



**Item: 12**

**Monitoring and Audit Committee: 6 June 2024**

**Internal Audit Report – Creditors**

**Report by Chief Internal Auditor**

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**1. Overview**

- 1.1. The internal audit plan 2023/24 included a review of Creditors, this audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The system for payment of creditors for purchases is one of the most important financial systems within the Council. The Council has implemented a Purchase to Pay (P2P) system which is aimed at ensuring that both purchases and payments are subject to authorisation and made in line with the Council's Financial Regulations and Contract Standing Orders.
- 1.3. There are additional processes for purchases which feed into the P2P system. These consist of the New Horizon system, small purchase order books and the Concerto system. Transactions within these systems do not have a purchase order generated in P2P, but the associated invoices are subject to approval using the P2P system.
- 1.4. The objective of this audit was to review the accuracy, completeness, authorisation and validity of transactions related to the acquisition of goods and services.
- 1.5. The audit provides Adequate assurance that processes and controls relating to Creditors are well controlled and managed.
- 1.6. The internal audit report, attached as Appendix 1 to this report, includes four medium priority recommendations regarding adherence to the financial regulations, the use of purchase orders, and the use of the New Horizon system and small order books. There are also two low priority recommendations regarding recording what goods have been ordered and splitting invoices. There are no high priority recommendations made as a result of this audit.

## 2. Recommendations

2.1. It is recommended that members of the Committee:

- i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the accuracy, completeness, authorisation and validity of transactions relating to the acquisition of goods and services, in order to obtain assurance that action has been taken or agreed where necessary.

### For Further Information please contact:

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### Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** None.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** None directly related to the recommendations in this report.
6. **Island Communities Impact:** None directly related to the recommendations in this report.
7. **Links to Council Plan:** Not Applicable.
8. **Links to Local Outcomes Improvement Plan:** Not Applicable.
9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** None directly related to the recommendations in this report.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

### List of Background Papers

Internal Audit Plan 2023/24

### Appendix

Appendix 1: Internal Audit Report - Creditors



## Internal Audit

### Audit Report

### Creditors

**Draft issue date: 24 April 2024**

**Final issue date: 16 May 2024**

<b>Distribution list:</b>	<p><b>Corporate Director for Enterprise and Sustainable Regeneration</b></p> <p><b>Corporate Director for Neighbourhood Services and Infrastructure</b></p> <p><b>Head of Finance</b></p> <p><b>Head of Property, Asset Management and Facilities</b></p> <p><b>Head of Neighbourhood Services</b></p> <p><b>Head of Improvement and Performance</b></p> <p><b>Service Manager Payments</b></p> <p><b>Service Manager Corporate Finance</b></p> <p><b>Service Manager Catering</b></p>
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## Audit Opinion

Based on our findings in this review we have given the following audit opinion.

**Adequate**

**Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.**

A key to our audit opinions and level of recommendations is shown at the end of this report.

## Executive Summary

The objective of this audit was to review the accuracy, completeness, authorisation and validity of transactions related to the acquisition of goods and services. The audit addressed various systems involved in purchasing and paying within the Council, including the Purchase to Pay (P2P) system, the purchase ledger in Integra, New Horizon - purchasing and stock control system, Concerto – the repairs and maintenance control system, small purchase order books and the operation of the BACS system for payments.

Several areas of good practice were identified during the audit including:

- Invoices are only accepted by the Payments section if they appear to be legitimate, and show the required details, i.e. the supplier, the quantity and details of the works, goods or services provided, the value of the invoice and, where appropriate, a VAT registration number. Any unusual invoices received are checked with the team leader or Senior Manager Payments.
- Purchase orders within the P2P system are authorised before they are issued. There is good segregation of duties between the raising of the purchase order and the authorisation of the order prior to it being sent to the supplier.
- For transactions within the P2P system, invoices are only paid once a goods received note has been received, and they have been through an automatic invoice matching process. Other transactions are manually matched and posted to the purchase ledger.
- Manually entered invoices or those without a purchase order are returned to the relevant service who identify an appropriate authoriser, with sufficiently high authorisation level to cover the full invoice amount, who checks the invoice and then authorises it.
- There is an established timetable and protocol for processing invoices for payment, which is followed strictly. Once invoices have been matched or authorised, they are paid in a timely manner.
- There are established processes with guidance notes for pre-authorised transactions, special and exceptional payments, and where purchase order amendments and cancellations are required.

