



Internal Audit Report
Chief Executive's Service & Housing & Community Care
09/008 – Purchases / Creditors Ledger
May 2010

Final Report

Corporate Services
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Internal Audit Report

Background and Introduction

This assignment forms part of the approved audit plan for 2009/2010.

The audit encompassed a review of the Council's policies and procedures employed by its Services for the requisition, purchase, receipt, and payment of goods and services.

The review focussed on the use by Council Services of the eProcurement system, Professional Electronic Commerce On-Line System (PECOS), which is currently being implemented across the Council by the Project Manager (Procurement) in accordance with its Procurement Strategy. The intention is to replace the current paper based purchase orders used by Services in order to provide a faster, leaner automated process for the ordering and payment of goods and services.

PECOS is an internet based procurement system rolled out by the Scottish Government as part of its eProcurement Scotland programme. The system primarily contains catalogues from which Council Services and Educational Establishments can select items at prices negotiated by Scotland Excel on behalf of local authorities in Scotland to ensure best value is obtained. Orders and goods received notes are interfaced in to Integra, the Council's financial ledger system, for commitment accounting and payment of invoices.

It is envisaged by the Project Manager (Procurement) that the implementation of PECOS, which is due to be in operation Council wide by June 2011, will lend itself to other efficiencies in the purchase and payment process by means of the use of Procurement Cards and commitment accounting for the purchase orders processed through Integra, the Council's financial ledger system.

A sample of 64 purchase orders raised through PECOS between April 2009 and January 2010 were selected for testing.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of relevant management and staff in Education and Children's Services, The Environment Service, Housing & Community Care and Chief Executive's Service during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved.

Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

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Control Objective: To confirm that appropriate regulations, policies and procedures are in place for the requisition, purchases, receipt and payment of goods and services.	
Auditor's Comments: Appropriate regulations and procedures relating to the operation of PECOS and the Integra Financial System have been developed and issued to Council Services by the Project Manager (Procurement) and the Senior Exchequer Manager (Systems & Payroll) respectively, for the raising of requisitions and purchase orders including the receipt and payment in respect of goods and services. However, testing identified a number of Action Points which would assist the Council's Services achieve and maintain Best Practice standards, including compliance with the procedures referred to above.	
Strength of Internal Controls:	Moderately Strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

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Distribution

This report has been distributed to:

B Malone, Chief Executive

J Irons, Depute Chief Executive

J Symon, Head of Finance (Chief Executive's Service)

J Walker, Depute Director (Housing & Community Care)

M Mitchell, Corporate Procurement Manager, (Housing & Community Care)

S Scott, Senior Exchequer Manager, (Chief Executive's Service)

I Devlin, Design Manager, (Chief Executive's Service)

P Dickson, Complaints & Governance Officer

M Kay, Senior Committee Officer

External Auditor

Authorisation

The auditor for this assignment was RL Cockwell.

The supervising auditor was DA Farquhar.

This report is authorised for issue:

J Clark

Acting Chief Internal Auditor

Date: 28 May 2010

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Authorised Signatories List	Medium
2	Procurement Cards – Suppliers’ Delivery Notes	Low
3	Interdepartmental Journals	Low

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Appendix 2: Action Plan

Action Point 1 - Authorised Signatories List

The auditor reviewed the Council's authorised signatories list maintained by the Financial Services' Systems Development section to ensure the record was up to date.

Testing revealed that the data recorded was in accordance with returns from the Services, it was noted however, that the returns had been submitted over the period 2007 – 2010 and that the submissions utilised a variety of forms and formats.

The Senior Exchequer Manager (Systems & Payroll) confirmed that the list was not up to date at the time of the audit. She explained that a new database was being established to hold signatory lists and that while guidance notes on maintaining the database contents up to date using standard forms had been developed in May 2009 and issued to the Services, there had been a failure by the Services to employ the forms to ensure the maintenance of a complete, common and current authorised signatories database.

Management Action Plan

Standard documentation is available for use for the capture of Authorised Signatories from Services. The importance of the use of this form will be placed on the agenda of the Financial Controllers meeting.

The Systems team will ensure that the Authorised Signatories list is up to date.

Importance:	Medium
Responsible Officer(s):	S Scott, Senior Exchequer Manager (Systems & Payroll)
Lead Service:	Chief Executives, (Financial Services)
Date for Completion (Month / Year):	[1] July 2010 [2] September 2010
Required Evidence of Completion:	[1] Report to Financial Controllers meeting [2] Up to date Authorised Signatories list.

Auditor's Comments

Satisfactory

Action Point 2 – Procurement Cards – Suppliers’ Delivery Notes

Checks on the sixty four purchase orders revealed an absence of supplier’s Delivery Notes, which are required to confirm receipt of the goods and services, and support the payment to the vendors, for six of the orders relating to Procurement Card (PC) transactions.

In the absence of a delivery note it is not possible to confirm the nature and quantities of goods received match those contained in the purchase order. Equally, in the event of any dispute or the goods received becoming faulty, the lack of a vendor’s official delivery note may adversely impact on any claim made by the Council for replacement, refund or rectification, nor can payments made to vendors by means of a Procurement Card be properly supported.

Management Action Plan

[1] The Financial Controllers will be reminded of the requirement for all purchases to be supported by Delivery Notes or Goods Received Notes.

[2] The Purchase Order Best Practice Guidelines will be updated.

Importance:	Low
Responsible Officer(s):	S Scott, Senior Exchequer Manager (Systems & Payroll)
Lead Service:	Chief Executives, Financial Services
Date for Completion (Month / Year):	[1] July 2010 [2] July 2010
Required Evidence of Completion:	[1] Report to Financial Controllers meeting [2] Updated Purchase Order Best Practice Guidelines

Auditor’s Comments

Satisfactory

Action Point 3 - Interdepartmental Journals

As a result of testing, the auditor noted that the Council's Design Team had not raised its Interdepartmental Journals against the Chief Executive's Service for three of the orders totalling £6,772.49 for the provision of its goods and services for the months of August, October and December 2009.

Management Action Plan

[1] All Interdepartmental Journals for the financial year 2009/2010 have been completed.

[2] The Design Manager is to meet with the Manager, Central Accounting Services Team, to ensure that interdepartmental journals for 2010/11 are being prepared on a regular and timeous basis.

Importance:	Low
Responsible Officer(s):	I Devlin, Design Manager (Communications & Design)
Lead Service:	Chief Executive's Service,
Date for Completion (Month / Year):	[1] Completed [2] June 2010
Required Evidence of Completion:	Evidence that issues will be resolved for 2010/11

Auditor's Comments

Satisfactory

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