THE POLICE AND CRIME COMMISSIONER FOR NORTH YORKSHIRE AND THE CHIEF CONSTABLE OF NORTH YORKSHIRE

Key Financial Controls

FINAL Internal audit report: 4.18/19

6 September 2018

RSM

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Debrief held	26 July 2018	**Internal audit team**	Daniel Harris, Head of Internal Audit
Draft report issued	7 August 2018		Angela Ward, Senior Manager
			Philip Church, Client Manager
Responses received	6 September 2018		Andrew Carter, Senior Auditor
Final report issued	6 September 2018	**Client sponsor**	Force – Chief Finance Officer
			Police and Crime Commissioner – Chief Finance Officer
		Distribution	Force – Chief Finance Officer
			Police and Crime Commissioner – Chief Finance Officer

1   EXECUTIVE SUMMARY

1.1 Background

As part of the internal audit plan for 2018/19 we have undertaken an audit on the key financial controls to ensure there is an appropriate framework and audit trail in place to manage the addition of new suppliers and changes to supplier details. In addition, we considered the workflows and segregation of duties in Oracle to ensure they are reflective of the organisations' structure and authority limits detailed in the Devolved Resource Management (DRM) Manual.

There are currently two staff in the Purchasing to Pay (P2P) team who are responsible for the creation and amendment to supplier details: P2P Manager and Senior P2P Officer.

New supplier requests can be raised by any staff or officer at the force by completing a new supplier form when creating a requisition. Suppliers initiate changes to details through a number of ways: direct e-mail to the P2P team, direct e-mail to other member of staff, letter received in the post and via invoice received.

Our review focussed on testing a sample of suppliers that had either been created or amended within the Oracle system and ensuring they were supported by adequate backing documentation and undertaken only by those authorised to do so.

1.2 Conclusion

Testing of a sample of created and amended suppliers found that they were not always fully supported by a clear audit trail and adequate supporting documentation detailing the changes undertaken and supporting reasons. Our testing of user authorities within the Oracle system found instances where it would be possible for individuals to create suppliers and authorise requisitions.

We have agreed **four medium** and **three low** priority management actions in relation to these findings. Further details of our findings and actions can be found in section two of this report.

Internal audit opinion:

Taking account of the issues identified, the Police and Crime Commissioner for North Yorkshire and the Chief Constable of North Yorkshire can take **reasonable assurance** that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied.

However, we have identified issues that that need to be addressed in order to ensure that the control framework is effective in managing this area.
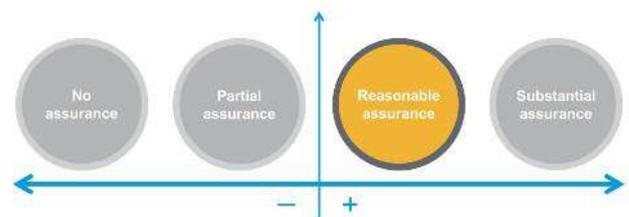
1.3 Key findings

The key findings from this review are as follows:

- We reviewed a sample of 25 suppliers created between April 2017 and July 2018 and found that in all cases these suppliers were created by a member of the P2P team (P2P Manager or the Senior P2P Officer) and that the details recorded on the Oracle system were supported by a source document that contained the supplier bank details.

- Review of all individuals with access to the payables manager module on Oracle found that there were nine individual accounts with access to either payables manager or NYP payables manager. Both of these roles enable individuals to amend supplier details; however, NYP payables manager is the Oracle module that gives full access to create suppliers and we confirmed all those with accounts required access to the module in order to carry out their role.

- We observed the payment run that took place on 25th July 2018. We confirmed that the Governance and VfM Manager undertakes a spot check of payments over £20,000 plus another five invoices chosen at random by them to ensure that these are not fraudulent or incorrect and then the payment run is processed via the BACS system by the Senior Accounting Technician. Cheques are signed by authorised cheque signatories – at present one individual up to £20,000 and then two signatories for any amount above this. The person signing the cheque also reviews the supporting documentation for every cheque signed.

We have agreed **four medium** priority management actions in relation to the following:

- A report of all supplier amendments and creations is produced from the Oracle system and checked that only those authorised have created these amendments. However, copies of this report are not retained and there is no independent verification of those who have created suppliers as the P2P Manager carries out this review.

