



Hinckley & Bosworth Borough Council – Internal Audit
Report

Accounts Payable 2021/22

January 2023

Final Report

mazars

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01 Introduction

As part of the Internal Audit Plan for 2021/22, we have undertaken a review of Accounts Payable. The objectives of the audit were to evaluate the adequacy of the system of internal controls and its application in practice with the area under review.

We are grateful to all staff interviewed for their assistance during the audit.

This report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the review. Such matters have been discussed with the relevant staff.

02 Background

The Accounts Payable team processes the majority of invoices for the council asides from payroll and council tax refunds, and currently consists of the AP Manager, a Finance Officer and two temporary staff members assisting with processing invoices.

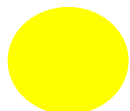
The council uses the Civica financial management information system for the management of its creditors, debtors and general ledger functions. Civica places workflows on key processes such as the processing of requisitions, purchase orders and the payment of creditors, and throughout the system approval limits have been set which define which staff members can approve payments.

The council does not use Government Procurement Cards, instead providing credit cards to certain employees, such as Directors and those in the Homeless & Vulnerable teams. Proof of expenditure such as invoices should be sent to the Senior PA at the council who reviews and reconciles payments on a monthly basis.

The council also produces some performance information relating to AP team performance, and on a monthly basis an Officer produces two reports from Civica detailing payment performance (invoices paid under/over 30 days) per supplier and per section. The Consultation & Improvement Officer enters the figures into the INPhase performance system and produces a quarterly report for the Senior Leadership Team (SLT) meeting detailing any exceptions.

03 Key findings

Assurance Rating



Moderate Assurance

Rationale

Based on the agreed scope and rating criteria (see **Appendix A1** for the detailed scope and definitions of the assurance ratings), there is **Moderate** assurance over the system of internal control evaluated.

We have identified several areas of significant control deficiency, and areas with room for improvement. Further detail regarding the recommendations is in **Section 04** and a summary of key observations is included below.

| Priority | Number of Recommendations |
|--------------|---------------------------|
| High | - |
| Medium | 5 |
| Low | 1 |
| TOTAL | 6 |

3.1 Examples of areas where controls are operating reliably

Supplier Data

- When there is a requirement to set up a new creditor, a creditor maintenance form is sent to the AP team by service areas, or an internal invoice is raised if it relates to a refund. We reviewed a sample of five creditor set ups and found that in all cases an appropriate request was received.
- After receiving a request to set up a new creditor, checks are undertaken to verify the creditor details via a phone call which is then noted on the system. We reviewed a sample of five creditor set ups and found that in all cases these checks were documented within the system notes.
- Segregation of duties has been implemented in the creditor set up process. Service lines send in requests to set up to the AP team which then receives final approval from a Director.

Ordering and Receipting of Goods and Services

- Orders are placed by service areas after identifying the need for a goods or services through raising a requisition which is then work flowed through in the system to a manager with appropriate approval limits set. Upon review of a sample of 10 transactions raised we found that in all cases a requisition / purchase order was raised, and that the approving manager was included on an authorised approvers spreadsheet and were within their approval limits.
- During discussions with management it was stated that there are not any specific timelines in place defining the timeframe for when purchase orders should be approved within. However, we reviewed a sample of 10 transactions and found that in all cases the purchase order was approved within seven days.
- Segregation of duties is built into the system and the person who placed the order cannot approve the purchase order or invoice. Upon review of a sample of 10 transactions we found that in all cases the

person who placed the order was different to the approver.

Payment of Invoices (including credit cards)

- After the purchase order has been raised and approved by managers, the invoice is sent into a state of review and matched against the purchase order by the AP team. Upon review of a sample of 10 transactions we found that all invoices matched the purchase order.
- There is an authorised approvers spreadsheet in place defining the staff members who can approve orders and invoices and the exact financial limits that they can approve. Upon review of a sample of 10 transactions we found that in all cases the approver was able to be located within the authorised approvers spreadsheet and these were within the assigned financial limits.
- Directors may hold a credit card and the homeless and vulnerable teams also hold credit cards in order to assist with their duties. The Senior PA to Directors undertakes a monthly review and reconciliation of credit card payments and chases up missing receipts and invoices where required, and we confirmed that this took place in January, February and March 2022.

