

# Final Internal Audit Report

## Creditors (Including P2P)

### February 2017

**Distribution:** Executive Director Resources (Final Only)  
 Director of Customer and Corporate Services  
 Head of Finance Service Centre  
 Transactional Finance Manager  
 Head of Estates and Asset Management

Assurance Level	Recommendations Made	
<b>Limited Assurance</b>	Priority 1	1
	Priority 2	4
	Priority 3	0

#### Confidentiality and Disclosure Clause

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## Executive Summary

### 1. Introduction

- 1.1 Procure to Pay (P2P) is part of the One Oracle application for the ordering of goods and services and the payment of invoices. The only exemption is in respect of temporary staff, procured with Adecco. There are also a number of feeder applications that interface to generate payments via One Oracle, including SWIFT and OHMS.
- 1.2 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

### 2. Key Issues

#### Priority 1 Recommendation

Sample testing identified that VAT was being reclaimed on rental payments where valid VAT invoices were not held, instead subsequent VAT certificates were being obtained by the Estates Services Team. However, for the payment sampled the subsequent VAT certificate had not yet been obtained at the time of audit and a proper process was not in place to monitor the submission of subsequent VAT invoices, **(Rec 3.)**

#### Priority 2 Recommendations

A report was not available to identify and monitor instances where orders had been receipted but no corresponding invoices had been received after an extended period, **(Rec 1).**

There is no standard definition of what validation checks need to be undertaken for approving the set-up of new suppliers. Additionally, requestors have to be contacted for further information where forms do not contain the necessary details, **(Rec 2).**

Appropriate exception reports to monitor compliance with P2P requirements were not available, **(Rec 4).**

Appropriate exception reports to identify duplicate payments or duplicate supplier accounts were not available, **(Rec 5).**

There is a variance of £9,141.34 in the Accounts Payable control account reconciliation, due to compatibility issues when transferring from the R12 legacy system to One Oracle. A recommendation has been included in the 'Main Accounting 2016/17' audit report in this regard.

### 3. Actions and Key Findings/Rationale

<b>Control Area 1: Legislative, Organisation and Management Requirements</b>		<b>Detailed Finding/Rational</b>
<b>Priority</b>	<b>Recommendation 1</b>	
2	Exception reports should be produced and investigated on a monthly basis for receipts where no invoice has been received after an extended period.	<p>The Golden rules of P2P detail that, 'It is also important to ensure that purchase orders are receipted as soon as you have received the goods or services. Unless there are exceptional circumstances, do not wait for notification that the invoice has been received by the Accounts Payable team and processed. Payment will not be made to the supplier unless you have receipted the purchase order.'</p> <p>Discussion with the Finance Manager established that there are instances where goods / services have been receipted and no corresponding invoice has been received after an extended period. However, there is no report available to monitor these instances and to highlight where invoices have been outstanding for an extended period, although it may be possible to run an SQL OBIE report to identify these.</p> <p>Where appropriate exception reports for receipts held (and where no invoice has been received) are not produced on a regular basis, there is a risk that errors remain undetected, meaning that appropriate corrective action cannot be taken in a timely manner. This could lead to financial loss to the Council, where incorrect or fraudulent orders are raised.</p>
<b>Management Response</b>		
<p>A review of goods receipted but not invoiced was undertaken in October 2016, and a resource brought in to clear outstanding items created before 2015-16 from the relevant control account in Oracle. This will be complete by 31 March 2017.</p> <p>Once the accumulated amounts are closed, it is proposed to review these items annually rather than monthly, via an OBIE report that has been put in place. This is because it is anticipated that relatively few items will become historic each month in future, and</p>		<p><b>Agreed/Disagreed</b></p> <p>Agreed</p> <p><b>Responsible Officer</b></p> <p>Head of Accountancy</p> <p><b>Deadline</b></p> <p>31 March 2017</p>

