

Final Audit Report

Nottingham City Homes - Creditors

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1 Executive Summary

- 1.1 The audit plan for 2007 / 08 includes a review of the creditors system to provide assurance to the Head of Finance and Audit Committee of Nottingham City Homes (NCH) that this system is operating effectively
- 1.2 It was agreed that the work would concentrate on the following areas:
- Reconciliation of the ROCC (NCH's job costing and payment system) and OneWorld systems.
 - Management of new suppliers.
 - Review of a sample of individual payments to ensure proper procedures have been followed.
 - A review of a sample of potential duplicate payments.
- 1.3 The review has now been concluded and generally controls in these areas were found to be operating satisfactorily. There is, however, one main area of concern.
- 1.4 One control built in to the One World system is that when a voucher is entered with an invoice number that has already been used, this will warn the user, both at the input and approval stage, that the payment is a possible duplicate and that it should be investigated prior to it being processed. There is, however, the option to override this "soft" warning. It would appear that insufficient investigation has been undertaken as the audit has highlighted duplicate payments totalling £3,623.09 in a sample taken from the data covering the period April to September 2007.
- 1.5 The other main findings were that batch headers were not being signed in line with the requirements of NCH's Financial Regulations and that some orders had been raised on ROCC after the date of the invoice.

2 Introduction

- 2.1 Two systems are used by NCH as part of the payment process.
- 2.2 The OneWorld creditor's module is used to raise orders, pay invoices, generate payments and update the budget and the nominal ledger.
- 2.3 ROCC is used for job costing, raising of orders and input of invoices. For the majority of these invoices there is then an automatic interface between ROCC and the OneWorld system to transfer details of invoices input into ROCC to the OneWorld ledger and creditors module. NCH invoices which have a CIS element are entered manually into the OneWorld system by the City Council's Central Payments Team as there is currently no interface for these invoices. All final payments are then generated from the OneWorld system.

3 Scope and Approach

- 3.1 Prior to commencing the audit review a meeting was held with the Interim Head of Finance at Nottingham City Homes to discuss the scope of the audit work in this area.
- 3.2 It was agreed at this meeting that the audit work would concentrate on the following areas:
 - Reconciliation of ROCC and OneWorld.
 - Management of new suppliers.
 - Review of a sample of individual payments to ensure proper procedures have been followed.
 - A review of a sample of potential duplicate payments.
- 3.3 Meetings were arranged during the audit with NCH staff to establish specific details of the systems in place and the existence of key controls.
- 3.4 Data was also extracted from the OneWorld Account Ledger Table (F0911) for the period April 2007 to September 2007 relating to Company 90 (NCH). This data was used to select samples for the testing.

- 3.5 Details of the findings in each of the above areas are shown below in the summary of findings. In addition where there are recommendations these are shown in the action plan.
- 3.6 It is the responsibility of management to determine the action that will be taken in response to each recommendation, after carrying out an assessment of the risks involved and the cost-effectiveness of the control improvements recommended.
- 3.7 Management should note that any recommendations that relate to Financial Regulations must be implemented unless a satisfactory business case can be prepared, justifying why the recommendation will not be implemented.
- 3.8 Also, included at the end of the report is a glossary of terms.

4 Summary of Findings

4.1 This section contains a summary of the findings from this review. The attached Action Plan contains the detailed findings and recommendations that should be addressed in response to the report.

4.2 Reconciliation of ROCC and OneWorld.

4.2.1 A meeting was held initially to discuss the process for the transfer of information from the ROCC system to the OneWorld system and the controls in place to ensure that this information is transferred completely and accurately.

4.2.2 It was established that there are two methods by which payments are transferred:

- Automatic Interface.
- Manual input – This applies to all CIS (Construction Industry Scheme) invoices.

4.2.3 Automatic Interface

4.2.3.1 Invoices are received by the NCH Accounts Payable Team and details are entered into ROCC and agreed to the original order. A check is also undertaken to ensure that the goods have been received.

4.2.3.2 If these details can be agreed the invoice is batched within ROCC. If there is a problem the invoice is held back and details are queried with the initiating department. When all details can be agreed the invoice is processed. If a credit note is required the invoice will be held until the credit note is received.

