

# Audit and Governance



**30 June 2010**

Report of **Head of Finance**

Report no. 15/10

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Wards Affected  
All

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To: Audit and Governance Committee

DATE: 30 June 2010

## **Internal audit activity report quarter one 2010/2011**

### **Recommendations**

That members note the content of the report

### **Purpose of Report**

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.
2. The contact officer for this report is William Jacobs, head of finance for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823326 and (VWHDC) 01235 540455.

### **Strategic Objectives**

3. To assist the Council to manage its business effectively by providing an assurance framework to monitor the overall adequacy and effectiveness of the internal control environment.

### **Background**

4. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the Council's objectives. It assists the Council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control

environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5. Assurance ratings given by internal audit indicate the following:

**Full Assurance:** There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

**Satisfactory Assurance:** There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

**Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

**Nil Assurance:** Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6. Each recommendation is given one of the following risk ratings:

**High Risk:** Fundamental control weakness for senior management action

**Medium Risk:** Other control weakness for local management action

**Low Risk:** Recommended best practice to improve overall control

### 2010/2011 Audit Reports

7. Since the last Audit and Governance Committee meeting, the following audits have been completed:

#### Planned Audits

Full Assurance: 0

Satisfactory Assurance: 1

Limited Assurance: 1

Nil Assurance: 0

	Assurance Rating	No. of Recs.	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
1. Creditors	Limited	24	1	1	17	15	6	4
2. Information Governance	Satisfactory	7	0	0	3	3	4	3

## Follow Up Reviews

	Original Assurance Given	No. of Recs	Recs due to be completed at the time of Follow Up audit				Later Recs
			Implemented	Partly Implemented	Not Implemented	Ongoing	
6. Contract Monitoring	Limited	5	2	0	3	0	0
7. VFM CCTV Contract Arrangements	Satisfactory	11	7	0	1	2	1
8. Rent Accounting	Satisfactory	12	7	1	4	0	0
9. Lone Working/Officer Security	Satisfactory	8	5	1	2	0	0
10. Oxfordshire Waste Partnership	Satisfactory	4	4	0	0	0	0
11. Partnership Performance Monitoring	Satisfactory	6	3	0	1	0	2

8. **Appendix 1** of this report sets out the key points and findings relating to the completed audits
9. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
10. A copy of each report has been sent to the appropriate service manager, the relevant strategic director, the Section 151 Officer and the relevant member portfolio holder.
11. Internal Audit continues to attempt to carry out a 6 month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

## Financial Implications

12. There are no financial implications attached to this report.

## Legal Implications

13. None.

## Risks

14. Identification of risk is an integral part of all audits.

## CREDITOR PAYMENTS 2009/2010

### 1. INTRODUCTION

- 1.1 Final Report was issued 31 March 2010. The fieldwork for this audit was undertaken between November and December 2010.
- 1.2 The following areas have been covered during the course of this review:
- To ensure that invoices are promptly processed through Agresso.
  - To ensure that there is documentation to support all payments made.
  - To ensure that manual, direct debit and BACS transfer payments are strictly controlled, appropriately authorised and paid correctly.
  - To ensure that adequate controls are in place to prevent duplicate payments.
  - To ensure that all refunds are appropriately authorised and actioned.
  - To ensure that VAT is being appropriately dealt with.

### 2. BACKGROUND

- 2.1 Within Agresso, the Financial Management System, there is a Creditors Module through which orders are made, invoices are processed and payments are made.
- 2.2 From the 1st September 2009, Exchequer Services (creditors and debtors) provided by Capita are being handled from its service centre in Shepton Mallet rather than locally at VWHDC.

### 3. PREVIOUS AUDIT REPORTS

- 3.1 Creditor Payments was last subject to an internal audit review in 2008 and seventeen recommendations were raised. A Limited assurance opinion was issued.
- 3.2 Of the seventeen recommendations made during the 2008/2009 audit, based on the responses and evidence obtained during this audit, only seven were implemented at the time of this review with four being restated and the remaining six incorporated into new findings.

### 4. 2009/2010 AUDIT ASSURANCE

- 4.1 **Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Twenty four recommendations have been raised in this review. One High risk, seventeen Medium risk and six Low risk.

