



NOTTINGHAM CITY HOMES

REVIEW OF THE PAYMENTS ARRANGEMENTS

Report issued: February 2009

Audit Plan: 2008/09

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance



Review of the Payments Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA has reviewed the Payments arrangements at Nottingham City Homes. The review was carried out in December 2008 as part of the planned internal audit work for 2008/09.

SUMMARY

2. Two Key Risk Control Objectives were identified and tested and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established (figure 1 below).

Figure 1 - Evaluation of the Effectiveness of the Internal Controls

System	Evaluation
Payments	Reasonable Assurance

KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen the control environment.
 - Only a small number of staff in possession of a purchasing card had signed the standard Purchase Card Employee Agreement form.
 - A stock of manual chequebooks are held in a vault at Nottingham City Council for use in the event of the payments system being unavailable. Although the payments system could be operated from a different site the BACS authorisation cards are kept at Nottingham City Council offices. Contingency arrangements do not cover the office being unavailable.

OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. No Operational Effectiveness action points were identified.

MANAGEMENT RESPONSES

5. Effective implementation by management of the recommendations made in this report is important for the maintenance of a reliable internal control system. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented. Management responses have been received for all the recommendations made in this review.



MANAGEMENT ACTION PLAN

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.4	Arrangements be made by Nottingham City Council for a stock of manual cheques and a BACS authorisation card to be held off site.	2	<p><i>Partially Agreed.</i></p> <p><i>All Trade creditors are being moved to BACS only payment. Currently 85% are BACS. It is considered more appropriate to obtain bank details than to keep a stock of manual cheques if cheques cannot be produced by the system. A supply of manual cheques will also be kept in a secure off site location to be identified.</i></p> <p><i>The City Council has three BACS cards, all kept on the person and therefore useable at any location.</i></p>	<i>Immediate</i>	<i>Jo Worster – Team Leader, banking, payments and cashiering</i>
16.5	All purchase cardholders be required to sign and return the Purchase Card Employee Agreement form.	2	<p><i>Agreed.</i></p> <p><i>The agreement will be updated and reissued to all employees with a purchase card.</i></p>	<i>Immediate 100% return by end of February 2009</i>	<i>Pete Smith – Procurement and Operational Support Manager</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	control issue on which action should be taken.
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Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.1	The Company's risk register be amended to include reference to: - <ul style="list-style-type: none"> • Duplicate payments • Late payments • Fraudulent payments • Payment / recording errors. 	3	<i>Not Agreed.</i> <i>There is no evidence of significant breakdowns in control across the payments cycle that warrant the establishment of such a risk and monitoring of the associated mitigating actions in the Finance Service Area Risk Register.</i>	N/A	<i>Darren Phillips – Head of Finance (Company)</i>
16.2	The payments procedures should be documented.	3	COMPLETE. <i>One-world and payment procedures are documented and in place within the Finance team.</i> <i>However, the weakness highlighted by TIAA has identified that not all members of the finance team are aware of their existence and where to find them.</i> <i>All Finance staff have been reminded of the existence of the procedures and where to find them on the shared drive.</i>	<i>Immediate</i>	<i>Darren Phillips – Head of Finance (Company)</i>

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Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.3	Ensure that all cheques not presented within the previous six months are identified and cancelled.	3	COMPLETE. <i>This is already standard operating procedure for all City Council Cheques.</i>	<i>Immediate</i>	<i>Jo Worster – Team Leader, banking, payments and cashiering</i>
16.6	The list of approved purchase card suppliers be updated.	3	<i>Partially Agreed.</i> <i>The nature of purchase cards is to use for small purchases reducing the administration costs of setting up suppliers and raising purchase orders for small purchases.</i> <i>The list of approved purchase card suppliers to be removed from the Purchase Card Procedure and reviewed annually.</i>	<i>Immediate</i>	<i>Pete Smith – Procurement and Operational Support Manager</i>
16.7	Consideration be given to archiving supplier records once there have been no transactions for more than 18 months.	3	<i>Agreed.</i> <i>As part of financial year-end closedown procedures the City Accounts Team will provide NCH Finance with an annual report, which summarises all suppliers for which there have been no transactions in the previous 18 months.</i> <i>This will be used by NCH Finance to provide specific instruction to NCC as to which of their suppliers they wish to archive.</i>	<i>April 2009</i>	<i>Jo Worster – Team Leader, banking, payments and cashiering</i>

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OPERATIONAL EFFECTIVENESS MATTERS

Para. Ref.	Item	Management Comments
	No Operational Effectiveness Matters were raised.	