Our audit also identified concerns around compliance with procedures and Financial Regulations which are included with the audit recommendations. The report includes six recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
6	0	4	2

The assistance provided by officers contacted during this audit is gratefully acknowledged.

## Introduction

The system for payment of creditors for purchases is one of the most important financial systems within the Council. The Council has implemented a Purchase to Pay (P2P) system which is aimed at ensuring that both purchases and payments are subject to authorisation and made in line with the Council's Financial Regulations and Contract Standing Orders. This system works in tandem with the Integra financial reporting system.

The system was initially introduced in 2019 and has been gradually rolled out across the services within the Council since. All services should have adopted P2P fully with effect from November 2023.

There remain additional processes for purchases which also tie into the Integra financial reporting system. These consist of a) the New Horizon system, used predominantly by Neighbourhood Services and Infrastructure (NS&I), b) small purchase order books used by NS&I, and some catering operations, and c) the Concerto system used for booking repairs for the Council estate. Transactions within these systems do not have a purchase order generated in P2P, but the associated invoices are subject to approval using the P2P system.

The objective of the audit is to review the accuracy, completeness, authorisation and validity of transactions in relation to the acquisition of goods and services.

This review was conducted in conformance with the Public Sector Internal Audit Standards

## Audit Scope

The scope of this audit included a review of the following:

- The procedures and internal controls in place for the creditors system.
- That purchase orders are raised and separately authorised in accordance with the authorisation limits, Financial Regulations and Contract Standing Orders.
- That payments are made only for goods and services which have been subject to purchase orders or other procurement processes.
- That payments are made only for goods and services which have been or will be received.
- That all invoices are properly authorised and passed for payment and paid in a timely matter.
- That payments are made to valid creditors.
- That payments are correctly recorded in the financial statements.

The audit work focused on the 2022/2023 financial year. Financial year 2023/2024 has been used as a comparator where relevant.

# Audit Findings

## 1.0 Financial Regulations and Key Performance Indicators

- 1.1 The current Financial Regulations were issued in July 2019. Sections 10, 11 and 12 of the Regulations deal with purchasing of, orders for and payments for works, goods or services. Section 11 requires that orders are issued in advance for goods and services, are made in writing and are made in line with delegated purchase authority. However, at present the Regulations do not reflect the separate authorisation of the purchase order within the P2P system. The audit work identified a number of areas where Financial Regulations were not being followed (detailed in the relevant areas below).
- 1.2 The Regulations are currently in the process of being updated, and amendments will include those required to bring the Regulations into line with the P2P system. It is recommended that the issuing of the revised Financial Regulations is accompanied by Council wide communications highlighting the requirement for all Officers of the Council to adhere to the Regulations and Contract Standing Orders, the consequences of a breach of the Regulations, and the necessity for Officers to familiarise themselves with the relevant sections which apply to their role.

### Recommendation 1

- 1.3 The number of invoices that were submitted accurately and paid within 30 days of the invoice date as a proportion of the total number of invoices paid forms part of the cross Council generic performance indicators, within the Local Government Benchmarking Framework. These figures are reported monthly within the Finance team and are reported on twice a year to the Corporate Leadership Team and relevant Service Committee.
- 1.4 The target set for the Invoice Payment performance indicator is 90%. In the most recent set of figures reported the results for the Directorates were between 81.9% and 91.8%.

### No Recommendation

## 2.0 Systems and Authorisation Levels

- 2.1 Purchases form part of the records within the Integra financial system. Access to Integra generally and to specific areas of the system is recorded on a control report which is reviewed regularly by the Finance and Corporate Systems Officer (FCSO) and Financial Systems Manager (FSM). Data and records on the system are regularly backed up and held securely as part of the overall IT and back-up systems for the Council.
- 2.2 The FCSO and FSM are notified of new starters by the employee's line manager, and receive three separate forms of notification of personnel changes which allow them to amend or remove access to the Integra system, and set authorisation levels appropriately.
- 2.3 The Integra system does not allow staff members to authorise payments in Integra which exceed their authorisation level.
- 2.4 Controls around the access to the financial system and the authorisation levels are operating satisfactorily.

### No Recommendation

### 3.0 Purchases - Overview

3.1 During financial year (FY) 2022/23, there were 51,201 purchase invoice records on Integra. Figure 1 below shows these, split into the various categories of transactions; the first four categories are where a P2P purchase order would not be expected and the final category where we would expect to see a P2P purchase order.