Management Information

- We requested evidence of management information being produced and found that on a monthly basis two separate payment performance reports are produced which monitor the timeliness of invoice payments (under and over 30 days) for each section / business area and for each supplier. We confirmed that management information reports were produced in January, February and March 2022.

3.2 Risk Management

The risks most relevant to Accounts Payable are:

- Officers in services do not adhere to the approved processes and corporate expectations.
- Inappropriate / inaccurate amendments to the creditors system are made.
- Purchase orders are not used in line with council approved policy.
- Payments for goods or services are not received, or duplicate payments are made.
- Payments are made without appropriate approval in line with the scheme of delegation.
- Monitoring and reporting of values and trends is not robust, so failing procedures or insufficient resources are not identified and rectified by management in a timely fashion.

3.3 Value for Money

Value for Money (VfM) considerations can arise in various ways and our audit process aims to include an overview of the efficiency of systems and processes in place within the auditable area.

Audit discussed the procedures in place around credit card usage with management and the Senior PA to Directors, who is responsible for reconciling credit card payments. Although we found that credit card limits have been set, we noted that there is not any policy or guidance in place around the expectations on what staff are allowed to use credit cards for and on the requirement to retain and provide evidence such as receipts for payments made. We also noted that there are no credit card spend reports produced breaking down spend into categories for management to review.

3.4 Sector Comparison

From our experience across our client base, we are seeing pressure on resources, and higher service demands have resulted in challenges to the existing control environment. This often results in increased challenges to the decision-making process where conflicting priorities exist and need to be balanced with effective risk management.

During the course of the audit, we were provided with policies and procedures, however, it was unclear whether they have been reviewed on a regular basis. Based on our work with other local authorities, policies and procedures for the AP function usually consist of at least the following:

- AP payment user manual
- Purchase order user manual
- New supplier set up manual
- Supplier amendment manual (e.g., bank details)
- Purchase card/credit card user manual
- Purchase card policy

At peers, AP policies and procedures are usually assigned a responsible person for reviewing and updating the procedure on a defined basis, often annually or twice a year. Details of the review e.g., date and responsible person are then included within the policy in a document control section so that users are aware of when a policy is outdated and who to contact for help. Having clear and regularly updated policies and procedures in place acts to provide a guide to new members of staff and can help to ensure the transfer of information in the event of key staff members leaving, ensuring consistency in processing over time.

Purchasing and ordering procedures are usually relatively consistent across peers, however, different systems are in place such as the actual IT system used to process transactions. At Hinckley, we noted that the Civica financial system is used and although there is an expectation for goods received checks to be undertaken by service areas, the system does not allow for the noting of goods received within the system. Through our experience with other local authorities, we have found that at many councils this function is built in to the system, and that the system prevents the payment of invoices without confirmed goods receipting.

During the audit, we found that credit cards are used by certain members of staff, such as Directors and those in the Homeless & Vulnerable Teams, to make certain purchases e.g., accommodation for vulnerable people.

We found that other local authorities often utilised purchase cards (which are used similarly), and that there is also a requirement for card holders to complete e-learning on purchase card usage prior to being given access. We also found that at peers, a purchase card policy is in place for which the cardholder must sign a declaration stating what they can and can not use the purchase card for.

At Hinckley, we found that a generally manual system is used for reconciling credit card transactions. The Senior PA to directors gathers receipts/invoices and reconciles transactions on a monthly basis.

In some cases, peers have dedicated purchase card systems where transactions are posted after making a purchase card payment. Cardholders are then notified and can log onto the system to attach evidence to the transaction. This is then saved, and work flowed through to a manager for approval. Automated reminders can be sent after a certain number of days if a transaction has not had any evidence attached.

04 Areas for further improvement and action plan

Definitions for the levels of assurance and recommendations used within our reports are included in Appendix A1.

