3 An e-purchasing system is also in use with limited access rights. It is mainly used by the Service Support Team for placing stationary, travel and accommodation orders. It was originally intended to be rolled out for wider use although this has now been cancelled as it has been agreed that a different system will be adopted by the new Council following Local Government Reorganisation.

5.4.4 The Purchase Ledger Procedures Manual details that, 'the creditor system duplicate invoice warning pop-up message should never be ignored when entering invoices into the system'. Creditors officers run daily duplicate invoice reports which are reviewed to prevent duplicate invoice payments. During the most recent National Fraud Initiative exercise, a small sample of electronic creditor transactions identified a duplicate payment for £1,391.42 despite the controls in place.

Recommendation 5 – Review the effectiveness of current processes in place to detect duplicate invoices

5.4.5 Finance staff guidance directs staff on reducing the risk exposure to procurement fraud. Changes to bank details should only be accepted in writing directly from the creditor and not from a member of staff. Notification cannot be accepted as confirmation alone and the creditor must be contacted to verify the changed details. The electronic 'notes' tab should be selected and brief description of the details amended, where the information came from and initials should be entered. A file note was available for two of the three bank changes tested and they both referred to bank details taken from the invoice.

- 5.4.6** It is likely that a more thorough check is being undertaken within Creditors, although this is not explicit in the electronic file note.
- 5.4.7** There are seven officers that have access to amend Creditors details including bank accounts. An eighth generic user account is set up for file interfaces provided from other directorates and used for bulk changes to creditor details. It has been used recently to load bank details for a significant number of COVID grant payments. An electronic file note is not recorded by other directorates for these changes and finance do not have oversight of the arrangements in other directorates to verify changes to bank details.
- 5.4.8** Following a recommendation made in the previous audit (February 2019) a report which would allow for supervisory review of creditor bank detail changes was under consideration, although it was not successfully developed.
- 5.4.9** It is recommended that an oversight arrangement is introduced to raise assurance that both new and adjusted creditor bank details are consistently verified and recorded throughout the Council.

Recommendation 6 – Oversight of bank detail changes to verify the robustness of checks carried out.

5.5 Value – effectiveness and efficiency of operations and programmes

- 5.5.1** Percentage of all invoices paid within 30 working days is reported to the Executive as part of the Carlisle City Council Performance Dashboard on a quarterly basis. Performance is consistently high. Q3 2021/22 is stated as 99.1% which was verified against supporting documents. The comparative figure for Q3 2020/21 is 98.9%.
- 5.5.2** The key Finance Assistant post is split between two part-time staff, increasing service resilience should either be absent at short notice.
- 5.5.3** Officers have adapted well to agile working and weekly/ emergency creditor payment runs can now be carried out remotely.
- 5.5.4** The Council no longer issues cheques for the payment of creditors which are now BACs transfers. Unused cheques that have been securely stored and regularly reconciled will now be securely disposed of.

- 5.5.5** Creditor stationary is controlled and stored securely. Stocks of purchase order books are almost empty with no plans to re-order. The Service Support Team now issue electronic purchase orders which are recorded on a written document. Management may wish to consider if the recording the issue of electronic purchase orders should also be recorded electronically. Purchase orders are submitted by email using an electronic signature authorisation which is saved in pdf format. The receipt of the purchase order from a known authoriser's email address is a robust control alone. Electronic signatures can be easily copied and as an alternative process, management may wish to consider requesting that the authoriser's name is printed on the purchase order (rather than an electronic signature), whilst continuing to ensure that submission is made from the authoriser's email address.
- 5.5.6** Prepayment and exception reports are reviewed prior to payment runs, identifying invoices in dispute.
- 5.5.7** A daily creditors control account reconciliation is undertaken with monthly supervisor authorisation.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Review process in place to verify that segregation of duties is maintained.	M	Orders placed which are outside the scope of service requirements and/ or fraudulent.	A reminder will be issued to all staff to advise that all orders must be appropriately authorised either manually or electronically	Head of Financial Services	31/07/22
Recommendation 2 – Remind officers of their responsibilities and flag any non-compliance with management.	M	Cash spent which is not subject to scrutiny and/ or outside the scope of service requirements and/ or fraudulent.	A reminder will be issued for the appropriate use of petty cash	Head of Financial Services	31/07/22
Recommendation 3 – Introduce document management arrangements to demonstrate regular review and update.	M	Staff directed to carry out processes that are no longer fit for purpose and do not reflect current practice.	Version control will be added to the purchase order procedure manual and the manual will be reviewed	Head of Financial Services	31/07/22
Recommendation 4 – Periodic management oversight of financial system access.	M	Segregation of duties not maintained and/ or staff access which is outside the scope of duties.	Starters and leavers are notified via HR and removed from the system. A review will be undertaken every 6-months to check system users	Finance Officer (Systems Controls and Development)	30/09/22

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 5 – Review the effectiveness of current processes in place to detect duplicate invoices	M	Controls in place are not robust enough to detect duplicate payments for the same goods/ services.	A review of the current process will be undertaken to see if any improvements can be made	Finance Officer (Systems Controls and Development)	30/09/22
Recommendation 6 – Oversight of bank detail changes to verify the robustness of checks carried out.	H	Controls in place are not robust enough to detect fraudulent payments.	A review of the process for bank detail changes will be undertaken	Finance Officer (Systems Control and Development)	30/09/22

Appendix B – Advisory Comments

Ref	Advisory Comment
5.3.2	Any review of guidance documents should be proportionate given the impending Local Government Reorganisation.
5.3.3	Management to consider if further advice to authorisers, reminding them that completion of purchase orders and invoice 'blue slips' should be checked, prior to authorisation.
5.5.5	Electronic signatures can be easily copied and as an alternative process, management may wish to consider requesting that the authoriser's name is printed on the purchase order (rather than an electronic signature), whilst continuing to ensure that submission is made from the authoriser's email address.

Appendix C - 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 control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<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 embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</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 that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</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-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix D

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 two levels of audit recommendations; high and medium, 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

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).