



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit Report 2006/07

West Wiltshire District Council
Creditors

DRAFT: 9th March 2007

**Overall Report
Rating:**

Good

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Status of Report

Discussion draft issued: 9th March 2007

Management Responses Received:

Final Report Issued:

Presented to Audit
Committee

Distribution

To (for action)

Ian Jamieson – Head of Finance

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1. Executive summary

Introduction

As part of internal audit's review of the general control environment within the Council a review of Creditors was undertaken. This audit was completed as part of the agreed internal audit plan for 2006/2007. The objective of the audit was to provide management with information as to the adequacy and effectiveness of the financial control environment in place which ensures objectives are achieved and risks adequately managed. This approach included:

- Determining the key risks impacting on the achievement of the objective;
- Identifying the controls in place to mitigate these risks;
- Assessing the design of these controls; and
- Reviewing the operation of these controls.

Context

The creditor system is maintained in Agresso – the Council's main accounting system, which also facilitates the raising of orders. The Council's departments are responsible for the raising of all orders, and recording the receipt of goods and services. All invoice payments are raised by the Finance Department.

The Council encourages it's suppliers to receive payments via BACS. However, a cheque payment facility is available.

In the period April 2006 to December the Council has paid a total of 4,940 invoices at a value of £10,725,701.

Acknowledgements

We would like to take this opportunity to thank your staff for their significant assistance and co-operation during our work.

1. Executive summary - continued

Conclusion

From the work performed on the Creditor system, we consider that there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved. As a result, we have graded this area as Good.

We have made one recommendation, which will address the identified weakness. The implementation of our recommendation should enhance the control environment in relation to Creditors and provide an increased level of assurance to the Council and management from the date of implementation.

The main findings of our review are highlighted below. Further details, together with our recommendations, are included in the 'detailed findings and recommendations' section of the report which can be found on page 7.

Areas of good practice	Areas for further development
<p>Our review identified the following areas of good practice in relation to the Council's Creditor system:</p> <ul style="list-style-type: none">•Clear segregation of duties between the person raising the order and the person authorising it•The order system confirms there is sufficient budget to raise the order before it is issued•All invoice payments are authorised by the Finance Department only.•Defined policy for dealing with invoice queries.•Cost of raising manual cheques is recharged to departments to discourage their use•A creditor payments facts sheet is available to staff on the Council's Intranet	<p>Our work also identified the following areas where controls could be further strengthened:</p> <ul style="list-style-type: none">•Creditor bank account reconciliations are not carried out on a monthly basis.

1. Executive summary - continued

We have assessed each finding in our report and assigned it a priority rating as follows:

High □	Medium □	Low □
Issues arising referring to important matters that are fundamental and material to the system of internal control. We believe that the matters observed might cause a system objective not to be met or leave a risk unmitigated. It will need to be addressed as a matter of urgency.	Issues arising that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part, or a risk may be adequately mitigated, but the weakness represents a deficiency in the system.	Issues arising that would, if corrected, improve the internal control in general but are not vital to the overall system of internal control.

The table below details the number of recommendations made, the priority assigned and those accepted by management.

	High	Medium	Low	Total
Recommendations Made	-	1	-	1
Agreed	-	-	-	-
Not agreed	-	-	-	-

There were no recommendations made on completion of the audit review of creditors as part of the 2005/06 annual internal audit plan.

2. Detailed findings and recommendations

#	Observation and priority	Risk	Recommendation	Management Response
1	<p>Creditor bank account reconciliations</p> <p>We reviewed the file of creditor bank account reconciliations to ensure that reconciliations had been prepared and reviewed on a monthly basis.</p> <p>We found that a reconciliation had been prepared for only four out of nine months and only one of the four reconciliations had been reviewed.</p> <p>Medium □</p>	<p>Errors are not identified on a timely basis</p>	<p>All reconciliations should be prepared and reviewed on a timely basis and should be signed and dated as evidence of this.</p> <p>The creditors bank reconciliation should be included on the control spreadsheet of systems reconciliations to ensure their preparation and review is monitored.</p>	<p>Accepted.</p> <p>All creditor bank reconciliations were brought up to date in January 2007. They all balanced and no errors were identified.</p> <p>The delay occurred due to significant staff turnover within the financial services team. There is now a full compliment of staff and all bank reconciliations are carried out on a monthly basis.</p>

Appendix A: Summary of work undertaken and risks reviewed

Summary of risks reviewed	Work undertaken	Controls operating effectively/as designed ¹	Management assessment ²
<i>Council Tax and NNDR</i>			
<ul style="list-style-type: none"> • Payments made to inappropriate recipients 	<ul style="list-style-type: none"> • A sample of 10 new supplier/changes to supplier details forms was chosen and checked to ensure that the appropriate changes had been made to Agresso. 	Yes	Agreed
<ul style="list-style-type: none"> • Payments made for goods or services not ordered • Payments made for goods or services not received • Payments made for incorrect amount • Payments not included in the payment run 	<ul style="list-style-type: none"> • A sample of 30 creditor transactions, 15 from order to payment and 15 from payment back to order was reviewed to ensure that orders and invoices had been appropriately authorised and confirmed that goods/ services had been received and that the payment had been included correctly in the payment run. It was also ensured that payment runs had been checked prior to submission and signed as authorised where necessary. • A sample of 15 manual payment requests was tested to ensure that the necessary authorisation for the payment had been obtained and the payment recorded correctly in the ledger. 	Yes	Agreed
<ul style="list-style-type: none"> • Payments not recorded correctly on the general ledger 	<ul style="list-style-type: none"> • Monthly reconciliations between the creditors bank account and Agresso were reviewed to ensure they had been prepared and reviewed in a timely manner. • The monthly reconciliation between the creditors control book and Agresso were reviewed to ensure they had been prepared and reviewed in a timely manner. 	In part – see recommendation one.	Treat

- Control designed/operating effectively - this is our assessment as to whether controls identified are effectively designed and operating as intended based on our audit testing
- Management Assessment – management's decision as to whether they accept the risk (tolerate), agree to reduce the risk (treat) or they agree with our assessment that no further action is required (agreed).

Appendix A: Summary of work undertaken and risks reviewed - continued

Summary of risks reviewed	Work undertaken	Controls operating effectively/as designed ¹	Management assessment ²
<ul style="list-style-type: none"> • Payments not made in a timely manner 	<ul style="list-style-type: none"> • A sample of 30 invoices was selected and the date of receipt as per the invoice, along with the date of payment as per the ledger was agreed to the BVPI 8 calculation spreadsheet to ensure the indicator is being calculated accurately. 	Yes	Agreed

- Control designed/operating effectively - this is our assessment as to whether controls identified are effectively designed and operating as intended based on our audit testing
- Management Assessment – management's decision as to whether they accept the risk (tolerate), agree to reduce the risk (treat) or they agree with our assessment that no further action is required (agreed).