- We reviewed a sample of 25 suppliers where an amendment had been made on the Oracle system since January 2018. All of the 25 amendments made were undertaken by either the P2P Manager or the Senior P2P Officer. For 23 supplier amendments where we could identify a change, they were supported by documentation for all those relating to change in e-mail address, address and bank details. For the two unidentifiable changes, Oracle does not maintain a log of changes made, therefore it was not possible to identify exactly what change had been made to the supplier details.

- Only the P2P Manager and the Senior P2P Officer create and amend supplier details and we reviewed their access to the purchasing element of the Oracle system. The Senior P2P Officer has nominal approvals levels up to 0.02p. The P2P Manager has the authority within Oracle for Standard PO Approval - £100,000, Internal Requisition Approval - £5,000, Purchase Requisition Approval - £20,000 and Blanket Purchase Agreement Approval - £20,000. Therefore, the P2P Manager would have the ability to set up a supplier and raise and approve requisitions up to £20,000. However, there is a default control setup within the Oracle system that those who raise requisition cannot then approve the same requisition but there is a risk that they could raise a fraudulent requisition.

- Discussions with the P2P Manager confirmed that there is currently no exception reporting undertaken on the setting of temporary delegation levels (vacation rules). As the individual sets up this rule within their own account they are responsible for ensuring that the delegation is appropriate. Oracle records the delegation in the approval chain of the purchase order therefore there is a trail of the purchase order approval.

We have agreed **three low** priority management actions and full details of our findings and actions can be found in section two of this report.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non-compliance with controls*		Agreed actions		
					Low	Medium	High
Supplier amendments	0	(3)	2	(3)	0	2	0
Workflows	1	(7)	4	(7)	3	2	0
Total					**3**	**4**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

2   DETAILED FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

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 internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
Area: Supplier amendments						
1	Suppliers initiate changes to supplier details through a number of ways: direct e-mail to the P2P team, direct e-mail to other member of staff, letter received in the post and via invoice received. A supplier details form is completed by the supplier, returned to NYP and passed to the	Yes	No	We reviewed a sample of 25 suppliers where an amendment had been made on the Oracle system since January 2018. All of the 25 amendments made were undertaken by either the P2P Manager or the Senior P2P Officer. For the 25 supplier amendments in our sample we found that there was a number of different reasons for these amendments: • three changes in e-mail address for PO; • one change to address; • seven changes to bank details; • three name changes on the Oracle system; • nine internal P2P team amendments; and	Medium	A detailed audit trail will be retained for all changes made within the Oracle system. **Responsible Officer:** P2P Manager **Implementation Date:** September 2018

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
	P2P Department for updating Oracle.			• two no identifiable change. For each of the 23 supplier amendments, where we could identify a change, there was supported by documentation for all those relating to change in e-mail address, address and bank details. For the three amendments that were made to the supplier name, due to the Oracle system not being able to have duplicate names, we verified that there was a new supplier setup under the same name on that date. For the nine internal P2P team amendments, there was no documentary evidence, however discussions with the P2P Manager identified that these amendments were due to purchase orders now being required for all suppliers and that this had been amended on the Oracle system. For the two unidentifiable changes, Oracle does not maintain a log of changes made, therefore it was not possible to identify exactly what change had been made to the supplier details.		
2	When changes are made to supplier details within Oracle an audit trail is maintained detailing who has	Yes	No	Discussions with the P2P Manager confirmed that she produces a report of all supplier amendments and creations and checks that only those authorised have created these amendments.	Medium	A supplier amendments and changes report will be run on a monthly basis and reviewed

Risk Exposure		Root causes			
Risk that erroneous or fraudulent amendments could be undertaken.		No fully documented audit trail of changes.			

Probability	Financial	Reputational	Operational	Legal	Rating
Probable	Negligible	Negligible	Minor	Negligible	5:8

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
	undertaken the change but not for what purpose. On a monthly basis, the P2P Manager undertakes a review of all supplier amendments and creations made in the Oracle system to ensure that they were created by authorised persons only.			We confirmed that the report is produced; although, copies of this report are not retained however it can be run at any time from the Oracle system to cover all periods. There is no independent verification of those who have created suppliers as the P2P Manager carries out this review. Our testing of created and amended suppliers confirmed that in all cases the details were amended by either the P2P Manager or the Senior P2P Officer over the period April 2017 to July 2018.		by the Head of Finance. **Responsible Officer:** Head of Finance **Implementation Date:** September 2018