4.2.3.3 Signatures are not required on invoices as approval is given at the order stage.

4.2.3.4 Once the invoices have been batched within ROCC, information is extracted and details of the payment run are sent to the OneWorld team. This includes the number of lines, number of invoices and the value of the payment run.

4.2.3.5 A member of the OneWorld Team requests the ROCC output files from IT. These are in a format that is accepted by OneWorld and are converted into a OneWorld batch.

4.2.3.6 The details of this batch are checked by the OneWorld team to the original ROCC batch to ensure the number of records and value of

the batch agree. If there are any errors or rejections NCH Finance is notified. A member of the OneWorld Team then signs a ROCC Interface Validation Sheet.

- 4.2.3.7 The details of the OneWorld batch are emailed to NCH Finance for approval and posting of the batch. Prior to the batch being finally approved a member of the NCH Finance Team scans the batch to ensure that the value and number of records agree and that the suppliers are valid suppliers.
- 4.2.3.8 Testing was undertaken to ensure that all stages of this process had been followed and this was, overall, satisfactory.
- 4.2.3.9 One minor issue highlighted as part of the review was that in a test looking at batch headers, 1 had not been signed at the time of the testing. It was also confirmed that only recently had these batch headers been signed by two signatories in line with NCH's revised Financial Regulations.
- 4.2.3.10 In addition, whilst this testing was satisfactory, reference should be made to section 4.5 as this testing has highlighted duplicate payments, one of which was processed as part of the automatic interface process.

4.2.4 Manual Input (CIS)

- 4.2.4.1 At present there is no automatic interface for CIS payments. These are checked and coded at NCH Finance but are passed to the City Council's Central Payments Team for processing on OneWorld. Once these have been input they are returned to NCH Finance.
- 4.2.4.2 The checks highlighted above in 4.2.3.1 and 4.2.3.2 are also undertaken on all CIS invoices, in addition once the completed batch has been returned from the Central Payment Team a check is made to ensure the invoices reconcile to the batch header.
- 4.2.4.3 Testing has been undertaken on a sample of these invoices to ensure that adequate controls are in place within NCH to ensure that these invoices have been input correctly. It should be noted that the processing of the invoices by the Central Payments Team has not been tested. Testing showed that all stages of the process had been undertaken satisfactorily.
- 4.2.4.4 During the audit we spoke to a member of the City Council's Financial Planning and Development Team who are responsible for system development issues to establish whether there was any reason why these payments could not be processed via an automatic interface.
- 4.2.4.5 We were told that initial attempts had been made to facilitate this process some time ago but that the data transferred from ROCC

could not be relied upon and until further work was undertaken by NCH the payments would have to continue to be processed manually.

4.3 Management of new suppliers.

4.3.1 As two systems are used within NCH in the payment process, suppliers require setting up in both systems.

4.3.2 The controls in place over the setting up of new suppliers on each of the systems have been reviewed. This involved meetings both within the NCH Finance Section at Houndsgate and the Procurement Section at Harvey Road.

4.3.3 We looked at the following areas:

- Appropriate checking takes place at the point of input.
- New suppliers are approved prior to payments being made.
- There is adequate separation of duties.

4.3.4 All testing was satisfactory.

4.3.5 There is also an additional central control as all new suppliers, once approved by NCH, appear on a Payee Control Report. This is extracted and reviewed by the City Council's Central Payments Team. Any potential duplicates, or if there is a data entry issue, are followed up with NCH Finance and if necessary the entry can be archived if it has not yet been used and a new supplier set up.

4.4 Sample check of individual payments.

4.4.1 Using IDEA (Data interrogation software) a sample of 10 invoices was extracted from the OneWorld Account Ledger Table (F0911) covering the period April 2007 to September 2007. Each of these was tested to ensure that:

- Budget provision exists.
- Best Value has been considered where appropriate and / or corporate contracts used.
- An official order has been raised and has been raised prior to the date of the invoice.
- Goods have been received and matched to the original order.
- The invoice has been approved, at the appropriate level (if applicable).
- Accounting entries are correct.

4.4.2 Overall, testing was again satisfactory. However, as part of the testing we reviewed the ROCC system to ensure that orders had been raised prior to the date of the invoice. This showed that for 3, the order date shown on ROCC was after the date of the invoice.

