

Audit Committee 13 March 2012

Internal audit report – Purchase Requisition System

Executive summary and recommendations

Introduction

Mazars have undertaken a review of the Purchase Requisition System, in accordance with the internal audit plan agreed by the Committee in March 2011. The report is attached as an appendix to this paper.

Decision

The Committee is asked to discuss the report.

Background information

None.

Resource implications

None.

Financial implications

None.

Appendices

Internal audit report.- Purchase Requisition System

Date of paper

1 March 2012



Internal Audit Report

**Core Financial Systems –
Purchase Ordering System
(PRS) (07.11/12)**

February 2012

FINAL REPORT

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AUDIT CONTROL SCHEDULE:

Client contacts	Tim Moore: Interim Director of Finance Charlotte Milner: Financial Controller Marc Seale: Chief Executive and Registrar	Internal Audit Team	Peter Cudlip: Partner Graeme Clarke: Director Peter Williamson: Assistant Manager James Sherrett: Senior Auditor
Finish on Site \ Exit Meeting:	15 February 2012	Management responses received:	23 February 2012
Draft report issued:	23 February 2012	Final report issued:	24 February 2012

In the event of any questions arising from this report please contact Graeme Clarke, Director, Mazars LLP graeme.clarke@mazars.co.uk

Status of our reports

This report is confidential and has been prepared for the sole use of the Health Professions Council (HPC).

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1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2011/12, we have undertaken a review of HPC's purchase ordering system.
- 1.2 This audit formed part of our rolling annual coverage of HPC's Core Financial Systems and will support the financial management objectives of HPC, the Statement of Internal Control within the financial statements, and inform the work of HPC's External Auditors.
- 1.3 We are grateful to the Finance department for their assistance provided to us during the course of the audit.
- 1.4 This report is confidential and for the use of the Audit Committee and senior management of the Council. The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

2. BACKGROUND

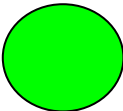
- 2.1 HPC uses an online system known as the Purchase Requisition System (PRS) for raising purchase orders, approving them and 'receiving' goods and services.
- 2.2 Users of PRS are assigned profiles and access rights in accordance with their job role and the HPC's authorised signatory and expenditure limits list. Administration of users, order values and compliance with signing-off purchase orders are maintained by the Finance Department. Administration of PRS service availability, speed and performance is carried out by the IT department.
- 2.3 Some purchases may be made outside of PRS using paper-based/manual purchase orders. These tend to be 'one-off' purchases or ordering of: stationery; office services such as key-cutting, florists and minor building maintenance; transcript writer costs; photocopying, scanning and associated costs with photocopying such as stapling, tags and collation; and, pro-forma invoices. Any such orders are required to be authorised in accordance with the authorised signatory and expenditure limits list.
- 2.4 HPC maintains an approved supplier list within a Lotus Notes database. Potential new suppliers are requested by budget-holders and must be reviewed and approved by both the Director of Finance and the Chief Executive before they can be added to the list. Any renewals of existing suppliers must also go through the same approval route. Only approved suppliers will be available for placing orders through PRS.

3. SCOPE AND OBJECTIVES OF THE AUDIT

- 3.1 Our audit considered the following risks relating to the area under review:
 - Unauthorised payments to organisations (*Risk 15.10, Risk Register, September 2011*);
 - Purchases of goods and services are not authorised appropriately resulting in financial loss to the Council; and
 - Financial losses arising from fraud or error, inefficient processing or inappropriate activity.

- 3.2 In reviewing the above risks, our audit considered the following areas:
- Financial Regulations, scheme of authorisation limits, policies and procedures relevant to purchase ordering;
 - Access rights/user profiles for PRS system and in-built authorisation levels;
 - Raising of purchase requests and authorisation of purchase orders;
 - Maintenance of the supplier database, authorisation and processes for setting-up suppliers and making amendments to suppliers' details;
 - Use of manual/paper purchase orders for 'one-off' payments to suppliers including review to confirm that 'one-off' payments are not repeated; and
 - Review of use of manual/paper purchase orders and whether these should be through PRS.
- 3.3 The objectives of our audit were to evaluate the adequacy of controls and processes for purchase ordering, and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.
- 3.4 We are only able to provide an overall assessment on those aspects of the controls and processes for purchase ordering that we have tested or reviewed. The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.

4. AUDIT FINDINGS: ONE PAGE SUMMARY

Assurance on effectiveness of internal controls	
	Substantial Assurance

Recommendations summary	
Priority	No. of recommendations
1 (Fundamental)	None
2 (Significant)	2
3 (Housekeeping)	2
Total	4

Risk management
<p>As identified in 3.1 above, HPC has identified a specific risk in this area.</p> <p>Mitigating controls for this risk include: requirement for the relevant signed purchase orders and invoices to support payments to preferred and one off suppliers, regular audits, pro-forma invoice register, segregation of duties; maintenance of the approved purchase order and invoice signatory list, PRS purchase orders have system pre-set approval routes; and Professional Indemnity & fidelity (fraud) insurance for first £100k of loss.</p> <p>We have reviewed these control measures as part of our audit and found the majority of them to be in place and operating effectively. We have, however, made one recommendation relating to the fact that budget holders can currently raise, authorise and receipt goods.</p>

Value for money
<p>The PRS system and HPC's Sage Finance system interface with and automatically update each other. This, combined with the clearly structured nature of PRS, helps to ensure that the raising and authorisation of purchase orders, the 'receipting' of goods and services and the payments to suppliers is an efficient and streamlined process.</p> <p>The use of paper-based/manual purchase orders for some purchases instead of PRS is likely to be less efficient than full utilisation of the electronic system.</p> <p>There is currently no interface between the Sage Finance system and Lotus Notes system which is used to hold the approved supplier database. Once approved on Lotus Notes, supplier details have to be manually entered to Sage. Maintaining two databases with supplier details is unlikely to be an efficient use of resources.</p>

5. SUMMARY OF FINDINGS

Overall conclusion on effectiveness and application of internal controls

- 5.1 Taking account of the issues identified in paragraphs 5.2 and 5.3 below, in our opinion the control framework for purchase ordering, as currently laid down and operated at the time of our review, provides **substantial** assurance that risks material to the achievement of HPC's objectives are adequately managed and controlled.

