



Internal Audit Assurance & Consultancy  
**Final** Internal Audit Report  
Stevenage Borough Council  
Creditors 2007-08

**To:** Jan Corr, SBC Exchequer Manager  
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**For Information:** Michelle Goggins, Senior Exchequer Officer  
Clare Fletcher, SBC Head of Finance

**Date Final Report Issued: 27<sup>th</sup> May 2008**

**1. Introduction**

An audit of Creditors has been carried out as part of the 2007-08 Audit Plan. Detailed testing has been carried out on the systems of control and the management of risk within this area.

**2. Findings and Recommendations**

The detailed findings and recommendations are set out in the report attached as Appendix A to this memo. The Management Action Plan as completed by the officers responsible is attached as Appendix B.

**3. Conclusions**

There continues to be effective controls in the operation of the creditors system. Eight recommendations have been made to improve and to minimise the residual risks to achieving service objectives. They relate to the following areas, aged creditors, payment authorisation, invoice supporting documents and cancelled invoices.

Therefore, based on the audit findings, Internal Audit has assigned **substantial assurance**<sup>1</sup> to the systems and procedures which underpin the creditors system.

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<sup>1</sup> See Appendix C for definition of Assurance Levels

## Creditors 2007-08

### 1. AREAS COVERED DURING THE AUDIT

1.1 The key areas of **possible** risk identified at the planning stage of the audit were as follows:

- a) The documentation related to an order is incomplete;
- b) Orders are not subject to authorisation prior to being issued to suppliers;
- c) Delivery notes are not confirmed to orders;
- d) Invoices are not confirmed to orders and/or delivery notes and the certification slip is not completed or authorised appropriately;
- e) Controls are inadequate to prevent an invoice being paid incorrectly;
- f) Payments are not made promptly, losing the opportunity for prompt payment discounts and risking an interest payment liability under the 'Late Payment' Act;
- g) There is inadequate separation of duties between the officer ordering goods and the officer responsible for the payment of the order;
- h) There is no list of officers approved to authorise payments/orders;
- i) Manual cheques do not have adequate controls;
- j) Automated payments do not have adequate controls; and
- k) Processing of VAT is not in accordance with legislation and agreements with HM Revenue & Customs.

1.2 The methodology stated in the terms of reference document were used to establish and test the controls that management have in place for mitigating or reducing the above risks to an acceptable level.

### 2. OVERALL AUDIT OPINION

Based on the audit findings, Internal Audit has assigned **substantial assurance**<sup>1</sup> to the systems and procedures which underpin the creditors system.

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<sup>1</sup> See Appendix C for definition of Assurance Levels

### 3. PREVIOUS RECOMMENDATIONS

- 3.1 The previous 2006-07 Creditors audit report issued July 2007 contained 12 recommendations. We reviewed these recommendations and identified that five had been implemented. Four had been partially implemented and are incorporated in the following current recommendations; note that two of these recommendations have been merged into one. The remaining three recommendations were withdrawn as they are no longer applicable.

### 4. CURRENT RECOMMENDATIONS

#### Aged Creditors

- 4.1 The Aged Creditors Report as at 07/05/08 is summarised in the following table. Last years (03/04/07) figures are on the next line:

Report Date	Total Balance £	0-30 Days	31-60 Days	61-90 Days	90-120 Days	> 120
07/05/2008	217,739	242,654	3,817	672	2,404	(31,808)
03/04/2007	224,658	176,484	62,962	11,685	5,027	(31,500)

- 4.2 We noted that the Aged Creditors Report is subject to routine review by an Exchequer Officer and SDU / SHL Officers are requested to deal with individual outstanding transactions. Analysis of this report shows that the effort made to reduce the outstanding invoices between 31 and 90 days has reduced the outstanding transactions.
- 4.3 However, it was noted that there are still high numbers of Invoices and Credit notes outstanding up to 1,308 days which date back to pre Integra era [October 2004]. The outstanding transactions greater than 120 days total a negative balance of -£31,808 which has increased on last year. This is due to the high value of outstanding credit notes.
- 4.4 As previous, we recommend that** the Invoices/credit notes pre-Integra are identified and a decision taken on clearing such long outstanding issues, particularly those of insignificant amounts. Also, consideration should be given to the treatment of VAT elements of these invoices / credit notes.
- 4.5 As previous, we recommend that** the Age Creditors report should be regularly monitored by the Exchequer Manager and / or Finance Project Manager to progressively reduce age creditors to a minimum and acceptable (age) level.
- 4.6 We recommend that** the Aged Creditors greater than 90 days remaining after the pre-Integra exercise [see 4.4 above] should be summarised and escalated to the Heads of Service for action. Thereafter, this should be done monthly to progressively reduce the oldest outstanding transactions in pursuance of the BVPI 8 – invoices paid within 30 days unless in dispute.
- 4.7 We recommend that** the Exchequer request the Systems Account / IT department to update the Aged Creditors report with a column for 121+ days, in order to provide complete information.