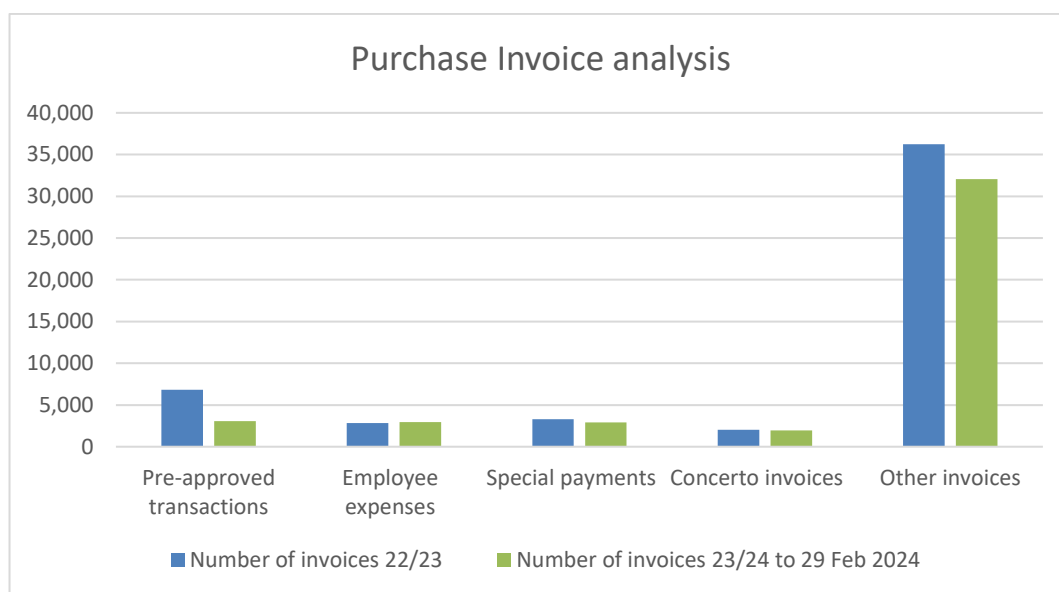


Fig.1 Purchase Invoice Analysis

3.2 The 'Other Invoices' consist of invoices where we would expect a P2P purchase order plus invoices received in respect of New Horizon purchase orders (discussed further at 5.6 below). However, analysis work for FY 2022/23 has highlighted that, in addition to the approximately 800 invoices in respect of New Horizon, there are approximately 11,700 invoices without a purchase order. From audit discussions we understand that the number of New Horizon purchase orders is lower in FY 2023/24, but our analysis has shown that there are still substantial numbers of invoices without purchase orders in the 11 months of FY 2023/24. The results of this are shown in Figure 2 below, demonstrating that there has been effectively no movement in the percentage of invoices which do not have a purchase order.

