

Report to the Audit and Standards Committee 27th April 2021 on the actions taken in relation to key recommendations made in the Creditors Internal Audit report

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Summary of Audit Area

Stroud District Council (the Council) Creditors (accounts payable) function is maintained by the Revenue and Benefits Service area. However, the Section 151 Officer has overall responsibility for ensuring the proper administration of the financial affairs of the Council.

The Workforce Plan review of Finance, which was performed by Business Service Planning, resulted in the Creditors team and function being moved to Revenue and Benefits during the second half of 2018-19.

The objective of the accounts payable function is to pay valid supplier invoices in respect of goods or services received within agreed payment terms. In 2018-19 Creditors were responsible for circa £24.9m payments (inclusive of VAT). It is therefore important to have robust and effective controls.

Summary Terms of Reference of the Audit

The review sought to determine the effectiveness of the arrangement for setting up new suppliers, supplier changes and invoice control.

The specific objectives of the audit were to provide assurance on the following areas:

- Accounts payable policy and procedures have been documented, are up to date and available to all appropriate officers;
- New suppliers are correctly set-up, authorised and subject to appropriate verification;
- Amendments to existing supplier standing data details are supported by appropriate supplier change notification, subject to effective verification and timely correct update;
- Purchase orders are raised in respect of all goods and services to ensure effective budgetary management and control;
- There is adequate separation of duties to ensure payments are only for goods and services received, including creating the requisition and purchase order, receiving the invoice and making payment;
- Commitments and invoice management is effective and robust;
- Invoices are promptly paid in accordance with Government Prompt Payment Policy and performance is reported;
- Payment runs are correctly authorised and subject to appropriate verification; and
- Creditor control and suspense account reconciliations are subject to regular reconciliation, independent review and authorisation.

Risks

- Officers are not fully aware of the agreed processes or their responsibilities resulting in financial losses and / or reputational damage due to incorrect invoice processing and / or late payments;
- Unauthorised or incorrect supplier details are set-up on the finance system for fraudulent purposes or in error resulting in financial losses and adverse publicity from fraud, payment to incorrect supplier or late payment;
- Ineffective budgetary management resulting in financial losses, reduction in the Council's commitments and / or reserves and reputational damage;
- Incorrect or fraudulent transactions are processed resulting in financial losses and adverse publicity;
- Valid and undisputed vendor invoices are not paid within the agreed payment terms resulting in adverse publicity and reputational damage;
- Duplicate payments are made resulting in financial losses and adverse publicity; and
- The Council's financial records do not correctly reflect the Authority's financial position resulting in financial losses, adverse publicity and poor management decisions.

Key Findings

Policy and Procedures

- At the point of transfer, and to date, the relationship, roles and responsibilities and communications between Finance and Revenue and Benefits concerning the accounts payable operating control environment have not been clarified / or aligned.

See recommendation one

- The Creditors team procedures manual requires a review and refresh to ensure that it is up to date and going forward that it is subject to periodic review or maintained on an ongoing basis.

See recommendation two

- Accounts payable forms are available to service areas on the Council's intranet to support process completion. However there is no procedures manual / guidance for the accounts payable process, which would aid service areas and payment authorisers to fully understand their roles and responsibilities.

See recommendation two

- Only one operational risk relating to the accounts payable process has been identified and reported on the Council's risk and performance management system Excelsis. This reported risk has not correctly identified the Control Lead Officers.

See recommendation three

New Suppliers

- A review by Internal Audit of a sample of 25 new suppliers highlighted non-compliance or weaknesses in the agreed processes as follows:
 - Supplier supporting documentation not retained by the service (four cases);
 - Lack of documentary evidence to confirm supplier details were reviewed and approved by a different service area officer (all cases); and
 - Service area submitted incomplete or incorrect supplier address or contact details to the Creditors team.

