

HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

Date: 22nd September 2021

Report Title: **Internal Audit Report – Review of Purchase to Pay**

Report By: Corporate Audit Manager, The Highland Council

1. Purpose/Executive Summary

- 1.1 Details are provided of the audit review of the Purchase to Pay system and a copy of the report is attached.

2. Implications

- 2.1 There are no Resource, Risk Legal, Community (Equality, Poverty and Rural), Climate Change/ Carbon Clever or Gaelic implications arising from this report.

3. Recommendations

- 3.1 The Board is asked to consider the content of the report, the audit opinion provided, and to raise any relevant points with the Corporate Audit Manager.

4. Internal Audit Report

- 4.1 Each Internal Audit report contains an audit opinion based upon the work performed in respect of the subject under review. There are five audit opinions which can be provided:
- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
 - (ii) **Substantial Assurance:** While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
 - (iii) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk
 - (iv) **Limited Assurance:** Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
 - (v) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.
- 4.2 Since the last update to the Board there has been one audit report issued relating to a review of the Purchase to Pay (P2P) system. This report has the audit opinion of Reasonable Assurance as some areas of non-compliance in either the application or use of the P2P process were identified. As a result, the report contains 4 recommendations comprising of 1 high, 2 medium and 1 low grade.

Designation: Corporate Audit Manager

Date: 13th September 2021

Author: Donna Sutherland

Background Papers:

Internal Audit Final Report

Assessor's Department

Review of Purchase to Pay (P2P)

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	1

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Distribution:

Assessor & ERO
Office & Support Manager, Assessor's Office
Treasurer, Highland & Western Isles Valuation Joint Board
Finance Manager, Corporate Finance, Treasury & Taxation, Highland Council

Report Ref: ASS06/002.bf
Draft Date: 09/06/21
Final Date: 14/07/21

1. Introduction

- 1.1 The audit examined the Assessor's Purchase to Pay (P2P) arrangements. Purchase to pay covers the ordering, receipting and invoicing processes for obtaining goods and services. Integra is the system used by the Assessor for these processes. The audit objectives were to ensure that: there were appropriate controls and procedures for the administration of P2P; and purchases were within budget and correctly recorded in budget monitoring reports.
- 1.2 The audit involved a review of the P2P processes and an examination of the associated budgetary control processes. It involved the sample testing of transactions in 2019/20.
- 1.3 In 2019/20 the Assessor's Department processed approximately 1,800 transactions for goods and services that amounted to £1.1m.

2. Main Findings

2.1 Administration of P2P

This objective was partially achieved. P2P transactions were processed in accordance with the Assessor's Financial Regulations (FR) and supporting guidance. The supporting guidance outlines the budget holder roles and responsibilities but not the detailed P2P process. Whilst P2P users have completed the Highland Council's (HC) FR training module the same users have not completed the separate P2P training module. However, following recent enquiry, it is understood that two staff members have now completed the P2P module. (Action Plan ref L1)

24 (75%) tested purchases were processed through P2P:

- 24 (100%) all P2P stages were authorised by the same user; and of these,
- 4 (17%) it was not possible to identify a segregation between the requisition requester and the P2P order approver.

In addition to the above:

- 4 (17%) purchase orders (PO) were raised after goods/ services were first provided;
- 4 (17%) PO was raised after the date of the invoice;
- 1 (4%) PO was the same date as the receipting date;
- 4 (17%) invoices did not contain the PO number;
- 2 (8%) invoices were not attached to Integra; and
- 2 (8%) PO were "receipted", invoiced and fully paid before the goods/ services were provided. The Assessor's Office & Support Manager (OSM) stated that this occurred during Covid-19 homeworking arrangements. (Action Plan ref M1)

Testing of transactions demonstrated that 8 (25%) were paid without a supporting Purchase Order. Section 18.2 of the FR states that "official orders must be raised for every purchase of Goods/Services/Works, the only exceptions relate to supply of Elec, gas and water." None of the 8 transactions above represented an acceptable exception (Action Plan ref H1)

2.2 P2P budget, recording and reporting.

This objective was partially achieved. Budgets are monitored and controlled through:

- Financial support provided by the HC Finance Section;
- The OSM manually calculates the available budget remaining before authorising new purchases; and,
- The OSM scrutinises the monthly monitoring reports (DTR) to ensure spend is in accordance with budget and expectations.

The Assessor reported a 2019/20 budget underspend (as a result of Payroll cost savings) plus the stability of its purchasing requirements.

