



Creditors 2021/22

FINAL REPORT

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1) Executive Summary

i) Introduction

This audit was carried out as part of the agreed audit plan for the 2021/22 financial year. Audit testing has been restricted to areas that have been assessed as high risk by Internal Audit.

The Council's Financials System Civica is used to manage payment for supplies and services. During the period 01/09/2020 to 31/10/2021 the system was used to pay approximately 25,400 invoices, grant payments and credit notes with a net value of £153,782,348.

Audit testing has been carried out on the following objectives to ensure that:

- **There are comprehensive procedure notes for both Income & Payments and service users, to reduce the risk of errors and inconsistency across the Council**
- **Orders are raised in compliance with council procedures**
- **Payments are made within the statutory 30 days, duplicate payments are identified before payment is made and monthly reconciliations take place**
- **There is effective segregation of duties for raising and authorising orders**
- **New suppliers added to the financial system are supported by relevant documentation**

ii) Overall audit opinion

The overall audit opinion is based solely on testing carried out and discussions held during the course of the audit.

	Levels	Description/Examples
	No Assurance (Critical Risk Exceptions)	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit
→	Limited Assurance (High Risk Exceptions)	Control weaknesses or risks were identified which pose a more significant risk to the Authority
	Reasonable Assurance (High or Medium Risk Exceptions)	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
	Assurance (Low Risk/Improvement Exceptions)	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority

iii) Summary of findings

Objective 1: To ensure that there are comprehensive procedure notes for both Income & Payments and service users, to reduce the risk of errors and inconsistency across the council– Assurance

No exceptions were raised as a result of audit testing under this objective.

The Civica Purchasing and Civica Creditors user guides, published on the Council's Intranet, were both found to be comprehensive and were last updated in June 2021.

The Accounts Payable payment procedures were last updated in October 2020 and a review found them to be comprehensive.

Objective 2: To ensure that purchase orders are raised in compliance with Council procedures - Limited Assurance

1 high risk exception has been raised as a result of testing under this objective.

POs raised retrospectively

The Income & Payments (I & P) Manager runs a monthly payment performance report showing how many purchase orders (POs) are raised retrospectively. For 2020/21, the average percentage of POs raised retrospectively, excluding Contract Services', was 52.67%. See EX 2.1 for full details.

PO authorisation

A report of all of the POs raised between 01/09/2020 and 31/10/2021 was run on Civica and approver lists covering the testing period were obtained. A sample of 50 POs, excluding credit card transactions, was tested to ensure that each been approved by an officer with an approval limit for the cost centre it was coded to, and that the limit was higher than the value of the PO. No issues were found in this testing.

According to page 44 of the Civica Purchasing User Guide, a second approver is needed for orders with a value over £10,000. 4 of the POs tested had a value over £10,000 and testing found that all 4 were approved by two approvers.

Objective 3: To ensure that payments are made within the statutory 30 days, duplicate payments are identified before payment is made and monthly reconciliations take place - Reasonable Assurance

1 medium risk exception and 1 low risk exception were raised as a result of testing under this objective.

Potential late payment charges

The I & P Manager runs a monthly payment performance report showing how many invoices are paid on time, how many are late and what the potential late payment charges could be.

A review of the 2020/21 payment performance reports found that the total potential late payment charge was £64,952, whereas for 2019/20 it was £25,569. It was not possible to tell from the information from I & P whether any of the invoices paid late were in dispute. See EX 3.1 for full details.

A high level enquiry was run on Civica on detail codes 04E12 (revenue) and 78D24 (capital) for 2020/21 and 2021/22 to date to establish what late payment charges had actually been paid by CDC. For code 04E12, £480.47 had been paid in 2020/21 and £82.96 had been paid in 2021/22 as at 26/11/2021. There were no commitments in Civica for future late payments. No late payment charges had been incurred or committed to for code 78D24 in 2020/21, or 2021/22 to date.

