



INTERNAL AUDIT REPORT	
Area of Review	Accounts Payable
Contact Officer	Internal Audit Manager
Date	January 2022
Version	Final

1. BACKGROUND

This audit has been undertaken as part of the approved Annual Internal Audit Plan 2021/22, and in accordance with the Audit Terms of Reference.

From April 2021, the responsibility for Accounts Payable, including day to day administration and management of the function, lies with the Head of Corporate Services, having previously been outsourced to Capita.

2. SCOPE OF THE REVIEW

The audit approach has been to review processes surrounding the control objectives stated below, perform walkthrough testing, where appropriate, assess the effectiveness of internal controls and ensure risk is managed effectively.

3. CONTROL OBJECTIVES

The scope of this review has encompassed the following control objectives:-

Control Objectives	
1	Payments are made in accordance with council financial regulations and contract standing orders
2	Payments are correctly authorised and properly accounted for
3	That credit card transactions are processed in accordance with policy and good practice
4	That appropriate backup arrangements are in place and business continuity plans are in place
5	Controls are in place to prevent fraudulent payments being processed

4. AUDIT APPROACH

Our audit approach to this review has been to:

- Obtain and understand the relevant processes through discussions with key personnel, review of systems documentation and perform walkthrough tests, where appropriate.
- Identify the key risks within the function.
- Evaluate and test the effectiveness of the controls in place to address these risks.
- This review has been undertaken in compliance with the Internal Audit Public Sector Standards 2017.

5. OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:-

Levels of Assurance	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses, and in general, objectives achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted in a failure to achieve objectives.

The level of assurance of this review is Satisfactory. There are some key findings on which this level of assurance is based, as follows:

- Purchase orders are being raised retrospectively.
- Purchases are made without a purchase order for suppliers that are not on the purchase order exemption list.
- Suppliers' credit terms have not been set up on the AP system, therefore some suppliers have been paid prior to their credit terms being met.
- Purchase invoices are not always being paid within payment terms i.e. 30 days of receipt, which is the target set for payment.
- There were credit balances outstanding on supplier accounts where goods/services are unlikely to be purchased.
- There is no regular review of written guidance on the creditor control accounts reconciliation.
- The checks undertaken on the BACs Accounts Payable report prior to authorisation of the release of BACs payments are not recorded.
- The Credit card policy is not reviewed regularly.
- The Credit card policy is not followed in that some authorisation forms are not signed by the appropriate Manager or Head of Service.

This report seeks to highlight some of the main issues and assist in the development of an improvement plan. There are 7 medium and 2 low risk findings with recommendations identified in this report.

6. SUMMARY OF IDENTIFIED RISKS AND RECOMMENDATIONS TO BE AGREED WITH MANAGEMENT

	Risk	Issue identified	Risk Assessment	Recommendation	Management Response / Mitigation	Responsible Officer	Target Date
1	Financial Regulations (August 2020), Section 10 is not being complied with when purchase orders are raised retrospectively. Without prior approval, goods/ services maybe received incorrectly or for personal use. In addition, there may be ineffective commitment accounting when unbudgeted expenditure is incurred.	A sample of 20 invoices raised between April 2021 and July 2021 was tested and it was found that 7 (35%) were raised after the invoice was received.	Medium	Officers should be reminded that the Financial Regulations should be complied with and purchase orders should be raised prior to purchase.	Officers are reminded about the need to raise purchase orders. Covered in the managers toolkit Reminders given to managers in management team Monthly report now sent out to managers for review	Team Leader Exchequer	Completed
2	Financial Regulations (August 2020), Section 10 is not being complied when a supplier is being paid without a purchase order and not included on the exemption list. Without prior approval by a purchase order or on the exemption list then goods/ services maybe received	A sample of 20 invoices raised between April 2021 and July 2021 without a purchase order was tested to confirm the supplier was on the purchase order exemption list. It was found that 12 (60%) were being paid without a purchase order or being on the exemption list. The majority 7 of the 12 payments were	Medium	The purchase order exception list should be reviewed to ensure it is up to date. Where a supplier is paid without a purchase order and is not be included on the exemption list, then the responsible manager should be reminded that a purchase order should be raised.	Officers are reminded about the need to raise purchase orders. Covered in the managers toolkit Reminders given to managers in management team	Team Leader Exchequer	Completed