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

SCOPE AND LIMITATIONS OF THE REVIEW

6. The objective of the review was to assess the effectiveness of the key risk controls which provide assurance that the Payments system is operated in accordance with the requirements.
7. The review considers the arrangements for authorising and paying costs incurred by the Company and the arrangement for control of the Company's cheques and automated payments. The review will include obtaining an annual assurance certificate from Nottingham City Council for those elements of the system provided by the Council. The scope does not include providing an assurance that the expenditure was necessary or that value for money was achieved from the expenditure committed.
8. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
9. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

10. Details of the two Key Risk Control Objectives that were reviewed and the individual assessments of the effectiveness of the control arrangements are shown below (figure 2 below).

Figure 2 - Summary of the Evaluations of the Key Risk Control Objectives

Risk	Control	Assurance Assessment
Failure to direct the process through approved policy & procedures.	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	Reasonable Assurance
Losses arising from unauthorised action by staff.	Arrangements in place provide for safeguarding the Company's assets and interests from avoidable losses.	Substantial Assurance

11. This review identified and tested the controls that are being operated by the Company and an assessment of the combined effectiveness of the controls in meeting each of the Key Risk Control Objectives is provided. Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future. The assessments, which are based solely on the audit carried out are:

Substantial Assurance robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.



- Reasonable Assurance** reasonable number of internal controls in place, however may not be operated all the time.
- Limited Assurance** the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
- No Assurance** fundamental breakdown or absence of core internal controls.

MATERIALITY

12. The total amount of invoices authorised for payment in the current year to October is £12,009,953.

RELEASE OF REPORT

13. The table below sets out the history of this report.

Date draft report issued:	23 rd December 2008
Date revised draft report issued:	9 th January 2009
Date management responses recd:	26 th January 2009
Date 2 nd revised draft report issued:	30 th January 2009
Date final report issued:	4 th February 2009

- DETAILED REPORT -

14. Risk	Failure to direct the process through approved policy & procedures.		
Risk Control Objective	Arrangements in place provide for compliance with established policies, procedures, laws and regulations	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Reasonable Assurance</u>

15. The following matters were identified in reviewing the Key Risk Control Objective:
- 15.1 The Financial Regulations dated May 2008 detail the key controls relating to expenditure and payments.
 - 15.2 The Company's payment function is performed by Nottingham City Council. A Service Level Agreement is in draft stage with a view to being approved early in 2009.
 - 15.3 The Company's risk register does not make reference to the risks of: -
 - Late payments
 - Duplicate payments
 - Fraudulent payments
 - Payment / recording errors.
 (Recommendation 16.1 refers).
 - 15.4 There are no documented procedures in place for the processing of invoices and orders by the Finance Officers at Nottingham City Homes. (Recommendation 16.2 refers).
 - 15.5 Orders that have been raised through the One World System are also authorised through the same system. The user that approves the order must be different from the officer who raised the order and must be within the correct approval route. Financial approval limits are set up within the system in line with the Financial Regulations. These are requested by the Finance Manager at Nottingham City Homes and set up by the One World Team at Nottingham City Council. A full review of the access rights was completed by the Finance Manager in November 2008.
 - 15.6 Batches of invoices to be paid are input by the Finance Officers. This batch, together with a summary sheet, are sent over to Nottingham City Council for payment. Each invoice is supported by a form detailing the supplier number and expenditure code. These are input onto the payments system by the payments clerks where batch totals and documents input are verified.
 - 15.7 Orders that are raised through the ROCC system are manually signed off by the appropriate officer. For these orders a manual invoices input reconciliation sheet is completed and sent back to Nottingham City Homes as confirmation of the totals entered.
 - 15.8 A valid expense code must be entered at the point the order is raised. The One World system highlights where the budget will be exceeded by the approval of the order.