See recommendation four

Change of supplier payment and contact details

- A review by Internal Audit of a sample of 15 changes to supplier payment and contact details highlighted that:
 - There was a lack of documentary evidence to confirm the supplier payment detail changes had been checked and verified by a different Creditors officer (three suppliers); and
 - Errors or omissions with the supplier's address or contact details, updated to their record on the Business World financial system (three suppliers).

See recommendations five and six

Purchase orders

- Purchase orders are not being used in all cases, with the exception of approved case / categories, by service areas in accordance with Financial Regulations. For the current financial year to September 2019 and for the last two years the percentage of purchase orders raised against the total number of invoices received has been less than 30%.

Finance and the Revenue and Benefits Manager have advised Internal Audit that there are currently ongoing discussions with the service areas to encourage more significant use of purchase orders.

See recommendation seven

Separation of duties

- Some service area invoice authorisers have been assigned Business World systems access to also process invoices to enable sufficient resource coverage in this area. This weakens the control environment as it enables these invoice authorisers to also process and approve the same invoice. Internal Audit is able to confirm based on the findings of sample testing of 15 invoices that no instances of the same officer processing and approving an invoice were identified.

See recommendation eight

- Five Finance officers have been assigned the Business World 'super user' systems access, which enables virtually unlimited privileges to the system. As at the point of this audit the controls over the 'super user' function is limited to 'long stop' controls such as service area budget monitoring, system audit logs (not currently reviewed), supplier notification of non-payment, etc to identify any potential unauthorised activity.

See recommendation nine

Commitments and invoice management

- There are a six key exception reports available / generated from Business World to aid officers in the identification of issues within the accounts payable process. A review by Internal Audit of these exception reports highlighted the following:
 - One weekly report to identify invoices that had been entered into Business World that had not been processed or authorised for payment after 28 days had stopped in July 2019 due to a systems issue. At the point of this audit the report was last reviewed on 21st August 2018 by the Creditors team. The report recommenced in November 2019 following Internal Audit intervention;
 - There was a lack of documentary evidence to confirm that three out of the four different types of duplicate invoice / payment exception reports had been subject to appropriate timely checks; and
 - Creditors do not receive a copy of the outstanding purchase order report that is sent to appropriate service officers and therefore are unable to ensure appropriate actions have been undertaken.

See recommendations ten and eleven

Payments performance

- The Council has not published its supplier payment terms but has set itself a performance measure to pay 97% of all invoices within 30 days of receipt of the supplier invoice or within the agreed supplier payment terms.

The Council supplier payment performance has been reported on Excelsis for 2015-16 to June 2018, after this date no statistics have been recorded. A report obtained by Internal Audit from the System Accountant from Business World for the financial year 2018-19 shows that the Council has paid 93.46% of invoices (9,353) within 30 days following receipt of the supplier invoice; 655 invoices were paid after this period.

See recommendation twelve

- The Council has not annually published its payment performance on the Council website in accordance with the Crown Commercial Service Procurement Policy Note (PPN – Action Note 03/16).

See recommendation thirteen

Payments process

- A walkthrough by Internal Audit of the payments process and the results of fieldwork tests confirmed that the checks performed by payment authorisers were adequate and operating effectively.

Creditor control and suspense reconciliations

- Monthly creditor control and suspense reconciliations are undertaken by a Finance officer, which are subject to a detailed and evidenced check at the financial year-end by the Systems Accountant. A review of the June and September 2019 reconciliations by Internal Audit confirmed that the creditor control reconciliations had been promptly and correctly performed. However, the suspense reconciliation for September 2019 highlighted 13 outstanding transactions totalling approximately £55,000 gross with the oldest dated 26th March 2018 that had not been cleared and posted to the correct general ledger accounts.

See recommendation fourteen

Conclusion

Suppliers are being promptly paid, albeit not all within the Council's or Crown Commercial Services performance target. In addition there has been no reported unauthorised activity during the audit period.