Incomplete/unmatched invoices

The Technical & Systems Accountant confirmed that an Incomplete Voucher report is run on a weekly basis and sent to the relevant users. Evidence was obtained from the Senior Auditor which confirmed this. A report showing any invoices that are unmatched within the division is sent to Divisional Managers on a monthly basis. Evidence confirming this was obtained from the Divisional Manager for Financial Services.

Duplicate payments

A report on duplicate invoices is run twice a week by the I & P Manager. A sample of 25 reports from between 01/09/2020 and 31/10/2021 was tested to ascertain whether there had been any duplicate payments made, and if they had, whether appropriate action had been taken to correct this. No issues were found in this testing.

Disputed invoices

The I & P Manager explained that disputed invoices are managed by the services. A report was run from Civica showing all invoices in dispute as at 16/11/2021. There were 34 uncanceled invoices in dispute at this point in time, 11 of which were excluded from testing as they had been placed in dispute recently. Of the remaining 23 invoices:

- 2 were fully paid, but the dispute flag could not be removed
- 16 were incomplete
- 4 were ready for payment

- 1 was selected for matching

The I & P Manager provided valid reasons why each of the 23 invoices were in dispute.

Reconciliations

Creditor reconciliations should be undertaken by the Trainee Assistant Accountant on a monthly basis and signed off by the Revenue and Capital Group Accountant. A review of the September 2020 to September 2021 reconciliations found that many had been completed on the same dates, and not within 30 days of the month end. As at 02/11/2021, the most recent reconciliation found to have been reviewed/signed off was the August 2020 reconciliation. See EX 3.2 for full details.

Objective 4: To ensure that there is effective segregation of duties for raising and authorising orders - Assurance

No exceptions were raised as a result of audit testing under this objective.

Testing of 50 POs raised between 01/09/2020 and 31/10/2021, excluding credit card transactions, found that none were initiated and authorised by the same officer.

Objective 5: To ensure that new suppliers added to the financial system are supported by relevant documentation - Assurance

No exceptions were raised as a result of audit testing under this objective.

The new supplier process changed from 04/06/2021; it is now an automated process that goes through an interface, rather than an I & P officer manually setting up the creditor. The new creditors are uploaded overnight, and the I & P team check them the next day. There was a grace period until 11/06/2021, when I & P accepted the old PDF supplier form and manually entered the details on behalf of the service, as service users no longer had access to create or amend creditor account details in Civica from 04/06/2021.

The new supplier process was reflected in the June 2021 update of the Civica Purchasing User Guide. A new procedure for the process has also been added to the I & P team's internal creditors procedure notes. The change was added to the staff news on the Intranet on 21/05/2021 and 04/06/2021, and there is a link to the new process on the Financials section of the Intranet.

A report was run on Civica of all of the new suppliers added between 08/07/2020 and 31/10/2021. A sample of 25 new suppliers was tested to confirm that there was sufficient supporting information and that the details on the supporting information matched those on Civica. For all new suppliers there should be a new supplier form/BACS details letter including the supplier's address. No issues were found with this testing.

Testing was also carried out to confirm that initiation and authorisation of new suppliers was performed by separate officers. This generally only applied to new supplier requests from before 04/06/2021, as the initiation of the new supplier is now automatically performed by Civica, not an officer. However, in some cases it may still be necessary for I & P to manually set up the supplier. There was 1 case in the sample of 25 new suppliers where the initiator and authoriser was the same officer. This was because the service area requesting a new supplier be set up had sent the old form to the supplier, as the new e-form process had only been implemented a few days before. This meant that I & P needed to set up the supplier manually. The size of the I & P team can make separation of duties difficult, and on this specific occasion creation and authorisation of a new creditor by the same officer was justified.

Overall assurance level – Limited Assurance

1 high, 1 medium and 1 low risk exception were raised as a result of audit testing. Therefore Internal Audit can give limited assurance that the Creditors processes being followed are of low risk to the Authority.

The exceptions raised in this report are the same as the exceptions in last year's Creditors audit report. This is due to the same issues being identified as a result of audit testing, with no significant progress made on addressing these issues since last year's audit was undertaken.