**Authorisation of payment**

- 4.8 We identified an incident of a copy invoice being processed and certified as well as the original also being certified for payment. A duplicate payment was prevented by the system and the certified copy only scanned for information. However, there is no formal feedback offered to the responsible Service Unit, which may help identify a process problem or a need for training in the certification of invoices.
- 4.9 Internal Audit testing of 26 certification slips identified that:
- On four slips the authorising name was not printed, which makes identification of the authorising officer difficult. However, we did note that the Exchequer Officer was able to identify the signatures because it was regularly seen.
  - On one slip the Officer signing in box C (certifying the spend) also signed box A which certifies that the works were done. This is not good practice and does not provide an acceptable separation of duties, and is contrary to the instruction on the invoice certification slip.
- 4.10 **We recommend that** invoices are returned to the SDU Manager for proper completion if the certification slip is completed inappropriately with Box A & B being certified by the same officer to Box C and / or the name not printed. Allowance can be made if the signature is recognised but the name is not printed, however reminders should be sent to repeat offenders.

**Paid invoices – supporting documents**

- 4.11 Internal Audit testing of paid invoices identified the following issues relating to the SHL:
- One paid invoice was for work completed 11 months previously and supported by a different works order to that quoted on the invoice. The Responsible Officer had detailed notes on file endeavouring to resolve this account and thought all issues were resolved and up to date. However, Internal Audit identified further errors that needed to be corrected with this particular supplier account. There were a number of cancelled invoices and credit notes raised that have not been matched properly. This was compounded by an Exchequer Officer error in processing a batch of invoices to the wrong supplier. It is possible that this account is not accurate and an under / over payment may have been made.
  - An invoice paid on 7 February 2008 for two boiler changes was supported by a lower priced quotation for one of the boilers. Further enquiries identified a Variation Order had been raised to reduce the price of an original quote but it had not been processed on to Northgate [SHL property system]. Then, the Supplier invoiced for the original higher price and no adjustment had been made for the Variation Order.
  - For another paid invoice relating to a boiler change, the original requisition and quotation could not be provided.
- 4.12 There is a proposed implementation of e-series which is a bolt on front end to the Integra purchase ordering system giving greater ease of use for the lower end users, alongside this there is an electronic workflow for authorisation of orders and also the potential placement of GRN's by the ordering department. The plan is to pilot the IT and Finance areas initially

and then potentially rolling out to the other areas later in the financial year. The E-series module was purchased with the original Integra system back in 2004 however due to system constraints and other issues it is just reaching the implementation stage.

**4.13 We recommended that** after SHL have undertaken their management review of the processing errors, the Exchequer agree system or procedural changes with the SHL Service Unit's admin or SHL finance team to reduce the risk of these errors reoccurring.

**4.14 As previous, we recommend that** a separate exercise is undertaken corporately in conjunction with Exchequer Services on interrogation of invoices and supporting orders, GRN, etc. This would minimise the risk of invoices being paid without adequate supporting orders, prior to approval of variation orders, invoices and orders being coded differently and so on. **The Financial Project Manger has commented** that he will reprioritise this recommendation and seek to complete it within the next six months, subject to the demands of the Business Support review and the direction this takes.

#### **Cancelled Invoices**

4.15 Exchequer will process a cancellation if a request is received by e-mail. We noted that cancelled invoices were not being supported with a valid reason and efforts to determine a reason with the Service Unit failed. It is possible that invoices may be cancelled in error.

**4.16 We recommended** that all requests for cancellation of invoices are fully supported by a valid reason which is then recorded [scanned] on Integra.

