



London Borough of Enfield

Report Title	Invoice Payment Controls
Report to:	General Purposes Committee
Date of Meeting:	Wednesday 26 th July 2023
Cabinet Member:	Cllr Tim Leaver
Directors:	Fay Hammond
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Classification:	Part I Public

Purpose of Report

1. As requested by the GPC, this report sets out the current controls in place in relation to the payment of invoices.

Recommendations

2. To note the controls in place

Background and Options

3. It is imperative that the Council's purchase to pay process and associated controls are robust, vigorously audited and periodically reviewed.
4. Accounts processing (AP) controls the disbursement of funds outside the organisation. It is an important financial function which is responsible for ensuring accurate and complete accounting records, preventing fraud and managing supplier relationships for the council.

5. A summary of the current AP process is set out below, controls are documented in Appendix A.
6. The Council uses a system called Neptune to purchase goods and services. Officers are required to raise a purchase order for the goods they wish to buy. When goods and services are delivered, officers must 'goods receipt' the purchase order so that payment can be made.
7. Approximately 11,700 purchase orders are created each year. Some are one-off purchases, where a single invoice is submitted by a vendor, other purchase orders are raised as an estimated amount and several invoices are submitted during the year against this purchase order.
8. All purchase orders are approved by a senior officer who has appropriate approver access within the system. All approvers have purchase limits based on their role with their individual limits approved by a director. Controls relating to access and approver limits are referenced in Appendix A.
9. Once approved, the purchase order details are emailed to the vendor. The vendor quotes the purchase order number on the invoice they submit for payment.
10. The payments system undertakes a matching process between the purchase order number, price, and goods receipt. When there is a 3-way match, the invoice is paid in line with the vendor payment terms. Three-way matching is a significant control in preventing fraud and duplicate payments.
11. There are also payments which are managed outside of the Neptune system and thus controls sit within the appropriate business system. Payment information is interfaced daily to the payments system for processing. These relate to payments to care providers in relation to residential, nursing, home based care, and housing repairs.
12. Public Contracts Regulations, Regulation 113(2) requires contracting authorities to pay invoices no later than 30 days from the date on which the relevant invoice is valid and undisputed.
13. The payment of invoices is monitored and published on Pentana and the Council's website. The table below shows that in 2022/23 the Council paid 99.7 % of invoices received, within 30 days.

Indicator	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
% invoices paid within 30 days	99.7%	98.5%	98.4%	99.0%	98.1%	98.7%	99.3%	99.2%	99.8%	99.2%	99.6%	99.7%

14. The Local Government transparency code requires the Council to publish spend over £250. Spend reports are available on the Council's website.
15. It is essential that payment processes are audited regularly. In 2022/23 Internal Audit reviewed the 'AP1' process and BDO (our external auditors) undertook a review as part of their Statement of Accounts audit. All recommendations have been agreed and actioned.

16. In August 2023, as part of the 2023/24 internal audit plan, PWC will commence a review of the council's purchase to pay and goods receipt / invoice receipt process.

Relevance to Council Plans and Strategies

17. 'An economy that works for everyone' is a Council priority. It is therefore essential that we pay our suppliers correctly and on time and goods and services are delivered promptly and are fit for purpose.

18. It is also imperative that we operate a system that has robust controls in place, ensuring value for money and protecting the public purse.

19. **Financial Implications – n/a**

20. **Legal Implications – n/a**

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Appendix 1

The Councils AP controls are presented below against the industry best practice standard.