### 5. MAIN FINDINGS

- 5.1 **Prompt Processing of Invoices**
- 5.2 Training and guidance notes are available for officers on the Council's intranet site with relevant sections on the accounts payable (AP) process. Training for officers, although being planned, was somewhat lacking in application and records. Officers are allowed to access the Agresso system with very little or no evidence of training. Similarly, there was no evidence to suggest that Capita employees have in place a skills matrix/training plan to ensure competency levels are attained for dealing with the Creditors system. It was noted that although a report is generated by Capita detailing invoices awaiting action, the frequency of the information supplied is not adequate. Appropriate controls need to be introduced to prevent duplicate accounts being set up, and a review exercise of the supplier masterfile should be regularly undertaken to identify any duplicate accounts. In addition, a regular review of debit balances should also be undertaken. Performance levels of percentage of invoices paid within 30 days, although not on target to reach the 99 per cent, is at a cumulative quarterly level of 95.62 per cent against last year's performance of 92.39 per cent. Ten recommendations have been made as a result of our work in this area.
- 5.3 **Supporting Documentation**

5.4 It was clear that a number of control measures are lacking in the areas of date stamping of payment documentation, coding group distribution, workflow bugs and supporting documentation. Instances of duplicate invoices registration and payments were also found. It is considered that the Purchase Ordering Module within Agresso is not being fully utilised by officers in relation to Creditor purchases. Internal Audit is also of the opinion that the manual payment voucher process could be replaced by using Agresso for directly entering the payment voucher, with a view to a reduction in process time and data input errors. Eight recommendations have been made as a result of our work in this area.

5.5 **Control Of Payments**

5.6 Housekeeping issues relating to the general maintenance of supplier direct debits and their respective supporting documentation were highlighted during the 2008/2009 audit, with no actions taken in implementing those recommendations. The usage of purchase orders (PO's) was reviewed and out of forty five payments, only five had a related purchase order. BACS payment documentation, again highlighted during the 2008/2009 audit was still an issue with a lack of countersignatory evidence available for payments over £10k. One recommendation has been made as a result of our work in this area.

5.7 **Duplicate Payments**

5.8 A duplicate payment analysis programme was not available within the Agresso system. Checks are performed at the front end for duplicate accounts, however, there did not appear to be any further controls in place. Internal Audit found it difficult in extracting the required information from Capita in order to provide an appropriate assurance level. One recommendation has been made as a result of our work in this area.

5.9 **Refunds**

5.10 The process for handling refunds is detailed within the AP procedures, available on the Intranet with appropriate sections on the approval process in line with the standard AP process. As highlighted in other objective areas, it was clear that a number of control measures are lacking in the areas of workflow bugs and supporting documentation. Recommendations have been made within other objective areas that cover aspects of refunds.

5.12 **VAT**

An officer is in place to deal with aspects of VAT and in addition, control procedures are in place to perform the relevant VAT duties. The application of VAT codes is also detailed in the Accounts Payable procedure, detailing how the VAT rate and the supplier's VAT registration number should be applied, with guidance on seeking advice and the implications of applying the wrong code. Procedures are available to all officers depending on the level of information required. No recommendations have been made in this area.

5.13 **Previous Recommendations**

5.14 Of the seventeen recommendations made during the 2008/2009 audit, based on the responses and evidence obtained during the audit, only seven were implemented at the time of the review. A significant amount of work is required to ensure those recommendations are reviewed and implemented in addition to the recommendations being made in the current audit. Four recommendations have been restated as a result of our work in this area, with the remaining six incorporated into new findings.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **INVOICE PROCESSING**

#### **1. Council Training/Skills Matrix**

**(Medium Risk)**

<b>Recommendation</b>	<b>Rationale</b>	<b>Responsibility</b>
a) To determine the training requirements for all Agresso AP users.	<u>Best Practice</u> Training requirements for systems usage are highlighted with adequate training provided to address any skills shortfall.	Capita/Head of Finance
b) To develop a training	Appropriate records are maintained and	

<p>matrix/ plan.</p> <p>c) To implement Agresso AP training.</p>	<p>updated as required.</p> <p><u>Findings</u> Internal Audit requested from HR, evidence of a training matrix and training plan for all users of the Agresso system. The Training &amp; Development Co-ordinator provided a report showing evidence of Agresso training. Upon the evidence provided, there has been no training since April 2008. The PA to Management Team confirmed that an Agresso AP training session took place in September 2008. Internal Audit could not find any records of this from the data provided by HR. Work is currently underway to make available a training server on which to carry out Agresso training.</p> <p><u>Risk</u> Without an appropriately actioned training plan in place, officers will be inappropriately equipped to carry out their duties correctly and effectively, resulting in an inefficient AP process.</p>	
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed in Principle</b></p> <p>Agresso superusers have been identified and trained. Capita is completing a training matrix. Training requirements will be discussed at the agresso superuser meeting and an appropriate training process will be put in place.</p> <p>Management Response: Capita/Head of Finance</p>		<p>1 April 2010</p>

## 2. Access to Agresso

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>Access to the Agresso system is only granted upon successfully completing formal Agresso training.</p>	<p><u>Best Practice</u> Access to the management systems are only granted upon successfully completing formal training to show that a pre-defined competency level has been attained.</p> <p><u>Findings</u> Officers are granted access to the Agresso system, irrespective of whether any formal detailed training has been completed.</p> <p><u>Risk</u> Without appropriate training, officers will be inappropriately equipped to carry out their duties correctly and effectively, resulting in an inefficient AP process.</p>	<p>Capita/Head of Finance</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed in Principle</b></p> <p>Ideally this is the procedure which should happen. However, formally training is not required for all users. On the job instruction by a superuser is suitable in many instances. This will be determined as part of the action agreed in recommendation 1 above.</p> <p>Management Response: Capita/Head of Finance</p>		<p>1 April 2010</p>

