

## FINANCIAL CODE 3

# INTERNAL CONTROL AND AUTHORISATION

### 1. Background

This Financial Code gives advice on internal control and authorisation. All Chief Officers are required to ensure the principles outlined are incorporated in the working practices of their Department and Services.

### 2. Internal Control

2.1 Internal controls are the safeguards put in place to ensure that the Council's business is conducted in an orderly and efficient manner, its policies adhered to, its assets protected and its records complete and accurate.

2.2 Internal controls will vary from one part of the Council to another according to things such as the type of activity, the size and volume of transactions and geographical distribution. However, in all situations three types of internal control are to apply as a minimum.

2.3 Firstly, it must not be possible for one person to be able to influence a financial transaction from inception to completion. There must be a **separation of duties** between individuals such that a transaction is progressed in stages by different people. For example, orders could be prepared by one person, received and checked off by a second person, and invoice settlement handled by a third. The separation of duties must be more than notional to pass this requirement — it is not enough simply to involve another person working under the direction of the first. An effective separation of duties requires the parties to be independent of one another.

2.4 Secondly, financial transactions must be subject to **internal check** within each stage to reduce the likelihood of errors. If a spreadsheet is used to calculate amounts to be raised by the Council or a series of supplier accounts are settled by a composite invoice for example, it should be obvious that input prepared by one person has to be checked by another. However, internal check extends to all situations including those where relatively little preparation is involved. It is also important that the control is evidenced, so the person undertaking the work and the person checking it both need to endorse (sign or record agreement to) the documents involved.

2.5 Thirdly, there must be regular **management review** of financial transactions. This is over and above budget monitoring and involves action to prove the record of expenditure or income to independent statistics or performance. This can be a difficult control to implement but it is one of the most worthwhile. It should be built into administration through the use of quarterly reports, management returns etc rather than applied *ad hoc*.

**3. Authorisation**

3.1 There are a number of principles used to ensure that the authorisation of financial transactions is appropriate including the following: -

- The authority to undertake/authorise financial transactions on the behalf of the Council should only be provided to officers in appropriate positions and who have the capability, training and support required to do so in a competent manner in compliance with the Council's agreed policies and regulations,
- Authorisation levels should be influenced by levels of seniority and responsibility and there should be clear escalation arrangements in place to ensure that higher value transactions require authorisation by senior officers,
- Authorisation levels should be set to support the effective progression of anticipated activity with a limited level of additional flexibility. These levels should not be set at levels designed to cover unusually high transactions which may occur on an irregular basis which should instead be escalated to more senior officers,
- There should be a level of consistency in the application of authorisation levels across Directorates/Services and these arrangements should be subject to review and maintenance by all Executive Directors, Assistant Directors and Heads of Service with the support of the Chief Financial Officer.

3.2 The Enabling and Customer Services Committee agreed that the following limits on authorisation levels should be applied across all Services.

- The Chief Executive and Executive Directors – should not exceed £2M,
- Assistant Directors and Heads of Service – should not exceed £1M,
- Service Managers – should not exceed £100k,
- Others – should not exceed £20k.

*These limits cover both revenue and capital transactions, orders, contracts etc. A record of Directorate authorisation limits is recorded on the Council's Budget Management Structure Chart agreed and maintained by the Chief Financial Officer – see Financial Code 1.*

3.3 The Council has to be sure that it only enters into transactions that are appropriate and necessary. To achieve this, it requires all financial transactions to be authorised before being executed. The purpose of authorisation is for accountability rather than for accuracy, which should be addressed through internal check prior to authorisation.

3.4 In authorising financial transactions an officer is accepting the burden of responsibility for them. They are confirming that, through their own enquiries or as a result of the work of their staff, they are satisfied the following are true: -

**for orders**

The Council's Procurement Standing Orders must be complied with when ordering goods or services. These Standing Orders state that the goods or services must be relevant to the Council's needs, in type and quantity; are being procured at an appropriate combination of price and quality from a reputable, independent source; and there are sufficient uncommitted funds available from the relevant budget to pay for the item(s); This instruction applies equally to orders raised through the Integra RSS e-Procurement system, or any other purchase ordering system; as well as orders made against a purchase/credit card.

***for receipts***

Services are also responsible for the timeous processing of receipts on the Integra RSS system. Receipting should be done as soon as goods or services are received to ensure invoices are matched and paid quickly.

***for invoices (including interim contract payments)***

It is the authorising manager's responsibility to ensure that for any goods, services or works ordered, that the goods, services or works were subsequently fully received into the custody of the Council; they were in good condition or met the required quality standard; that the liability to pay properly falls on the Council and is a legitimate expense; the price paid is consistent with the order details or other contractual arrangement with the supplier; the invoice has not previously been paid; and the costs have been analysed across valid and appropriate codes in the Council's accounting records;

***Urgent Payment Requisitions***

The purpose of Urgent Payments/Cheque Requisitions is to provide a means of making a **'one-off' payment at short notice where an invoice cannot be provided**. The Urgent Payment Requisition procedure cannot be used to request imprest/petty cash, employee wages, employee travelling/training expenses etc. as other procedures are already in place to deal with these claims. Services must carefully consider the appropriateness of submitting an Urgent Payment/Cheque Requisition, rather than a more mainstream payment method; and if in doubt consult with the Purchase Ledger Team.

***for advance agency payments (for care services)***

The requirement to pay arises from a decision of the Council or equal authority; the service is being and will continue to be provided to the required standard from the locations agreed; the amounts involved are consistent with the service agreement, funding schedule or contract between the parties; and there have been no breaches in the terms of the agency arrangement which warrant a retention.