Key for risk rating of exceptions:

Priority Level	Description
Critical Risk	<p>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation's objectives in relation to:</p> <ul style="list-style-type: none">▪ The efficient and effective use of resources▪ The safeguarding of assets▪ The preparation of reliable financial and operational information▪ Compliance with laws and regulations <p>And corrective action needs to be taken immediately.</p>
High Risk	<p>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not "show stopping" but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</p>
Medium Risk	<p>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</p>
Low Risk - Improvement	<p>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</p>

EX 2.1 - Purchase orders continuing to be raised retrospectively**Risk rating: High****Findings**

For 2020/21, the average percentage of POs raised retrospectively (excluding Contract Services as the I & P Manager explained that they have a separate stock control system that generates its own PO numbers, and so their POs could appear retrospective on Civica even if they are not), was 52.67%. This is even after CDC implemented a no PO no pay policy in January 2020. For the first 7 months of 2021/22, April to October 2021, the average percentage, excluding Contract Services, was 46.31%. It was 54.07%, excluding Contract Services, for the same period in 2020/21, so there has been some improvement.

April – October 2021

Directorate	Number of POs raised retrospectively	Total number of POs	Percentage
Housing and Communities	649	1,091	59.49%
Strategic Leadership Team	10	17	58.82%
Corporate Services	438	823	53.22%
Growth and Place	372	1,045	35.60%
Planning and Environment	98	408	24.02%
Total	1,567	3,384	46.31%

Risks and consequences

Placing an order with a supplier before formal budget approval has been given in Civica bypasses the budget approval process. There may not be the budget available, which could lead to overspends. This is not good financial management and contravenes the Authority's Standing Orders.

Financial authorisation not being provided before an order is placed could result in delays in payment being made.

Agreed action

The Council implemented a No PO, no Pay policy from 1 January 2020 and Finance are returning to suppliers any

Officer responsible and by when

Divisional Managers – immediately

<p>invoice that is received that does not quote a purchase order number.</p> <p>Responsibility for ensuring compliance with financial regulations in this area is devolved to services and their Divisional Managers (DMs).</p> <p>The requirement for a purchase order to be raised and approved before goods and services are ordered is well documented and has been communicated a number of times to services.</p> <p>DMs and Directors will be reminded of their responsibilities at the next CMT meeting, on 7 March 2022 at 3pm.</p> <p>Finance will send out a quarterly performance report to DMs containing data on the number of purchase orders each department/division raises and the % of those purchase orders that are raised retrospectively.</p> <p>Additional resources have been agreed for the Income & Payments team.</p> <p>As part of the 2022/23 audit plan, Internal Audit will carry out regular targeted testing out in the departments on the reasons for non-compliance.</p>	<p>Finance/s.151 officer/Internal Audit – 7 March 2022</p> <p>Finance – 1 April 2022</p> <p>2022/23</p> <p>Internal Audit – testing to be carried out during the 2022/23 financial year</p>
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EX 3.1 - Potential late payment charges

Risk rating: **Medium**

Findings

Under the Late Payment of Commercial Debts (Interest) Act 1998 Section 1.1 'It is an implied term in a contract to which this Act applies that any qualifying debt created by the contract carries simple interest'. Under Section 5A (3) 'The obligation to pay interest in respect of a qualifying debt shall be treated as part of the term implied by Section 1.1 in the contract creating the debt'. Therefore any late payment charges incurred by CDC should be paid over to the supplier as part of the terms of the contract. The I & P Manager confirmed that late payment charges are usually only paid if CDC is invoiced for them, which does not appear to be in the spirit of the Act.

Potential late payment charges

2020/21	£64,952
2019/20	£25,569

April - October 2021	£11,761
April - October 2020	£38,371
April - October 2019	£8,741

Potential late payment charges as a % of total payments

September 2020 - October 2021	0.03%
September 2019 - October 2020	0.03%

During spring and early summer 2020, invoice processing times increased as invoices had to be manually inputted into Civica while automated scanning was not available due to the closure of the Council offices. In normal circumstances, the Council's financial system is set up to immediately pay invoices where there is a three-way match between purchase order, goods received notification and invoice. Notifications and reminder emails are sent to service departments when the Council's Accounts Payable system has not been able to fully complete the payment process. It is the responsibility of service departments to investigate and resolve any issues. Once issues are resolved the Council's accounts payable system will automatically pay the invoice.