## 3. Capita Training/Skills Matrix

(Medium Risk)

Recommendation	Rationale	Responsibility
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<p>That Capita develop and implement a training/skills matrix for Capita employees who are involved in the Agresso AP process.</p>	<p><b>Best Practice</b> Training requirements for systems usage are highlighted with adequate training provided to address any skills shortfall. Appropriate records are maintained and updated as required.</p> <p><b>Findings</b> With the recent Exchequer Services change of location and the resulting operational problems in mind, Internal Audit requested from Capita evidence of a training matrix and training plan for all users of the Agresso AP system. It was stated that under the contract specification, Capita are not required to keep any such matrix for Creditor Payment Users and therefore nothing of that nature currently exists.</p> <p><b>Risk</b> Without an appropriately actioned training plan in place, Capita staff may be inappropriately equipped to carry out their duties correctly and effectively, resulting in an inefficient AP process.</p>	<p>Exchequer Services Manager</p>
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b></p> <p>Agreed, training matrix should exist to ensure that all Capita staff have undertaken required training in order to undertake tasks for AP/AR. Training matrix to be implemented and maintained by relevant team leader within service centre.</p> <p>Management Response: LGS Business accountant</p>		<p>31 Jan 2010</p>

#### 4. Invoice Report Distribution

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>a) To implement a process to ensure the 'invoices awaiting action' report is made available to the Council on a regular basis.</p> <p>b) That the Intranet site which is detailed as the repository for the above information be either actively used or removed.</p>	<p><b>Best Practice</b> Required reporting mechanisms are in place and reports are circulated on a regular basis to ensure resulting decisions are made in a timely manner.</p> <p><b>Findings</b> It was ascertained that a report entitled 'invoices awaiting action' is generated by Capita which is sent to the Senior Revenues and Benefits Client Officer for circulation to Council officers It was noted from email correspondence from the Senior Revenues and Benefits Client Officer that no reports were received or circulated between 11th August and 30<sup>th</sup> September 2009. It was also noted that an intranet page is in place for holding the same reports, however, the usage appears to be redundant as the last set of data is from May 2009.</p> <p><b>Risk</b> Without timely, accurate management information available to the Council, invoices awaiting action will become stagnant and could result in exceeding invoice payment deadlines.</p>	<p>Capita Exchequer Services Manager and Senior Revenues &amp; Benefits Client Officer</p>

Management Response	Implementation Date
<p>Recommendation is <b>Agreed</b></p> <p>Until such time as the council is performing at the required level for payment of invoices, the Senior Revenues &amp; Benefits Client Officer (SR&amp;BCO) will continue to distribute the "invoices awaiting action" reports. Capita will ensure that these reports are sent to the SR&amp;BCO promptly on a weekly basis.</p> <p>The SR&amp;BCO will ensure that the redundant lists are removed from the Intranet.</p> <p>Management Response: Senior Revenues &amp; Benefits Client Officer</p>	Immediately

### 5. Prompt Invoice Distribution

(Medium Risk)

Recommendation	Rationale	Responsibility
To implement a process to ensure that invoices awaiting distribution are acted upon in a timely manner in order to facilitate an efficient AP process.	<p><u>Best Practice</u> A process is in place whereby invoices are distributed in a timely manner to ensure an efficient AP process.</p> <p><u>Findings</u> A specific case was highlighted during the audit where an invoice sat waiting for Capita workflow distribution for 33 days. The task was originally sent to the Communications coding group at VWHDC on 16 September 2009. Officer X rejected the invoice on 16 September 2009 stating it was for Officer Y in Accountancy. It then appeared from the workflow that Capita did nothing further with the invoice until 19 October 2009 when it was sent back to the Communications coding group. Officer X rejected the invoice once more, again stating it was for Officer Y in Accountancy and the invoice then went through to Finance.</p> <p><u>Risk</u> Without an appropriately efficient process in place, invoices remain dormant resulting in a delay in payment with reputational and financial damage to the Council.</p>	Capita Exchequer Services Manager

Management Response	Implementation Date
<p>Recommendation is <b>Agreed</b></p> <p>The use of the 'invoices awaiting distribution' report and other internal management information reports in operation within the service centre allows management to obtain assurance that all transactions that are in workflow are being progressed.</p> <p>This is being reviewed by the service team management on a daily basis.</p> <p>Items that have dropped out of workflow are identified in an 'items to follow up' report and progressed by Agresso system admin on a regular basis.</p> <p>Management Response: LGS Business Accountant</p>	Immediate