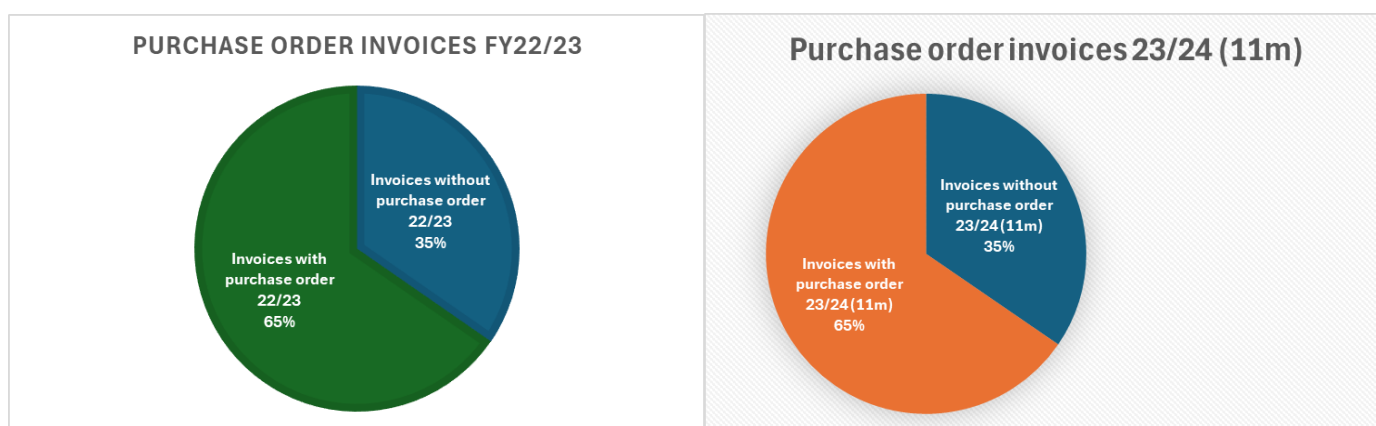


Fig.2 Split of invoices purchase order to non-purchase order

3.3 The authorisation of the purchase order, i.e. that any order is subject to review before it is placed, is a key part of the improved controls offered by the P2P system. The appropriate authorisation of purchase orders allows the budget holder more oversight and control on how their budgets are spent in advance of the Council being committed to the transaction. It is



disappointing that approximately a third of transactions which should have been initiated via a purchase order continue to be undertaken without them. For clarity, these figures exclude the categories where purchase orders were never expected.

- 3.4 It appears that the process for exceptional purchases, i.e. where a purchase order is not expected, is being used for many transactions where a purchase order could and should have been used. This undermines the operation of a key control, intended to ensure compliance with the Financial Regulations and Contract Standing Orders, and to allow management oversight and control of expenditure.
- 3.5 It is recommended that the Head of Finance issue a Council wide communication highlighting the necessity for using purchase orders wherever possible, and that non purchase orders be restricted to exceptional circumstances as originally intended. In addition, it is recommended that there is regular monitoring of the use of the exceptional purchases processes, and this is reported to the relevant Corporate Directors.

## **Recommendation 2**

### **4.0 Purchase orders – P2P**

- 4.1 Our audit work found that details of purchase orders being generated within the P2P system are predominantly in line with the requirements for 'Official Orders' as set out at Regulation 11.2 of the Financial Regulations. The system is sufficiently flexible to deal with both minor movements in price between order and invoice dates, and invoices issued on part fulfilment of an order.
- 4.2 However, in the course of audit testing a number of catering orders were found to be phrased in overall terms such as 'supplies for', and the details of the goods ordered were included in the email submitting the order to a supplier. These emails were not being recorded with the order in the Integra system. This is not in accordance with the Financial Regulations at 11.2.5, which require that the '*nature and quantity of goods or services to be supplied are clearly stated **on the order***'.
- 4.3 The control within the system of having full purchase order details within the Integra system allows the person authorising the payment of an invoice to ensure that the goods or services are as requested. The failure to include the details with the order are undermining the operation of this control.
- 4.4 It is recommended that the Service Manager for Catering highlights to all catering staff the need to submit a record of what goods have been ordered as part of the supporting record for orders placed.

## **Recommendation 3**

### **5.0 Purchase Orders – non P2P**

- 5.1 There are three systems for purchases where non P2P purchase orders are used: a) transactions within the New Horizon system, b) transactions using small purchase order books and c) transactions within the Concerto repairs system. The percentage of total purchase orders taking place outside the P2P system has fallen from 21.3% in FY 2022/23 to 17.0% in the first 11 months of FY 2023/24, with substantial reductions in orders using both New Horizon and the small purchase order books. The details of each system are set out in Table 1 below.

System	2022/23	2022/23	2023/24	2023/24 (11m)
	Value (£)	Percentage of total number of invoices (%)	Value (£)	Percentage of total number of invoices (%)
New Horizon	1.661m	5.6	1.970m	4.3
Small purchase order books	227k	8.3	263k	4.7
Concerto	11.897m	7.4	11.610m	7.9

Table 1: Transactions using purchase orders outside P2P system

- 5.2 For each of these systems, the purchase orders are raised and issued by a single staff member, and do not require separate authorisation of the purchase order before submission to the supplier. The outcome of this is that the authorisation for the expenditure on the purchase through these systems is happening after the goods are received, at the point at which an invoice is received from the supplier. As noted at 3.3 above, purchase order authorisation is an improved control offered by P2P which is not offered by these systems which predate P2P. There is a resulting risk that budget holders have less oversight and control of expenditure, and that expenditure is not in line with the priority of the budget holder. Specific issues identified by our audit work on the systems are highlighted in the relevant sections below.

