



**Chorley**  
Council

Working in **Synergy** on shared services

**INTERNAL AUDIT  
FINAL REPORT  
(CBC 01/19-20 SRBC 02/19-20)  
REVIEW OF CREDITORS**

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Interim Head of Shared Assurance  
Auditor: Linsey Roberts  
9<sup>th</sup> March 2020

1	REASONS FOR AUDIT / SCOPE
1.1	<p>The Audit was included in the Audit Plan for 2019/20. The Councils Creditor system is one of the Council's key financial systems, as such the system is high risk and has previously been audited on an annual basis. As part of the continuing development of Risk Based Auditing and the desire to continue to enhance the development the approach to audit, improvements are being made in regard to the risk based approach to planning, this may result in financial systems not requiring audit review on an annual basis. As part of the risk-based approach this review has focused on the key risks and operation of controls within the Creditors System – Civica, i.e., the computer related controls that exist for all payments. Computer controls are established within systems, generally, at implementation with improvements / changes made as and when processes and / or legislation changes. The adequacy of the established controls within the Creditors system have not been reviewed as part of previous audit reviews.</p>
1.2	<p>The Creditor system is part of the Shared Services arrangement between Chorley BC and South Ribble BC, whilst both Council's have their own respective Financial Procedure Rules / Financial Regulations relating to the payment of invoices, the system operates the same across both Council's albeit with their own respective purchasing limits / delegations and levels of authorisation required.</p>
1.3	<p>Work undertaken focused on:-</p> <ul style="list-style-type: none"> <li>• Creditor set up and Change requests (including IR35 arrangements);</li> <li>• Ordering, receipting and payment of goods and services; and</li> <li>• System user access controls specifically relating to overrides of budget limits</li> </ul>

2	ASSURANCE RATING
2.1	<p>Internal Audit provide an independent and objective opinion on the adequacy of the Council's control environment, in order to do that Internal Audit review and provide an opinion on the level of assurance of the control environment within each area / system reviewed. The level of assurance is based on the extent to which the system objectives are met, the effectiveness of controls operating within systems and resultant extent to which risks are mitigated.</p>
2.2	<p>The review focused primarily on computer controls within the Creditors systems and the adequacy and effectiveness of those controls. Computer controls are the most robust form of controls as controls within systems are immovable and operate consistently, however, these controls rely on the effective set up of the system on implementation to ensure that the established controls are effective. The review of the Creditors system and the specific controls within the system that have been tested has identified that there is a significant lack of key controls in those specific areas reviewed. These weaknesses in control has resulted in Financial Procedure Rules / Regulations not being complied with, as a consequence of this whilst the governance framework in place provides for adequate assurance in relation to the ordering, receipting and payment of goods the failure to ensure those controls are operating effectively within the Creditors system means that the controls provide <b>Limited Assurance</b> that the system objectives are met and risks are mitigated.</p> <p>This in effect increases both Council's risk exposure to issues relating to budget overspend, error and fraud.</p>
2.3	<p><b>Control Rating Key</b></p> <p><b>Full</b> – the Authority can place complete reliance on the controls. No control weaknesses exist.</p> <p><b>Substantial</b> - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.</p> <p><b>Adequate</b> - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.</p> <p><b>Limited</b> - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist</p>

3	KEY FINDINGS
3.1	<p>This Creditors system which provides the Procure to Pay process for both South Ribble and Chorley Council's is a Key Financial System for the Council and as such robust controls must be embedded in the system in order to provide an appropriate governance framework and to prevent material misstatement, fraud error and prevent staff acting beyond their delegated authority. The system must also ensure that controls in place provide for assurance that the Council's Financial Procedure Rules / Regulations will be complied with.</p>