- 15.9 Cheques are printed from standard cheque stationery held and ordered by Nottingham City Council. The volume of cheque stationery held is monitored by the Finance Supervisor. Any cheques that are not posted out the same day are recorded by the remittance clerk at Nottingham City Council. These are signed for by whoever collects them. These must be known members of staff or provide suitable identification prior to the cheque being released.
- 15.10 All cheques that have not been presented are highlighted during the monthly bank reconciliation process completed by Nottingham City Council. Any that are older than six months are reported to the remittances section of the payments team who then cancel the cheques. Discussions with the Financial Controls and Payments team leader identified that two cheques raised on 11/04/08 and not presented by December 2008 had not been cancelled at the time of the audit review. (Recommendation 16.3 refers).
- 15.11 A stock of manual chequebooks are held in a vault at Nottingham City Council for use in the event of the payments system being unavailable. Although the payments system could be operated from a different site the BACS authorisation cards used are kept at Nottingham City Council offices. Contingency arrangements do not legislate for the office being unavailable. (Recommendation 16.4 refers).
- 15.12 Ninety-nine Natwest purchasing cards have been issued by the Company. A list of cards issued, with the maximum limits of individual transactions and monthly spending is held by the Procurement and Operational Support Manager. A list of leavers is supplied by the Human Resources Department to the Procurement and Operational Support Manager who cancels any Purchase cards held. These are also recovered at the exit interview. A file of completed application forms is held by the Procurement and Operational Support Manager. Sixteen of the cardholders had signed on receipt of the card but only a small number had signed the standard Purchase Card Employee Agreement form. (Recommendation 16.5 refers).
- 15.13 Monthly purchase card statements are downloaded by the Finance Officer and distributed to the responsible officers. The nominated responsible officer checks receipts against the statement and a Purchase Card Reconciliation Confirmation slip is completed as acknowledgement that all receipts are present, the expenditure is by the authorised employee and that legitimate suppliers have been used. A list of authorised suppliers is documented within the procedures but was noted to be out of date. (Recommendation 16.6 refers).
- 15.14 Requests to set up new suppliers are processed through the One World system and the name and address of the supplier are sent to the Procurement and Operation Support Manager. Requests for supplier name and address changes are processed through the One World system and are actioned by the One World team at Nottingham City Council. Changes to bank details are actioned by the remittances section of the payments team who require documentation from the supplier as support. Suppliers are not routinely removed from the suppliers list. (Recommendation 16.7 refers).

16. Recommendations:	Priority
16.1 The Company's risk register be amended to include reference to: - <ul style="list-style-type: none">• Duplicate payments• Late payments• Fraudulent payments	3

16.2	The payments procedures should be documented.	3
16.3	Ensure that all cheques not presented within the previous six months are identified and cancelled.	3
16.4	Arrangements be made by Nottingham City Council for a stock of manual cheques and a BACS authorisation card to be held off site.	2
16.5	All purchase cardholders be required to sign and return the Purchase Card Employee Agreement form.	2
16.6	The list of approved purchase card suppliers be updated.	3
16.7	Consideration be given to archiving supplier records once there have been no transactions for more than 18 months.	3

17. Risk	Losses arising from unauthorised action by staff.		
Risk Control Objective	Arrangements in place provide for safeguarding the Company's assets and interests from avoidable losses.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Substantial Assurance</u>

18. The following matters were identified in reviewing the Key Risk Control Objective:

Risk: Payment may be made without any goods or services actually being obtained by the Company.

- 18.1 The Finance Supervisor at Nottingham City Council holds a file of sample signatures.
- 18.2 Invoices are date stamped on receipt. The order number, supplier number and the initials of the officer carrying out an arithmetic check are recorded All invoices reviewed had been signed off as required.
- 18.3 No duplicate payments were noted from the sample checked.

Risk: Payments may be made to the wrong supplier.

- 18.4 All changes to supplier details reviewed were supported by correspondence received direct from the supplier detailing the changes required.

Risk: Inadequate security over cheques and other payment devices may lead to unauthorised payments being made with consequential financial loss to the Company.

- 18.5 A review of the highest monthly purchase card totals for September and October was carried out. All items were supported by receipts/invoices from the supplier.



Risk: Information is not held securely.

18.6 A full review of the access rights to One World was carried out by the Finance Manager in November 2008. A review of the authorisation limits set up within One World was conducted. All were found to be set up as per the Financial Regulations Financial Authorisation Matrix.

19.	Recommendation:	Priority
There are no recommendations.		