We identified a number of areas where there is scope for improvement in the control environment. The matters arising have been discussed with management. The recommendations are detailed in the management action plan below.

| Ref | Observation/Risk | Recommendation | Priority | Management response | Timescale/ responsibility |
|-----|--|--|----------|---|---|
| 4.1 | <p>Policies and Procedures</p> <p><i>Observation:</i> During the audit, we requested policies and procedures in place at the council which cover the Accounts Payable processes reviewed as part of this audit.</p> <p>We were provided with a number of procedure documents covering areas such as creating purchase orders, invoicing, and payment runs, however, we noted that procedure documents do not contain a document control section indicating when they were last reviewed and who is responsible for reviewing them.</p> <p>During discussions with management, we were informed that policies and procedures have not been updated on a regular basis as there has been little change in processes.</p> <p><i>Risk:</i> Officers in services do not adhere to the approved processes and corporate expectations.</p> | <p>A responsible person should be allocated towards updating and reviewing Accounts Payable policies and procedures.</p> <p>Policies and procedures should then be reviewed on an agreed schedule (e.g., annually) and updated when necessary.</p> | Medium | The procedure notes have not been updated since just before the Covid pandemic, so agree this need to be updated. Although only minor changes expected. | 31 July 2023 Accountancy Manager |

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| | Officers in services undertake processes inconsistently leading to variations and errors. | | | | |
| 4.2 | <p>Goods Receipting</p> <p><i>Observation:</i> During discussions with management, we were informed that the goods receipting of orders is undertaken by the service area and that there is an expectation that these checks should be undertaken prior to the payment of an invoice.</p> <p>However, we found that goods received checks are not noted within the system and also that there is nothing within the system that prevents the payment of an invoice prior to goods received checks being carried out.</p> <p><i>Risk:</i> Payments are made for goods and / or services not fully received.</p> | <p>Spot checks should be undertaken on a representative sample of purchases in order to determine whether goods received checks have been undertaken e.g., 10% per month.</p> <p>Where there is non-compliance, service areas should be reminded of the requirement to undertake goods received checks, such as through additional training.</p> | Medium | <p>Like most councils we do not have a good receipting system or the finance resource to introduce such a system. The emphasis is on the Budget holder knowing if they have had a service or good provided.</p> <p>The risk of material services or good not being received without being noticed is low. Finance rely on the Budget holder ensuing the service or goods are received, and raising an issue if this is not the case.</p> <p>PO's per year vary between 5000-10,000. An average sample check of say 750 PO per year with multiple lines, as 10 minutes each check, would add about 17 days of workload to the current tasks completed. As we do not have spare capacity we will live with the current risk position and controls in place.</p> | N/A |
| 4.3 | <p>Credit Card Expenditure</p> <p><i>Observation:</i> Directors at the council may have a credit card, and in this case, purchases go through the Senior PA. The Homeless and Vulnerable teams also may have credit cards and, in these circumstances, make their own payments</p> | A credit card policy should be produced including information such as the categories of allowable credit card expenditure, the requirement to provide supporting documentation such as receipts, and the consequences of non-compliance. Staff with credit cards | Medium | <p>Agreed need formal policy, as currently there are just notes to cover expected use.</p> <p>Resource capacity means the current reconciliation officer will continue to do this role but check</p> | 30 September 2023 Accountancy Manager |

