

**GOVERNANCE COMMITTEE**

**2 APRIL 2014**

**REPORT OF HEAD OF CENTRAL SERVICES**

**CREDITORS REVIEW**

**1.0 PURPOSE OF REPORT**

- 1.1 To enable members to input into the proposed review of the creditors system following the payment fraud in September 2013.

**2.0 RECOMMENDATIONS**

- 2.1 That members approve the proposed review of the creditors system as set out in para 3.7 Option 1, with the addition of the process for adding new suppliers, subject to any amendments made by this committee.
- 2.2 That contract procedure rules be waived and the review be undertaken by the Council's external auditors PricewaterhouseCoopers without obtaining alternative quotations.
- 2.3 That the determination of the final terms of reference be delegated to the Head of Central Services

**3.0 KEY ISSUES**

**Background**

- 3.1 Members have been previously briefed on the payment fraud that occurred in September 2013. The Police investigation is still on going as are negotiations with the affected supplier who has to date not been paid by the Council.
- 3.3 Following the fraud, discussions were held with PricewaterhouseCoopers (PWC) fraud expert who stated that the Council's procedures for making amendments to standing data including bank account details were good but enhancements were suggested and these have been implemented. An internal investigation under the Council's disciplinary procedures was also undertaken and members were updated on its outcome in a previous report. An internal review was also undertaken and changes were and continue to be made to the system in conjunction with the current upgrade to the Council's main financial system that is taking place in line with the original capital programme.
- 3.4 The Leader requested that when further details are known from the investigation both internal and external, that a review be undertaken of the creditors function by the external auditors. Members of this Committee at their meeting held on 24<sup>th</sup> September 2013 discussed how they wished to feed into such a review. The Committee agreed that the Chair and Vice Chair of this Committee would feed into the scoping of such a review and then feed back to the Committee.
- 3.5 Whilst the police investigation has not concluded it is felt that sufficient information is known on how the fraud occurred and that an external review of the creditors function would be appropriate at this time. As this scheduled meeting is being held in a timely manner the opportunity is available for the Committee to input in addition to the Chair and Vice Chair.

- 3.6 PWC have recently issued an alert to all its clients advising of an increase in this type of fraud. This makes the commencement of this review timely.

### **Proposed Review**

- 3.6 It is considered that the Council's external auditors would be ideally placed to undertake such a review. The auditors will take into account their existing knowledge of the Council's systems which means less time will be spent in this aspect of the work which will reduce costs. When the auditor performs work outside of the audit plan they are required to take steps to ensure they remain independent as such independence will still be robust.
- 3.7 Following discussions with external audit two main options have been drafted that could be undertaken with some additional extra pieces of work added on if required. These suggested reviews and indicative costs are as follows:

Option 1 – A detailed review of the payments and creditors system (£10k - £16k)

- Understanding of all creditor and payment controls
- Mapping/flowcharting the current creditor and payment processes
- Walkthrough testing of a sample of transactions to ensure evidence is in place to show that key controls are operating effectively.
- Sample testing of the key controls identified in the creditors / payments processes.
- Facilitation of a workshop to ensure staff understand the risks relating to creditors and why the processes and controls in place are important in mitigating those risks.

Option 2 - A focussed review of the processes for changing supplier bank details (£8k to £13.5k)

- Understanding the Authority's processes for amending supplier bank account details
- Mapping / flowcharting of the current supplier bank detail change processes
- Walkthrough testing of a sample of supplier bank account amendments to ensure evidence is in place to show that key controls are operating effectively.
- Sample testing of the key controls identified in the processes for amending supplier bank details.
- Facilitation of a workshop to ensure staff understand the risks relating to supplier management and why the processes and controls in place are important in mitigating those risks.

### **Additional Items**

- A review of the supplier management processes i.e. adding new suppliers, amending supplier data. (£3k - £4k).
- Data analysis on supplier master data to identify trends/risks/anomalies (£4k - £10k).
- A review of the Council's procurement processes (£4k - £7k).
- A review of procurement card activity (£4k - £7k)

- 3.8 The costs are indicative only and may change once a more detailed scoping exercise is undertaken.

- 3.9 Following discussions with the leader Option 1 is the preferred option with some additional work included to cover the process for obtaining new supplier payment details for new contracts at the request of the Section 151 Officer.

#### **4.0 POLICY AND CORPORATE IMPLICATIONS**

- 4.1 As set out in para 3.6 the auditor is required to conduct any additional reviews outside of the audit plan in order to maintain their independence. As such the work cannot be commissioned as an extension to the audit plan. Under contract procedure rules this would mean three quotations should be obtained unless the procedure rules are waived, which is recommended in this case as this is considered to provide the best value for money for the assignment. The Solicitor the Council and the Head of Central Services have delegated authority under the contract procedure rules to grant exemptions and are seeking this committee's approval to do so in this case.
- 4.2 The Council's creditors function is a corporate process which is utilised by all Council services.

#### **5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

- 5.1 There is sufficient capacity within the current external audit fees budget to accommodate costs up to approximately £20,000 subject to approval to carry forward the funds from the 2013/14 budget to 2014/15. This will form a request to the Policy Finance and Administration Committee as part of the regular year end reports.

#### **6.0 LEGAL IMPLICATIONS/POWERS**

- 6.1 Legal have been involved at all stages and have liaised with the Police as appropriate with regard to the actual fraud itself. There are no specific legal implications relating to the proposed audit review of the system.

#### **7.0 COMMUNITY SAFETY**

- 7.1 There are no specific community safety issues as a result of this report.

#### **8.0 EQUALITIES**

- 8.1 There are no direct links to equalities as a result of this report.

9.0 **RISKS**

9.1 **Probability**



Very High A				
High B				
Significant C				
Low D		1		
Very Low E				
Almost Impossible F				
	IV Neg- ligible	III Marg- inal	II Critical	I Catast- rophic

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**Impact**

Risk No.	Description
1	The review fails to strengthen the controls in place within the creditors system.

10.0 **CLIMATE CHANGE**

10.1 There are no direct links to climate change.

11.0 **CONSULTATION**

11.1 These proposals have been drawn up by the Head of Central Services as Section 151 Officer and the External Auditor taking account of their knowledge of the payment fraud. The Corporate Governance Group has supported this approach at this time. The Leader has been consulted as well as the Chair and Vice Chair of this Committee in bringing forward this report. The views of the internal auditor have also been sought.

12.0 **WARDS AFFECTED**

12.1 All wards are affected

Contact Officer: Dawn Garton

Date: 19.3.14

Appendices: None

Background Papers: Correspondence with the external auditor

Reference: X: C'tees, Council & Sub-C'tees/Governance/2013-14/2/4/14/creditors review