

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE17 August 2017Report 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 and update on management action taken in response to audit and compliance issues.

**BACKGROUND**

2. A detailed report was presented to Audit & Scrutiny Committee in January 2017 on the background and review and redesign of invoice processing within East Renfrewshire Council. It was agreed that the Committee would be kept updated on this area. Given the change in membership of the Committee since January, some of the key background is repeated below to set context.

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 that time, there had been an ongoing project to improve performance and give departments visibility and tracking of their invoices, however progress had been impacted by a range of staffing issues. To enable more of a project-focus on improving this important area, the Creditors team was transferred from the responsibility of Accountancy to the Corporate and Community Services Department (under the Head of Business Change and Revenues) in February 2016.

5. The improvement journey was comprised of a number of different projects including three major programmes of work to:

- Address a backlog of some 4000 outstanding invoices.
- Implement a comprehensive new on-line information system to allow more accurate reporting of invoice processing performance and data analysis (Information @ Work Electronic Document Management System).
- Centralise all invoice delivery to the Creditors team direct by all suppliers to avoid invoices being passed between offices; lost; inconsistently date-stamped and enable much quicker payment times.

6. It was recognised that the historic issues with invoice payments lay in processes and procedures right across the Council and did not rest solely within the control of the Creditors team.

## BACKLOG RECOVERY

7. There are approximately 50,000 invoices through the system in a year. At the time of transfer to Corporate and Community Services in February 2016, there were at least 4,362 invoices needing paid.

8. The project team has put a focus on getting much more accurate and better data in place and this is demonstrating good progress on two fronts: a) preventing any new invoices tipping over the 30 day threshold; and b) reducing the older, dated invoices.

9. There has been significant progress made on invoice processing times within the Council in the last year. The invoice position across the Council is now stable with all invoices on the system so full visibility of volume and workload and detailed management information at departmental level.

10. By December 2016 we had reduced the backlog from 4,326 to a more manageable 1,757 invoices on the system to be paid within 30 days. There were a further 861 'aged items' (over 30 days), compared to 1,937 "aged items" in March 2016.

11. By 28 July 2017 we had 1,232 invoices on the system to be paid within 30 days. There are a further 586 aged items.

## IMPROVEMENT IN NATIONAL PERFORMANCE INDICATOR

12. For a number of years, we have experienced issues with the national performance indicator (PI) on invoice payments, which forms part of the Local Government Benchmarking framework. 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%

13. Since centralisation of invoices in January 2017 the figures have improved further. Figures for 2017 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 to date are:

**Figure 2 – Percentage of invoices paid by ERC within 30 days, monthly figures for 2017**

January	February	March	April	May	June	July
65.7%	85.9%	88.7%	94.3%	88.5%	88.3%	91.6%

14. The Scottish average for 2015/16 was 95.66%, with the average of the top quartile performers at 97.5% (Perth & Kinross top performer at 98.5%). Recent months have seen

some significant performance improvement in East Renfrewshire Council; this will need further consolidation to move us up the rankings for 2017/18. Currently performance is averaging 86.2% for calendar year 2017.

15. Directors now receive monthly invoice figures by department, with the Chief Executive getting an overall summary statement.

16. When the Creditors section was transferred to Corporate and Community Services, it was clear there was a lack of reporting information available for both Creditors team leaders and departments. As part of the weekly reviews, reporting and performance requirements are now discussed regularly.

17. There are now 11 different management reports available for Creditors' management and departments. This reporting information is invaluable in allowing departments to take better ownership in terms of both how we are performing and also highlighting possible invoices that may miss payment deadlines. We will continue to review and improve our reporting suite and work with departments to refine and develop information to suit their needs.

## **IMPROVEMENT PROJECTS DELIVERED**

18. The report to Audit & Scrutiny Committee in January gave detail of the invoice payments improvement programme. This had been split into 7 projects, governed by weekly project meetings chaired by the Head of Service and reported regularly to the Corporate Management Team. Key highlights are given below.