Internal Audit's review and sample testing of the accounts payable processes has found that the majority of recognised processes and controls that would be expected by Internal Audit are in place. However, these were found to not always being fully applied or operating effectively and improvements / enhancements are required to strengthen the overall control framework. As a result Internal Audit has provided a split opinion for the control environment as follows:

- Satisfactory assurance – suitable controls for the accounts payable process have been introduced; and
- Limited assurance – controls have not been fully applied or are operating effectively.

As noted above management have introduced a range of controls in the accounts payable process that indicates that they have considered the risks to the Council and established their risk appetite. However, these operational risks and risk appetite have not been formally documented on Excelsis and also there is a lack of evidence to confirm they are being regularly managed. Therefore Internal Audit has also provided a split opinion on risk maturity as follows;

- Satisfactory assurance – adequate awareness of the risks relating to the accounts payable process; and
- Limited assurance – absence of accurate and regular risk reporting and monitoring.

Two high and twelve medium priority recommendations have been raised to strengthen and improve the control framework and to ensure existing controls operate effectively.

The Strategic Director of Resources and Revenue and Benefits Manager have confirmed that they will work together to revise the accounts payable working procedures to ensure they are effective and adequately manage the known inherent risks in the process.

Action(s) taken to implement the recommendations as at February 2021 and / or proposed.

| High priority recommendation 1: Finance and Creditors team roles and responsibilities for the accounts payable processes | Original management response |
|---|--|
| <p>The Strategic Director of Resources and the Revenue and Benefits Manager should determine Finance and Creditors team roles and responsibilities for the accounts payable processes that ensure clear ownership, accountability and effective management and control.</p> <p>The results of this review should be documented and Finance officer Business World systems access updated accordingly.</p> | <p>Finance and Creditors staff are to work together to revise creditors working procedures.</p> <p>This will focus on effective processes and management of risk.</p> <p>Clearly the response to Covid-19 has delayed this to some extent but it will be completed in 2020/21. To a greater or lesser extent this action applies to all recommendations within this report.</p> <p>Completion date: 31st December 2020</p> |
| <p>Management update as at February 2021:</p> | |
| <p>This piece of work is underway although not yet complete. There has been a continued impact of Covid-19 financial support schemes on the work pressure of the team.</p> | |

| Medium priority recommendation 2: Formalisation of Accounts Payable process procedure manual / guidance | Original management response |
|---|--|
| <p>A comprehensive Accounts Payable process procedure manual / guidance to be formalised. This should include the agreed roles and responsibilities as defined as an outcome of recommendation 1.</p> <p>Staff to be made aware of, and have ongoing access to the new procedures / guidance and if deemed appropriate, staff training to be given.</p> | <p>As per recommendation 1 procedures are to be refreshed and documentation updated.</p> <p>Original Completion date: 31st December 2020</p> <p>Revised Completion Date: 30th September 2021</p> |
| Management update as at February 2021: | |
| <p>This has not yet been started as the team has been focusing on the additional work relating to Business Grants/ Track & Trace payments. During this time a member of staff has also left the team, further increasing the pressure on workload.</p> | |

| High priority recommendation 3: Identification of operational risks and associated mitigating controls, risk owners, etc. | Original management response |
|--|--|
| <p>A review of the accounts payable processes should be undertaken to identify all operational risks and associated mitigating controls, risk owners etc. These should be recorded within Excelsis, and where appropriate amendments made to the mitigating control owners currently reported against the one documented accounts payable risk. This will ensure visibility of the inherent and residual risks, and their ongoing management and monitoring.</p> | <p>See Recommendation 1 and 2.</p> <p>Original Completion date: 31st December 2020</p> <p>Revised Completion Date: 30th September 2021</p> |

Management update as at February 2021:

The risk assessment has been discussed with the Systems Accountant and a risk score of 4 assessed - New Excelsis risk assessments to be set up with assistance from Policy & Performance officer and will be in place by 31st March 2021.