| | | | | | |
|-----|---|---|--------|--|-------------------------------------|
| | <p>and should later send invoices / receipts to the Senior PA as evidence of expenditure.</p> <p>On a monthly basis the Senior PA undertakes a reconciliation of credit card payments and follows up on missing invoices / receipts if required, and we confirmed that this was undertaken in January, February and March 2022. However, during discussions it was noted the Homeless and Vulnerable teams do not always send in evidence of expenditure in a timely manner and that this is only picked up on during the monthly reconciliation. Staff were unaware of a credit card policy being in place.</p> <p>We also noted that as the Senior PA is responsible for making certain credit card payments and also reconciling the credit card payments, segregation of duties has not been fully implemented.</p> <p><i>Risk:</i> Credit card payments are inappropriate or fraudulent leading to financial loss for the council.</p> | <p>should sign or confirm acknowledgement of this policy.</p> <p>A separate officer should be responsible for making credit card payments and reconciling payments at the end of the month.</p> <p>A cost / benefit analysis of implementing an automated purchase card system should be carried out.</p> | | <p>on any payments they make will be separately reviewed.</p> <p>Alternative credit card platform is to be considered, with the control will be via a platform accessed by finance</p> | |
| 4.4 | <p>Management Information / Timeliness of Invoice Payments</p> <p><i>Observation:</i> We requested management information reports from the Accounts Payable team and received copies of reports produced in January, February and March 2022. Upon review we found that two reports are produced each month by a Finance Officer and include the</p> | <p>The council should produce a contingency plan to ensure that suppliers continue to be paid in a timely manner upon the exit of key or senior staff members within the Accounts Payable team.</p> <p>Accounts Payable performance reports should continue to be monitored and</p> | Medium | Agreed – but staffing changes are always going to cause pressure on performance. | 31 July 2023 Accountancy Manager |

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|--|--|--|--|--|
| <p>timeliness of invoice payments (under 30 days) made per section and per supplier.</p> <p>A target of 99% for performance by section and 91.5% for performance by supplier has been set. The Finance Officer enters the monthly performance into a spreadsheet and sends the result to the Consultation & Improvement Officer who produces a report of exceptions for the Senior Leadership Team (SLT).</p> <p>We calculated the weighted average percentage of invoices paid within 30 days by section for January, February and March 2022:</p> <ul style="list-style-type: none"> • January 2022 - 97.4% • February 2022 - 93.8% • March 2022 - 91.8% <p>The information above shows a declining trend in performance from January to March 2022 with all months being below the 99% target. During discussions with management, we noted that this was mainly due to a senior member of the Accounts Payable team leaving the council in January 2022, leading to a backlog of invoices.</p> <p><i>Risk:</i> Invoices are not paid in a timely fashion leading to reputational loss for the council and debt recovery action being taken.</p> | <p>action taken where performance drops below set targets.</p> | | | |
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|-----|---|--|--------|--|--|
| 4.5 | <p>Creditor Data Integrity</p> <p><i>Observation:</i> After the Accounts Payable team has received a request to set up a new creditor, the creditor details are confirmed via telephone and these checks should be recorded in system notes.</p> <p>However, we noted that there are not currently any quality assurance checks carried out by management on new creditor set ups, such as spot checks to confirm the accuracy of the creditor set up against the request received or that creditor details have been confirmed appropriately.</p> <p>In addition to this, we undertook data analysis on a report of creditors, containing 19326 creditors overall, and found that:</p> <ul style="list-style-type: none"> • Upon filtering by duplicated name, 1856 records were identified as duplicates. • We also found that upon filtering by duplicated bank account numbers, 4439 records were identified as duplicates. • We identified that 6434 records were last updated from 2007-2012. Although these may be valid, consideration should be given towards reviewing older suppliers and removing them from the system if no longer required. | <p>Spot checks should be undertaken on a representative sample of new creditor set ups on a regular basis e.g., monthly or quarterly. For example, 10% of overall new creditor set ups could be checked on a monthly basis.</p> <p>A data quality review should be undertaken into the register of creditors in order to determine whether the issues identified e.g., duplicates are valid or can be removed from the system.</p> | Medium | <p>Agreed. Duplicate report exceptions for payments will be checked twice weekly.</p> <p>The many grants made this year has meant to ensure speed of payment, that creditors have been set up on multiple occasions for the same business or individual, this is due to the unique circumstances faced. Grant speed led to duplicates, setting up accounts</p> <p>Also, some business have different centres and have different creditors set. Therefore although they have different addresses they can be combined as one creditor with two accounts</p> | <p>31 January 2023</p> <p>Accounts Payable Officer</p> |
|-----|---|--|--------|--|--|