Risks and consequences

If CDC does not pay invoices within the statutory 30 days or raise a dispute with the supplier, then there could be an impact on the Council's finances.

If all suppliers requested payment of interest on all late payments, however old, this could have a significant impact on the Council's finances.

There could also be an impact on the Council's reputation if it becomes known as a habitual late payer.

Agreed action

Officer responsible and by when

Notifications (and reminder emails) are sent to service departments when the Council's Accounts Payable system has not been able to fully complete the payment process. It is the responsibility of service departments to investigate and resolve any issues. Once issues are resolved the Council's accounts payable system will automatically pay the invoice.

Divisional Managers – immediately

DMs and Directors will be reminded of their responsibilities at the next CMT meeting, on 7 March 2022 at 3pm.

Finance/s.151 officer/Internal Audit – 7 March 2022

Finance will send out a quarterly performance report to DMs containing data on late payments and potential late payment charges for each department, and for each division as a whole.

Finance - 1 April 2022

Additional resources have been agreed for the Income & Payments team.

2022/23

As part of the 2022/23 audit plan, Internal Audit will carry out regular targeted testing out in the departments on the reasons for non-compliance.

Internal Audit – testing to be carried out during the 2022/23 financial year

EX 3.2 - Completion and certification of reconciliations

Risk rating: **Low**

Findings

An examination of all of the reconciliations between September 2020 and September 2021 found that none of them had the review section filled in and there was no sign of documentation on file to show that they had been reviewed and approved. The TAA explained that the R&CGA is aware of the delays, and that he would speak to him about getting the reconciliations signed off.

The 2020/21 Creditors audit report had an agreed action that every reconciliation should be completed within 30 days of the month end and certified within 45 days of month end where possible, but no later than 60 days. 6 of the 13 months tested were reconciled within 30 days of the end of the month, but the other 7 were not. None of the 13 reconciliations tested were found to have been certified within 60 days of the month end.

All of the reconciliations between September 2020 and January 2021 were completed on either 03/02/2021 or 04/02/2021 and all of the reconciliations between June and September 2021 were completed on 08/10/2021. The TAA explained that 5 reconciliations were completed in early February 2021 because he had been redeployed from November 2020 until Christmas 2020 to assist the Revenues and Benefits team in issuing grants relating to the Coronavirus. It was agreed that the reconciliations would not be carried out in his absence, meaning he had a lot to catch up on upon his return. He explained that 4 reconciliations were completed on 08/10/2021 because there have been a lot of errors/differences this year and he has found it difficult to find time with others to go through them. He explained that he has had multiple priorities over the last year and has fallen behind in some areas, the reconciliations being one of those.

The R&CGA, the Trainee Accountant and the TAA met in September 2021 to discuss the debtors and creditors reconciliations, and to resolve some of the ongoing issues with them. The TAA explained that they discussed differences on the creditors reconciliations which had been carried for more than a year. A further meeting was needed on the creditors reconciliations, but the TAA advised that as at 12/01/2022 there hasn't been another one, as there have been higher priorities and he has been completing the creditors reconciliations since the last meeting. Following the meeting, the TAA spoke to the I & P Manager about the differences and got some of the explanations for them.

The exceptional circumstances of the Coronavirus pandemic, along with loss of staff, has meant that the team have had to prioritise other functions above reconciliations, as untimely completion of reconciliations is of low risk to the Council.

Risks and consequences

If reconciliations are not completed in a timely manner, then it may be harder to resolve discrepancies.

If reconciliations are not reviewed or signed off as authorised, then it is not possible to confirm that adequate oversight of the function is in place.

Agreed action

The reconciliation should be completed within 30 days of the month end and certified within 45 days of month end where possible, but no later than 60 days.

Officer responsible and by when

Group Accountant (Revenue and Capital) - immediately