Risk Exposure		Root causes			
Risk that erroneous or fraudulent suppliers could be created.		No independent checks undertaken on supplier creation or amendment.			
Probability	**Financial**	**Reputational**	**Operational**	**Legal**	**Rating**
Probable	Negligible	Negligible	Minor	Negligible	5:8

Area: Workflows

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
3	**Missing control** The DRM Manual details who is responsible for the creation and amendment of supplier bank details.	No	-	We reviewed the DRM Manual and could not find reference in relation to who is responsible for the creation and amendment of supplier details. The DRM Manual states that 'when initiating trading with a possible supplier it is the responsibility of that NYP representative to obtain the bank details of the supplier, using the NYP Suppliers Detail Form. This form should be completed by the supplier, returned to NYP and passed to the P2P team for updating Oracle Financials'. Whilst the DRM Manual states that the P2P team updates Oracle Financials, it does not explicitly detail the responsibilities for supplier creation and amendment. There are also no detailed procedures associated with this area. Discussions with the P2P Manager confirmed that whilst a process map has been developed i.e. back in 2011, this has not yet been updated and approved to reflect the processes currently in place.	Low	A process map will be developed and approved that fully details the supplier creation and amendment process. **Responsible Officer:** P2P Manager **Implementation Date:** December 2018

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
				We obtained the Service Review of the Procurement to Pay function and noted there were a number of accompanying process maps which document the requisition and purchasing none of these workflows covers the supplier process.		

Risk Exposure			Root causes		
Risk that individuals may not be aware of their roles and responsibilities.			No written procedures for the supply creation and amendment process.		

Probability	Financial	Reputational	Operational	Legal	Rating
Probable	Negligible	Negligible	Minor	Negligible	5:4

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management
4	Those staff who have responsibility for creating and amending supplier details have a limited role in the authorisation, requisition and purchase order approval process.	Yes	No	Only the P2P Manager and the Senior P2P Officer create and amend supplier details and we reviewed their access to the purchasing element of the Oracle system. The P2P Manager has the authority within Oracle to: • Standard PO Approval: £100,000 • Internal Requisition Approval: £5,000 • Purchase Requisition Approval: £20,000 • Blanket Purchase Agreement Approval: £20,000 The Senior P2P Officer has only nominal authorities, setup in order for the system to function: • Standard PO Approval: £0.02 • Internal Requisition Approval: £0.02	Medium	We will continue to allow approval but commission a report from PwC to show which PO requisition a particular user has authorised and show who authorised the resultant PO. We will Issue instructions where P2P Manager has authorised changes to purchase requisition they will no longer approve PO. **Responsible Officer:**

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management
				• Purchase Requisition Approval: £0.02 • Blanket Purchase Agreement Approval: £0.01 Therefore, the P2P Manager would have the ability to set up a supplier and raise and approve requisitions up to £20,000. However, there is a default control setup within the Oracle system based on levels within the hierarchy in the system that those who raise requisition cannot then approve the same requisition.		Head of Finance **Implementation Date:** September 2018

Risk Exposure	Root causes
Risk that an individual could raise a fraudulent requisition.	Individual can create suppliers and also undertake requisitions.

Probability	Financial	Reputational	Operational	Legal	Rating
Probable	Negligible	Negligible	Minor	Negligible	5:8

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management
5	All users have the ability to raise a requisition on the Oracle system, although not all users have the access rights to raise and approve purchase orders. Delegated limits are enforced on the Oracle system in line with the delegation scheme in place.	Yes	No	We reviewed the authorisation levels within the Oracle system for their compliance with the DRM Manual and the scheme of authorisation. There are only five roles that have access to authorise purchase orders on the Oracle system namely: • PCC: £500,000 • PCC Interim Chief Executive: £2,000,000 • PCC Chief Finance Officer: £2,000,000 • CC Chief Finance Officer: £2,000,000 • P2P Manager: £100,000 Within the DRM Manual at Section 12 creditors payments, there is no documented limits included in the section with regards to who can authorise purchase orders.	Low	DRM Manual to be reviewed to ensure that it reflects current practice. **Responsible Officer:** Head of Finance **Implementation Date:** December 2018

Risk Exposure	Root causes

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management

| | | | | Risk that an individual could authorise purchases for which they do not have approval. | DRM does not detail the limits for raising and approving purchase orders. | | |

Probability	Financial	Reputational	Operational	Legal	Rating
Probable	Negligible	Negligible	Minor	Negligible	5:4