Whilst it was recognised that in a small amount of cases the raising of a Purchase Order was not appropriate, a review of purchases identified that £680k (30%) 451 invoices from a total of 1,522 were paid without a supporting purchase order which was not in accordance

with both the P2P process and Financial Regulations, the adherence of which promotes proper financial control. These transactions mainly related to recurring/contract purchases. As a consequence:

- the costs of these purchases were not included in the Integra general ledger until supplier invoices were received and may have been overlooked during the budget monitoring process;
- purchase liabilities were not promptly created in Integra when the commitments were agreed with the supplier; and
- relevant period costs noted within Integra budget monitoring reports are likely to be understated and the remaining available budget is likely to be overstated. (Action Plan Ref H1)

A review of DTR budget reports for January and February 2020 identified that the year to date account balances for 18 (38%) expense head/cost centre/groups exceeded the allocated year to date (YTD) budget. Whilst most overspends were generally immaterial, 4 were significantly overspent: Rent, Postages, Computer Equipment and Canvass Costs. This is contrary to budget holder responsibility guidance which states that "budget virements should be used to prevent individual cost centres being overspent". However, it was recognised that overall YTD budget exceeded overall YTD costs. (Action Plan Ref M2)

A review of three significant expense head/cost centre budgets (using January and February 2020 DTR reports) identified:

- 2 (67%) there was insufficient available budget at the end of January to cover purchase costs incurred during February; and
- 1 (33%) the year to date budget exceeded the year to costs by 16%.

It was identified that P2P purchase orders were not used for 1 of the former cost centre groups and were only partly used for the remaining 2. Therefore, the budget monitoring process is likely to be compromised. (Action Plan Ref M2).

3. Conclusion

- 3.1 The Assessor's Department effectively processed most of its purchases through P2P. The review identified some non-compliances in the application of P2P processes and as highlighted above a significant proportion (30%) of purchases were processed outside of P2P. This raises some concerns about the effectiveness of expenditure controls and the management of the budget.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H1	High	<p>From a sample of 32 transactions and review of payments processed during April to February 2020 (inc) it was established that at least 25% were not processed through P2P. These did not comply with Financial Regulations (FRs) as official Purchase Orders were not raised in advance of the payment.</p> <p>As a consequence of not recording transactions through Integra, supplier disputes could arise and/or, unnecessary costs could be incurred as the value and quantity of purchases was not officially recorded on a Purchase Order.</p>	<p>Instructions should be issued to all budget holders and purchase requisitioners reminding them of the FR requirement to raise official purchase orders (via P2P) where this is required. To reinforce this, instructions should be produced detailing the P2P process that should be followed including:</p> <ul style="list-style-type: none"> • Purchase Orders should be raised unless there is a valid exemption as set out in Financial Regulations. • Purchase Orders should be raised in advance of the service/ goods/ contract period being provided. • Invoices should only be paid after the goods/services/works have been provided and receipted in accordance with Financial Regulations as appropriate. • The minor processing errors identified in M2 should be addressed. <p>The OSM should periodically review purchases to confirm that the above is being adhered to and provide further training, advice and guidance to officers where necessary.</p>	<p>Comprehensive training notes will be produced and issued to relevant staff.</p> <p>As an interim measure, processing staff have been asked to familiarise themselves with 5 sections of the FRs relating to the P2P process. A review meeting will be held to discuss any queries or concerns with the OSM. A new clerical member of staff has been asked to read the Board's FR guidance notes.</p> <p>Quarterly reviews will be carried out of purchases and any issues addressed with staff. Where necessary, further training will be provided. Training on some aspects of the P2P processes has been arranged with staff from the Treasurer's office.</p> <p>Samples of transactions included invoices for Valuation Appeal Committee expenses. Payment of such invoices is an arrangement between the Clerk to the Board and the Valuation Appeal Committee. Invoices are authorised by the Clerk with invoices paid by the Assessor. In order to address this issue, the Clerk to the Board would need to get estimated costs from the relevant supplier to allow the Assessor to raise an annual purchase order to cover spends.</p>	OSM	30/11/21
					OSM	31/08/21
					OSM/ Treasurer's Office	31/10/21
					Clerk of the Board	30/04/22

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		A review of April 2019 to February 2020 purchase payments revealed that 30% (£680k) were not processed in accordance with P2P as payments made were not supported by a requisite Integra Purchase Order. Many related to supplier contract payments.	A record of all contracts should be maintained so that Purchase Orders can be raised in advance of the contracted service being provided to ensure contract commitments are timeously recorded within the Integra financial and budget monitoring system before the contractor's invoice is submitted and paid.	Under Internal Control in the Board's FR's the separation of duties is to be introduced so that there is a separation of duties (15.1.3). Where a small number of employees are available alternative arrangements with appropriate controls must be agreed with the Treasurer. As a small team the Assessor tries wherever possible to have a separation of duties however agreement has been reached with the Treasurer on how best to separate duties wherever possible. This will be incorporated into P2P training instructions.	OSM	30/11/21
				A record of all contracts will be produced and maintained noting when purchase orders should be raised in advance.	OSM	31/10/21
				The OSM will review annual POs to contractors instead of quarterly POs to assist with budget monitoring commitments.	OSM	30/04/22 - Ongoing