***for accounts receivable (including sundry debtors)***

The account represents the sum due for a requested service or supply, a statutory fee, or the extent of an undischarged debt; it is for the maximum amount obtainable under the current scale of charges; it is neither understated nor overstated; payment has not previously been rendered; and there is no reason to believe the amounts will not be paid or cannot be recovered.

***for timesheets***

Timesheets processed for payment through MiTTS must be approved by an authorised signatory to confirm work has been completed before the claim is entered into MiTTS. It is the responsibility of the authorising service to keep copies of the timesheets for audit purposes.

Electronic timesheet claim forms submitted by employees through MyDetails and approved by reporting managers through MyPeople (after the required accuracy checks are completed) do not require hard copy documentation to be completed as the audit trail of the claim process is retained within iTrent.

***for expense claims***

Electronic Travel and Subsistence claim forms submitted by employees through MyDetails must be approved by reporting managers (after the required accuracy checks are completed). These claims do not require hard copy documentation to be completed as the audit trail of claim process is retained within iTrent.

***for imprest claims***

The expenditure was incurred on necessary items which could not have been procured in a more cost-effective way; is fully supported by till receipts or other reliable vouchers retained locally; is allocated to valid account codes within the remit of the officer's responsibilities; and the records of the imprest have been inspected and the cash in hand checked recently (within the last 3 months, at most).

***for journal entries/internal recharges***

Journal entries can be carried out by manual journal entry facility in Integra FMIS or sent to Finance XLF Mailbox (large excel journals only) for processing. When entering a journal, the following information must be input: Raised By (person who requested journal to be processed) Authorised By (budget holder authorising journal or Finance Officer – this should be a different individual to who raised the journal) and Entered By (This should be name of person who physically enters the information into the system). The person entering the journal should ensure the authorisation backup is retained for production for internal or external audit. The back-up information and/or the working papers must be of a quality that would allow an independent officer to establish why the journal was posted. For non XLF journals, the authorisation backup should be forwarded with the request to carry out the journal so it can be added to Integra when the journal is processed.

When carrying out journal transfers between budget holders areas of authority, there must be authorisation of this transfer from the budget holders or other relevant officer who can agree a transfer, for example Finance Officer. When forwarding the journal for processing to the XLF mailbox this must be accompanied with the following statement "The transactions/charges in the attached journal have been agreed with the relevant officers and require no further authorisation."

***For purchase/credit cards***

The purchase card monthly transaction statement on the RBS Smart Data On-Line system must be approved by the nominated approver before the 15<sup>th</sup> of the month deadline date. In authorising financial transactions an officer is accepting responsibility for them and confirming that, through their own enquiries or as a result of the work of their staff, they are satisfied that the transaction is appropriate.

3.5 It follows from the above that an officer can only be asked to authorise a transaction where they have knowledge of its circumstances; they are given access to the documents supporting it; and they are in a position to challenge it. It is not appropriate for an officer to authorise a transaction where these conditions are not met.

3.6 It is also the case that an officer may not authorise a transaction in which they have a personal interest.

3.7 Officers authorising an electronic transaction, for example in the Integra Purchase Ledger/Integra RSS/Integra Sales Ledger, should follow the same principles laid down in this Financial Code when considering whether to authorise a transaction or not.

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3.8 A record of Directorate authorisation limits is recorded on the Council's Budget Management Structure Chart agreed and maintained by the Chief Financial Officer.

3.9 The iTrent Reporting Manager role is responsible for approval of Annual Leave, Timesheet and Travel and Subsistence claims, Contractual changes, and Leaver notifications.

3.10 **Creditor Records – New Supplier** – Services requiring the creation of a new supplier on Integra, must complete a New Supplier e-Form Request on Integra FMIS. All fields on the *e-Form* form must be completed. It is Council policy to pay all creditors by Bacs so bank details must be obtained from the company before payment is made. The e-Form contains a downloadable form to send to Suppliers for all details to be provided.

3.11 The e-Form must be approved by an authorised signatory. The form will then be sent to Procurement for final approval before being sent to Purchase Ledger Team for processing. The Purchase Ledger Team will then create a new Creditor Reference on Integra and the system will inform the department of the appropriate reference to apply when processing a transaction through the system.

3.12 **Amendments to Creditor Record** – Services requesting an amendment to a creditor record must complete all fields on the *New Supplier e-Form "Amendment area"*. Any changes to a creditors bank account must be sent to the Purchase Ledger Team immediately, to avoid any payments being made to the wrong bank account. Independent confirmation of updated bank details will be obtained by Purchase Ledger Team using existing contact details before any changes to bank details are actioned. The same applies to a change of address if the company or individual is paid via cheque. Again, back-up paperwork i.e. a copy of the invoice must be attached to the e-Form when submitting the request.

#### 4. Internal Control and Authorisation for Dumfries and Galloway Integrated Joint Board

4.1 The Public Bodies (Joint Working) (Scotland) Act 2014 sets a legal framework for combining health and social care in Scotland. This legislation requires each Health Board and Local Authority to delegate some of its functions to new Integration Authorities. For Dumfries and Galloway, this is an Integration Joint Board. Dumfries and Galloway Integrated Joint Board was legally established on 3 October 2015.

4.2 The Integration of Health and Social Care services requires all partners to work together in new ways to support transformational change at all levels of their organisations. This challenge applies equally to internal control and authorisation issues whereby NHS employees may be required to authorise purchase orders or invoices being funded from DandG Council Budgets and or on Council financial systems such as Integra or Mosaic.

4.3 This Code recognises that relevant NHS employees who have a budgetary control role for the Dumfries and Galloway Integrated Joint Board, should have the ability to authorise orders and invoices funded by Council budgets and or carry out an authorisation role on Council systems.

4.4 These IJB officers with "crossover" budget responsibility should be recorded on the Council's agreed Budget Management Structure.