



Coventry City Council

Public report

Report to

Audit and Procurement Committee

13th November 2017

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

Accounts Payable Recovery Audit 2016-17

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an overview of the results of the Accounts Payable Recovery Audit 2016-17 and seek approval to participate in future annual audit exercises with the supplier.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the outcome of the Accounts Payable Recovery Audit 2016-17 and the improvement actions identified as a result of this work.
2. Approve the option to undertake future annual proactive audit exercises with the supplier on accounts payable transactions.

List of Appendices included:

None

Background papers:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

Accounts Payable Recovery Audit

1. Context (or background)

- 1.1 The Council makes payments of over £300 million a year to suppliers and individuals through the Accounts Payable system within Agresso. Whilst robust controls are in place to ensure that transactions are complete and accurate, there is a residual risk that on occasion payments are made in error, or credit amounts owing are not identified and recovered. As such, it is common practice across local authorities to undertake proactive audits to identify and recover such items. Previous exercises on this have been carried out and in 2016, the Council engaged a supplier (Caatalyst Ltd) to undertake the latest audit, in-conjunction with support from Accounts Payable / Internal Audit.
- 1.2 The audit covered accounts payable transactions processed on the Agresso system up to 31st December 2016. The total spend reviewed was approximately £2 billion which represented around 500,000 lines of transaction data. The scope of the audit covered the following elements:
- Vendor statements – to identify, verify and recover credit notes and similar credit balances on vendor accounts due to the Council.
 - Duplicate payments – to identify, verify and recover any duplicate payments made by the Council.
 - VAT audit – to identify, verify and recover any VAT not recovered by the Council.

2. Options considered and recommended proposal**2.1 Audit results**

In total, the audit identified and recovered a sum of £218k, which consisted of 167 recovery items (this includes three outstanding recoveries which are still being processed at the current time). A breakdown of the recoveries by type is provided in table one overleaf. Whilst this is a significant sum, it represents 0.01% of the total spend reviewed and is well below the suppliers own benchmark of 0.02% across other clients. The supplier has commented that **“this is due to strong internal controls being implemented at a management and accounts payable level”** and in their opinion **“containing recoveries below 0.02% of the total spend can be seen as an excellent achievement in the context of overall spend”**. The Accounts Payable system is also subject to annual internal audit review and our view is consistent with the suppliers in that we have given “significant” assurance over this function for a number of years.

Notwithstanding this, we have reviewed the results of this audit to identify where control improvements can be made and have agreed a number of actions with management which will be taken forward. These are detailed in section 2.2 below.

Table one – breakdown of audit recoveries

Recovery type	Total recovered	% of total recovered
Credit notes	£66,632	31%
Duplicate payments	£14,172	6%
VAT input recovery	£24,136	11%
Other credit balances	£113,367	52%
Total	£218,307	100%

2.2 Control improvements

2.2.1 Following the results of this exercise, management have, in-conjunction with Internal Audit and the supplier, considered how these overpayments have arisen, to identify any control improvements which can be taken. A summary of these issues by recovery type and the agreed actions is provided below.

2.2.2 Duplicate payments – The Council already has robust controls in place to prevent / detect duplicate payments, including automated processes within the Agresso system which for example, prevent input of the same invoice number against the same supplier, and reports which are produced prior to every payment run to identify where the same invoice number has been input against different suppliers, to allow checks to be made. However, like most systems, there is an inherent risk that a duplicate payment could still be made as a result of human error in the processing of orders / invoices. However, given the controls in place, this risk is considered to be very small as reflected in the audit results, which only identified five duplicate payments. As such, further actions are not considered necessary.

2.2.3 Vendor statements: Credit notes – Unclaimed credit notes accounted for around 31% of all the recoveries in the audit. Credit notes can remain unclaimed because of a number of reasons, including; the credit note has been sent to the service area and they have failed to input it to Agresso, further payments have not been made to the supplier allowing the credit to be taken, the supplier has failed to issue a credit note due to the Council. Whilst we do not believe it is possible to eradicate these issues completely given the volume of transactions / suppliers, the following actions have been agreed to minimise their occurrence:

- Cascade training will be provided to responsible officers to raise awareness around the importance of processing credit notes.
- Suppliers are now requested to send all invoices / credit notes centrally to Accounts Payable, with service areas asked to enforce this requirement where they are still sent directly to them.
- Whilst Accounts Payable notify service areas where credit notes are not taken after three months, reliance is placed on the service to seek a refund of monies owed. To strengthen these arrangements, where high value credit notes remain outstanding on the Agresso system after this, these will be escalated appropriately to ensure that action can be taken by management to recover monies.

