

Regulation, Audit and Accounts Committee

19 July 2021

Accounts Payable Review

Director of Finance and Support Services

Summary

A detailed review of information held on the Council's purchase ledger system has been undertaken covering the period November 2016 to December 2019. The review seeks to identify errors or inaccuracies in the payments system and to recover any funds where applicable.

Recommendation

The Committee is asked to note the outcome of the audit recovery work carried out in 2020/21 in respect of supplier statements, duplicate payments and VAT corrections.

Proposal

1. Introduction

1.1 A detailed review of information held on the council's purchase ledger system was undertaken during 2017/18, covering the period April 2011 to November 2016 and resulted in approximately £0.3m being recovered. In line with good practice, the Council has undertaken a similar review in 2020/21 and this report provides an update on that project.

2. Background

2.1 The contractor that undertook the financial review (recovery audit) was procured through the Crown Commercial Service Framework Agreement and was awarded to Meridian Cost Benefit Ltd in November 2019, based on their experience in the public sector and their success rate in previous projects. They also carried out the previous review and were familiar with our processes and IT systems. Meridian have carried out over 300 purchase ledger projects in the last 10 years, with over £50m recovered, 60% of which has been in the public sector.

Data from the Council's financial system, covering the period November 2016 to December 2019, was shared with Meridian in January 2020. The project was then slightly delayed due to Covid-19 difficulties, for example, access to data, staff and the reprioritisation of activities. Meridian provided the first weekly report in August 2020.

3 Overall Recovery

- 3.1 Over the last 10 months, Meridian have conducted a full purchase ledger audit on behalf of the Council covering three distinct workstreams - supplier statements, duplicate payments and VAT corrections and this review is now concluded, although a small number of potential recoveries are still being pursued. A total of £365,042 has been confirmed as recovered, details of recoveries are set out below.

	2018 Final recovery	2018 Number of claims	2021 Final recovery	2021 Number of claims	As % of total £ recovered in 2021
	£		£		%
Supplier Statements	£102,486	59	£297,610	63	81
Duplicate Payments	£126,397	57	£5,863	6	2
VAT Corrections	£70,606	20	£61,569	20	17
Total	£299,489	136	£365,042	89	100

- 3.2 Meridian have advised that generally recovery rates have gone up by about 33% in the last three years and particularly since March 2020, when Covid restrictions have changed working practices (processes and controls) including migration to working from home.
- 3.3 Meridian have indicated that the overall recovery for the Council was at the lower end that they would have expected and typically they would have anticipated recoveries from an organisation of our size of between £300,000 to £500,000.

4 Supplier Statements

- 4.1 Meridian have reported that across all clients (private and public sector) over 65% of recoveries come from the Supplier Statement and Complex Supplier work which Meridian do, with less than 35% from duplicates, errors and VAT recoveries.
- 4.2 Recovery from reviewing supplier statements is particularly resource intensive as over 98% of all the work undertaken recovers no value, it simply confirms that our accounts and the suppliers accounts agree. It is worth noting that many of these recoveries are not errors, for example these are unposted credit notes that are not recorded within the accounting system or have not been recovered.
- 4.3 Meridian approached around 750 suppliers (with our prior approval) and achieved recovery from 20 suppliers (63 individual claims), which represented a conversion rate of just 2.67%, which is somewhat lower than Meridian normally see which is around 2% to 4%. This equated to £297,610 which was

significantly higher than achieved in 2018 (£102,486), but it is in line with the average recovery rates of this type.

- 4.4 Based on the complexity and resource required for this type of work, it is recommended that this aspect of work continues to be included in any future external recovery audit. Meridian recommend that recoveries from this area reduce over time and in large organisations like WSCC should be undertaken approximately every 24 months.

5 VAT Corrections

- 5.1 Meridian also investigated the Accounts Payable system for VAT processing errors and identified 20 instances, totalling £61,569, where no VAT had been reclaimed but should have been, arising from processing issues rather than technical VAT errors. For example, where a VAT marker was omitted from a payment request. Meridian have stated that this figure is similar to the previous exercise and is within the parameters they would expect. This VAT has now been reclaimed as part of our usual monthly VAT return. For context, over the same period approximately £200m of VAT was recovered from HMRC.
- 5.2 There are a number of mitigating actions which the Council has introduced over recent years to ensure that the Accounts Payable team have a good understanding of VAT, including training for new members of the team. In addition, the current forms used to request manual payments is currently being automated and will include a requirement to include a valid VAT marker. Reporting is also being reviewed to include the identification of payments where no VAT was recovered. The Council also has a dedicated VAT Accountant who provides advice and support both to the Accounts Payable team and more generally across the Council. Individual members of staff have received guidance where applicable. There is also a lot of detailed VAT information available to all staff on the Council's intranet site, along with a dedicated e-mail address. However, given the potential risk of processing errors, it is recommended that VAT is included within the scope of any future external recovery audit and as previously mentioned.

6 Duplicate Payments

- 6.1 The level of identified duplicate payments were extremely low, and Meridian have indicated that the volume and value of identified errors was less than they would expect for an organisation of our size and complexity. Only six errors were identified, totalling £5,863, compared to the 2018 figure of £126,397. Meridian have stated that this is significantly less than they would expect and indicates that significant successful internal work has been undertaken and existing controls are robust.
- 6.2 There are sound controls in place within the current process to ensure that most potential duplicate payments are identified at the input stage when the details from an invoice are entered into the Accounts Payable system in SAP. In addition, a Duplicate Payments report has been produced for a number of years, which highlights payments for the same amount allocated to the same invoice number over the period of a year. The report covers all payments made, both directly through the Accounts Payable team along with payments made through the Council's feeder systems, including payments for utilities, library books, early years provision and payments to providers both within adults and children services.

- 6.3 The Authority also participates in the bi-annual National Fraud Initiative (NFI) exercise, which also highlights potential duplicate payments requiring further investigation. Historically, this has been very positive with very few actual duplicate payments identified, and the results of this year's NFI are expected very soon.
- 6.4 Looking forward, the Council currently uses SAP but is in the process of implementing Oracle Fusion management information system with a planned go-live date of 2022. As we migrate to a new accounting system, the duplicate payment exercise will require revisiting following the implementation of the new Oracle Fusion. A comparative exercise will be necessary in order to identify potential duplicates made in the final months of using the old SAP system and new transactions being processed in Oracle.

7 Finance & Resource Implications

- 7.1 Meridian charge a fee based on a predetermined sliding scale calculated as a percentage of actual recoveries achieved (net of VAT). The Meridian fee to date linked to the value of transactions recovered is approximately £63,000. Total recovered to date is £365,042.
- 7.2 There has also been a need for the Council to provide some support to the audit recovery work, with the majority of the work carried out by Meridian.

8 Risk implications and mitigations

- 8.1 The Council was in full control of the actions taken during the recovery audit which Meridian carried out. In addition, there are a number of controls in place, to both identify and track the recovery of actual duplicate payments, track and recover surplus credits and prevent inaccurate VAT coding.

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Background Papers

None