## Concerto

- 5.3 For the Concerto system, our audit testing identified that controls around a) the agreement of invoices to purchase orders within Concerto, and b) the transfer of invoices from Concerto to the Integra system are working satisfactorily.
- 5.4 However, audit testing also identified two instances, from a sample of 10, where transactions which would have exceeded the authorisation limit of the building inspector concerned have been split across two invoices. This is in contravention of section 2.2.4 of the Financial Regulations.
- 5.5 Relevant Budget Holders within the Property, Asset Management and Facilities Section should regularly review transactions which amount to more than £10,000 in total to ensure that invoice splitting is not taking place.

## Recommendation 4

### New Horizon

- 5.6 New Horizon is the system currently used for large 'stock' orders by NS&I, and was used during the period under review. The system has continued to be used after the introduction of Integra and P2P on the basis that Integra had no stock control system or costing systems available at that time. The New Horizon system is also used for fleet management and job costing in addition to stock purchases and control.
- 5.7 Audit testing of 15 randomly selected purchase orders from New Horizon (1.8% coverage) showed that whilst order details were agreed to goods received and invoices, and subsequently correctly recorded in Integra, 5 of those sampled had a purchase order dated after the goods / services were supplied or the date of the invoice. It appears that purchase orders were added to New Horizon after the goods or services have been delivered and invoiced for. This is in contravention of section 11.2.2 of the Financial Regulations.

- 5.8 In addition, from audit discussions, we understand that alternative stock control and costing modules are now available for the Integra system. Further, we understand that the vendor support currently in place for New Horizon is likely to end in the short to medium term (1-2 years). From discussions with the ICT Service Manager, we understand that once that happens, the hosting of the New Horizon system on the OIC network introduces an unacceptable level of potential weakness to the OIC system.
- 5.9 To allow sufficient time for the adoption of a replacement system, undertake appropriate training, and minimise disruption to operations, it is important that the process of moving from New Horizon is undertaken proactively whilst vendor support is still in place.
- 5.10 It is recommended that in order to address the potential risk to the wider OIC network with sufficient time to allow for adoption of a replacement system and the resultant training requirements, and the failure to comply with Financial Regulations in respect of New Horizon purchase orders, the replacement for New Horizon should be sourced and implemented in line with the timescale agreed.

#### **Recommendation 5a**

- 5.11 In addition, it is recommended that monitoring is undertaken to ensure that Financial Regulations are complied with, that purchase orders are raised before the goods are received or invoice received wherever possible, and that where not possible, the existing P2P process for non-purchase order invoices is followed.

#### **Recommendation 5b**

### **Small Purchase Order Books**

- 5.12 As shown in Table 1 above, during the period under review, there was still substantial use of small purchase order books, predominantly by the NS&I directorate. Large scale use of small order books by the Roads and Fleet services within the NS&I directorate ceased in November 2023, so after the period under review.
- 5.13 As of 21 March 2024, 43 small purchase order books had been issued by NS&I in FY 2023/24. Of these, 11 had been fully utilised, 18 had been partially utilised and 14 had not yet been started. These 'active' order books represent a minimum of 718 potential transactions.
- 5.14 During the course of audit work, we observed that although the security of the small order books within Roads and Fleet is generally good, and most are kept in locked drawers, some books including unused orders were stored on a shelf within a storeroom office. This presents a risk that unauthorised staff could acquire and use the small order books to acquire goods for personal benefit.
- 5.15 During audit discussions we were made aware that historically on rare occasions, blank signed orders had been issued to suppliers, with the intention that the details were completed by the supplier on the order before invoicing. However, no evidence of this practice was identified in audit testing. In addition, for purchases on the Outer Isles, orders were occasionally issued by staff who did not have a purchasing authorisation limit. Although in the latter case, the order is counter signed by someone with an appropriate authorisation limit before the invoice is authorised for payment, both of these practices are in contravention of the requirements of Section 11 of the Financial Regulations.
- 5.16 Accordingly, controls around the security, authorisation and specification of goods ordered using small purchase order books are not operating as required.

- 5.17 We recommend that the use of small purchase order books ceases with effect from 30 June 2024, and that all unutilised or part utilised books are returned to Finance for storage. In addition, it is recommended that services impacted by this change make alternative arrangements to ensure that they are following the Financial Regulations through implementing the effective use of the P2P system.