### 6. Duplicate Supplier Accounts Checks

(Medium Risk)

Recommendation	Rationale	Responsibility
That a periodic review of the supplier master file is performed to ensure	<p><u>Best Practice</u> That a periodic review of the supplier master file is performed in order to prevent</p>	Exchequer Services Manager and Head of Finance



<p>duplicate supplier accounts only exist for valid reasons, with clear information to distinguish between them.</p>	<p>duplicate invoices being raised on separate accounts.</p> <p><u>Findings</u> Although there is a control process prior to the new supplier form being received by the departments, Internal Audit could not ascertain from the audit responses received from Capita, whether appropriate checks are being made on duplicate supplier accounts (the supplier master file) in order to prevent duplicate invoices being raised on separate accounts.</p> <p><u>Risk</u> If there is more than one account for a supplier, there is a risk that an invoice may be processed twice leading to duplicate payments being made.</p>	
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b></p> <p>Capita will provide a report detailing supplier accounts that are potential duplicates and will action according to the council's wishes.</p> <p>However, going forward, instructions will be given to Agresso AP users via the superuser group to advise that a thorough search of the Agresso database should be conducted before forwarding any new supplier requests to Capita. For its own part, upon receipt of any new supplier requests, Capita will also conduct a thorough search of Agresso to ensure that the supplier does not already exist.</p> <p>Management Response: Capita/Head of Finance</p>		<p>31 March 2010</p>

## 7. Duplicate Supplier Accounts

(High Risk)

<b>Recommendation</b>	<b>Rationale</b>	<b>Responsibility</b>
<p>That Capita review the duplicate supplier accounts highlighted during the audit and recover any overpayments from suppliers.</p>	<p><u>Best Practice</u> There should be one account for each supplier within the masterfile.</p> <p><u>Findings</u> Internal Audit produced a supplier aged debt report from Agresso and reviewed the report for any evidence of duplicate suppliers. From the review, Internal Audit found one instance where two accounts had the same or similar supplier name and the same address. Internal Audit reviewed the invoices against the accounts for any duplication. Internal Audit found two duplicate invoices raised against each account, invoice 858770 for £355.32 and invoice 854133 for £426.38.</p> <p><u>Risk</u> If there is more than one account for a supplier, there is a risk that an invoice may be processed twice leading to duplicate payments being made.</p>	<p>Exchequer Services Manager and Head of Finance</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed in principle</b></p> <p>Capita will provide a report detailing supplier accounts that are potential duplicates and will action according to the council's wishes.</p>		<p>31 March 2010</p>

Management Response: Capita/Head of finance	
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### 8. Payments to Suppliers

(Medium Risk)

Recommendation	Rationale	Responsibility
The increased level of overdue creditor payments is investigated and appropriate actions are put in place to reduce the level.	<p><u>Best Practice</u> Debt levels on supplier accounts should be adequately controlled.</p> <p><u>Findings</u> On review of the data available on supplier aged debt, Internal Audit found the level of supplier debt totalling £1,912,347.75 on debts up to 6 months. Using the figures from the previous 2008/2009 audit, it was noted that the level of supplier aged debt has increased by £1,771,724.38 (up from £140,572.76).</p> <p><u>Risk</u> Without adequate management of supplier debt, the level of debt will exceed an appropriate level.</p>	Capita Exchequer Services Manager and Senior Revenues & Benefits Client Officer
Management Response		Implementation Date
<p>Recommendation is <b>Agreed in Principle</b></p> <p>The figure of £1,912,347.75 includes £1,051,880.72 which is precept payments to town and parish councils (and have now been made). The remaining items are included in the "invoices awaiting action" report which is circulated each week and encourages departments to authorise all payments which are not disputed. It is therefore being addressed through 4 &amp; 5 above.</p> <p>Management Response: Senior Revenues &amp; Benefits Client Officer</p>		Immediate

### 9. (2008/2009) Disputed Invoice Flag

(Low Risk)

Recommendation	Rationale	Responsibility
A 'Disputed Invoice Flag' should be introduced to creditors to allow officers to identify all invoices that are currently in query.	<p><u>Best Practice</u> The performance calculation excludes any invoices in dispute and these should therefore be readily identifiable.</p> <p><u>Findings</u> In order to calculate the performance of Creditors, an officer has to manually check for invoices in dispute.</p> <p><u>Risk</u> Performance of Creditors may be understated due to disputed invoices being included in the calculation leading to inaccurate calculations being relied upon.</p>	N/A
Management Response		Implementation Date
<p>Recommendation is <b>Not Agreed</b></p> <p>Functionality is not available in this version of Agresso, or scheduled to be included in any future releases due to BVPI8 indicator no longer being a national indicator and the dispute functionality being a pre workflow (therefore pre Agresso 5.4) piece of functionality.</p> <p>This has been raised numerous times and is not a decision of Capita, it is a fundamental restriction of the finance system due to workflow functionality being introduced.</p> <p>Management Response: LGS Business Accountant IA now acknowledges that the recommendation is based on functionality</p>		N/A

no longer available in the Agresso AP module.	
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### 10. Debit Balances

