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Information Commissioner's Office

Internal Audit 2012-13: Financial Reviews – IT Contract Invoice Processing

Last updated 05 September 2012

Distribution		Timetable	
For action	Head of Finance	Fieldwork completed	29 June 2012
	Finance Manager	Draft report issued	9 July 2012
For information	Audit Committee	Management comments	30 July 2012
		Final report issued	30 July 2012

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Glossary

- 1** The following terms are used in this report:
- 4** ICO – Information Commissioner's Office
IS – Information Systems
IT – Information Technology
PO – Purchase order
PR1 – Purchase requisition form
- 7**
- 9**

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It is the responsibility solely of ICO management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

1 Executive Summary

1.1 Background

In accordance with our agreed internal audit plan for 2012-13, we have delivered a review of the Information Commissioner's Office's (ICO's) arrangements for the processing of invoices relating to the information technology (IT) contract it holds with Capita

The ICO outsources its IT infrastructure and support to Capita, a relationship which is managed and developed by the ICO's in-house Information Systems (IS) team.

The ICO currently spends about £4 million each year on this contract which covers both contractual services and development projects. Our review focused specifically on the controls around the authorisation of invoices from Capita.

1.2 Scope

Our review focussed on the following sub risks:

- The ICO may not operate and comply with appropriate policies and procedures for the review and approval of invoices relating to the IS contract with Capita, resulting in the payment for goods and services which may not have been fully received and/or have been provided to lower standards than agreed.

We reviewed the processes for IT Procurement Change control in 2011-12 and made one medium priority recommendation and four low priority

recommendations. We have followed up on the implementation of those recommendations as part of this review

Further details on responsibilities, approach and scope are included in Appendix A.

1.3 Internal Audit Opinion

Design effectiveness	
Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management	Green
Operating effectiveness	
Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable but not absolute assurance that the related risk management objectives were achieved during the period under review.	Green

Refer to Appendix B for definitions of internal audit opinion and recommendation ratings.

1.4 Key findings

Risk	High	Medium	Low	Improve't
The operation of and compliance with appropriate policies and procedures for the review and approval of invoices	-	-	2	1
Total	-	-	2	1

Further details of our findings and recommendations are provided in Section 2.

1.5 Basis of opinion

During our review we identified of the following areas of good practice:

- The ICO's purchasing guide sets out the purchasing process to be followed and the responsibilities of budget holders for ensuring that quantity and prices stated on invoices are correct and the quality of goods and services is satisfactory.
- All invoices reviewed in our sample testing had a control slip in place. These slips were completed with evidence of manager confirmation that the goods/services had been provided to the agreed quality and quantity.
- From our discussions with managers within the IS team who are responsible for approving invoices, it was clear that each of them understood the level of review required to enable them to authorise the payment of the invoices.
- The IS service contract with Capita is paid on a monthly basis. The cost of the service that is provided changes each month due to the scope of the services required and the quality of service provided by Capita. The Head of IT uses a spreadsheet to keep track of the costs being incurred. When authorising the invoice, the Head of IT checks the invoice amount to the spreadsheet to confirm it is consistent with his record.

- The ICO receives service credits where the service provided by Capita does not meet the required standard. A set of performance criteria is in place, and the IS team reviews performance against these criteria to determine the level of service credit that is due. The credit amount is agreed at the monthly contract performance meeting between the ICO and Capita. When reviewing the invoice for the service provided, the Head of IT confirms that the service credit applied to the invoice matches the amount agreed in the meeting.
- The ICO is also provided with goods and services outside of the main Capita contract. A review of a sample of invoices showed that all invoices had purchase request and commitment forms (PR1) in place, signed by the Head of IT, and that these had been raised in advance of the receipt of the invoice. The PR1 forms confirmed that the item being requisitioned was not a change to the main Capita contract and therefore did not require a contract change note.
- The ICO's ICE project represents a significant proportion of the IS department's expenditure outside of the main service contract. The Senior Operations Analysis and Development Officer maintains a spreadsheet setting out the budgeted, forecast and actual costs, including a log of the days worked by Capita staff and a log of PR1s. This spreadsheet is used by the IS department to identify any outstanding invoices.
- Our review confirmed that invoices are reviewed for quality and quantity. The service invoiced for was checked against the record maintained by the IS department. For the sample selected we were able to reconcile the amounts invoiced to the tracking spreadsheet maintained in IS.
- We can also confirm that all recommendations made in the IT Procurement Change control review in 2011-12 have been implemented.