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	incorrectly or for personal use.	from the Capital Community Services Department.			Monthly report now sent our to managers for review Ongoing review of the monthly report		
3	Purchase invoices paid prior to credit terms being reached may lead to ineffective commitment / cash flow accounting.	Suppliers' credit terms have not been set up on the AP system. Therefore, it was found from testing that 8 (40%) of 20 were paid prior to reaching their credit terms.	Medium	The credit terms for each individual supplier should be entered onto the Account Payable System to ensure that their purchase invoices are paid as set out in their credit terms.	This was issue – however the recent integra upgrade now have the capability to amend individual terms. A piece of work is being completed to review suppliers and the terms	Team Leader Exchequer	March 2022
4	Where purchase invoices are paid late, there may be the risk of reputational damage in the relationship between the Council and the supplier and/or breach of contract that could result in financial penalties and/or legal action.	Of the 40 purchase invoices tested (20 with purchase orders and 20 without purchase orders), 6 (15%) of 40 have not been paid within the target set of 30 days of receipt	Medium	Officers should be reminded to approve purchase invoices in a timely manner within the target of 30 days.	This is monitored in the monthly KPI's and managers contacted where there are issues. There are often reasons for late payment which are followed up by officers		Completed
5	The supplier's services/goods are unlikely to be purchased by the Council so the credit balance may never be used and will remain outstanding. This will	As at 26/07/2021, there are 5 suppliers with credit balances outstanding (total - £5,767.43). One credit balance has been outstanding since 2015.	Medium	Accounts Payable function should regularly review credit balances outstanding, where the supplier is unlikely to be used then a refund should be requested.	These have now been reviewed and these will continue to be monitored		Completed

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	result in Council's money not being held in the Council's bank account which could have a negative impact on cash flow.						
6	The audit trail is incomplete if there is no record held of the checks undertaken on BACs payments and could cause an issue if an error or query arises. This could lead to a financial loss to the council.	There are checks undertaken on the BACs AP report by the Client Officer, Finance and Revenues and Benefits. prior to authorisation of the release of payments by BACs. All payments over £10k are checked to their purchase orders to ensure they are correct and a random number of payments are checked to ensure they are not duplicate payments. Audit were informed that these checks undertaken are not recorded.	Medium	A record should be kept of the results of all checks of BACs payments undertaken.	This recommendation accepted. There is a thorough check made for each payment run and an email trail exists releasing the payment. This email is copied into the S151 officer		Closed
7	Where the Manager or Head of Service does not authorise the credit card payment then inappropriate/unauthorised purchases could be	The credit card authorisation forms (13 transactions of 36), for two of the seven credit card holders were not authorised by the Manager or Head of	Medium	A reminder should be issued to Management that the credit card policy must be followed in that all credit card authorisation forms must be authorised by the	Reminder to be sent to all managers It should be noted that the S151 officer makes regular	Team Leader Exchequer	March 2022

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	made which is a financial risk to the council.	Service, although this is stated as a requirement in the credit card policy.		Manager or Head of Service.	checks and challenges these. Limits on credit cards are very low therefore not deemed to be high risk		
8	Where procedures are not regularly reviewed, it may lead to them being out of date and therefore staff potentially following out of date and unapproved procedures for the key control of reconciliations.	There is written guidance in place that covers the creditor control accounts reconciliation. However, the guidance needs reviewing to ensure is up to date (last review 13/06/2016).	Low	A review of the written guidance to creditor control accounts reconciliation should be undertaken to ensure they are current and up to date. Thereafter, they should be reviewed annually.	Noted		
9	If policies are not reviewed regularly, staff could follow out of date and/or unapproved procedures.	There is a detailed policy to support staff on credit card activities and this is easily accessible to relevant staff on the Council's SharePoint. However, the guidelines are not regularly reviewed and the current policy is dated October 2019.	Low	A review of the credit card policy should be undertaken to ensure it is current and up to date. Thereafter, it should be reviewed annually.	Noted		