19. A 'production line' approach is in place for processing invoices. Performance of invoice processing can now be managed better via electronic workflow. Workload can now be prioritised, monitored and allocated easier. Any 'breaks' in production that may result in delays are highlighted to departments for action.

20. Communications between departments and the Creditors team has improved, each week departments are given details of outstanding invoice queries (incl. the aged invoices) and details of invoices at risk of missing the 30 day payment timeframe each week.

21. The Information @ Work EDMS is fully embedded in departments and this has enabled centralisation of invoicing since January. Invoices are routed directly to departments as soon as they are scanned and Indexed at Creditors. Departments can action invoices and reroute back to Creditors for quick payment. The I@W workflows have improved communication and the visibility of specific areas of concern; i.e. aged items. This allows better control of receipt of invoices and less chance of long delays from missing invoices.

22. New rules for suppliers have been established in areas where processes were affecting the time taken for us to pay invoices. For example, previously, there were a few suppliers who post-dated invoices for the new financial year and sent them to departments for payment. Departments could not raise orders for the new financial year and so invoices could not be paid which meant around 700 invoices (minimum) were late payments at the beginning of each year. The Creditors team worked, primarily with the Environment Department, to resolve this issue.

## NEXT PHASES OF IMPROVEMENT PROJECTS

23. As part of the improvement programme a full Purchase to Pay (P2P) workflow process review has been completed from placing an order to payment of invoices. This has identified a number of opportunities for improvement including:

- interfacing between purchase order systems and the payment system to reduce double keying.
- the feasibility of integration of invoices from Information@Work with the current efinancials financial system

24. A review of the current financial system was carried out by the supplier. This has resulted in a number of business efficiencies in the system that when implemented will result to improving the P2P processes and minimising scope for manual error. The implementation of these business efficiencies has now commenced and will mean further significant changes to processes and procedures.

25. Work is also ongoing 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.

26. All of that means that there is considerable improvement project work underway on the purchase to pay process.

## AUDIT & COMPLIANCE ISSUES

27. As the improvement projects were implemented some issues of audit and compliance have affected the invoice payments process. These are referred to in other papers on today's agenda and are explained in more detail here.

28. These issues have been taken very seriously. Management are committed to ensuring sound financial control procedures are maintained and, where necessary, enhanced as the service works to build on the substantial performance improvements that have been made since the transfer of the service last year.

29. There are 2 main areas to highlight: 1) a bank mandate attempted fraud; and 2) duplicate supplier payments. Some further information and background is given below.

### Bank Mandate Attempted Fraud

30. The project to centralise invoice delivery direct to the Creditors team required us to write to all our suppliers advising that, to be processed in future, all invoices must be sent direct to Creditors. This letter also asked suppliers to inform us of any changes to their business banking information in writing on headed paper.

31. Our written policy and procedures are clear that when any such notification is received staff must double check and verify any new banking information by using the contact details already held for that supplier to confirm that they have indeed made genuine changes to their banking arrangements.

32. Following the issuing of this letter, the Creditors team did not follow the established control procedures in place to check existing bank details before accepting new details as they should have, believing that all changes received in writing during this period were in direct response to the letter advising suppliers of the new arrangements.

33. During this time the Council was subject to a fraudulent request to change a supplier's bank account details. The creditors system was subsequently updated with the fraudulent bank details and two invoices totalling £2.3 million were processed for payment in March 2017. Neither of these invoices was subsequently paid out by our bank as they identified that the amended bank details were invalid.

34. On the day we became aware of this attempted fraud the matter was immediately referred to internal audit so that a full investigation into the circumstances of this case could be started straight away. The fraud attempt was also reported to Police Scotland.

35. Internal audit have since made a number of recommendations which have already been implemented in full. Not only have the team been reminded of the absolute and unequivocal need to follow existing control procedures but these procedures have been further enhanced.

36. Following audit work it has been concluded that the established procedures were not followed as a result of human error and a misinterpretation of the process during a period of change.

37. The checks on old and new bank details were reinstated in full immediately. There was a gap in full controls between the end of December 2016 and March 2017. All changes that were made to bank details during this period are in the process of being confirmed with the suppliers, with no payments being made until verified. Internal Audit are working with the service to confirm these checks.