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the business justification to review and close items is stronger when the number to be actioned is higher.			
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<b>Control Area 2: Amendments to Standing Data</b>							
<b>Priority</b>	<b>Recommendation 2</b>						
2	<p>Guidance to be provided to the Commissioning and Procurement Governance Team regarding necessary validation checks to be undertaken prior to approving new suppliers.</p> <p>Additionally, supplier forms to be critically reviewed and amended to capture sufficient information to avoid referral back to suppliers for missing details.</p> <p>[The Head of Strategy, Communities and Commissioning, Resources is undertaking a further review of this role by identifying what is done at other LBs and what, if any, the resource implications of this is].</p>						
	<p><b>Detailed Finding/Rational</b></p> <p>The Creditors 2015/16 internal audit report detailed that validation checks on new suppliers' details were the responsibility of the Commissioning and Procurement Governance Team, but that discussion with the Commissioning and Procurement Governance Manager had identified that there was no standard definition of what details are required to be validated. Additionally due to insufficient information, in some cases the Team had to contact suppliers for further information.</p> <p>Discussion with the Head of Strategy, Communities and Commissioning, Resources established that the Team had guidelines on SharePoint for the checks to be conducted on new suppliers, but although requested, a copy of this document has not been provided to Internal Audit. It was also established that the supplier set up form has not been amended to include additional details.</p> <p>Testing of a sample of ten new supplier set ups identified an instance where the new supplier form, which had been checked and approved by the Commissioning and Procurement Governance Team, had been incorrectly completed (for example the 'Name of the Supplier' was blank and under 'Supplier number' a cell phone number was listed). This resulted in the P2P team having to request clarification from the requestor and for the Commissioning and Procurement Governance Team to have to re-approve the new supplier form adding delays to the process.</p> <p>Where staff are unclear of what details require checking, there is a risk that decisions regarding suppliers are made on judgement and suppliers may therefore be approved incorrectly. Furthermore, where the Commissioning and Procurement Governance team are required to contact suppliers for additional information, there is a risk of delayed set up and subsequent delayed payments to the Council.</p>						
	<p><b>Management Response</b></p> <p>The current position has been reviewed and the checklist for reviewing supplier set-ups has been updated. Also a two-stage approval process has now been introduced which requires the Commissioning and Procurement Governance Manager to approve.</p>						
	<table border="1"> <thead> <tr> <th><b>Agreed/Disagreed</b></th> <th><b>Responsible Officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Head of SCC (Resources)</td> <td>31 March 2017</td> </tr> </tbody> </table>	<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>	<b>Deadline</b>	Agreed	Head of SCC (Resources)	31 March 2017
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Agreed	Head of SCC (Resources)	31 March 2017					

<b>Control Area 3: Processing of Invoices</b>							
<b>Priority</b>	<b>Recommendation 3</b>						
1	<p>A full reconciliation to be conducted by Estates Services team of all rental payments for the last 2 years to ensure that either valid VAT invoices are held or that VAT certificates have been obtained for all of these payments where VAT has been reclaimed. Any exceptions are to be appropriately resolved.</p> <p>The Estates Services team to urgently address the issues identified with the rental payments, so that all future payments are P2P compliant and that valid VAT invoices / certificates are obtained and held.</p> <p>Copies of all VAT certificates are to be provided to the Accounts Payable team.</p>						
	<p><b>Detailed Finding/Rational</b></p> <p>HMRC regulations require that in order to reclaim VAT, valid VAT invoices must be held, which include the following details: A unique identification number; Company name; Address and contact information; The company name and address of the customer; A clear description of what the charge is for; The date the goods or service were provided (supply date); The date of the invoice; The amount(s) being charged; VAT amount if applicable; and Total amount owed.' VAT Notice 700/21 section 2.7 states 'There is a financial penalty for a failure to keep or produce the records required by law.'</p> <p>Examination of a sample of 20 invoices established that VAT had been claimed in respect of an invoice for £27,567.79 dated 17 May 2016 which was described as 'Not a VAT Invoice'. Discussion established that the invoice was in respect of rental payments and that subsequent VAT certificates were obtained by the Estate Services team. It was also explained that copies of these VAT certificates were not provided to the Accounts Payable team.</p> <p>Follow up with the Estates Services team established that a VAT certificate had not yet been obtained for the identified payment (despite 5 months having elapsed at the time of audit) and that a proper process was not in place to monitor the submission of the subsequent VAT certificates. It was also noted that the invoice did not quote an order number as required and that the corresponding order had been raised retrospective to the invoice date.</p> <p>It was established that the issues with the rental payments had been previously identified by the Accounts Payable team, who had met and raised these with the Estates Services team, but that no action had yet been taken by the Estates Services team to resolve these.</p> <p>Where VAT is reclaimed and valid VAT invoices or certificates are not held, there is a risk that the Council will be sanctioned by HMRC.</p>						
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Agreed	Head of Estates and	31 March 2017					
	<p><b>Management Response</b></p> <p>The current position has been reviewed and the following actions will be taken</p>						