4.5 Sample check of potential duplicate payments.

4.5.1 IDEA was used again on the data for the same period as above to compare payments made where there was a match in the OneWorld Account Ledger Table for invoice number, amount and description. Testing was restricted to amounts exceeding £100 and this gave a total sample of 9 potential duplicate payments. Each of these payments was investigated to establish whether a duplicate payment had been made.

4.5.2 The testing identified that of the 9 payments, 6 were duplicates. However further investigation showed that action had already been taken by NCH Finance Section for 1 of these.

4.5.3 The total of the other 5 invoices is £3,623.09.

4.5.4 4 of these payments have been processed directly through OneWorld and this is of particular concern as one of the controls within the OneWorld system is that where vouchers are entered with the same invoice number a warning is shown, both at the input and approval stage, that the payment should be investigated as a potential duplicate. However, this is a “soft” warning which allows the user to still process the payment. It would appear that there has been insufficient investigation into these payments as the duplicate has been processed.

4.5.5 The other invoice was processed in ROCC. There was a query when the original invoice was received and additional information requested from the supplier. However, this invoice was paid and as a result was taken off the invoice register by ROCC. The supplier submitted a second invoice with the additional information and as the original had been taken off the invoice register this allowed the second to be registered and paid.

5 Action Plan

Ref	Finding	Recommendation	Priority	Management Response	Responsibility and Target Date
5.1.1	The process for the transfer of information from the ROCC system to the OneWorld system was reviewed and testing was generally satisfactory. However, one batch header had not been signed as approved. In addition NCH's Financial Regulations state that batch headers require approval by two Finance Officers. It was established that this process has only been recently introduced by the Finance Team and a review of the batches showed that only those since 31st October had been signed by two signatories.	Batch headers should be signed by two signatories in line with NCH's Financial Regulations.	Low	Agreed – This has already been implemented.	Implemented
5.1.2	Whilst for the majority of payments information is transferred via an automatic interface between the ROCC and OneWorld systems, CIS payments have to be batched within NCH Finance and then sent to the City Council's Central Payment Team for input. This adds time to the overall process and increases the possibility of input error. It should be noted, however, that in the sample of invoices selected some related to CIS payments and no errors were found.	Discussions should be held between NCH and the OneWorld Team to establish what action is required to facilitate the introduction of an automatic interface for CIS payments.	Low	Agreed – Discussions are ongoing between NCH and the City and testing is to be undertaken on the ROCC system by NCH.	Tracy Martin This is a priority area, but final implementation date will depend upon the result of the testing.

Ref	Finding	Recommendation	Priority	Management Response	Responsibility and Target Date
5.1.3	A sample of payments was selected and testing carried out to ensure orders had been raised on the ROCC system. Although orders had been raised for the entire sample, for 3 these had been raised after the date of the invoice.	Orders should be raised on the ROCC system prior to work being undertaken.	Medium	Agreed	Steve Everson January 2008
5.1.4	A sample of invoices that were potential duplicates was extracted from the OneWorld ledger for the period April 2007 to September 2007. This sample highlighted that 5 duplicate payments had been made with a total value of £3,623.09. It was also confirmed that OneWorld would warn the user, both at the input and approval stage, that the payment was a potential duplicate as the invoice number had been used before.	<p>a) Action should be taken to obtain credits for the duplicate amounts.</p> <p>b) Adequate checks should be carried out by finance staff to ensure that invoices have not been previously passed for payment. These checks should be undertaken both at the input and approval stage.</p> <p>c) Discussions should be held with the OneWorld Team to establish the possibility of producing a periodic report that would highlight potential duplicate payments.</p>	Medium	<p>a) Agreed – credits will be obtained.</p> <p>b) Agreed</p> <p>c) Agreed – A quarterly report would be beneficial. This will be followed up with the OneWorld Team but it is also requested that City Audit Services support this.</p>	Josephine Abbott / Peter Townrow November 2007

Signed..... Date.....

(Head of Finance)

Glossary of Terms

1 Categorisation of Recommendations

The recommendations within this report have been categorised by City Audit Services as:

High Priority	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium Priority	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low Priority	The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases City Audit Services will follow up implementation of the recommendations by the agreed date.