2.2.4 Vendor statements: Other credit balances – other types of credit balances such as un-reconciled cash on supplier's accounts accounted for 52% of all recoveries in the audit. Work undertaken has identified that a significant proportion of this total (£40k) related to a single care provider used by Adult Social Care. Consequently a separate review is currently being undertaken by Internal Audit to examine the specific reasons behind this in more detail and identify any areas for improvement. It is worth noting that social care providers were excluded from the scope of previous recovery audits and so perhaps not unsurprisingly, this exercise has highlighted larger recoveries from this type of supplier than in comparison to other service areas.

2.2.5 VAT – Whilst the VAT input recovery amounts were not a significant proportion of the total, it has been identified that these errors reflect the fact that supplier invoices can often come in a variety of formats and the VAT is not always clearly laid out, which can lead to it being missed. It has been agreed that training will be provided to appropriate officers to raise awareness around identifying VAT on invoices.

2.3 Options for future audit work

The use of proactive recovery audits provide another line of defence in the Council's control framework around accounts payable and clearly the results support undertaking future exercises of this type. As such, the following options exist:

- On-going rolling audit exercise – The supplier has offered the Council the option of entering into an on-going relationship, which would cover a two year period of accounts payable transactions from the 31st December 2016 up to 31st December 2018. This would result in an on-going resource implication for officers both within Accounts Payable and Internal Audit. However, as a rolling exercise, there would be limited opportunity for the Council to manage the impact of this. As such this is not the preferred option.
- Annual one off exercise – The Council also has the option of undertaking further “one off” annual exercises in the future. This option would enable the impact on officers' time to be managed more effectively as the timing of the work could be agreed to allow resources to be targeted accordingly. This would also allow appropriate time to be spent on the actions outlined in section 2.2. Whilst we would expect the level of recoveries to reduce over time as a result of these actions, sufficient time is required for this to be realised. For these reasons, this is the preferred option.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 If the Council enters into an on-going relationship with the supplier, it is envisaged that this would be established by 31st December 2017. If the decision is made to continue with an annual exercise, discussions will take place with officers in Accounts Payable and Internal Audit as to the specific timing of the next exercise.

5. Comments from the Director of Finance and Corporate Services

5.1 Financial Implications

The recovery of payments owing to the Council from suppliers or in respect of unclaimed VAT, and which have not otherwise been identified, has a direct, positive impact on the financial position of the Council.

Whilst the supplier retains a percentage of any monies recovered (which is standard practice in this field), the level of fees remains the same regardless whether the exercise is undertaken annually or on an on-going basis.

5.2 Legal implications

The Local Government Act 1972 requires the Council to have standing orders for making contracts. These are defined in the Council's Rules for Contracts which must be adhered to. The anticipated spend in relation to the audit fees for this work would normally require competitive quotations to be sought. As such, permission will need to be sought under the Council's process for granting exceptions to rules for contracts. Use of the supplier will be reviewed on an annual basis.

6. Other implications

6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

Undertaking audits to identify and recover monies owed to the Council, which have not otherwise been identified, contributes to ensuring that there effective arrangements in place to ensure proper financial administration within the Council.

6.2 How is risk being managed?

Whilst the Council has robust controls in place to ensure that accounts payable transactions are complete and accurate, there is a residual risk that on occasion payments are made in error, or credit amounts owing are not identified and recovered. This risk is managed through the conduct of proactive audit exercises to identify and recover such monies.

There is a risk that the exercise will not identify / recover any monies. This risk is managed through the agreed payment arrangement with the supplier whereby they are only paid a percentage fee of any monies recovered. If no monies are recovered, there is no cost to the Council.

Entering into an on-going rolling audit exercise may result in the risk that the Council has insufficient resources to support this work, given other priorities and workload. This risk can be managed through the preferred option of undertaking annual "one off" exercises, where the timing can be agreed to allow for resources to be targeted accordingly.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

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