## **Recommendation 6**

### **6.0 Goods Received**

- 6.1 Once goods have been received, and it has been confirmed that they will be kept, the P2P system requires that a Goods Received Note (GRN) is completed. Invoices cannot be paid until the GRN is completed. The GRN can be completed by anyone with access to the relevant general ledger.
- 6.2 For New Horizon, small purchase order books and Concerto, the responsibility for confirming the receipt of the ordered goods or services rests with the staff member who raised the purchase order.
- 6.3 Our audit testing has confirmed that controls in place to ensure that payments are made only for goods which have been received are operating as intended.

## **No Recommendation**

### **7.0 Invoice Checking Pre-Payment**

- 7.1 Invoices received by the Payments section are scanned and put through a process which attempts to automatically match them to a goods received note. Any matched invoices are automatically uploaded to the Purchase Ledger ready for the next payment run.
- 7.2 Invoices which are not matched automatically are manually matched by the Payments team who review the invoices and allocate them to an appropriate Authoriser for certification. The Payments team review will also look at invoice details such as supplier details, quantity ordered and the amount to pay, as well as the accuracy of the arithmetic, presence of a valid VAT number and the VAT status.
- 7.3 Our audit testing in this area confirmed that the invoices sampled which had been matched automatically or manually by the Payments section were arithmetically correct and had the correct VAT details. Whilst a prior audit had highlighted an issue with correctly identifying the VAT status of services, sample testing work in this audit did not identify any further examples of this. We understand that a VAT manual is currently in development which will assist staff in identifying the correct VAT treatment.
- 7.4 For the small purchase order books, a copy of the original order is sent to the Payments section, and manually matched with the invoices once received in line with 7.2 above.
- 7.5 Audit testing was undertaken on invoices in respect of 'special payments', where the relevant invoice is required to be suitably authorised before payment. Audit work showed that controls around the authorisation of the payment of special payments are operating correctly.
- 7.6 Invoices in respect of works, goods or services requested through the Concerto system are agreed to the relevant order by the building inspector who certifies the invoice for payment. The certified invoices are then batched and passed to the payments team. Our audit testing indicated that controls around the agreement of invoices to purchase orders within Concerto are operating satisfactorily, and that the controls in respect of the transfer of invoice details from Concerto to the Integra system are working satisfactorily.

7.7 However, audit testing also identified two suppliers providing a number of Electrical Installation Condition Reports, where the total transactions exceeded £10,000. Further work in the area of procurement on these contracts has been undertaken as part of the audit of Works, Inspection and Repairs, and the results included in the report for that audit.

**No Recommendation**

## **8.0 Payments**

8.1 Payments are made on a weekly timetable. The payments file is validated on Thursdays by the Payments section and is uploaded as the 'Pre-submission payments update' file on Fridays. This file is then passed to the accounts team for payment via the BACs system. The BACs payment request is made on Monday by the accounts team and payments are usually made by the bank on Wednesday.

8.2 The BACs system generates error reports in respect of payments which identify the area in which the error in information has occurred. Usually this is sort codes or account numbers and usually arises because there has been an account closure or incorrect details have been supplied. The accounts team then notify the relevant team of the failure of the payment. The relevant team then investigate the error and include the corrected details in the next payment run. There is no suspense account, so the money is transferred back to the general account whilst the issue is being resolved.

8.3 Any exceptional or suspect payment requests are reported to the Payments team leader or the Service Manager, who then raises a query with the Service Manager of the area to which the invoice is to be charged. As noted above, the authorisation levels allocated to staff members do not allow them to authorise a payment over the limit set for them in Integra.

8.4 Where monthly supplier statements are received, they are reviewed to ensure that they can be reconciled to the records in Integra. Where invoices are outstanding, or the supplier contacts the Payments section to highlight an unpaid invoice, a copy invoice is requested and put through the standard process for authorisation, ensuring that the relevant invoice date will be that of the original invoice.

8.5 In addition to payment for goods or services acquired on an ad hoc basis, there are periodic payments such as licence or maintenance agreements. Most periodic payments are in respect of transactions which would have been subject to the procurement process as the total contract value is higher than £10,000. Any invoices in respect of these transactions received by the Payments section, are passed to the appropriate staff member for authorisation.

8.6 Our audit testing confirmed the following:

- The payment cycle is being correctly adhered to throughout the year.
- Requests made from the Payments team to the Accounts team via the Pre-submission listing update document are being successfully actioned.
- For all samples selected, relevant payments and credit notes could be traced to appropriate source documents.