1.	Executive summary
2.	Detailed Findings Appendices

1.6 Elsewhere in the sector / Points of interest

We detail below other ways of working and commonly occurring issues that we have experienced during similar types of reviews for other public bodies. The following does not necessarily purport to be good practice but is included for your information and consideration.

- When forming agreements with suppliers for services, the agreed contract states requirement for timesheets to be provided to support any invoices to allow reconciliation between hours undertaken and hours billed.

1.7 Acknowledgement

We would like to take this opportunity to thank the staff involved in for their co-operation during this internal audit.

2 Detailed Findings

2.1 The ICO may not operate and comply with appropriate policies and procedures for the review and approval of invoices relating to the IS contract with Capita, resulting in the payment for goods and services which may not have been fully received and/or provided to lower standards than agreed.

1.	Low	Request for timesheets to evidence work undertaken by Capita staff
Finding and Implication	Proposed action	Agreed action <i>(Date / Ownership)</i>
<p>Invoices from Capita state the days provided by staff and on which project. The ICO's IS department keeps an attendance record of external contractors working on projects to allow them to reconcile the invoiced amount to their records.</p> <p>Some of the resource provided, such as those for the Eduserve project, are situated offsite, and the IS department do not have visibility of the staff working on this project and are unable to independently verify the time worked.</p> <p>Therefore when assessing the reasonableness of the invoice they must form an opinion on the work completed and the estimated time this would take to allow them to assess the quality and quantity of work undertaken.</p>	<p>The ICO should determine whether it is allowable in the contract terms to seek timesheets (or timesheet data) from Capita to substantiate the time worked by Capita staff to support invoices for staff provided and if so request copies to substantiate amounts charged by Capita.</p> <p>If not, as part of its IT procurement exercise, the ICO should seek to include a clause giving it access to request timesheet data to support invoices.</p>	<p><i>For all new POs raised for work on a T&M basis, consideration will be given at the time of raising the order how best to validate actual time spent on activities.</i></p> <p><i>Call off arrangements entered into in the past year include a mechanism for reporting time used.</i></p> <p><i>New contracts arising from IT procurement – The draft contract has been checked and does contain provision for "Supporting Documentation" to substantiate invoices as well as an Audits mechanism.</i></p> <p><i>Date Effective: 24/7/2012</i></p> <p><i>Owner: Head of IT</i></p>

2.	Low	Security controls over the contract cost monitoring spreadsheets
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p>As the cost of the IS service contract changes each month due to changes to the scope of the services required and the quality of service provided by Capita, the Head of IT uses a spreadsheet to keeps track of the costs being incurred.</p> <p>The Senior Operations Analysis and Development Officer also maintains a spreadsheet setting out the budgeted, forecast and actual costs of work outside of the main contract with Capita, including a log of the days worked by Capita staff and a log of PR1s. This spreadsheet is used by the IS department to identify any outstanding invoices.</p> <p>However the spreadsheet does not operate security controls over the spreadsheet, such as the password protection of the file to prevent unauthorised or unintended access and amendment of data.</p>	<p>The ICO should password protect the cost monitoring spreadsheets using functionality within the MS Excel software to minimise the risk of unintended or unauthorised access of the file.</p>	<p><i>These spreadsheets are held in the Meridio EDM system. They were kept locked by the Head of IT to avoid them being updated by anyone else.</i></p> <p><i>The access rights have now been amended to restrict update access to the Head of IT</i></p> <p><i>Date Effective:24/7/2012</i></p> <p><i>Owner: Head of IT</i></p>