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management
6	The Oracle system automatically enforces a hierarchy within the purchasing process that means a requisition must be approved by an officer in the next hierarchical group, making it impossible to approve an order or requisition raised by the same individual.	Yes	No	We reviewed the hierarchy in place for approving requisitions and purchase orders and confirmed that for all bar one individual the approval was to the appropriate individual manager in accordance with the hierarchy. For one individual, Customer Relationship Manager, we noted that the approver was temp default approver, purchasing. Discussions with the P2P Manager confirmed that this needed to be altered to the next individual in the approval hierarchy, Chief Finance Officer. The reason for the approval sitting with the temp default approver was that when the Chief Executive post was removed, these purchase orders were being held and not being processed a default account was setup to clear these. The temp default approver account is managed by the P2P team. Most individuals had been moved from this code, which is reviewed by the P2P team, however this one had not. We noted that the former Chief Constable was still included on the position report. Discussions with the P2P Manager confirmed this was due to the role needing to remain within the Oracle system as it is set on role not an individual name.	Low	Approver will be reviewed for the Customer Relationship Manager. **Responsible Officer:** P2P Manager **Implementation Date:** September 2018

Risk Exposure		Root causes	
Risk that approval for orders raised by individual are not appropriate.		Incorrectly allocated approver on Oracle system.	

Probability	Financial	Reputational	Operational	Legal	Rating

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications						Priority	Action for management
				Probable	Negligible	Negligible	Minor	Negligible	5:4		
7	Vacation rules are used in Oracle for an individual to set up a temporary delegation of their authority while away from the work place. The system then records the delegation in the approval chain, so reviews can be carried out. As an individual sets up this rule within their own account they are responsible for ensuring that the delegation is appropriate.	Yes	No	Discussions with the P2P Manager confirmed that there is currently no exception reporting undertaken on the setting of temporary delegation levels (vacation rules). As the individual sets up this rule within their own account they are responsible for ensuring that the delegation is appropriate. Oracle records the delegation in the approval chain of the requisition / purchase order, therefore there is a trail of the delegated approval. Two members of the P2P team have access to set up delegation rules where this has been forgotten by an individual – but this is only done with authorisation either from the individual by way of an email or through authorisation from a more senior officer to the individual concerned. The two individuals are the P2P Manager and Senior P2P Officer. The access within Oracle to undertake this is through workflow administrator workflow applications. We reviewed access to this workflow and confirmed that only the P2P Manager and the Senior P2P Officer have access.						Medium	We will look into commissioning a report which details vacation rules and who has to set them up. This will be reviewed by the P2P Manager on a monthly basis. Any vacation rules set up by the P2P team will be approved by email in advance by the Head of the Department or the Head of Finance. **Responsible Officer:** P2P Manager **Implementation Date:** December 2018

Risk Exposure			Root causes		
Risk that individuals may delegate approval to those not in line with the scheme of authorisation.			No review of delegations made under vacation rules.		
Probability	**Financial**	**Reputational**	**Operational**	**Legal**	**Rating**
Probable	Negligible	Negligible	Minor	Negligible	5:4

APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objectives of the area under review
There is an appropriate framework and audit trail in place to manage the addition of new suppliers and changes to supplier details.

Areas for consideration:

We will review the control framework in place for managing the creation of suppliers on Oracle and how amendments to supplier details are actioned. In particular, we will consider the following:

- Review the creation of new suppliers including the approval and independent checks performed of details entered. We will review documentation to support the creation / approval of the supplier.

- Review the process to amend supplier details including the approval and independent checks performed of the details entered. We will review documentation to support the amendment and verification with the supplier.

    We will also consider the audit trail within Oracle to determine who and when the changes have been made.

- We will consider the workflows within Oracle for the following:

    ➢ this is reflective of the DRM Manual;

    ➢ it is reviewed at regular intervals e.g. leavers and temporary changes in grade;

    ➢ staff with administrative access; and

    ➢ users with the ability to sign off significant stages of the purchasing process.

Limitations to the scope of the audit assignment:

- We will perform limited testing on the application of the control framework.

- We will not verify changes made to supplier details are accurate.

- We will not confirm all users have been removed from Oracle.

- We will not review the purchasing process as part of this review.

- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Force Chief Finance Officer
- Head of Finance
- P2P Manager
- Senior P2P Officer

Documentation reviewed during the audit:

- Oracle Access Reports
- Oracle Supplier Amendment and Creation Reports
- P2P Review Report

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