<b>MANAGEMENT ACTION PLAN: Creditors 2007-08</b>						
<b>Appendix /Para</b>	<b>Recommendation</b>	<b>Significance</b> L Low M Med H High	<b>Agreed / Not agreed</b>	<b>Officer Responsible</b>	<b>Officer Comments</b>	<b>Implement'n date</b>
4.4	<b>As previous, we recommend that</b> the Invoices/credit notes pre-Integra are identified and a decision taken on clearing such long outstanding issues, particularly those of insignificant amounts. Also, consideration should be given to the treatment of VAT elements of these invoices / credit notes.	H	Agreed	Exchequer Manager	Work has started on this.	Immediate
4.5	<b>As previous, we recommend that</b> the Age Creditors report should be regularly monitored by the Exchequer Manager and / or Finance Project Manager to progressively reduce age creditors to minimum and acceptable (age) level.	H	Agreed	Exchequer Manager	Ongoing	Ongoing

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<b>Appendix /Para</b>	<b>Recommendation</b>	<b>Significance</b> L Low M Med H High	<b>Agreed / Not agreed</b>	<b>Officer Responsible</b>	<b>Officer Comments</b>	<b>Implement'n date</b>
4.6	<b>We recommend that</b> the Aged Creditors greater than 90 days remaining after the pre-Integra exercise [see 4.4 above] should be summarised and escalated to the Heads of Service for action. Thereafter, this should be done monthly to progressively reduce the oldest outstanding transactions in pursuance of the BVPI 8 – invoices paid within 30 days unless in dispute.	M	Agreed	Exchequer Manager	This will start once we have done the work on 4.4	Sept 08
4.7	<b>We recommend that</b> the Exchequer request the Systems Account / IT department to update the Aged Creditors report with a column for 121+ days, in order to provide complete information.	L	Agreed	Exchequer Manager	Requested from Systems Accountant	Immediate

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<b>Appendix /Para</b>	<b>Recommendation</b>	<b>Significance</b> L Low M Med H High	<b>Agreed / Not agreed</b>	<b>Officer Responsible</b>	<b>Officer Comments</b>	<b>Implement'n date</b>
4.10	<b>We recommend that</b> invoices are returned to the SDU Manager for proper completion if the certification slip is completed inappropriately with Box A & B being certified by the same officer to Box C and / or the name not printed. Allowance can be made if the signature is recognised but the name is not printed, however reminders should be sent to repeat offenders.	M	Agreed	Exchequer Manager	This could affect the BVPI 8 figure for invoices paid within 30 days unless in dispute.	Immediate
4.13	<b>We recommended that</b> after SHL have undertaken their management review of the processing errors, the Exchequer agree system or procedural changes with the SHL Service Unit's admin or SHL finance team to reduce the risk of these errors reoccurring.	M	Agreed	Exchequer Manager	After the review has been undertaken I will assess the impact of any changes	Following SHL review



MANAGEMENT ACTION PLAN: Creditors 2007-08						
Appendix /Para	Recommendation	Significance L Low M Med H High	Agreed / Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.14	<p><b>As previous, we recommend that</b> a separate exercise is undertaken corporately in conjunction with Exchequer Services on interrogation of invoices and supporting orders, GRN, etc. This would minimise the risk of invoices being paid without adequate supporting orders, prior to approval of variation orders, invoices and orders being coded differently and so on.</p> <p><b>The Financial Project Manger has commented</b> that he will reprioritise this recommendation and seek to complete it within the next six months, subject to the demands of the Business Support review and the direction this takes.</p>	L	Agreed	The Financial Project Manger	The Financial Project Manger has commented that he will reprioritise this recommendation and seek to complete it within the next six months, subject to the demands of the Business Support review and the direction this takes.	By 31.12.08
4.16	<p><b>We recommended</b> that all requests for cancellation of invoices are fully supported by a valid reason which is then recorded [scanned] on Integra.</p>	M	Agreed	Exchequer Manager		Immediate

**ASSURANCE, PRIORITY AND RISK DEFINITIONS****Assurance Levels**

<b>Assurance Level</b>	<b>General Definitions</b>
Full	<p><b>Evaluation opinion:</b> there is sound system of control designed to achieve the system objectives; and</p> <p><b>Testing opinion:</b> the controls are being consistently applied.</p> <p>Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.</p>
Substantial	<p><b>Evaluation opinion:</b> basically a sound system but there are weaknesses which put some of the control objectives at risk, and/or;</p> <p><b>Testing opinion:</b> there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p> <p>Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.</p>
Limited	<p><b>Evaluation opinion:</b> weakness in the system of controls are such as to put the system objectives at risk, and/or;</p> <p><b>Testing opinion:</b> the level of non-compliance puts the system objectives at risk.</p> <p>Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.</p>
No	<p><b>Evaluation opinion:</b> control is generally weak leaving the system open to significant error or abuse, and/or;</p> <p><b>Testing opinion:</b> significant non-compliance with basic controls leaves the system open to error or abuse.</p> <p>No Assurance will be attributed to a system where in the auditor's judgement they can place no reliance of the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error.</p>