1. System Access and Segregation of Duties

Best Practise Standard	Enfield AP Controls
<p>Security</p> <p>Security mechanisms should restrict system users so only those who need to access AP functions have that access.</p> <p>System access and segregation of duties should restrict all supplier and accounts payable file maintenance to authorised individuals.</p> <p>There should be clear division between persons inputting bank details; inputting payment details; and authorising release of payments.</p>	<p>Digital Services administer system access requests. Different system (SAP) roles are assigned to officers to separate processors and approvers, thereby restricting staff from being able to input an invoice and approving a payment.</p> <p>A scheme of delegation (SOD) is built into the system for the approval of purchase orders. The SOD, which is agreed by a director determines the limit the approver can authorise and the cost centres they are approved to spend against.</p> <p>The SOD is maintained by Exchequer Services and reviewed regularly against an HR produced leavers/mover's report.</p> <p>Separation of duties are robust. The system restricts a purchase order requester from approving their own orders as officers who raise purchase orders cannot be assigned the approver role, and vice versa.</p> <p>There is also a separation of duties within Exchequer between officers who input the vendor creation / amendments/ bank detail changes and the officer checking the data. A daily validation report is reviewed by an independent officer to ensure supplier creation request forms agree to the entries in the system and changes to existing entries are valid and accurate.</p> <p>Exchequer Services review roles assigned to every officer on a quarterly basis to ensure the access still applies. Officers assigned roles are cross-referenced monthly against the HR report of movers and leavers to ensure system access is removed where appropriate.</p>

2. Vendor Management

Best Practise Standard	Enfield AP Controls
<p>Vendor management must be robust to mitigate against fraud and purchases are made in compliance to contract procurement rules.</p>	<p>Enfield has robust vendor creation and vendor record change controls.</p> <p>New vendors and amendments to vendor records are managed by Exchequer Services. No other Council staff have system access to update this part of the SAP system.</p> <p>The following checks and controls are in place:</p> <ul style="list-style-type: none"> - All supplier request forms are appropriately authorised

	<p>by a Head of Service.</p> <ul style="list-style-type: none"> - The pack from the supplier containing all their company details are submitted directly to Exchequer Services - Verification is carried out and checked on Companies House and HMRC. - Bank details are verified with specialist software and followed up by a telephone call to the supplier. - The value of the contract is reviewed to ensure that the Council's Contract Procedure Rules have been adhered to. - There is separation of duties between the officer administering the checks and the inputting of the data. - A daily validation report is reviewed by an independent officer in Exchequer to ensure supplier creation request forms agree to the entries in the system and changes to existing entries are valid and accurate. <p>Exchequer Services provide support to shoppers and approvers across the Council. Monthly drop-in sessions are held which shoppers are invited to attend to get help with resolving complex queries and to learn more about the system.</p> <p>A resource directory with training material and user guides are available on the intranet pages.</p> <p>Officers work closely with colleagues from the Corporate Procurement Team to ensure contract procedure rules are adhered too.</p>
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3. Purchase Orders (PO)

Best Practise Standard	Enfield AP Controls
<p>A purchase order is an agreement entered into that ensures the Council receives the correct goods/services at the agreed price.</p> <p>It is an approval of the cost commitment before the invoice arrives. It removes the risk of paying fraudulent invoices. It enables easy invoice matching and the ability to track invoices through the payments system.</p>	<p>The Council has a No PO, No Pay policy for all commercial payments of goods and services.</p> <p>A vendor is required to quote a valid PO number on their invoice otherwise the invoice will be rejected. The PO is raised when goods and services are procured. This creates a budget commitment in the system and a validation of the goods/services when the invoice is received.</p> <p>A 3-way match between PO, goods receipt and invoice is completed before payment is made. Goods and services received are subject to checking to ensure that prices and quantities agree to what was ordered and the quality of the goods/services meets the departments expectations.</p>

4. Approval Process

Best Practise Standard	Enfield AP Controls
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<p>Before payment is made, a vendor invoice should be checked and approved by the person who placed the original order to ensure it shows the correct goods, quantity, and price, including any agreed discounts.</p> <p>All payments and orders should be properly authorised by persons sanctioned to authorise payments.</p>	<p>Orders automatically workflow to the appropriate approver based on the scheme of delegation that is in place. This process applies to the approval of new orders and all changes made to existing orders.</p> <p>All PO's exceeding £100k have to follow a 2-step approval process so they are approved by 2 officers on the scheme of delegation with limits set at £100k and above.</p> <p>System generated reminders go out to shoppers advising them that they have items in dispute or requiring a goods receipt.</p> <p>Every invoice must be goods receipted before payment is made. Invoices that do not 3-way match will be identified on the system and reason for non-matching is added.</p> <p>There must always be a 3-way match to the order, goods receipt, and invoice receipt to enable payment.</p>
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5. Automated invoice processing