Areas where controls are operating effectively

- 5.2 The following are examples of controls which we have considered are operating effectively at the time of our review:
- HPC's Financial Regulations provide clear high-level details of the processes for purchase ordering, receipting and payment for goods and services within the organisation;
 - HPC has an up-to-date authorised signatories list for purchase orders and invoices which defines the authorised expenditure limits of budget-holders and is used to set User Profiles on PRS;
 - Proposed new suppliers are reviewed by the Director of Finance and Chief Executive and require approval by these prior to the suppliers being added to the approved supplier list; and
 - Renewals of suppliers on the approved supplier list require the same approval process as for new suppliers.

Areas for further improvement

- 5.3 We identified certain areas where there is scope for further improvement in the control environment. The matters arising have been discussed with management, to whom we have made a number of recommendations. The recommendations have been, or are being, addressed as detailed in the management action plan (Section 6 below).

6. ACTION PLAN

Risk 2: Purchases of goods and services are not authorised appropriately resulting in financial loss to the Council.					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> Review of the profiles of budget-holders found that they have access to carry out the following tasks on PRS:</p> <ul style="list-style-type: none"> - Raise a purchase order; - Approve the purchase order; and - Receipt goods/services. <p>Review of a sample of 24 purchases processed through PRS found six cases where this had happened.</p> <p>Given the matching process undertaken on invoicing, so long as the invoice matches the purchase order no further authorisation is required.</p> <p><i>Risk:</i> Lack of segregation of duties meaning that one person could raise a purchase order to a value within their authorisation limits, authorise the purchase order and 'receipt' the goods/service potentially resulting in errors and/or financial losses to HPC.</p>	<p>User profiles should be reviewed to ensure that there is appropriate segregation of duties built-in to the system.</p> <p>This could be achieved by changing the user profile of approvers so that they can no longer raise a purchase order and/or that they can no longer 'receipt' goods/services.</p>	2	<p>Agreed</p> <p>We will consider the best way to ensure segregation of duties.</p>	<p>TM</p> <p>10-03-12</p>

Risk 2: Purchases of goods and services are not authorised appropriately resulting in financial loss to the Council.					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.2	<p><i>Observation:</i> The procedures document 'Procurement Requisitions and Purchases' is a detailed set of procedures which set out the processes for all matters relating to the purchasing system and includes relevant screen-prints for illustrative purposes. The procedures are currently in draft format and are being reviewed and updated.</p> <p><i>Risk:</i> Staff are not aware of how to carry out their responsibilities and/or do so in an inefficient manner.</p>	<p>As planned, HPC should complete the update to the 'Procurement, Requisitions and Purchases' procedure document to ensure it reflects current practice.</p> <p>Once finalised, this should be communicated to all appropriate staff.</p>	3	<p>Agreed</p> <p>Completion of this procedures document is in hand and this will be finalised and submitted to the Finance and Resources Committee in April for approval.</p>	<p>TM</p> <p>31-03-12</p>

Risk 2: Purchases of goods and services are not authorised appropriately resulting in financial loss to the Council.

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.3	<p><i>Observation:</i> Amendments to suppliers' details, such as bank account details, will be made as and when notified by the supplier – for example, on an invoice. No additional checks are carried out to confirm that the changes are appropriate and legitimate.</p> <p>We have seen an increasing incidence of attempted and actual fraud being committed through change of supplier details across the public sector..</p> <p><i>Risk:</i> Amendments to supplier details are incorrectly processed potentially resulting in errors in payments to suppliers and/or inappropriate or fraudulent payments being made.</p>	HPC should amend its procedure for changes to supplier details to ensure any such requests are confirmed through a telephone conversation with the existing contact and/or registered address.	2	We only change suppliers' bank details if changes are confirmed in writing and these confirmations are kept in a file. We will now call or email to check the validity of the request	TM Immediate

Risk 2: Purchases of goods and services are not authorised appropriately resulting in financial loss to the Council.

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.4	<p><i>Observation:</i> Currently, paper-based/ manual purchase orders are completed for some purchases. These may include the following types of goods: stationery; office services such as key-cutting, florists and minor building maintenance; transcript writer costs; photocopying, scanning and associated costs with photocopying such as stapling, tags and collation; one-off suppliers; and pro-forma invoices.</p> <p>For many of these types of purchases PRS could be used.</p> <p><i>Risk:</i> Not utilising PRS for all purchases leads to inconsistent practices and potentially results in inefficiencies.</p>	<p>PRS should be used for purchases wherever possible.</p>	3	<p>Agreed</p> <p>We are including a review of PRS as part of our overall IT strategy for the future, which will cover these issues.</p>	<p>EMT</p> <p>FY 2012/13</p>

Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, HPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, HPC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.