(Low Risk)

Recommendation	Rationale	Responsibility
The debit balances highlighted during testing should be reviewed by Capita and appropriate action taken where necessary.	<p><u>Best Practice</u> Balances on supplier accounts should be accurate and any credit notes that have been outstanding for a period of time should be 'cashed in' with the supplier.</p> <p><u>Findings</u> Whilst reviewing the 'Supplier Aged Debt' report it was noted that there are 7 debit balances on supplier accounts ranging from 1 to 3 years.</p> <p><u>Risk</u> Inappropriate management of debit balances within the accounts is inefficient and may lead to cash-flow issues within the accounts.</p>	Exchequer Services Manager
Management Response		Implementation Date
<p>Recommendation is <b>Agreed in principle</b></p> <p>The ultimate decision regarding debit balances on supplier accounts will sit with the council, however we will provide details of any account with a debit balance and action according to the instruction received from the council - Assumption is this instruction needs to be from service team or from accountancy.</p> <p>Management Response: LGS Business Accountant</p>		31 March 2010

### SUPPORTING DOCUMENTATION

### 11. Duplicate Invoices

(Medium Risk)

Recommendation	Rationale	Responsibility
To review the duplicate registrations highlighted during the audit and to confirm the control and analysis measures in place to prevent reoccurrence.	<p><u>Best Practice</u> Appropriate controls are in place to prevent duplicate invoice registration and payments.</p> <p><u>Findings</u> Upon sample testing of payments, Internal Audit highlighted that a TVR Invoice (C131759) for £234.74 appeared to have been registered twice. Internal Audit approached Capita as to whether any kind of duplicate payment analysis is available within Agresso. It was stated that no duplicate payment module is available from within the Agresso system, controls are in place at the front end to avoid duplicate invoices, however if slight variations exist or multiple suppliers are setup then control weaknesses are created. Internal Audit is of the opinion that a control weakness exists in the area of highlighting of duplicate payments. A further duplicate invoice NM26756 was also found to have been registered twice against supplier 11156.</p> <p><u>Risk</u> Without appropriate Controls in place, duplicate invoice registration and payments will occur.</p>	Exchequer Services Manager and Head of Finance

Management Response	Implementation Date
<p>Recommendation is <b>Agreed in Principle</b></p> <p>Two key actions have been implemented to make the payment process more robust:</p> <p>1 – When registering invoices Capita staff ensure that the invoice details are entered carefully, including the invoice number which Agresso AP uses to prevent duplicate payments.</p> <p>2 – Members of staff coding and approving payments are accountable for those payments. They have been reminded to carefully check the details in Agresso AP and not just assume that Capita has entered them correctly.</p> <p>Management Response: Capita/Head of Finance</p>	Immediately

## 12. Invoice Registration and Control

(Medium Risk)

Recommendation	Rationale	Responsibility
To ensure appropriate controls are in place to prevent inappropriate payments to officers.	<p><u>Best Practice</u> Appropriate controls are in place to prevent inappropriate payments to officers.</p> <p><u>Findings</u> A supplier invoice for £218 from Sweet and Maxwell was incorrectly registered against the Legal Services Manager. The invoice was coded by the appropriate officer and then subsequently approved by and paid to the Legal Services Manager.</p> <p><u>Risk</u> Without appropriate controls in place, funds could be misappropriated resulting in adverse financial implications for the Council.</p>	Exchequer Services Manager and Head of Finance

Management Response	Implementation Date
<p>Recommendation is <b>Agreed in Principle</b></p> <p>Registration, coding and approving of non-purchase order invoices are all manual processes and therefore open to human error. In the transaction highlighted the invoice was incorrectly registered by Capita against the wrong supplier. It was then subsequently coded and approved by council officers who did not check which supplier the invoice had been registered against.</p> <p>As with recommendation 11, the following actions apply:</p> <p>1 – When registering invoices Capita staff need to ensure that the invoice details are entered carefully, including the invoice number which Agresso uses to prevent duplicate payments.</p> <p>2 – Members of staff coding and approving payments are accountable for those payments. They should carefully check the details in Agresso and not just assume that Capita has entered them correctly.</p> <p>3 – The increased use of purchase orders would prevent the issue of duplicate payments.</p> <p>Management Response: Senior Revenues &amp; Benefits Client Officer</p>	Immediately

## 13. Approval Workflow

(Medium Risk)

Recommendation	Rationale	Responsibility
That invoice workflow approvals are visible	<p><u>Best Practice</u> An invoice approval system is in place and</p>	N/A