38. The matter was also reported to our external auditors and has been included in their Interim Audit Report 2016/17.

#### Duplicate Supplier Payments

39. Since the Creditors service transferred to Corporate and Community Services last year, management has sought to work closely with auditors and use audit recommendations to improve processes and compliance. Given the level of change, the Head of Service requested that a routine, planned audit for 2017/18 be carried out straight away to ensure a robust level of controls remained in place, particularly since centralisation of invoices in January 2017.

40. There are 3 key controls to prevent duplicate payments:

- 1) AP Forensics software
- 2) manual check on all payments over £10,000 to ensure accuracy, prior to each payment run
- 3) National Fraud Initiative which the Council carries out every 2 years and reports to Audit & Scrutiny Committee.

41. The ongoing Internal Audit work highlighted that the AP Forensics system had not been fully implemented last autumn. It had been partially implemented, thus allowing Creditors staff to do manual checks for duplicate payments prior to each payment run and, while this did prevent some duplicates;, it was not as effective as it could have been if the full parameters of the software capability had been used. Management took immediate action to rectify this when it was highlighted in July as an emerging finding from the ongoing audit work and AP Forensics is now fully functional. In due course there will be further audit work to assure the new procedures.

42. Internal Audit and the Finance Business Partners have conducted a detailed retrospective analysis of potential duplicate payments from 2015/16 and 2016/17. This work is currently being concluded, however the Head of Accountancy is assured that there is no material effect on the annual accounts and that appropriate arrangements have been put in place, as per existing procedures, to ensure that any genuine duplicate payments are promptly recovered.

43. In addition, as per usual procedures, all individual payments over £10,000 continue to be subject to checks by supervisors prior to each payment run.

44. The biennial National Fraud Initiative exercise is in its final stages for 2017 and will be reported to Audit & Scrutiny Committee as part of normal business later this year.

45. It is also important to note that, as part of the Creditors' change programme, there is current work nearing completion to automatically interface the Servitor and Tribal systems to Information @ Work (Servitor is the ordering system used in Housing and Tribal is used by Property and Technical Services, P&TS). This will further eliminate scope for duplication of payments in the major service areas of P&TS and Housing which generate a high volume of invoice payments – keying of 10,000 invoices from these 2 systems alone will be eliminated through this work. This will further mitigate future risk and continue to improve performance.

46. We will also carry out a housekeeping exercise to cleanse suppliers from the system minimising scope for errors or duplication.

## CONCLUSION

47. Historically ERC has been amongst the lowest performing councils for the percentage of invoices paid within 30 days. Within less than 12 months however this position has been completely reversed and we have gone from some 50-60 percent of invoices paid in 30 days to an average of 86.2% for 2017 to date.

48. This has been achieved through a comprehensive programme of service redesign following the transfer of Creditors from Accountancy to the Corporate and Community Services Department which enabled more of a project-focus in tackling this important area. There is a detailed programme of improvement work for the year ahead which will further modernise and automate processes, thereby minimising scope for error and duplication and further improving processing times.

49. The audit and compliance issues, identified as part of this improvement journey, and discussed in this report, were responded to quickly. Management took the immediate necessary mitigating actions and the Head of Accountancy has received the necessary level of assurance required for the annual accounts. Audit work continues and management are committed to full implementation of resulting improvement recommendations.

50. Additional steps have also been taken to review the structure and management of the Creditors team and the Head of Service has committed additional resource in this area to give the necessary assurance during the next stages of transformation.

51. These issues should be viewed in light of the overall improvements in process and performance over the last 12 months and the ongoing significant transformation of the service.

52. As agreed at Audit and Scrutiny Committee in January 2017, the Committee will be kept updated on the invoice payments process – today's paper is the next stage of those updates and a further report is planned in 6 months, prior to the end of the financial year.

## RECOMMENDATION

53. It is recommended that the Committee considers the report and notes the improved performance; the progress on implementing significant change and the actions taken to address recent audit and compliance issues.

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## BACKGROUND PAPER

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

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