



# Final Internal Audit Report

## Accounts Payable – 2019/20

Issued by the Head of Internal Audit, February 2021

<b>Audit Assurance Opinion</b>	<b>Effective</b>	Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.
	<b>Reasonable</b>	<b>Some specific control weaknesses were noted, and some improvement is needed; evaluated controls are generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.</b>
	<b>Limited</b>	Evaluated controls are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
	<b>Ineffective</b>	Evaluated controls are not adequate, appropriate, or effective. Internal Audit cannot provide reasonable assurance that risks are being managed.

<b>Distribution List</b>	<b>Accountable Officers:</b>	B Mew, Chief Finance Officer & Section 151 Officer L Rogers, Deputy Chief Finance Officer M Wood, Payables and Purchasing Manager
	<b>For Information:</b>	Strategic Management Team Cllr M Cook, Cabinet Member with responsibility for Resources Audit and Governance Committee Ernst & Young (External Auditor)

## Adequacy of Individual Control Areas

Audit Scope by Control Area	Findings with a Potential Corporate Risk Level of:			Control Adequacy
	High	Medium	Low	
Requisitioning and Approval of Purchase Orders	0	1	0	Limited
Receipting of Goods	0		0	Limited
Approval of Purchase Invoices	0	0	0	Effective
BACS Payment Run Processing	Due to pressures on the organisation during the Coronavirus pandemic this control area was removed from the scope of audit			
Monthly Control Account Reconciliations	0	0	0	Effective
Allocation of Expenditure to General Fund Budgets	0	0	0	Effective
<b>OVERALL</b>				<b>Reasonable</b>

### 1. Executive Summary

- 1.1 The objective of the audit was to ascertain the extent to which identified risks have been managed and to evaluate whether effective controls to mitigate the risks have been established and were operating effectively throughout the period under review.
- 1.2 The key finding from this audit is that the use of purchase orders, whilst slightly improved since the last audit, is still significantly lower than expected. This is a core financial system control, and improvement across a number of service areas is needed in order to comply with the Council's Financial Procedure Rules on both purchase orders and goods receipting.
- 1.3 An assessment of **Reasonable** has been reached as, although the control framework would benefit from improvement, no detrimental effects were seen in sampling, and the Auditor has concluded that objectives have been met to date despite the level of risk.
- 1.4 Findings with a potential corporate risk of medium or high should be reported by Management to the Corporate Risk Group to consider for inclusion in the Corporate Risk Register. One finding with a medium corporate risk was identified during the course of this audit.

## ACTION PLAN FOR POTENTIAL CORPORATE RISKS

### Actions Relevant to Potential Corporate Risks

The following action has been agreed in order to mitigate a risk identified by Internal Audit as Medium on the corporate risk toolkit as part of this audit. The action has also been allocated a priority level for use within the service area, so that resources can be prioritised appropriately. The definition of each priority level is given in section 2.3 below.

ACTION PLAN TO MITIGATE REPORTABLE CORPORATE RISKS					
REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
R1	<p><b>Corporate Risk – Medium</b></p> <p>Testing during the 2019/20 Audit found that 30% of Purchase Invoices (PIs) paid between 1 November 2019 and 11 March 2020 which should have had a Purchase Order (PO) raised were paid without the use of a PO. Due to the type of spending for which POs were not raised, this equates to 78% of the expenditure during that period for which POs should have been raised but were not.</p> <p>Subsequent testing has been undertaken using data from 2020/21 which found that 28.9% of PIs paid between 1 April 2020 and 13 November 2020 which should have had a PO raised were paid without the use of a PO. Due to the type of spending for which POs were not raised, this equates to 68.3% of the expenditure during that period for which POs should have been raised but were not.</p> <p>There is an outstanding action from the 2018/19 Audit relating to this issue. Whilst the recommendations from 2018/19 concerning awareness raising have had some effect, 28.9% of</p>	<p>Failure to use a Purchase Order is a contravention of the Council’s Financial Procedure Rules and removes key procedural controls, such as independent confirmation of receipt of goods. This increases the risk of poor budgetary control and poor management of expenditure.</p>	<p>Agreed, this is an area for improvement which Financial Services are aware of and we were hoping to address. However, our focus recently has been on ensuring prompt payment of COVID Business Grants which meant that it has not been possible to advance this at this time.</p> <p>The Chief Finance Officer and S151 Officer will:</p> <ul style="list-style-type: none"> <li>conduct future exercises to highlight to the service teams where Purchase Orders have not been raised;</li> <li>consider reporting mechanisms to the Audit &amp; Governance Committee of persistent offenders; and</li> </ul>	<b>2</b>	<p><b>Responsibility:</b></p> <p>Chief Finance Officer and S151 Officer</p> <p><b>Target Date:</b></p> <p>30 April 2021</p>

**ACTION PLAN TO MITIGATE REPORTABLE CORPORATE RISKS**

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
	<p>invoices by number and 68.3% by value were seen to have been paid without the use of a Purchase Order. This is financially significant, and non-compliance with Contract Procedure Rule 6.2.22 remains an ongoing weakness.</p>		<ul style="list-style-type: none"> <li>if organisation-wide support is obtained, explore a policy of 'No PO, no payment' which a number of other similar organisations now employ.</li> </ul>		

## ACTION PLAN FOR SERVICE AND OPERATIONAL RISKS

All identified control weaknesses have been risk assessed, with potential High and Medium corporate risks reported in the Actions Relevant to Potential Corporate Risks above. The following action plan sets out control improvements relevant to the service area where the Internal Audit assessment using the corporate risk toolkit has concluded the potential corporate risk is Low. The definition of each priority level is given in the Council’s Audit Framework.