<p>within the Agresso system and that approvals are evidenced for the payments highlighted during the audit.</p>	<p>transactional information is freely available to provide the Council with an appropriate control mechanism for invoice approvals</p> <p><u>Findings</u> Internal Audit noted that 18 invoices appear to have been paid without any evidence of being approved. Internal Audit approached the Capita Business Accountant in order to ascertain the reasons for no workflow attached to the invoices. The Capita Business Accountant explained there was a known system bug that drops the workflow from certain transactions. Internal Audit was of the opinion that although this may be the case, the Agresso system should provide sufficiently accurate management information surrounding creditor payments. No additional evidence was provided to show the transactions had been approved.</p> <p><u>Risk</u> Without a robust invoice approval system in place, payments are, or appear to be made without the necessary system controls in place.</p>	
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Not Agreed</b></p> <p>A workflow replacement enquiry has been produced and can evidence that officers authorised the transactions and the associated dates. It was also stated that workflow wasn't dropped for transactions however the workflow map becomes unavailable for viewing (A system bug on the current version – one that the software provider has stated is fixed in future releases)</p> <p>Management Response: LGS Business Accountant</p> <hr/> <p>IA held a discussion with the LGS Business Accountant who confirmed that the workflow replacement enquiry is for Capita system level users and not for Council Officers.</p>		<p>N/A</p>

#### 14. Invoice Distribution

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>To implement a process to ensure invoices are sent to the correct coding group in order to provide an efficient and complete AP process.</p>	<p><u>Best Practice</u> In order to support an efficient AP process, invoices are sent to the correct Agresso coding group.</p> <p><u>Findings</u> Internal Audit found 18 instances where the invoices were sent to the wrong coding group ranging from 1 to 3 times before being sent to the correct group for coding and authorisation.</p> <p><u>Risk</u> Without the timely turn around of the coding and authorisation process, delays in payments will occur, resulting in poor AP performance figures.</p>	<p>N/A</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Not Agreed</b></p> <p>When Capita first moved Exchequer Services to Mendip there was a steep learning curve for its staff and mistakes were made when distributing invoices. This has since improved and far less are being</p>		<p>N/A</p>

sent to the wrong coding group. However, invoices in respect of purchase orders do not need to go through the coding process therefore the council should concentrate on increasing the number of purchase orders to improve payment performance.	
Management Response: Senior Revenues & Benefits Client Officer	

### 15. Supporting Documentation

(Medium Risk)

Recommendation	Rationale	Responsibility
To implement a process to ensure invoices are scanned and attached to invoice registrations in order to provide an efficient and complete AP process.	<p><u>Best Practice</u> All invoices are scanned and attached to invoices registration in order to allow for the necessary reviews, approvals and payments to be made.</p> <p><u>Findings</u> Internal Audit found 3 transactions where there was no scanned image (invoice) available to view.</p> <p><u>Risk</u> Without the appropriate supporting invoice attached, payments could be coded, approved and paid without any review of the payment details.</p>	Exchequer Services Manager
<b>Management Response</b>		<b>Implementation Date</b>
Recommendation is <b>Agreed</b>		Implemented
The invoice registration process only commences with the receipt of a scanned image, sample check to commence to ensure images are not being dropped part way through process.		
Management Response: LGS Business Accountant		

### 16. Purchase Order Usage

(Low Risk)

Recommendation	Rationale	Responsibility
The Purchase Order Module within Agresso should be utilised wherever possible.	<p><u>Best Practice</u> Purchases should be supported by an order and the Purchase Ordering Module within Agresso should be used for this process.</p> <p><u>Findings</u> Of a sample of 45 payments, there were only 5 instances where a supporting purchase order had been raised. It was however noted that the usage of PO's is a high level item within the Agresso development plan with a number of resolution items noted.</p> <p><u>Risk</u> Goods may be obtained without being ordered through Agresso leading to the Council being charged for inappropriate goods or services. In addition, commitment accounting provides more effective budgetary control. It depends on purchase orders, therefore with low PO coverage, there are fewer commitments raised and increased risk of budget overspends.</p>	Exchequer Services Manager and Head of Finance
<b>Management Response</b>		<b>Implementation Date</b>
Recommendation is <b>Agreed</b>		1 April 2010
We are in the process of introducing stricter rules whereby non PO		

invoices will only be allowed onto the Agresso AP system where a PO is unavailable and appropriate management authorisation is obtained to send such non PO invoices for payment.	
Management Response: LGS Business Accountant/Head of finance	

### 17. Invoice Acknowledgement

(Medium Risk)