Best Practise Standard	Enfield AP Controls
<p>Automation of invoice processing raises levels of transparency and introduces sophisticated system controls to mitigate risk of overpayments and fraud.</p> <p>The automated controls within the payments process significantly reduce the risk of overpayments.</p> <p>Automating a process eliminates the human error that causes most overpayments. Making all documentation for procurement and payments electronic enables a series of cross checks and verifications.</p> <p>Automating the approval and validation process across the purchase to pay cycle in this way not only prevents errors in payment to suppliers, but also provides controls to prevent fraud by enforcing business rules and creating a full audit trail.</p>	<p>Enfield has minimised paper processing and clerical input.</p> <p>Invoices are sent directly by vendors to a third-party scanning bureau. Invoices are scanned and quality checked before the invoice image and invoice details are updated to the payments system.</p> <p>A daily reconciliation report is provided by the scanning bureau to ensure that all invoices submitted by vendors have been received in the payment system.</p> <p>The Council has complete transparency across the entire payments process while also providing visibility to all stakeholders across the organisation.</p> <p>The payments system provides a coding system so that the status of every invoice is known at any given time providing further visibility.</p> <p>Invoice query workflow and goods receipt notification is managed via workflow to the shoppers within the payments system.</p>

6. Internal system controls

Best Practise Standard	Enfield AP Controls
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Internal controls serve to prevent something from going wrong. Good internal controls should also identify errors promptly.	<p>The SAP payments system performs basic checks identifying duplicates, checking invoice numbers, dates, and amounts. If there are identical data records the system flags the payment as a duplicate.</p> <p>Neptune supports the raising of purchase orders, with built in controls for authorisation dependent on the value of the order.</p> <p>Unique PO numbers are provided to suppliers to quote on every invoice.</p> <p>Specialist software provided by Fiscal Technologies allows Exchequer to monitor the purchase ledger for duplicate payments daily. This software does real time checking so duplicate payments are detected from the daily BACS file and are prevented from being paid.</p> <p>Verification is carried out by Exchequer when setting up new suppliers or making amendments to supplier's records. Software provided by Pay360 (Optimise Verify) is used to validate the bank account belongs to the correct payee.</p> <p>Business details are also checked on Companies House to ensure that they are genuine. Daily checking reports are reviewed independently to check that all changes made to suppliers' records are accurate and genuine.</p>
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7. Audits & Reconciliations

Best Practise Standard	Enfield AP Controls
<p>Periodic internal and external review of processes and systems controls are essential.</p> <p>Overpayments is a common occurrence costing an organisation money, having a detrimental effect on cash flow and creating extra work reclaiming duplicate payments if the error is detected.</p> <p>There are 3 main ways to identify and recover overpayments:</p> <ol style="list-style-type: none"> 1. Supplier Statement Review & System Reconciliations 2. Sophisticated software to detect duplicate payments 3. Accounts Payable Audit Recovery 	<p>Accounts Payable is an area subject to regular internal and external audits. Key controls are identified and tested for assurance during this process. The last audit conducted by BDO took place in December 2022. There have also been internal audits conducted during 22/23 focussing on key areas across the purchase to pay cycle.</p> <p>Reconciliations are carried out monthly from the accounts payable system to the general ledger and any variances are fully investigated.</p> <p>Specialist forensic software has been used for many years which detects duplicate payments on the purchase ledger. This software enables real time checks on the daily BACS file for detecting duplicate payments.</p> <p>AP recovery audits are used to review all historical purchase ledger transactions and recover duplicate payments. The last recovery audit was undertaken in 2020 and the service will be procured again during 2023/24.</p> <p>The AP audits include:</p> <ul style="list-style-type: none"> • detailed analysis of the purchase ledger and the master

	<p>supplier file</p> <ul style="list-style-type: none"> • identification of duplicate payments, overpayments, and unclaimed credits • supplier reconciliation of the top 100 vendor accounts and any additional accounts as required. • management reports for process improvements based on the findings of the recovery audit • VAT review
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