1. Requisitioning and Approval of Purchase Orders					
REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
Reportable findings relevant to this Control Area can be seen in the Actions Relevant to Potential Corporate Risks above.					

2. Receipting of Goods					
REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
Reportable findings relevant to this Control Area can be seen in the Actions Relevant to Potential Corporate Risks above.					

3 – Approval of Purchase Invoices					
REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
No service level risks were identified during testing of this Control Area.					

#### 4 – BACS Payment Run Processing

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
---------	---------	------------------------	---------------	----------	-------------------

Due to pressures on the organisation arising from its urgent response to the Covid 19 pandemic, we were unable to test this area.

#### 5 – Control Account Reconciliations

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
---------	---------	------------------------	---------------	----------	-------------------

No service level risks were identified during testing of this Control Area.

#### 6 – Allocation of Expenditure to General Fund Budgets

REC No.	FINDING	RISKS AND IMPLICATIONS	AGREED ACTION	PRIORITY	MANAGEMENT ACTION
---------	---------	------------------------	---------------	----------	-------------------

No service level risks were identified during testing of this Control Area.

## 2. Supporting Details

### 2.1 Links to Council Service Delivery

This review considered achievement of the organisation's strategic objectives and risks, specifically this audit contributes towards:

- Business Objective - To ensure the efficient and accurate payment of creditors, including compliance with Financial Procedure Rules and correct allocation of expenditure.
- East Suffolk Business Plan – Financial Self-Sufficiency
- Corporate Risk Register
  - Main - Failure to produce and deliver a sustainable Medium Term Financial Plan.
  - Supporting - Failure to promote and maintain ethical standards.

### 2.2 Scope of Internal Audit Activity

Internal Audit will seek to enhance and protect organisational value by providing risk based and objective assurance. The work performed by Internal Audit provides an opportunity to make significant improvements to governance arrangements, risk management and control processes.

This audit has been undertaken as part of the Annual Audit Plan 2019/20, approved by the Audit and Governance Committees of Suffolk Coastal District Council (SCDC) on 12 March 2019 and Waveney District Council on 7 March 2019.

This audit has been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, and the UK's current Public Sector Internal Audit Standards.

The audit comprised a review of the effectiveness of controls in place around the requisitioning and approval of purchases, monthly control account reconciliations and the allocation of expenditure to General Fund budgets. There is one main finding in this report, the results of which were calculated using data from 2019/20. In order to support the finding and to ascertain whether it was still relevant, subsequent testing was undertaken using data from 2020/21. There is an outstanding action from the 2018/19 Audit regarding the use of purchase orders, and Internal Audit wished to use the most recent data to repeat the tests from the earlier audit, and thereby more accurately ascertain the level of any improvement.

#### 2.2.1 Exclusions

Due to the pressures on the Council during the Coronavirus pandemic, we were unable to test the following Control Area:

- BACS Payment Run Processing

For the same reason, other testing was limited in its scope, as follows:

- We did not request signed authorisation sheets for officers seen to have approved Purchase Orders;
- We did not follow up line management responsibilities with teams where these were pertinent to purchase approval;
- We did not contact all officers who had not used a Purchase Order to enquire as to whether they had applied an exemption, or to request evidence related to receipt of goods/services.

Finally, the following issues carried forward from other testing were not included in this Audit, for reasons of capacity:

- Walk-through of new vendor creation in order to confirm a segregation in inserting / amending vendor bank detail (Test 12.1 in 2017/18); and
- The ability of Anglia Revenues Partnership (ARP) employees to make payments from East Suffolk Council.

## 2.3 Definitions of Risk and Control

This audit uses the definition of Risk set out in the Council’s Risk Management Strategy.

The definition of Control is taken from the Chartered Institute of Internal Audit:

“Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.”

In addition to a risk assessment using the corporate risk matrix, each agreed action is allocated a priority level for use within the service area. The allocation of each priority level is based on:

<b>Priority 1</b>	Findings indicate a significant control weakness that could mean objectives fundamental to the operation of the service may not be met. Urgent attention is required from strategic management.
<b>Priority 2</b>	Findings indicate an important control weakness could mean that objectives central to the operation of the service may not be met. Prompt management attention is required.
<b>Priority 3</b>	Findings indicate a control weakness that could mean service objectives may not be met. Management attention is required.
<b>Priority 4</b>	Findings indicate a minor control weakness that, although not essential to an effective control framework, would benefit from low-cost improvements. Any Priority 4 issues identified during the course of this audit have been reported to the relevant Service team prior to the issue of this report, and are available from the Internal Audit team upon request.



## 2.4 Effectively Functioning Controls

We would like to draw management's attention to the controls in operation over processes and procedures that were confirmed via audit testing as operating effectively and efficiently:

- Purchase Orders reviewed had been authorised by an appropriate officer, independent of the requisitioner.
- Purchase Orders and Purchase Invoices reviewed had been coded to an appropriate General Fund department and account.
- Sampled Control Account reconciliations reviewed were completed and independently verified in a timely manner. Reconciliations agreed to the General Ledger.

## 2.5 Audit Team

The audit team for this review comprised

Audit Manager	L Fuller
Senior Auditor	Adriana Stapleton

## 2.6 Acknowledgements

We would like to thank the management and staff of the Finance Team contacted for their co-operation and time during the course of this audit.



This audit has been undertaken in accordance with the Internal Audit Partnership arrangements between East Suffolk Council and Ipswich Borough Council.