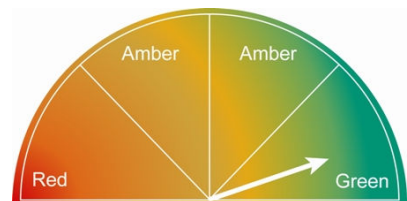


Cleveland Police Authority

Purchasing and Payments

Internal Audit Report (03.2011/12)
November 2011

Overall Opinion



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Debrief meeting	24 October 2011	Auditors	Ian Wallace, Director
Draft report issued	07 November 2011		Sue Turner, Senior Manager
Responses received	29 November 2011		Philip Church, Senior Auditor Leanne Brook, Auditor
Final report issued	29 November 2011	Client sponsor	Ann Hall, Assistant Chief Officer (Finance and Commissioning) Claire Hinnigan, Head of Corporate Finance Ged Gallagher, Lead Business Partner - Finance (Steria)
		Distribution	Kate Rowntree, Executive Staff Officer



This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Purchasing and Payments was undertaken as part of the approved internal audit periodic plan for 2011/12.

in the segregation of duties, approval of invoices and payments, and reporting of performance information were the key elements integrated into the review. As such, the audit looked to provide assurance that expenditure is controlled and authorised in accordance with the delegated responsibilities detailed in the Standing Financial Instructions (SFI).

There have been significant changes in the structure and systems used by the organisation since the last audit was performed 2008/09. The support functions have been outsourced to Steria to reduce the Authority's expenditure in light of reduced government funding allocation. In addition, since the transfer the financial records system has been changed to Oracle (previously Welcom) and I-Oracle (previously E-Procurement). The process for making payments and staffing has not changed since the previous audit ensuring stability and continuity is maintained.

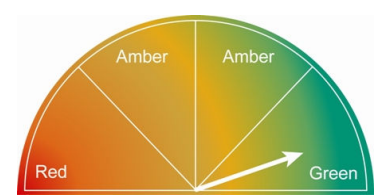
The organisation is subject to the Public Sector Payment Policy (PSPP). This performance and other KPI's which relate to the outsourced contract are monitored on a monthly basis by the Executive. The performance in relation to the payment of qualifying invoices over the past three months is as follows:

Payment of compliant invoices paid by due date.

Period	June 2011	July 2011	August 2011
Actual	76%	86%	95%
Target	75%	75%	75%
Minimum Target	60%	60%	60%
Financial Year to Date	85%	86%	87%

The table above shows that the internal target has been exceeded.

1.2 CONCLUSION



Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- Standing Financial Instructions (SFI) are in place to ensure that the financial affairs are conducted appropriately and that assets are safeguarded. The SFIs were updated and approved by the Audit and Internal Control Panel on the 21st April 2011.
- Procedural documentation is in place covering the purchasing and creditor payment functions

- A central Master file of approved suppliers is stored as part of the I-Oracle software. In order to request new additions to the file, a Purchase Ledger Supplier Form is completed by the individual and submitted to Commissioning and Financing Departments for appropriate due diligence checks to be performed. The supplier is added to the system once confirmation has been received from Commissioning and Finance and they have received appropriate bank account information from the supplier. The supplier is added to the system within two working days.
- A spread sheet is maintained that documents suppliers suitable for "Fast-Track" invoice processing.
- "Fast-Track" invoices are signed as authorised by the relevant Service Unit Manager. This is counter-signed to ensure segregation of duties in the approval process.
- Invoices are received by Finance and uploaded onto I-Oracle within five working days. The system matches the invoice to the purchase order and confirmation that the goods have been received before payment is released.

Application of and compliance with control framework

- The Standing Financial Instructions (SFI) detail the roles and responsibilities of staff for non-pay expenditure which include the requisitioning of goods & services, system of payment and payment verification, pre-payments and duties of managers and officers.

The purpose of the SFI is to:

- Ensure that the financial affairs of Cleveland Police are conducted properly and that assets are safeguarded;
 - Enable the Chief Constable & Assistant Chief Officer (Finance & Commissioning) to discharge their financial obligations and responsibilities; and
 - Provide a framework for the delegation of financial responsibility.
- All of the policies and procedures that cover creditor and payment functions are located on the shared drive. As a result these procedures are available to all relevant staff that are involved in creditor and payment functions.