8.7 Controls in respect of payments are operating satisfactorily.

**No Recommendation**

## Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1 It is recommended that the issuing of the revised Financial Regulations is accompanied by Council wide communications highlighting the requirement for all Officers of the Council to adhere to the Regulations and Contract Standing Orders, the consequences of a breach of the Regulations, and the necessity for Officers to familiarise themselves with the relevant sections which apply to their role.</p>	Medium	Agreed	Head of Finance	30 June 2024
<p>2 It is recommended that the Head of Finance issue a Council wide communication highlighting the necessity for using purchase orders wherever possible, and that non purchase orders be restricted to exceptional circumstances as originally intended. In addition, it is recommended that there is regular monitoring of the use of the exceptional purchases processes, and this is reported to the relevant Corporate Directors.</p>	Medium	<p>Agreed in part.</p> <p>Communication will be issued as soon as possible. The preferred ordering system across the Council is now Purchase to Pay (P2P), and all officers purchasing goods and services should use this system as default.</p> <p>Discussion with the Financial Systems Manager to identify how a report can be generated to track the use of the exceptional purchase processes, with the aim of adding this to the regular reporting of purchase statistics to CLT.</p>	<p>Head of Finance</p> <p>Service Manager Payments</p>	<p>30 June 2024</p> <p>30 June 2024</p>

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
3 It is recommended that the Service Manager for Catering highlights to staff within the relevant part of the service the need to submit a record of what goods have been ordered as an attachment to the order submitted.	Low	Agreed – Service Manager Catering to communicate requirement to all kitchen staff.	Service Manager Catering	Action completed, 15 May 2024
4 Relevant Budget Holders within the Property, Asset Management and Facilities Section should regularly review transactions which amount to more than £10,000 in total to ensure that invoice splitting is not taking place.	Low	Agree with the recommendation. Service Managers within the Service have been advised that invoice splitting must not take place, and that they need to take responsibility for checking this does not happen.	Head of Property, Asset Management and Facilities	Action completed, 15 May 2024
5 a) In order to address the potential risk to the wider OIC network with sufficient time to allow for adoption of a replacement system and the resultant training requirements, and the failure to comply with Financial Regulations in respect of New Horizon purchase orders, the replacement for New Horizon should be sourced and implemented in line with the timescale agreed.	Medium	<p>The replacement of the New Horizon system has been an objective for some time, but progress has been stalled due to the complexity of the system, which is extremely bespoke. Given the known risks with this system work to discuss the movement of stock control to Integra will start urgently, with the intention of an agreed plan by 2024/25, and project completion by the end of 2025/26.</p> <p>The full replacement of New Horizon is agreed in principle, not least because of the ongoing lack of resilience in terms of external system support. As above, this is highly complex and will be considered at the same time as the work on stock</p>	<p>Corporate Director for Neighbourhood Services &amp; Infrastructure</p> <p>Financial Systems Manager</p>	<p>Discussion with Finance re moving stock control to Integra and confirmation of approach – December 2024</p> <p>Identification of resources to implement this plan to be brought to CLT for review – March 2025</p> <p>Implementation of plan – March 2026</p>

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
		control. A separate plan for the full review and cessation of the use of New Horizon will be brought forward in due course, and managed outwith the recommendations of this report.		
5b In addition, it is recommended that monitoring is undertaken to ensure that Financial Regulations are complied with, and that purchase orders are raised before the goods are received or invoice received wherever possible, and that where not possible, the existing P2P process for non-purchase order invoices is used.	Medium	Agreed	Service Manager (Customer Services & Corporate Admin) / Head of Neighbourhood Services	31 August 2024
6 It is recommended that the use of small purchase order books ceases with effect from 30 June 2024, and that all unutilised or part utilised books are returned to Finance for storage.  In addition, it is recommended that services impacted by this change make alternative arrangements to ensure that they are following the Financial Regulations through implementation of, and effective use of, the P2P system.	Medium	All schools are already using the P2P system and small purchase order books are no longer in use.  Agreed in principle, but with the proviso that there could be difficulties, especially in some of the ferry linked isles where suppliers are not set up, or able to accept, P2P.  NSI will work on this and flag back to Finance should there be any problems in implementation to see if there are any other ways to move this forward	Service Manager Catering  Corporate Director for Neighbourhood Services & Infrastructure	30 June 2024  30 September 2024



## Key to Opinion and Priorities

### Audit Opinion

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### Recommendations

Priority	Definition	Action Required
<b>High</b>	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
<b>Medium</b>	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
<b>Low</b>	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.