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<ul style="list-style-type: none"><li>• All current invoices that are subject to the payment of VAT will be checked for compliance with current VAT invoice requirements.</li><li>• Where the invoices are non-compliant, the landlords will be written to, to request appropriate amendments are made.</li><li>• All rental invoices subject to the payment of VAT will be added to the diary system on TF database with a reminder to check receipt/chase for VAT receipts where necessary 4 and 6 weeks after the due date. This will be also be picked up as a diary event in the monthly meetings with surveyors.</li><li>• An annual review will be undertaken to ensure that all invoices/receipts are compliant. This will again be diarised as an annual reminder on the TF database</li><li>• The current payment system on P2P is to be revised to avoid the current payment issues. A spreadsheet ad hoc payment system will be agreed with AP. This will be signed off on a monthly basis by the Estates Team to ensure payments are correctly made and will avoid late payments. This system will be in place by the March quarter day.</li></ul>		Asset Management
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<b>Control Area 3: Processing of Invoices</b>				
<b>Priority</b>	<b>Recommendation 4</b>	<b>Detailed Finding/Rational</b>		
<b>2</b>	<p>Appropriate exception reports be produced and disseminated on a monthly basis, which should include:</p> <ul style="list-style-type: none"> <li>- invoices without a purchase order number quoted;</li> <li>- invoices not sent centrally, or hand written; and</li> <li>- retrospective purchase orders.</li> </ul>	<p>It is stated in the Payment Procedures 2012 that, 'Under no circumstances should requisitions be raised retrospectively.'</p> <p>Examination of a sample of 20 invoices established that in five cases, purchase orders had been raised after the corresponding invoice dates:</p> <ul style="list-style-type: none"> <li>• A purchase order for £34,087.50 was raised 68 days after the invoice date.</li> <li>• A purchase order for £11,982.00 was raised 4 days after the invoice date.</li> <li>• A purchase order was raised for £27,567.79 6 days after the invoice date.</li> <li>• A purchase order for £28,184.75 was raised 10 days after the invoice date.</li> <li>• A purchase order for £9228.00 was raised 10 days after the invoice date.</li> </ul> <p>As highlighted in the Creditors 2015/16 audit report, since the upgrade to the One Oracle Accounts Payable system in 2015, appropriate exception reports (such as retrospective purchase orders, invoices without a purchase order number quoted and invoices not sent centrally, or hand written) to enable the monitoring of P2P compliance have not been available to be run.</p> <p>Where appropriate exception reports are not produced on a monthly basis, there is a risk that errors and non-compliance with P2P requirements are not identified in a timely manner which may lead to delays in the processing of invoices.</p>		
<b>Management Response</b>		<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>	<b>Deadline</b>
<p>The One Oracle reporting does not allow us to drill down to the service area and individual with regards to the non-compliance. However, from April 2017 we will be reporting retrospective purchase orders for the council, unreceipted purchase orders and payments within 30 days.</p> <p>We are investigating the possibility of obtaining reports from our oxygen (prompt payment discount) reporting tool on all purchase</p>		Agreed	Transactional Finance Manager	30 April 2017

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<p>orders to include the requisitioner/approver details.</p> <p>With regards to invoices without a purchase order number quoted – this is recorded as a number daily on our invoice register as there is not sufficient resource to log each individual invoice and investigate which area of the business is using the supplier – all invoices received by post in email without a purchase order number are returned to the supplier. Again, there is no way to record on the system whether an invoice was sent centrally or handwritten and this would be too resource intensive to record manually. Our next step would be to return all invoices with handwritten purchase order numbers.</p> <p>We will be e-invoicing on oracle cloud in the future which will eliminate handwritten purchase orders, no purchase order number quoted and invoices not sent centrally.</p>			
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<b>Control Area 3: Processing of Invoices</b>			
<b>Priority</b>	<b>Recommendation 5</b>	<b>Detailed Finding/Rational</b>	
2	<p>Progress the use of Fiscal to generate appropriate exception reports. These should include:</p> <ul style="list-style-type: none"> <li>• Duplicate supplier records; and</li> <li>• Duplicate payment records.</li> </ul>	<p>The Creditors 2015/16 audit report detailed that discussion with the Finance Manager established that a report to identify duplicate payments or duplicate supplier accounts is not currently available. The response to the draft audit report further detailed that, 'We have had an initial meeting with FISCAL technologies to review their AP forensics product. This does contain a duplicate supplier checker but we would need to undertake further investigation to determine how this would work with the current shared supplier database.'</p> <p>Discussion with the Finance Manager at the time of audit established that it was intended to implement the forensic module within Oracle known as 'Fiscal', which will enable the desired exception reports to be produced on a monthly basis. The business case for Fiscal has now been approved and the expected implementation date is January 2017.</p> <p>Where appropriate exception reports are not produced on a regular basis, there is a risk that errors and non-compliance with P2P requirements remain undetected, meaning that appropriate corrective action cannot be taken in a timely manner. This could lead to financial loss and reputational damage for the Council.</p>	
<b>Management Response</b>		<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>
We have now signed a contract with FISCAL technologies for implementation in April/May 2017. Their software will enable us to identify duplicate payments and duplicate supplier accounts.		Agreed	Transactional Finance Manager
		<b>Deadline</b>	31 May 2017

## TERMS OF REFERENCE

### CREDITORS (INC. P2P)

#### 1. INTRODUCTION

- 1.1 Procure to Pay (P2P) is part of the One Oracle application for the ordering of goods and services and the payment of invoices. The only exemption is in respect of temporary staff, procured with Adecco. There are also a number of feeder applications that interface to generate payments via One Oracle, including SWIFT and OHMS.
- 1.2 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

#### 2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes relating to Creditors.
- 2.2 The audit will for each area included in the scope:
- Document and evaluate the risks and controls for each process to consider the key controls;
  - Undertake sufficient testing of controls operating, on a sample of transactions; and
  - Reach a conclusion on the effectiveness of the controls operating and report.

#### 3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management	0	1	0
Amendments to Standing Data (including Suppliers)	0	1	0
Processing of Invoices	1	2	0
Urgent Payments	0	0	0
System Reporting Including Exceptions	0	0	0
Risk Register	0	0	0

## DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to recommendations are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

## STATEMENT OF RESPONSIBILITY

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

### **Mazars Public Sector Internal Audit Limited**

#### **London**

#### **February 2017**

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