

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE1 March 2018Report by Head of Business Change & RevenuesUPDATE ON INVOICE PAYMENTS IN EAST RENFREWSHIRE COUNCIL**INTRODUCTION**

1. This paper aims to update the Audit and Scrutiny Committee on the review and redesign of invoice processing within East Renfrewshire Council.

BACKGROUND

2. Detailed reports were considered by the Audit & Scrutiny Committee in January and August 2017 on the background, review and redesign of invoice processing within East Renfrewshire Council. In August it was agreed to provide a further update to the Committee.

3. In recent years, the Council has had a position in the lower quartile of national performance for the percentage of invoices paid within 30 days. This has been reported to Members as part of regular performance updates.

4. At the time of last reporting, through a comprehensive programme of service redesign there had been a substantial improvement in invoice payment performance and there were a considerable number of change and improvement projects underway or completed. The Committee also discussed the background to some issues of audit and compliance that had affected the invoice payments process and the mitigating actions being taken.

IMPROVEMENT IN NATIONAL PERFORMANCE INDICATOR

5. For a number of years, we have experienced issues with the national performance indicator (PI) on invoice payments, which forms part of the CIPFA and Local Government Benchmarking frameworks. Performance has been in the bottom quartile nationally. There are some real concerns that this indicator is not calculated on a like for like basis across councils and our own interpretation of the PI has been particularly stringent.

Figure 1 - Percentage of invoices paid by ERC within 30 days, annual figures

2013/14	2014/15	2015/16	2016/17
79.5%	84.6%	57%	71%

6. Since centralisation of invoices in January 2017 the figures have improved. Figures can now be calculated on a 'date received' basis, which is a much more accurate reflection of performance than the 'invoice date plus 2 days' method which had been recommended by auditors given data reliability issues for the past 2 financial years. Unaudited figures for 2017/18 to date are:

Fig. 2 – Percentage of invoices paid by ERC within 30 days, quarterly figures 2017/18

Q1 April-June 2017	Q2 Jul-Sept2017	Q3 Oct-Dec 2017
90.7%	90.4%	91.3%

7. For context, the Scottish average for 2016/17 was 93.08% with the average of the top quartile performers at 96.5% (Dundee was the top performer at 97.2%).

8. Routine management information is now provided twice weekly to departments. This allows early action to be taken on any invoices that look likely to miss payment deadlines. Directors and the Chief Executive receive monthly invoice figures by department.

AUDIT & COMPLIANCE ISSUES

9. There were 2 key audit and compliance issues reported to Audit and Scrutiny Committee in August. These concerned: 1) the setting aside of checks for changes to supplier details which led to an attempted fraud and 2) a historical issue of duplicate payments.

10. Following these issues we have implemented a range of measures to ensure a critical focus on financial control and accuracy. Audit & Scrutiny Committee members received a copy of the detailed Internal Audit action plan on the invoice payments process in December 2017. This action plan is progressing well and is on track to complete within agreed timescales. All high priority audit actions were completed by December.

11. Whilst the ultimate aim is for continued performance improvements; staff have been given the clear message that this should not come at the cost of reduced accuracy or financial control and that these remain paramount at all times.

12. Our goal is of course for error-free invoice payments and we are monitoring this carefully. The Institute of Management reports that the normal error rate in invoice processing is between 1% and 5%.

13. An experienced Compliance Officer has been hired to put an absolute focus on procedures, compliance, audit recommendations, testing and training and we have put additional resource into the team to enable us to balance the day to day operations with delivery of audit recommendations and progression of the change programme.

14. We have also taken a number of steps to ensure that, wherever possible, decision-making, authorisation and change control responsibility lies with services/departments rather than with the Creditors team. For example, if invoices come through with no, or an incorrect, purchase order number or supplier reference then they are sent back to services to change. We are also taking a zero tolerance approach to invoice value, returning any that do not match the purchase order value to the penny. This minimises scope for error in Creditors and will set us up well for further automation and e-invoicing in the future. In addition, if suppliers themselves send invoices in without quoting a purchase order they are also being returned unpaid.

