MAZARS

CROYDON

Final Internal Audit Report
Creditors (including P2P)
May 2018

Distribution: Executive Director of Resources and s151 Officer
Director of HR
Head of Finance Service Centre
Transactional Finance Manager
Head of Finance, Corporate and Resources

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	**3**
	Priority 3	0

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality

Contents

Page

Executive Summary

Appendices

1. Terms Of Reference
2. Definitions For Audit Opinions And Recommendations
3. Statement Of Responsibility

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 ROCC, SWIFT and OHMS.

1.2 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

2. Key Issues

Priority 2 Issues

Croydon Council's intranet has a webpage on Procure to Pay (P2P), with a section on 'Policy and Procedures.' However, no policy and procedure documents were stored under this section; **(Issue 1.)**

Sample testing of 20 transactions identified two instances where the purchase orders were raised after the corresponding invoices were received and two instances where transactions were receipted late, delaying payment; **(Issue 2.)**

E-Procurement Accruals and Creditor control account reconciliations were not being appropriately signed and dated by the preparer or reviewer; **(Issue 3.)**

3. **Actions and Key Findings/Rationale**

Control Area 1: Legislative, Organisation and Management Requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1
2	Discussion to be had with governance team about republication of payment procedures.	Comprehensive procedure and guidance notes to the P2P system are available to members of staff and available on the intranet. This includes: • Guidance on P2P systems; and • Payment Procedures. Examination of the Council's intranet confirmed that there is a Procure to Pay (P2P) webpage, with a section on 'Policy and Procedures.' However, inspection of the 'Policy and Procedures' section found that no documents were evident. Internal Audit is aware that policy and procedure documents are available on the intranet, nevertheless the most up-to-date documents have not been uploaded to the 'Policy and Procedures' section. Where the policy and procedure guidance's are not readily accessible and easy to find on the intranet, there is a risk that staff may lack knowledge of the required procedures. This may increase risk of errors, resulting in the need to divert staff time and delay payments to correct errors and reissue payments.

Responsible officer	Deadline
Transactional Finance Manager	30th June 2018

Control Area 3: Raising of Orders and Processing of Invoices

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2
2	Investigation into options for exception reporting will be undertaken as part of cloud implementation.	It is stated in the Payment Procedures 2012 that, 'Under no circumstances should requisitions be raised retrospectively' and 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.' Examination of a sample of 20 invoices found that: • Two invoices were received prior to the purchase orders being raised; and • In two instances, payment was made more than 30 days after receiving the invoice, due to late receipting. Furthermore, examination of the weekly monitoring report, identified that in the week ending 18th March 2018, a total of £17,010 was lost as a result of late receipting and the prompt payment discounts being lost. 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. 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.

Responsible officer	Deadline
Head of HR & Finance Service Centre	April 2019

Control Area 6: System Reconciliations

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3
2	The reconciliations will be revised to capture details of who has prepared and reviewed the reconciliation, as well as the dates these tasks were carried out.	In order to ensure that E-Procurement accruals and accounts payable transactions are properly reflected in the Council's general ledger, regular reconciliations of these are required to be conducted.

It was confirmed that :

- Monthly reconciliations of E-Procurement accruals (i.e. goods receipted in I-Procurement) to the general ledger on Oracle are performed, with the reconciliation reports being stored on the SharePoint site. However, examination of these reconciliations noted that these did not detail who prepared these and on what date or who had reviewed these and on what date; and
- Creditors control account reconciliations with the general ledger were conducted at the start of the year, mid-year and year end, (as agreed between the Accountancy Manager and Accounts Payable (Creditors) team). Examination of these reconciliations found that, although the reconciliation states the preparer and reviewer, it does not include the dates which these were completed.

Discussions with the Accountancy Manager established that when the reconciliations are reviewed, this is not recorded and, if there are no problems, then no further action is taken.

Where the reconciliations are not signed or dated by the preparer and/or the reviewer, there is a lack of accountability and the Council cannot gain assurance that the review process has been carried out or carried out in a timely manner.

Responsible officer	Deadline
Head of Finance, Resources & Accountancy	June 2018

TERMS OF REFERENCE

Creditors (Including 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 ROCC, SWIFT and OHMS.

1.2 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

2. OBJECTIVES AND METHOD

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will for each controls / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

3. SCOPE

3.1 This audit will examine the Council's arrangements in relation to Creditors (Inc P2P), and will include the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	1	0
Amendments to Standing Data (including suppliers)	0	0	0
Raising of orders and processing of invoices	0	1	0
Urgent Payments	0	0	0
BACS and cheque payments	0	0	0
System Reconciliations	0	1	0
TOTAL	0	3	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 consistently 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 which may put this achievement at risk.
🟠	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
🔴	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

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

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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. 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or reply for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.