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| | <ul style="list-style-type: none"> We identified that 5200 creditor records within the report have a blank bank account and sort code. 3151/5200 of these creditors with blank bank account numbers and sort codes were created before 2012. <p><i>Risk:</i> Inaccurate / inappropriate amendments made to the creditor system.</p> <p>Duplicate creditor records lead to mistakes in processing and inefficiencies.</p> | | | | |
| 4.6 | <p>Duplicate Payment Report</p> <p><i>Observation:</i> A duplicate payment report is produced from the Civica system by a Finance Officer. The duplicate payment report is produced and reviewed on Wednesday and Friday each week, prior to the payment run commencing.</p> <p>However, there are currently some issues with the report, as it shows duplicate invoices which are not valid, or which have already been checked and resolved. The report picks up duplicate amounts, rather than duplicate invoices, and may flag invoices as duplicate despite there being different invoice numbers. Due to this, the majority of identified duplicates are most likely not actual duplicate invoices.</p> <p>During discussions with management, we were informed that the issue is currently being discussed with Civica.</p> | <p>The council should continue to discuss the issue with Civica and obtain a resolution to the issue with duplicate payment reports.</p> | Low | <p>The duplicate payment report is not a list of duplicates but a risk of items that might be a risk of being a duplicate, so will be checked.</p> <p>It will now be evidenced checks that have been completed.</p> | <p>31 March 2023</p> <p>Accountancy Manager</p> |

Risk: The council is unable to keep track of duplicate invoices due to inaccurate reports.

A1 Audit information

| Audit Control Schedule | |
|---------------------------------------|---|
| Client contacts: | Ashley Wilson: Head of Finance Ilyas Bham: Accountancy Manager Michelle Lockett: Accounts Payable Manager |
| Internal Audit Team: | Peter Cudlip: Partner Sarah Knowles: Senior Audit Manager Connor Wood: Auditor |
| Finish on-site / Exit meeting: | 28 th September 2022 |
| Draft report issued: | 18 th October 2022 / 17 th November 2022 |
| Management responses received: | 6 th December 2022 |
| Final report issued: | 17 th January 2023 |

| Report Distribution List | | |
|--------------------------|------------------|---|
| Report | Name | Job Title |
| Draft & Final | Michelle Lockett | Accounts Payable Officer |
| Draft & Final | Ilyas Bham | Accountancy Manager |
| Draft & Final | Julie Kenny | Director (Corporate and Streetscene Services) |
| Draft & Final | Ashley Wilson | Head of Finance (Section 151 Officer) |
| Final | Bill Cullen | Chief Executive |

Scope and Objectives

Audit objective: Our objective is to provide assurance that HBBC has effective controls in place over Accounts Payable processes.

Our audit considered the following risks relating to the area under review:

- Policies and Procedures - Officers in services do not adhere to the approved processes and corporate expectations
- Supplier Data – Inappropriate / inaccurate amendments to the Creditors System
- Ordering and Receipting of Goods and Services – Purchase orders are not used in line with Council approved policy
- Payment of Invoices (including credit cards) – Payment is made for goods or services not received, or duplicate payments are made. Payments are made without appropriate approval in line with the scheme of delegation.
- Management Information – Monitoring and reporting of values and trends is not robust, so failing procedures or insufficient resources are not rectified by management in a timely fashion.

The objective of our audit was to evaluate the adequacy of key controls and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

The limitations to this audit were that testing was performed on a sample basis and as a result our work does not provide absolute assurance that material error, loss or fraud does not exist.

| Definitions of Assurance Levels | |
|---------------------------------|--|
| Level | Description |
| Substantial | The framework of governance, risk management and control is adequate and effective. |
| Moderate | Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. |
| Limited | There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective. |
| Unsatisfactory | There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail. |

| Definitions of Recommendations | |
|--------------------------------|--|
| Priority | Description |
| High (Fundamental) | Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk. |
| Medium (Significant) | Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk. |
| Low (Housekeeping) | Scope for improvement in governance, risk management and control. |

Statement of Responsibility

We take responsibility to Hinckley and Bosworth Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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