Recommendation	Rationale	Responsibility
To implement a process to ensure invoices are date stamped by Exchequer Services upon receipt.	<p><u>Best Practice</u> In order to prevent the possibility of duplicate invoice registration, all invoices should be date stamped at all times upon receiving of the payment request.</p> <p><u>Findings</u> Of the 25 invoices reviewed (20 BACS and 5 cheques), 5 invoices were not date stamped by Capita.</p> <p><u>Risk</u> Without the appropriate controls in place for receiving of payment requests, delays in registration or duplicate invoice registration could occur.</p>	Exchequer Services Manager
Management Response		Implementation Date
<p>Recommendation is <b>Agreed</b></p> <p>Staff have been instructed to be more diligent in their date stamping invoices.</p> <p>Black ink is now being used.</p> <p>Management Response: LGS Business Accountant (Capita)</p>		Implemented

### 18. Payment Voucher Process

(Low Risk)

Recommendation	Rationale	Responsibility
To review whether the manual payment voucher process could be replaced by using Agresso for directly entering the payment voucher and associated supporting documents with a view to a reduction in process time and data input errors.	<p><u>Best Practice</u> Duplication of data entry is kept to a minimum in order to reduce the likelihood of errors and wasted levels of applied resource.</p> <p><u>Findings</u> The current process is for payment vouchers to be completed using the Excel template provided on the intranet. The completed file is then emailed to Exchequer Services. Once acknowledged by Capita, the payment voucher is then printed, scanned and then registered onto Agresso with the information provided and then sent for approval back to the relevant Council service area. Internal Audit is of the opinion that the manual payment voucher process could be replaced by using Agresso for directly entering the payment voucher with a view to a reduction in process time and data input errors.</p> <p><u>Risk</u> Areas of cost reduction are not realised within the payment voucher process.</p>	N/A
Management Response		Implementation Date
Recommendation is <b>Not Agreed</b>		N/A

<p>Direct input by departments would not allow the functionality to include a scanned image of voucher, a fundamental requirement and previous audit point.</p> <p>Direct input by department is not currently available due to system configuration, this task would need to be included on improvement plan, impact assessed and a suitable change control produced.</p> <p>Management Response: LGS Business Accountant</p> <p>IA comment: Following the management response, IA recognize that the current Agresso AP system configuration does not allow for the recommendation to be implemented.</p>	
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## CONTROL OF PAYMENTS

### 19. Payment Runs

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>That a process is in place to ensure the payment run proposals and confirmation reports are adequately reviewed, approved and documented, with evidence to support any urgent payments over £10k that require counter signing.</p>	<p><u>Best Practice</u> Any payments made by the Council over £10k should be countersigned.</p> <p><u>2008/2009 Findings</u> Internal Audit spoke with Capita to ascertain the process of obtaining a counter signatory for cheques over £10k and it was ascertained that there is currently no form in place on which to record 'urgent' cheques that require counter signing. On the usual weekly payment runs a report is generated through Agresso that lists each payment over £10k however this is not the case for 'urgent' cheques. As a result, Internal Audit cannot confirm that the payments within the sample that exceeded £10k had been counter-signed. The bank is responsible for not cashing any cheques which have not been countersigned.</p> <p><u>2009/2010 Findings</u> It was mentioned during a discussion held with the Principal Technical Accountant that, on occasion, it is only the payment run confirmation or the proposal report that is received from Capita and the authorisation given against either of these is the only single method used to proceed with the payment run. In addition it was noted that no checks or documented approvals are being performed at the point where the confirmation report is received following the authorisation of the payment run proposal</p> <p><u>Risk</u> Urgent payments exceeding £10k may be generated leading to the payment not being appropriately authorised.</p>	<p>Exchequer services manager</p>
Management Response	Implementation Date	
<p>Recommendation is <b>Agreed in Principle</b></p> <p>All items on the payment run proposal have already been authorised by the appropriate budget holders. The Principal Technical Accountant only reviews the payments in excess of £10k and acts as a second control on such payments.</p> <p>Urgent payments whether below or above £10k are required to have the</p>	<p>Immediate</p>	



agreement of the chief accountant who will challenge the need for all urgent payments. Capita staff have been advised not to accept urgent payments without the approval of the chief accountant.	
Management Response: Chief Accountant	

## DUPLICATE PAYMENTS

### 20. Audit Information Requests to Capita

(Medium Risk)

Recommendation	Rationale	Responsibility
To ensure that an appropriate Capita resource is in place to respond to Council requests for information in a timely manner.	<p><u>Best Practice</u> Management information should be provided to Internal Audit in a timely manner.</p> <p><u>Findings</u> Internal Audit also noted the difficulty in extracting audit information from Capita. Since the in house Exchequer Services Manager contact has left the Capita Business, the primary contact provided to Internal Audit was the Business Accountant. In particular, Internal Audit did not receive any response to the request for 2008/2009 audit follow up information.</p> <p><u>Risk</u> Without the required information being provided, the necessary assurances cannot be provided resulting in a poor service delivery by the audit team.</p>	LGS Business Accountant
Management Response	Implementation Date	
<p>Recommendation is <b>Agreed</b></p> <p>Adequate Capita management is in place within the service centre to deal with requests for information from the client be it, internal audit, an individual service department or a council officer.</p> <p>The Exchequer Services manager should be the point of contact for all future Internal audit requests.</p> <p>With regard to the responses to the 2008/2009 audit follow up information this was an oversight on the LGS business accountants part, a control has now been put in place to log all requests for information and updated when completed.</p> <p>Management Response: LGS Business Accountant</p>	Immediate	

