



Audit of Creditors

Draft Report Issued: 20th December 2022

Director Draft Issued: 2nd February 2023

Final Report Issued: 15th February 2023

Audit Report Distribution

Client Lead:	Finance - Specialist Finance- Senior Business Support Officer
Chief Officer:	Chief Officer – Finance Chief Executive
Others:	
Audit Committee:	The Audit Committee, which is due to be held on 20 th March 2023 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Creditors. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 25th July 2022.
- 1.2 The Council orders, receives and pays for goods and services from various third-party organisations and individuals. Management of these creditors involves the processing of orders, recording of transactions, authorisation and processing of payments.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was the Senior Manager - Finance (Deputy 151 Officer), Specialist – Finance and Senior Business Support Officer – Finance and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
 - Failure to achieve business objectives due to insufficient governance.
 - Internal control framework in place for system does not enable efficient and appropriate payment to suppliers, including maintenance of appropriate accounting records.
 - Fraudulent payments undetected.
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Creditors provide **Substantial assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. There are no audit recommendations arising from this audit review.

4.2 Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in **Appendix A** for management information.

4.3 Findings Summary

The audit is very positive, with a strong internal control framework in place to support the creditors process. The team have worked hard work to maintain an appropriate process to a high standard.

The department has a suitable structure in place with a satisfactory service plan and risk assessments, with monitoring of KPI and actions to address occasional areas of underperformance relating to slow provision of invoices.

All processes and guidance are adequate and up to date and regular updates preformed on authorisation rights to ensure access is limited to appropriate staff members.

The security processes in place are fit for purpose with robust process in place for security checks to mitigate against fraudulent activity, including segregation in procedures and limited system access.

Suitable controls in place for limitation of expenditure and prevention of duplicate payments with no duplicate payments been detected and changes to bank accounts independently checked and controlled.

Comment from the S151 Officer

This report is agreed

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation’s strategic objectives

- 5.1.1** The department has a suitable structure in place, supported by up-to-date and appropriate job descriptions, with no vacancies and the team is working effectively to delivering services in line with expectations.
- 5.1.2** Suitable guidance is available for staff to follow procedures, which are up to date with adequate in-built resilience. It is advised a brief introductory paragraph is added to each “how to” guidance notes giving background explanation into the task being performed. This will enable any new users to understand what the procedure relates to more easily.
- 5.1.3** A service plan is in place, which has been produced to a satisfactory standard in line with corporate expectations. Internal KPIs, priorities and risk assessments relevant to the creditors department are included, with evidence of the department monitoring the plan throughout the year.
- 5.1.4** The department hold regular performance reviews around achieving targets for invoices paid within the agreed timescales and identifying any reasons for non-conformance and providing training where required.
- 5.1.5** A risk register is in place for the service, which was subject to a recent review by Assurance, Risk & Audit as part of a series of workshops. Adequate risk management arrangements are in place in line with Allerdale’s risk management policy. It was noted that although suitable processes are in place to mitigate against mandate fraud, this growing risk area has not been included in the risk register. It is advised that management of this risk is included in the register so the service can document and monitor the controls it has in place to manage this risk.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

- 5.2.1** Robust processes are in place to ensure purchase orders are made in the system to control expenditure. Regular reviews are performed of authorisation rights to ensuring only current staff members can place orders Suitable controls are also in place to limit expenditure to authorised departments only.
- 5.2.2** Audit conducted testing on a sample of purchase orders. All documentation retained on system is adequate to support the purchase orders, which were all appropriate.

- 5.2.3** Payments are coded in line with budget information. Limitations to department coding results in minimal coding errors requiring correction. The sample reviewed were appropriately coded.
- 5.2.4** Payments are subject to appropriate checks to ensure goods and services have been received and prices are accurate, with authorised staff assigned prior to approval of payment.
- 5.2.5** Appropriate segregation of duties is in place between ordering and approval to mitigate the risk of fraudulent activity during the purchase/ payment process.

5.3 Security – Safeguarding of Assets

- 5.3.1** Individual service areas are responsible for ensuring that there are no duplicate payments. The creditors system has adequate in-built controls in place to prevent duplicate payments. The latest National Fraud Initiative confirmed suitable systems are in place, as no duplicate payments were identified.
- 5.3.2** New suppliers are correctly verified in accordance with the security processes, which are fit for purpose. There is minimal risk of fraudulent activity occurring, due to segregation procedures and multiple authorisations needed to place orders and additional checks before payments are made.
- 5.3.3** Amendments to the Creditor system can only be made by authorised Officers, including requests to change bank details. Supporting documents are retained for any system amendments and there is evidence of appropriate independent verification being documented for these requests. It is advised that management receive reports of all system changes and perform spot-checks to ensure staff are following the procedures appropriately.
- 5.3.4** Only appropriate officers have access to the system, which is updated on a regular basis.

Appendix A – Advisory Comments

Ref	Advisory Comment
5.2.1	A paragraph added to each “how to” guidance giving background explanation into the task being performed. This will enable the user to understand the procedure which would reduce a risk of process being performed incorrectly due to lack of background knowledge.
5.1.5	It was noted that although suitable processes are in place to mitigate against mandate fraud, this growing risk area has not been included in the risk register. It is advised that management of this risk is included in the register so the service can document and monitor the controls it has in place to manage this risk.
5.3.1	Policies in place may need updating to address changes to staff structures, however with Local Government Reorganisation all policies are in process of being refined and will be addressed in this process.
5.3.3	Management preforms spotlight checks to ensure staff are following the procedures appropriately and ensuring evidence is attached to files in accordance with the departments policies and procedures.

Appendix B - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up later (usually 6 months after the issue of the report).