



Committee and Date

Audit Committee

14th February 2023

Item

Public



First Line Assurance: Purchase Ledger Control Improvements

Responsible Officer:	James Walton		
email:	james.walton@shropshire.gov.uk	Tel:	01743 258915
Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support		

1. Synopsis

This report provides an update on the actions to address the recommendations arising from the 2021/22 Purchase Ledger Audit report.

2. Executive Summary

- 2.1. Within the Shropshire Plan priority to deliver a Healthy Organisation is the Strategic Objective: *We will put our resources in the right place using accurate data, insights, and evidence to support the delivery of the organisation's priorities and balance the books.*
- 2.2. This report sets out the actions taken so far to address the recommendations arising out of the 2021/22 Purchase Ledger Audit and what further interventions are planned to address the remaining recommendations.
- 2.3. The Audit resulted in a Limited level of assurance. This was the second Purchase Ledger Audit report following the Council implementation of Unit 4 ERP and the first following the adoption of the hard line No PO No Pay policy, effective from 1 April 2021.

- 2.4. The report found that whilst there is basically a sound system of control in place, the system contains weaknesses which leave some risks unaddressed and there is evidence of non-compliance with some key controls.
- 2.5. A total of 36 recommendations were made and a summary of progress against these can be seen in the table below:

Recommendation Type	Total	Fully Completed	Outstanding	Rejected
Significant	9	4	5	0
Requires Attention	27	15	9	3

- 2.6. In response to the recommendations, steps have been taken to address the recommendations, with 19 full completed (4 significant, 15 requires attention). As a devolved function, a number of the recommendations involve changing the actions of the users across the Council or are reliant on the resolution of issues by the system supplier and will take longer to implement.
- 2.7. Robust contract management with the supplier is now in place with regular meetings taking place and clear deadlines for resolution of issues.
- 2.8. It is not yet possible to provide Audit Committee with full management assurance that all recommendations have been addressed and independently verified. Management assurance can be provided that all recommendations are accepted, with the exception of the three accepted within the Audit report as not feasible currently. Those accepted have been actioned and completed or are actively being worked upon ahead of the next Internal Audit review.

3. Recommendations

- 3.1. Members of the committee are asked to note the contents of the report and the progress made to date to address the 2021/22 Purchase Ledger audit recommendations.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The failure to resolve the issues identified in the Audit and to develop an end-to-end Purchase Ledger system/process that is fit for purpose and adopted Council wide, risks supplier's terms not being met, non-compliance with the Councils Financial Rules, the requirement for additional manual interventions, and inaccuracies in figures reported in both statutory accounts and returns to HMRC.
- 4.2. This could subsequently lead to loss of confidence in, as well as reputation of the organisation.

- 4.3. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct environmental or equalities consequences.

5. Financial Implications

- 5.1. Failure to have an effective and efficient Purchase Ledger function which ensures payment to suppliers in a timely and accurate manner could potentially leave the Council exposed to external challenge and financial ramifications. Late payments can result in claims under the Late Payment of Commercial Debts Act. Failure to identify and stop/recover duplicate payments or to detect and prevent fraudulent activity can result in a financial loss to the Council. The Council can also be subject to enforcement action from HMRC where it is not compliant with regulations on VAT or the Construction Industry Scheme.
- 5.2. There are no financial implications associated with this report. Actions in relation to the recommendations arising from the audit are being managed within existing resources.

6. Climate Change Appraisal

- 6.1. The information contained within this report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation
- 6.2. The ERP system is designed around a self-service, electronic model and therefore reduces the impact on the climate due reduced paper based processes. In addition, the system sits within the cloud (Software as a Service) therefore reducing overheads from an on-premise system.

7. Background

- 7.1. The council uses an Enterprise Resource Planner System (ERP) which is an integrated HR/Payroll/Finance/Procurement System. The system has been operational since 2019 and replaced two separate HR/Payroll and Finance systems (Resourcelink Zellis and SAMIS (Advanced)).
- 7.2. The procure to pay process is designed to process all stages of the transactions electronically, based on workflow within the ERP, with minimum requirement for manual intervention. This has been essential in enabling the Council to move to the new hybrid working model, particularly during the Covid 19 pandemic and associated periods of lockdowns. However, there are still a number of issues from go-live in the procure to pay and the workflow processes that have not been rectified by the supplier. Pressure is being placed upon the contractor to rectify these issues and in a number of instances manual work arounds are in place to identify instances of failure to mitigate the risk.
- 7.3. There was also a process change introduced with the ERP in respect to the procure to pay process. The Council implemented a system with No Purchase Order (PO) No Pay capability, whereby staff must not commit to council expenditure without the prior issue of a PO to the supplier that has been raised in accordance with the

council's financial and procurement rules. This has been enforced as a requirement since April 2021, however, there has not been the required cultural change for this across all areas of the Council. Although the requirement for a PO number is being enforced there are a high volume of PO's being raised retrospectively and also invoices being submitted late for payment.