## UNIMPLEMENTED RECOMMENDATIONS FROM THE 2008/2009 AUDIT

### 21. (2008/2009) Redundant Users

(Low Risk)

Recommendation	Rationale	Responsibility
An exercise should be undertaken to remove any redundant users from the Creditors module of Agresso.	<p><u>Best Practice</u> Access to the system should only be granted for existing and appropriate employees.</p> <p><u>2008/2009 Findings</u> Testing identified a number of users that remain on the system but are no longer employed by the Council. Their access levels remain active.</p> <p><u>2009/2010 Findings</u> It was identified through the 2009/2010</p>	Exchequer Services Manager and Head of Finance

	<p>General Ledger audit review that there are still active Agresso users in place who are no longer with the Council.</p> <p><u>Risk</u> Inappropriate access to the system leading to an increased risk of fraud or malicious damage.</p>	
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed in Principle</b></p> <p>Capita will provide the council with a list of all active users. The list will then be reviewed and any users who are no longer employed by the council will be deactivated.</p> <p>Management Response: Capita/Head of Finance</p>		31 March 2010

## 22. (2008/2009) New / Change Supplier Request Forms

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>An investigation is undertaken to ascertain if there is a field within Agresso that allows the changes made to supplier records to be displayed within the audit log.</p>	<p><u>Best Practice</u> Any changes made to a system should be evidenced by an audit log.</p> <p><u>2008/2009 Findings</u> Only the date and the user who did the amendment show on the supplier account following any changes being made. It was not possible to ascertain what changes had been made.</p> <p><u>Risk</u> Amendments can be made inappropriately leading to the increased risk of fraud, loss or malicious damage.</p>	<p>Exchequer Services manager &amp; Agresso System admin support</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b></p> <p>Within the Agresso system are a number of audit logs, these monitor the tables within the database and record changes made by users, dependant upon the nature of the change and the field that is being updated the audit log will hold details of changes made to the supplier record.</p> <p>Amendments made to the supplier master file will be held within the audit log files within the database and reviewed upon request. This addresses the concern raise above.</p> <p>Management Response: LGS Business Accountant</p> <p>Comment from IA: IA to review the above measures as part of the audit follow up due in 2010/11.</p>		Immediate

## 23. (2008/2009) Urgent Cheques

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>The issues relating to the appropriate use of urgent payments should be reviewed and action taken where necessary.</p>	<p><u>Best Practice</u> The urgent payment process should only be used in appropriate circumstances.</p> <p><u>2008/2009 Findings</u> Internal Audit found that within the sample of 20 urgent payments, there appeared to be excessive use of account 99999 (sundry supplier). Another payment was made through the manual cheque process that would appear to have been more</p>	<p>Head of Finance</p>

	<p>appropriate to have gone through the Payroll system. In another instance, due to fact that a payment request voucher had not been used, the invoiced amount was processed and paid despite an allowance on the invoice for part exchange reducing the overall balance.</p> <p><u>Risk</u> If the urgent payment process is used to make inappropriate payments, there is potential for the transaction being processed through different systems leading to duplicate payments being made.</p>	
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b></p> <p>Usage of urgent payments is currently part of Agresso development plan</p> <p>Management Response: Senior Revenues &amp; Benefits Client Officer</p>		<b>31 January 2010</b>

#### 24. (2008/2009) Correct Payments

(Low Risk)

<b>Recommendation</b>	<b>Rationale</b>	<b>Responsibility</b>
<p>Consideration should be given to the introduction of a new petty cash reimbursement process.</p>	<p><u>Best Practice</u> The Petty Cash reimbursements process should be similar to that of South Oxfordshire District Council in that reimbursements to petty cash floats should not be made to an employee.</p> <p><u>08/09 Findings</u> Petty cash reimbursements had been made to an employee responsible for the float and a supplier account had been used. It appears that a reimbursement for a petty cash float had been paid twice to an employee. In addition, a reimbursement had been made to an employee for 'staff travel expenses'.</p> <p><u>Risk</u> There is an increased possibility of reimbursements being made inappropriately.</p>	<p>Chief accountant</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b></p> <p>The petty cash reimbursement process was reviewed and updated in line with a response to a petty cash audit in December 2009.</p> <p>Management Response: Chief accountant</p> <hr/> <p>IA comment: In addition, from April 2010, petty cash floats are being centralised into a single float maintained by LSP Cash Office.</p>		<p>December 2009</p>