3.	Improvement	Agreement of service charge credits
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Finding and Implication	Proposed action	Agreed action (<i>Date / Ownership</i>)
<p>The service credits for the baseline service provided by Capita are agreed in a monthly performance meeting between Capita and the Head of IS.</p> <p>The meetings are minuted and the minutes record when the service charge has been agreed. The minutes do not, however, consistently record the agreed amount.</p> <p>Due to the nature of the service credit and the level of discretion involved in its agreement, minuting the agreed amounts will provide a clear trail of the agreement reached so that there is no disagreement of the agreed value as part of the invoicing process.</p>	<p>Minutes of Capita performance management meetings should include the service credit amount agreed.</p>	<p><i>Agreed. Head of IT will check minutes contain sufficient detail before issuing</i></p> <p><i>Date Effective:24/7/12</i></p> <p><i>Owner: Head of IT</i></p>

A Internal audit approach

Approach

Our audit was carried out in accordance with the guidance contained within the Government's Internal Audit Standards and the Auditing Practices Board's 'Guidance for Internal Auditors'. We also had regard to the Institute of Internal Auditors' guidance on risk based internal auditing (2005).

Our internal audit approach is based upon the underlying principles of the UK Corporate Governance Code (2010) together with the associated Turnbull Committee guidelines on internal control (2005) that require management to identify, assess and manage the risks that are significant to the achievement of the organisation's overall business objectives. We will also have regard to the HM Treasury Management of Risk Guidance (2001). Our role as internal auditor is to provide objective and independent assurance to the Audit Committee and management that it is doing so successfully for each of the areas being audited.

As part of our 2012-13 Audit Plan, we agreed with the Audit Committee and management that we should carry out a review of the ICO's arrangements for approving invoices from Capita in respect of IT and IS services to further inform our ongoing understanding of the ICO's key internal control activities.

Our aim in completing this audit was to ensure that the ICO has appropriate arrangements in place to identify, manage and report on risk.

We achieved our audit objectives by:

- agreeing the principles and benefits of effective risk management arrangements with management;
- meeting with key staff to gain an understanding of the arrangements in place, building upon the information we have already gained through our audit planning process;
- reviewing key documents that support the processes in place; and
- comparing existing arrangements with established best practice and other guidance.

The findings and conclusions from this review will support our annual opinion to the Audit Committee on the adequacy and effectiveness of internal control arrangements.

Scope

Our review focused on the following risks:

- The ICO may not operate and comply with appropriate policies and procedures for the review and approval of invoices relating to the IS contract with Capita, resulting in the payment for goods and services which may not have been fully received and/or provided to lower standards than agreed.

Additional information

Client staff

The following staff were consulted as part of this review:

- Andrew Cryer, Head of Finance
- David Wells, Head of IS
- Andrew Jarvis, Senior Operations Analysis and Development Officer

Locations

The following locations were visited during the course of this review:

- The Information Commissioner's Office, Wilmslow.

B Definition of internal audit opinion and ratings

Internal audit opinion

Design effectiveness	Opinion	Operating effectiveness	Rating
We have not been able to form an opinion on whether the internal controls examined have been designed to achieve the risk management objectives required by management	No opinion can be given	We have not been able to form an opinion on whether the internal controls examined were operating to provide reasonable assurance that the related risk management objectives were achieved during the period under review	No opinion can be given
Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management	Green	Those activities and controls were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review	Green
Overall, we have concluded that, except for the specific weaknesses identified by our audit, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.	Amber	Except for the controls listed below those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.	Amber
Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.	Red	Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review	Red

Audit issue rating

Within each report, every audit issue is given a rating. The ratings are summarised in the table below.

Rating	Description	Features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"> Key control not designed or operating effectively Potential for fraud identified Non compliance with key procedures / standards Non compliance with regulation
Medium	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"> Impact is contained within the department and compensating controls would detect errors Possibility for fraud exists Control failures identified but not in key controls Non compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"> Minor control weakness Minor non compliance with procedures / standards
Improvement	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> Information for department management Control operating but not necessarily in accordance with best practice



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