

Review of Invoices Processed

SUMMARY

- 1.1 The Council procured Meridan Cost Benefit Limited to conduct a review of purchase ledger transactions and to identify process efficiency opportunities within the invoice processing team (Accounts Payable) This reports sets out the positive outcomes from that.

RECOMMENDATION

- 2.1 To note the findings from the review of the Accounts Payable transactions and payment recoveries of £134k.

REASONS FOR RECOMMENDATION

- 3.1 Transaction analysis allows for the proactive performance management of the accounts payable function and the review highlighted opportunities for improvement whilst confirming that the efficiency of the team is extremely good.

SUPPORTING INFORMATION

- 4.1 Each year the Council typically pays:
- 180,000 payments
 - £227m
 - 6,500 suppliers
- 4.2 The accounts payable review focused on payments made by the Council to suppliers for the 36 month period, after Oracle was implemented, ending 31 March 2010. During this period the Council had processed 541,000 invoices at a value of £680m.
- 4.3 The review involved investigating the Oracle system to extract transaction and payment details and verify potential duplications. The ledgers were investigated further to ensure no reversals, refund payments or adjustments had been subsequently posted in relation to the duplication or error. Third party suppliers were contacted when an overpayment was indicated and the monies were recovered and credited back to the Council. In cases where future payments were due to be made to a supplier, the overpayment was offset against those future payments.

- 4.4 The review concluded that the Council's Accounts Payable team make relatively few errors and most errors that do occur are recognised and corrected. Long term stable staffing and efficient management help in this regard. Of the £680m paid to suppliers the review identified £172.4k total error value – just 0.025% - with 73% of the error value caused by four of the nine error categories:
- Different Invoice Number
 - Multiple Supplier Accounts
 - VAT
 - Statement Review
- 4.5 A total of £133,690 – 77.5% - has been recovered with the remaining not being recovered for the following reasons:
- Suppliers who have ceased trading or gone into administration - £27,057
 - Incomplete information - £10,451
 - Uneconomic to pursue – £1, 212
- 4.6 The recommendations to address the errors and continuously improve invoice processing to maximise income are detailed in appendix 2. These have been built into the team's business plan.

OTHER OPTIONS CONSIDERED

- 5.1 The Council considered carrying out an internal review but this was not considered to be the best value for money option.
- 5.2 Not reviewing the payment transactions was also considered however as the Council had recently centralised the accounts payable function and employees the review offered an opportunity to build in performance improvements into the team's operational business processes.

This report has been approved by the following officers:

Legal officer	Not Applicable
Financial officer	Not Applicable
Human Resources officer	Not Applicable
Service Director(s)	Not Applicable
Other(s)	John Massey – Head of Benefits and Exchequer Services

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Recommendations from the review

IMPLICATIONS

Financial and Value for Money

- 1.1 Meridian received £21,964.88, net of VAT, for the review. There are a couple of potential recoveries still being chased, however these are small and any change on the final amount the Council pays will be negligible. Meridian received 17.5% of any recoveries made up to a maximum ceiling of £5,000 for any single transaction. Payment was only made to Meridian when cleared funds were in the Council's bank account or, in the case of an offset against a future payment, that payment had been made.

Legal

- 2.1 None

Personnel

- 3.1 None

Equalities Impact

- 4.1 None

Health and Safety

- 5.1 None

Environmental Sustainability

- 6.1 None

Asset Management

- 7.1 None

Risk Management

- 8.1 None

Corporate objectives and priorities for change

- 9.1 Good quality services that meet local needs

Recommendations from the Review

1. Different Invoice Number

We would advise reiterating with your AP Team the standards and procedures surrounding the inputting of invoice references which contain numbers/extra letters, additional characters such as underscores or leading zeroes. It is important to implement a consistent approach to minimize the risk of processing errors and duplicate payments.

2. Multiple Supplier Accounts

As with the inputting of invoice numbers, we would recommend a set procedure regarding the creation and selection of supplier accounts. Standard checks when processing invoices should be the supplier's address, bank details and VAT registration number, and for the creation of new supplier accounts, specific criteria should be followed to negate the risk of duplicating accounts.

3. VAT

There are a number of potential issues to be aware of concerning the correct processing of invoices which contain VAT; however the inconsistent format and style used by suppliers makes errors inevitable.

4. Supplier Statements

22% of all recoveries were the result of work around supplier statements. We would suggest some additional work is undertaken around reconciling these. We are not suggesting that you reconcile all statements, as the result of this would be a significant investment of time and resource for the benefit that it may return. We suggest you ensure that some additional regular and continuous reconciliation procedures are adopted.

5. Further Areas for Review

Telephony Costs

In view of the high expenditure on telecoms and the high volume of individual invoices, we recommend a full review which would include an:

- audit of historic billing (looking for billing errors)
 - Some of these errors will lead to rebates
 - Some errors will not give a rebate, but correction of them will give an on-going cost reduction

Water Costs

In view of high expenditure on water and the high volume of individual invoices we recommend a full review.

Further Accounts Payable Review

We recommend that a further AP review is undertaken in 2012 when there is 24 months of new data to analyse (Meridian received data up to 31st March 2010).