Medium priority recommendation 4: Re-evaluate current position and risk appetite for the request and setting up of new suppliers

Revenue and Benefits management with support from Finance should re-evaluate the current position and risk appetite for the request and setting up of new suppliers based on Internal Audit observations and should either:

- Strengthen the control environment by ensuring that only appropriately approved service area new supplier set-up requests are accepted by the Creditors team with all supporting documents for new suppliers provided to the Creditors team to verify and retain on the supplier Business World record, which Internal Audit supports; or
- Accept the risks and document this risk appetite in Excelsis.

Original management response

As part of the review of the procedures this will include the risk position.

Original Completion date: 31st December 2020

Revised Completion Date: 30th April 2021

Management update as at February 2021:

The risk assessment has been discussed with the Systems Accountant and a risk score of 4 assessed - New Excelsis risk assessments to be set up with assistance from Policy & Performance officer.

| Medium priority recommendation 5: Changes to Business World system | Original management response |
|--|---|
| <p>Changes to the Business World system should be explored with the systems software supplier to enable system enforcement of two different officers (input and verification / approval) for amendments to supplier payment, address and contact details.</p> <p>If the system cannot be configured appropriately then regular independent checks should be undertaken to confirm the existing controls are operating effectively.</p> | <p>This will be explored as part of the review of service procedures.</p> <p>Original Completion date: 31st December 2020</p> <p>Revised Completion Date: 30th September 2021</p> |
| <p>Management update as at February 2021:</p> | |
| <p>A Unit 4 upgrade in January 2021 gives functionality for supplier updates to be completed within the system, with an authorisation process in place. This work will be scoped out and will require additional resource (officer and consultant time) in order to implement.</p> | |

| Medium priority recommendation 6: Supplier contact | Original management response |
|---|--|
| <p>Suppliers should be contacted in all cases when there is a request or notification of a change of payment, address or contact details to confirm the amendments are genuine.</p> <p>In addition a pro forma should be created to record the checks required to be completed with the supplier, evidence of the checks and secondary confirmation checks by a different person.</p> | <p>This will be explored as part of the review of service procedures.</p> <p>Completion date: 31st December 2020</p> |

Management update as at February 2021:

Suppliers are contacted when changes are required and copies of confirmation of changes are scanned to Unit 4. Bank changes are checked by 2 officers. These changes will be included when looking at potential changes to Unit 4 as included in Recommendation 5. There will also be consideration of system enhancements to highlight supplier changes & new suppliers for additional checks prior to each payment run.

Medium priority recommendation 7: Full usage of purchase orders

Finance and Revenue and Benefits management should actively pursue full usage of purchase orders by service areas in compliance with the Financial Regulations and to support accurate budgetary management and a good control environment.

Original management response

Purchase Order (PO) use has grown significantly in the previous 12 months. Plans were in place to enforce return of invoices without a PO number but this was relaxed during the Covid response. Moving forward in 2020/21 this will be enforced and monitored.

Original Completion date: 31st December 2020

Revised Completion Date: 30th September 2021

Management update as at February 2021:

Ongoing – relevant Service Units have been given guidance on how to raise Purchase Orders & are actively raising PO's. Invoices are being returned to users for PO's prior to invoice being input to Unit 4. The next stage is writing to all suppliers to advise them of a "No Po No Payment Policy". This requires a large amount of data that has to be pulled from the system and has been temporarily delayed by Covid-19 work pressures within the team.