3.2	Testing has identified that whilst some controls are in place within the Creditors system (Civica) there are a number of controls which allow for the potential of fraud, error and or allow staff potentially to act beyond their delegated authority, including the issues outlined below.
3.3	Allowing the receipting of goods and the payment of invoices, without referral to another authoriser for values greater than the Purchase Order Value. This facility leaves the Council open to potential risk of fraud, whereby goods could be ordered over and above the agreed purchase required, it could result in officers acting beyond their delegated limits either deliberately or accidental and could result in overspend of budgets or exceeding budget limits. This is quite clearly a breach of Financial Procedure Rules / Regulations.
3.4	Further substantive work is required to determine the value of the potential issue for both Councils, however, based on the sample of invoices reviewed, the values are SRBC £53979 more paid on invoices than ordered and CBC £19479 more paid on invoices than ordered. The table in appendix 1 provides a summary analysis of the % variance between the original purchase order value and the amounts paid on invoices.
3.5	It is clear from these findings that officers who authorise invoices are not potentially not reviewing the amounts invoiced and paid against goods receipted and ordered, it is not clear if this issue is addressed with a compensatory control as part of budget monitoring this is to be reviewed as part of the budget monitoring / managing audit review.
3.6	There are also incidents where budgetary controls within the system that only allow orders to be raised if there is sufficient budget are being overridden, moreover a significant number of users have access rights to authorise Purchase Orders regardless of available budget provision. The overriding of controls in regard to available budgets allows officers to place orders for goods / services where there is insufficient budget available leaving the Council with significant risk of budget overspends and / or potential breaches of financial procedure rules. There is a potential risk of fraud and / or error and officers operating beyond their delegated authority. There are no monitoring and reporting arrangements in place to ensure that this facility to override is not being abused by officers. This will be reviewed as part of the audit review of budget monitoring / management.
3.7	<p>Testing also identified that whilst an official order has been issued for most goods and services supplied and a bona fide invoice is present, there are a number of weaknesses in control within the processes / system for the procurement of goods and payments of invoices in that:</p> <ul style="list-style-type: none"> <li>• Orders have been raised after the services have been partly/fully received.</li> <li>• Services are raising orders inaccurately as they don't cover all the services supplied or the value is incorrect.</li> <li>• Goods/services received are not always recorded upon receipt and for the correct value Occasionally orders are cancelled (in error), the supplier invoice is subsequently received and paid without there being an official order in place.</li> <li>• An official order is not completed for DFG cases (CBC), whilst an order is not necessarily required it is best practise to issue an order so that the expenditure commitment is recorded in the general ledger.</li> <li>• Inaccurate recording of the invoice date in the creditors system on a small number of occurrences.</li> </ul>
3.8	It was also identified that at year end goods / services are being receipted prior to actual receipt of the goods / services being received to facilitate the year-end accruals process. This is a significant risk that could lead to the financial accounts being misstated, it also could result in payment for goods without having received them.
3.9	<p>The creditors system supplier set up and change process is generally sound, incorporating supervisory review and addresses the risk of fraud/error. However, the process could be improved as currently there is no standard form available for services to provide to suppliers in order to ensure that the correct supplier details are obtained. This would further reduce the risk of error and support the supplier bank details change verification process.</p> <p>The Council is required to comply with HMRC IR35 rules when paying for services that are delivered via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used. Currently officers requesting new suppliers to be set up on the creditors system do not currently confirm whether the HMRC employment status (IR35) checks have been completed. Incorporating the question and response into the process of procuring any consultants would improve controls in this area.</p>

3.10	Significantly more orders have been raised by South Ribble Council compared to Chorley Council. This may indicate that orders are being raised excessively.												
	<table border="1"> <thead> <tr> <th data-bbox="220 286 491 315">Month</th> <th data-bbox="499 286 683 315">SRBC</th> <th data-bbox="691 286 874 315">CBC</th> </tr> </thead> <tbody> <tr> <td data-bbox="220 318 491 347">September 2018</td> <td data-bbox="499 318 683 347">325</td> <td data-bbox="691 318 874 347">242</td> </tr> <tr> <td data-bbox="220 349 491 378">March 2019</td> <td data-bbox="499 349 683 378">433</td> <td data-bbox="691 349 874 378">293</td> </tr> <tr> <td data-bbox="220 380 491 409">September 2019</td> <td data-bbox="499 380 683 409">439</td> <td data-bbox="691 380 874 409">247</td> </tr> </tbody> </table>	Month	SRBC	CBC	September 2018	325	242	March 2019	433	293	September 2019	439	247
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3.11	Purchasing and creditor payment user access levels should be reviewed to ensure they remain up to date and relevant. The Interim Financial Services Manager has agreed with External Audit that budget holders will review purchase order and invoice authorisers access levels on a 2-yearly basis or following a major restructure (whichever is the sooner). A review is currently being undertaken and has been incorporated in the Shared Financial and Assurance Services Service Plan 2019/20.												
3.12	The system to allow the Purchasing System Administrator to take over a user account is generally robust, although improvements could be made to the retention of evidence which demonstrates that a user has given their permission. Should an issue arise it may be difficult to prove that permission was given.												
3.13	Additionally, there is a lack of supervisory review over the Admin Users Log. There is an opportunity for the Financial Systems Manager to check that this function is used appropriately, potentially identifying areas for improvement that could lead to more effective use of the Systems Team. It should be noted that this function is currently only available at Chorley Council.												

4	CONCLUSION
4.1	<p data-bbox="220 963 1501 1149">The findings constitute significant breaches of the Council's Financial Procedure Rules / Regulations, there has been a failure to ensure that controls are operating effectively within the Creditors Procure to Pay system. There is significant risk within the Creditors Procure to Pay system that could potentially result in material misstatement, loss of monies to the Council, inaccurate financial recording and reporting and fraud and / or error. Additionally officers could be acting beyond their approved delegated authority / limits allowed and may not be clear about their delegated limits.</p> <p data-bbox="220 1178 1501 1328">The External Auditors review the Council's key financial systems and as part of that they review the work undertaken by Internal Audit in that regard, they are aware of the issues raised and have asked for more detail in order to quantify the issues. This will require co-operation by the Finance Team as the Internal Auditors will require reports to be produced to ensure sufficient detail can be provided that the External Auditors are satisfied that there is no material misstatement at either / both Council's.</p> <p data-bbox="220 1357 1501 1415">Due to the issues identified further work is to be undertaken and the management actions will be agreed at the conclusion of this work.</p>

## Appendix 1

**Summary Analysis % Variance Between the Original Purchase Order Value and the Amounts Paid on Invoices**

Variance %	CBC		SRBC	
	Purchase Order Volume	Variance £	Purchase Order Volume	Variance £
0-10%	36	3083	70	22236
11-49%	12	3332	81	13475
50-99%	6	12805	27	3224
100-149%	3	259	15	3243
150-199%	0	0	11	2287
200%+	0	0	13	9514
<b>Total</b>	<b>57</b>	<b>19479</b>	<b>217</b>	<b>53979</b>
<b>Sample -Total Purchase Orders Volume</b>	<b>784</b>		<b>1202</b>	