15. Prior to each payment run, all payments above £10,000 are subject to a check involving a senior member of the Creditors team and an Accountant. In addition, 25% of payments under £10,000 are also subject to a check prior to each payment run.

16. Following the historical issue of duplicate or erroneous payments, implementation of the AP Forensics system was identified as a critical audit action, which has now been completed. This is the system that highlights potential duplicate payments so that they can be checked prior to any payment being made. This system is now fully operational. In each payment run, the system routinely 'sieves' out around 300 payments that need manually checked. There is a very low level of error being found and this is within industry standard benchmark levels of 0.1% to 0.5%, as identified by the Institute of Internal Auditors. Whilst there is scope for us to reduce the system risk category parameters and therefore 'sieve' less payments for checking, we believe that, for the time actually required to do this, it is worthwhile to keep the system running at its maximum functionality for now.

17. Members will recall that payments over a 28 month period were checked in summer 2017 by Internal Audit and there were a number of duplicate or erroneous payments identified. The level of duplicate/erroneous payments was comparatively very low (0.02% of all payments, against industry standards of 0.1%-0.5%) and was due principally to historical issues with implementation of AP Forensics. The recovery of these payments is now nearing completion.

18. We are also just over halfway through cleansing duplicate suppliers from the system. Going forward, the Procurement team will be responsible for adding new suppliers to the system.

IMPROVEMENT PROJECTS DELIVERED

19. Last year's report to Audit and Scrutiny Committee outlined a range of improvement projects that had been completed since the transfer of the Creditors service to Corporate and Community Services in February 2016. These included implementation of a 'production line' approach to processing invoices; implementation of Information @ Work EDMS system to enable electronic control and routing of invoices across the Council; and the implementation of new rules for suppliers to tighten up on bad practices outwith the Council which were affecting our performance.

20. For the last few months, the focus on the change programme projects has slowed to some degree, to ensure that the appropriate focus and attention could be given to the audit and compliance issues and assuring sound financial control and accuracy.

21. Following the good progress with delivery of the audit action plan, we are now able to divert critical resource back towards the change programme. The first area for attention has been to streamline the way utility invoices are dealt with, including a move to more consolidated billing and association of a purchase order with each bill. Payment options for utility bills are also being assessed and there may be opportunity to move to a more efficient payment method which would reduce workload through the invoice process.

22. As described in the previous report to Audit and Scrutiny Committee, the focus of change activity currently being planned is around:

- working with the Scottish Government to implement eInvoicing within the Council. This will further automate our invoice process and reduce the need for invoices to be received or keyed by Creditors staff;
- interfacing between various different Purchase order systems and the payment system to reduce double keying;
- developing smart forms for internal transactions to streamline information flow; and
- improving management reporting.

23. Building on the strong foundations already laid there is considerable project work underway to further improve the purchase to pay process.

CONCLUSION

24. Historically East Renfrewshire Council has been amongst the lowest performing councils for the percentage of invoices paid within 30 days. Within the last 2 years this position has shifted from some 50-60% of invoices paid in 30 days to an average of 80-90% for 2017/18 to date.

25. Despite some key issues of audit and compliance reported in 2017, the service has recovered well. All high risk audit actions are complete and those remaining are on track. Additional resource has been put into ensuring compliance and staff have been reminded that financial control and accuracy are paramount.

26. We are now moving forward with further stages of automation that will modernise the invoice payments process, reducing demand and minimising scope for manual intervention and error. This work has had to slow slightly in recent months to allow progression of critical audit actions, but is now being reprogrammed for delivery in 2018/19.

RECOMMENDATION

27. It is recommended that the Committee considers the report and notes the improvements to performance; the steps towards implementing significant change and the progress made in addressing recent audit and compliance issues.

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BACKGROUND PAPERS

- Invoice Payments in East Renfrewshire Council, Audit & Scrutiny Committee 17 August 2017
- Invoice Payments in East Renfrewshire Council, Audit & Scrutiny Committee 19 January 2017