Despite the challenges of the last year the use of purchase orders has increased from 31% of invoices paid in February 2020 to 60% in February 2021. Further work will be undertaken with services and suppliers to increase this further.

| Medium priority recommendation 8: Segregation of duties | Original management response |
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| <p>Invoice authorisers Business World systems access to process an invoice (without a purchase order) should be removed to ensure segregation of duties between invoice processing and authorisation.</p> | <p>Segregation of Duties is often a challenge for District Councils where team sizes do not always allow for such clear distinctions. The control test here clearly shows the control functioning but the review of processes will consider how this functions in future.</p> <p>Completion date: 31st December 2020</p> |
| Management update as at February 2021: | |
| <p>Coding access from authorisers has been removed in line with the recommendation.</p> | |
| Medium priority recommendation 9: Review of user Business World systems access | Original management response |
| <p>The following review of user Business World access should be undertaken:</p> <ul style="list-style-type: none"> • Re-assess whether the number of officers with the ‘super user’ access be further restricted and to introduce additional controls such as independent monitoring over its usage; • Review all users who have been assigned two user access profiles on the Business World system to ensure that it is required and does not erode the segregation of duties control; and • Review the use and operation of generic user identifications, due to their lack of accountability, to establish whether their continued use is necessary / required. | <p>It will always be necessary to have a number of officers with super-user access to ensure reliance in providing the service.</p> <p>However, a review will be carried out of both super users and generic user identifications.</p> <p>Completion date: 31st December 2020</p> |
| Management update as at February 2021: | |
| <p>All user accounts are reviewed monthly by the Systems Accountant.</p> | |

| Medium priority recommendation 10: Independent monitoring checks of exception reports | Original management response |
|--|---|
| <p>Regular (at least quarterly) independent monitoring checks should be undertaken to confirm exception reports have been promptly and correctly actioned.</p> <p>The Creditors team should receive a copy of the monthly report of outstanding purchase orders to chase up long outstanding purchase orders with service area management.</p> | <p>Outstanding purchase orders will be regularly reviewed and those which have been outstanding for more than 12 months are deleted.</p> <p>Completion date: 31st December 2020</p> |
| Management update as at February 2021: | |
| Outstanding PO's are checked by the budget team and access to the report has been provided to Creditors team. | |

| Medium priority recommendation 11: Record of incorrect and duplicate payments | Original management response |
|--|---|
| <p>A record of all incorrect and duplicate payments should be made and used to support recovery of the debt. This report should also be subject to regular (at least quarterly) management review.</p> | <p>A record will be kept of any duplicate payments identified.</p> <p>Completion date: 31st December 2020</p> |
| Management update as at February 2021: | |
| Duplicate Payment report produced regularly & checked by Creditors Team – reports filed & available for inspection. | |

| Medium priority recommendation 12: Payment performance reports | Original management response |
|---|---|
| Regular (at least quarterly) payment performance reports should be obtained from Business World and subject to review by the Revenue and Benefits Manager to enable effective monitoring of the performance, introduction of corrective measures if appropriate and update to Excelsis. | Payment performance to be reviewed when selected for publication (see next recommendation). Completion date: 31 st December 2020 |
| Management update as at February 2021: | |
| Report now sent to Creditors Team monthly & quarterly – Excelsis for 2020/21 now up to date. | |

| Medium priority recommendation 13: Publication of payment performance | Original management response |
|--|--|
| The Council should annually publish its payment performance on the Council website in accordance with the Crown Commercial Service Procurement Policy Note (PPN – Action Note 03/16). | Agreed – This will be published. Completion date: 31 st December 2020 |
| Management update as at February 2021: | |
| Although figures are now produced they are not yet published externally – With the support of the information governance officer in the Policy and Governance team figures will be published for the new financial year in line with our transparency obligations. | |

| Medium priority recommendation 14: Creditor control and suspense reconciliations independent checks | Original management response |
|---|--|
| <p>Monthly detailed independent checks on the monthly creditor control and suspense reconciliations should be performed and evidenced to confirm prompt reconciliation completion and that any unmatched / outstanding transactions reported are being thoroughly investigated and cleared on a timely basis.</p> | <p>Reconciliation procedures are already carried out as part of year end procedures and balances will be reviewed as part of external audit. Mid-year recs will be considered but monthly is likely to be disproportionate to level of risk.</p> <p>Completion date: 31st March 2021</p> |
| <p>Management update as at February 2021:</p> | |
| <p>A year-end reconciliation is on going.</p> | |