8. Additional Information

- 8.1. The Purchase Ledger audit identified a total of 36 recommendations, of which 9 were rated significant and 27 required attention.
- 8.2. Three recommendations were rejected from the Audit report, with no action taken to address these and these were accepted by Audit in their responses to the proposed management actions. These related to reviewing dates that goods have been receipted against the date's POs have been raised and reviewing goods receipted dates compared to the purchase invoice dates. It was accepted the priority was to address the volume of retrospective POs raised and invoices submitted late, which in turn should address the issues raised by these two recommendations. The recommendation to enforce all invoices to be sent direct to Proactis (invoice scanning solution) was also rejected as was not feasible and was not currently mandated, due to the local arrangement currently operated in a number of areas and implementation would cause other resulting issues.
- 8.3. A total of 19 recommendations are fully completed (4 significant and 15 requires attention). A number of these were addressed within the management responses to the audit, where it was identified no further action was required. The following have been actioned:
- Reporting on or maintaining documentation of historic authorisation structure has been discounted, with the risk mitigated by other controls in place.
 - The 'rest cancel' option has been re-removed from the user screen.
 - Potential instances of purchase requisitions being split to enable authorisations to be made more than the Officers authorised limit were reviewed, and it was confirmed this was not a practise that was taking place.
 - It was confirmed it was not possible to provide reports which detail both the purchase order as well as details of the associated goods receipting and the purchase invoice. As these are separate functions within U4 ERP and separate reports need to be run on these.
 - The report of outstanding goods receipts were reviewed and from a sample they were all still active as related to multiple line orders, which had not all been matched to an invoice yet.
 - The sample of missing goods receipts were reviewed, and all looked to be anomalies, with no further occurrences identified.
 - The 'All Orders – Requisition' report configuration has been amended.
 - It was confirmed PDF versions of PO's cannot be altered.
 - Scanning identification work is taking place when there are occurrences that Proactis does not identify the invoice format.
 - Report on potential duplicate supplier accounts is being produced and reviewed quarterly.
 - All suppliers in liquidation or administration are set to a closed/parked payment status.
 - Data on previous potential duplicate payments since the Fiscal contract ceased is being reviewed.

- Reports on potential duplicate payment have been created with Audit and are being reviewed.
 - Quarterly report on the schedule of recurring payments together with the associated workflows is being produced and reviewed.
 - VAT checks are in place.
 - Construction Industry Scheme (CIS) labour and material charge checks are in place.
 - Data Protection and cyber security training is completed by all members of the Purchase Ledger Team annually.
 - Fraud awareness training is completed by all members of the Purchase Ledger Team annually.
 - Purchase Ledger and Income section are recording any cases of potentially fraudulent Activity.
- 8.4. There are 14 recommendations that are still outstanding (5 significant and 9 requires attention). Work is ongoing to implement these, with some reliant on the system supplier or other departments to implement and for some the agreed date of action has not been reached yet. These can be grouped as per the following paragraphs.
- 8.5. Recommendations awaiting fixes by the system supplier. Robust contract management is now in place to progress these issues to resolution in a timely manner with the supplier. The outstanding recommendations are:
- Bug with purchase order report not recording the purchase requisition authoriser (N.B. a fix was implemented November 2022, but a further occurrence of the issue was identified January 2023).
 - Issue in relation to commitments not correctly reversing out when an invoice is matched and processed.
 - Outstanding defect where workflows are not available for some purchase invoices.
- 8.6. Recommendations to be addressed across Finance, that are in future plans to be addressed:
- Replacement of the Corporate Finance Manual, with all information transferred to the Finance How Do I? Intranet pages.
 - Testing to be undertaken on the matching process when multiple invoices are submitted to Proactis against the same PO number simultaneously.
 - Work ongoing to develop a report which details all invoices exempt from a PO, with the authorisation details included.
 - Reminder to Budget Holders in relation to accruals and sample reviews of invoices received in the new financial year. This will be included as part of closedown guidance to be issued in March 2023.
 - Contingency arrangements in case of IT failure to be addressed as part of cyber preparedness work.
 - Creditor fraud risks have been assessed and need to be added to the Finance Risk Register.
- 8.7. Issues within Services in relation to how they are operating the procure to pay process. Statistics on this are reported to the Commissioning & Assurance Board monthly of the areas of concern, split down to Directorate and Service level. Future plan is to include this in information reported to Budget Holders as part of their

monitoring information and for discussion at DMTs. Specific Audit recommendation are:

- Reporting on compliance with the No PO No Pay policy, in particular in relation to reducing retrospective PO's.
- Reporting on PO's not matching invoices to Services to prompt corrective action.
- Reporting on invoices being submitted late and identify why this is occurring.
- Finance Business Partners raising issues in relation to outstanding orders with Budget Holders.

8.8. Automatic system notifications to be set up by System Admin Team to provide email notification of data transferred into the ERP from all interface systems (not just PL) for reconciliation purposes. This is being worked on and a manual work around solution is in place to mitigate the risk until this is implemented.

9. Conclusions

9.1. Work continues to address the recommendations raised in the 2021/22 Purchase Ledger Audit, with over 60% complete to date. The remaining recommendations are being worked on, but are dependent on delivery of solutions by the system provider, wider improvements across Finance and changing the culture of how the procure to pay process is operated across the Council, which will take longer to implement and require a hard enforcement line to be taken forward.

9.2. Given the number of recommendations contained in the audit and the report was only issued in October 2022, it is not yet possible to provide Audit Committee with full management assurance that all recommendations have been addressed and independently verified. Management assurance can be provided that all recommendations are accepted, with the exception of the three accepted within the Audit report as not feasible currently. Those accepted have been actioned and completed or are actively being worked upon ahead of the next Internal Audit review.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Local Member:

Consultation with Local Member

Appendices [Please list the titles of Appendices]