



INTERNAL AUDIT REPORT – CREDITOR PAYMENTS AND PURCHASING

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All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

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Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2017/18. This report summarises the findings arising from a review of Creditor Payments and Purchasing which was allocated 10 days.

Through the audit I found the following examples of good practice:

- Council procedures relating to purchasing is documented and made available to relevant staff
- All Council departments are advised of the Council's preferred suppliers which include local and larger regional/ larger suppliers
- Appropriate segregation of duties exists e.g. between the ordering of goods, purchase of the goods and the payment for the goods
- Purchase orders are raised in advance by finance/purchasing department
- Goods received are checked to the purchase order/contract details;
- Invoices are checked to the purchase order/tender price/contract details by the relevant department before passing for payment and invoices are appropriately authorised prior to payment
- The frequency of payment runs is sufficient to ensure prompt payment and avoid backlogs
- All staff involved in making purchases are aware of the timing of payment runs

Two areas (Priority 2) where controls could be enhanced were noted during this review.

The following table summarises the total number of recommendations from our audit (all recommendations being accepted by management):

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be insufficient safeguards and controls over purchasing arrangements leading to an increased risk of fraud or misappropriation. Procurement procedures regarding the tendering process may not be documented leading to inconsistencies as to how tenders are processed and awarded with the relevant number of tenders not sought in line with the expenditure threshold limits	-	1	-
There are insufficient procedures in place for payment of invoices leading to potential duplicate or wrong payments being made and payments are not made in a timely basis leading to possible relationship difficulties with suppliers, reputational damage and Council not meeting prompt payment guidelines.	-	1	-
Total recommendations made	-	2	-

Based on our audit testing we are able to provide the following overall level of assurance:

Satisfactory

Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Objective

The overall objective of this audit is to consider the main risks in relation to Creditor Payments & Purchasing and to review the key systems and controls in place to address these.

Background

Causeway Coast and Glens Borough Council is committed to the efficient and effective management of its procurement activities. The Council's procurement policy sets out the processes to be followed depending on the level of expenditure. The policy aims to ensure that the procurement process is clear consistently applied and focused on achieving value for money. The policy provides guidelines for purchases that fall within the threshold for quotations and for the procurement of goods and services by way of public tender.

The Procurement Thresholds are as follows:

Revenue - Purchase Order (stage) – Normal Procurement Policy

- a. Purchases (net of Vat) up to £999 – No quotes required. Value for Money to be demonstrated
- b. Purchases (net of Vat) £1000 - £10,000 – 3 Written quotations
- c. Purchases (net of Vat) £10,001 - £30,000 – 4 Written quotations
- d. Purchases (net of Vat) above £30,000 – Tender through Public Advertisement

Capital Expenditure - Procurement Stage

- a. Expenditure less than £30,000 – authorised by relevant member of SMT, in the absence of relevant member of SMT either the Chief Executive or in his absence the Director of Corporate Services.
- b. Expenditure over £30,000 must be authorised by Council.

Each department within the Council has designated persons who are authorised to place and receive orders. Orders are placed by the department purchasing the goods or services. A purchase order is completed by the authorised purchasing officer. When invoices are received by Finance department, they are date stamped. The invoice is then registered on the Total system and a cost allocation slip is attached. Invoices are distributed to the relevant departments for coding and authorisation and attachment of the relevant order. Invoices are then passed back to finance to be checked for completeness and payment.

Department for communities (DFC) requires Council to record and publish statistics regarding the payment of supplier invoices with specific reference to two distinct measures namely invoices paid within 10 working days and invoices paid within 30 calendar days.

Risks

The risks identified relating to Creditor Payments & Purchasing and agreed with management are as follows:

1. There may be insufficient safeguards and controls over purchasing arrangements leading to an increased risk of fraud or misappropriation. Procurement procedures regarding the tendering process may not be documented leading to inconsistencies as to how tenders are processed and awarded with the relevant number of tenders not sought in line with the expenditure threshold limits
2. There are insufficient procedures in place for payment of invoices leading to potential duplicate or wrong payments being made and payments are not made in a timely basis leading to possible relationship difficulties with suppliers, reputational damage and Council not meeting prompt payment guidelines.

Audit Approach

The audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Chief Finance Officer
Financial Accountant
Finance Staff

Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

6.1 Risk 1 – Safeguards & Controls over Purchasing Arrangements.

Procurement Procedures
a) Observation- Council has Procurement Policy and Procedures in place since 2014. However, the thresholds in place have since been updated and the policy does not reflect these changes.
b) Implication- The relevant number of tenders/quotes not sought in line with the expenditure threshold limits
c) Priority Rating- 2
d) Recommendation- Council should update the Procurement Policy and Procedures to reflect changes made to the procurement thresholds.
e) Management Response- Procurement policy being reviewed
Responsible Officer & Implementation Date- Mar/Apr 2018 Chief Finance Officer

6.2 Risk 2 – Invoice Payments

Payment of Invoice Procedures
a) Observation- Having reviewed the procurement policy, I noted that there is no reference to the prompt payment policy or the Council's target for the payment of invoices.
b) Implication- potential duplicate or wrong payments being made and payments are not made in a timely basis leading to possible relationship difficulties with suppliers, reputational damage and Council not meeting prompt payment guidelines.
c) Priority Rating- 2
d) Recommendation- The Council's Procurement Policy should be updated to include the Prompt Payment Policy.
f) Management Response- Procurement policy being reviewed
Responsible Officer & Implementation Date- Mar/Apr 2018 Chief Finance Officer

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Summary of Key Controls Reviewed

Risk	Control issues
<p>There may be insufficient safeguards and controls over purchasing arrangements leading to an increased risk of fraud or misappropriation</p>	<ul style="list-style-type: none"> • Council procedures relating to purchasing is documented and made available to relevant staff • Staff involved in purchasing are aware of when purchases of goods or supplies should be tendered i.e. various procurement thresholds • All Council departments are advised of the Council's preferred suppliers which include local and larger regional/ larger suppliers • Appropriate segregation of duties exists e.g. between the ordering of goods, purchase of the goods and the payment for the goods • Purchase orders are raised in advance by finance/purchasing department • Checks are made on budget availability before a purchase order is raised • Sequential purchase order numbers are raised; • There is a periodic review of purchases orders raised to identify any outstanding purchase orders • Goods received should be checked to the purchase order/contract details; • Invoices should be checked to the purchase order/tender price/contract details by the relevant department before passing for payment • Invoices should be appropriately authorised prior to payment • Finance have an up to date list of staff authorised to raise and place orders and to authorise payment. • Finance have up to dates list of signatures • A Fixed Asset policy and procedure is in place • The policy has been communicated to staff • The policy and procedure is reviewed regularly
<p>There are insufficient procedures in place for payment of invoices leading to potential duplicate or wrong payments being made and payments are not made in a timely basis leading to possible relationship difficulties with suppliers, reputational damage and Council not meeting prompt payment guidelines.</p>	<ul style="list-style-type: none"> • Checks are carried out by the Finance department when an invoice is received and prior to processing for payment (e.g. Purchase Order number agrees to the invoice, invoice has been calculated correctly, prices agree to the purchase order or tender price, the quantity of goods is correct, supplier name and code is correct) • The frequency of payment runs is sufficient to ensure prompt payment and avoid backlogs • All staff involved in making purchases are aware of the timing of payment runs • There is a regular review of invoice date v payment date (prompt payment) and the results are reported to both the SMT and Corporate Policy and Resources Committee