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	<p>From the purchase transactions supported by a P2P purchase order:</p> <ul style="list-style-type: none"> • 4 (17%) purchase orders (PO) were raised after goods/services were first provided; • 4 (17%) PO was raised after the date of the invoice; • 1 (4%) PO was dated the same date as the receipting date; • 4 (17%) invoices did not contain the PO number; • 2 (8%) invoices were not attached to Integra, and, • 2 (8%) PO were "receipted", invoiced and fully paid before the goods/services were provided. The OSM stated that this occurred during Covid-19 homeworking arrangements. 	<p>In addition to H1, above the instructions to officers and compliance checking should cover the following requirements:</p> <ul style="list-style-type: none"> • PO should be raised before contacting the supplier with the intention to order supplies. • It should be reiterated to relevant staff that all invoices should be attached to Integra; • Suppliers should be instructed to record the Assessor's PO number on submitted invoices. If not recorded, the supplier's invoice should be queried if necessary, to ensure that this can be matched to the correct PO. 	<p>As indicated in H1, action will be taken by Nov 21 to address issues raised.</p> <p>The first review meeting will be held in July 21.</p> <p>Some work has been done to improve the P2P processes. POs are now being raised for the vast majority of suppliers quarterly, but this will move to annual POs in due course.</p> <p>Staff normally attach invoices to Integra as this reduces work for both Internal and External audit and Assessor staff for requests for copy invoices. Staff will be reminded to attach all invoices.</p> <p>Any invoices now received without an official order number are returned to suppliers before invoices are paid.</p>	OSM	30/11/21

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M2	Medium	<p>A review of DTR reports for January and February 2020 identified that the year to date account balances for 18 (38%) expense head/cost centre groups exceeded the allocated year to date budget. Whilst most overspends were generally immaterial, contrary to budget holder responsibility guidance, 4 were significantly overspent. However, it was recognised that overall YTD budget exceeded overall YTD costs.</p> <p>The OSM stated that she has to manually calculate the predicted future costs for each budget subjective codes.</p> <p>A review of three significant subjective cost codes (using January and February 2020 DTR reports) identified:</p> <ul style="list-style-type: none"> • (67%) there was insufficient available budget at the end of January to cover purchase costs incurred during February; and • 1 (33%) the year to date budget exceeded year to date purchase costs by 16%. 	<p>Budget holder responsibilities concerning monitoring, review and the virement of costs process should be reiterated to all relevant Budget Holders to ensure individual cost centre groups are controlled within budget to prevent/reduce overspend.</p> <p>Implementation of the recommendations at ref H1 will remove the need for this manual calculation.</p> <p>Application of the recommendations in H1 should considerably reduce the occurrence of non-P2P purchase commitments. Nonetheless, where necessary, the OSM should consider the impact of non-P2P purchasing commitments on the budget monitoring review process to ensure there is sufficient available budget before authorising additional essential costs.</p>	<p>Whilst the Board's FRs highlight that virement is available to the Assessor, it is felt that efficiency virements will only be done when the amounts or impact is material; there is no overall control benefit from viring small amounts at the end of each month/quarter. The overall budget is always controlled and underspent and reported to the Board on a quarterly basis. Meeting will be arranged with the Treasurer on the appropriate response to this recommendation.</p> <p>The Valuation Appeal Committee costs are an area of the budget that the Assessor has no control over - The Valuation Appeal Panels and Committees (Scotland) Regulations 1996. Unless agreement is reached between the Clerk to the Board and the Valuation Appeal Secretary at the beginning of each financial year on estimated costs, (something which is unlikely to be achieved in any meaningful way given the unknown extent of this workstream) this is an area of the budget where manual outturns are calculated. The Assessor will ask the Clerk to consider implementation of this recommendation.</p> <p>Implementation and recommendations at ref H1 will remove future manual calculations of contracted costs i.e. rent, contract cleaning etc. where the budget remains static throughout the year.</p>	<p>Assessor, OSM & Treasurer</p> <p>Assessor/ Clerk to the Board</p>	<p>30/11/21</p> <p>30/11/21</p>

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
L1	Low	<p>The Assessor's Financial Regulations (FR) and supporting guidance outline the budget holder roles and responsibilities but not those relating to processing staff. In addition, no singular instructions on the sequence of processing stages concerning the P2P process were provided for staff to follow.</p> <p>Whilst P2P users have completed the Highland Council's (HC) FR training module some of the same users have not completed the P2P training module.</p>	<p>As recommended in H1, a singular P2P instruction document concerning all aspects of the P2P process should be formed to guide processing staff and relevant Budget Holders.</p> <p>All relevant staff should be instructed to complete the Highland Council's P2P training module. The OSM should monitor the uptake of staff training courses and remind staff where necessary.</p>	<p>As indicated in H1, action will be taken by Nov 21 to address issues raised.</p> <p>As reported on page 1 of this report, two members of staff have now completed the P2P training. A third member of staff has been asked to complete the course.</p> <p>A training schedule will be implemented and reviewed quarterly by the OSM.</p>	OSM	30/11/21
					OSM	30/09/21