The procedures that are currently on the shared drive are procedures concerning the use of the Welcom finance system. Due to the switchover from Welcom to Oracle in August 2011, the procedures have not yet been updated to reflect the new system. We verified that the procedures are in the process of being updated.

- We obtained a list of new suppliers which have been added to the finance system this financial year a sample of ten was selected.

In all ten cases:

- There was a Purchase Ledger Supplier Form available for review;
- Proof of bank account details were provided to finance and held on file; and
- Suppliers had been added onto the system within two working days.

Four out of the ten cases had received appropriate confirmation from Commissioning via a signature. After discussions with finance it was established that commissioning are not

involved in the cases of: reinstatement, Legal, Doctors and Interpreters. With the remaining six cases confirmation from commissioning was not required.

- There are specific areas which can use the Fast-track method of payment which bypass the normal ordering process. The areas are Fleet, Doctors, interpreters, telecoms and legal. Fast-track is also used for wage deductions. The process involves the area signing and coding the invoice, which is then passed to payments for Fast-track payment.

When selecting our sample of invoices, we selected six invoices that had been paid through the Fast-track process. For all six cases they were legitimate Fast-track invoices as they involved either: fleet administration, interpreters, wage deductions and telecoms. All six cases also showed that they had been signed and counter-signed in accordance with the authorised signatory list. Invoices processed without a purchase order is monitored and issues identified and addressed. The number of invoices which have been processed without a purchase order in June, July and August are as follows:

Period	June 2011	July 2011	August 2011
Actual	15%	19%	18%
Financial Year to Date	16%	17%	17%

- For a sample of fifteen invoices we tested to verify: there was an invoice available for review and that it had been processed in a timely manner, if the invoice details matched the purchase order details and the purchase order date was before the invoice date.

In all 15 cases there was an invoice available for review. However, only 14 cases had been processed on the system within five working days. After discussions with finance, it was established that there was a query with the order and the person who needed to be contacted with regards to the order was absent due to sickness. The percentage of compliant invoices processed within five working days for June, July and August 2011 are as follows:

Period	June 2011	July 2011	August 2011
Actual	90%	90%	90%
Target	90%	90%	90%
Minimum Target	72%	72%	72%
Financial Year to Date	91%	91%	92%

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- Testing was completed on a sample basis therefore we cannot provide assurance that all transactions are legitimate or valid or that policies and procedures have been complied with in all instances.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a System-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	0	0
Application of control framework	0	0	1
Total	0	0	1

The recommendations address the risks within the scope of the audit as set out below:

Area	Priority		
	High	Medium	Low
Procedural documentation and training	0	0	0
Purchase orders	0	0	0
Invoices and goods received notes	0	0	0
Payments	0	0	1
Reporting	0	0	0
Total	0	0	1

2 ACTION PLAN

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.1	Treasury management should email the cardholders to prompt them to return their signed and coded statement if the eight week deadline has passed. Evidence that this has been done should be held on file.	Low	No	<p>The implementation of Oracle had an impact on the timing of certain tasks; however purchasing cards were up to date before Oracle and are up to date as of the October statements.</p> <p>The amounts on purchasing cards are not materially significant. Any large missing transactions would be noticed as part of the regular general ledger reviews and monthly closedown process.</p> <p>The cards are paid by direct debit and authorisation of</p>	It has already been implemented.	Head of Finance

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
				transactions happens before the card is used.		

3 FINDINGS AND RECOMMENDATIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
	Area 1: Payments				
1.1	Purchasing expenditure is verified monthly for validity by the cardholder. These statements are signed as verified by the card-holder.	Yes	<p>After discussions with Treasury Management it was established that there were originally ten purchasing cards but two have been cancelled. As a result there are only eight active purchasing cards. It is the aim of the organisation to reduce the number of purchasing cards by the next financial year.</p> <p>From our review of the eight purchasing cards:</p> <p>For August one statement had been returned, which was signed and coded</p> <p>For July only three statements had been returned, which were signed and coded.</p> <p>After speaking with Treasury Management, it was established that the cardholders are given eight weeks to return the statements, which must be signed and coded. If they are not returned after eight weeks then they are sent reminder emails prompting them to return their authorised statements. However, due to the switchover to Oracle the outstanding statements have not yet been chased.</p>	Treasury management should email the cardholders to prompt them to return their signed and coded statement if the eight week deadline has passed. Evidence that this has been done should be held on file.	Low