Taunton Deane Borough Council

Corporate Governance Committee – 25 June 2012

SAP Controls - Update

Report of the Strategic Finance Officer
(This matter is the responsibility of Executive Councillor Mrs Vivienne Stock-Williams)

1. **Executive Summary**

> TDBC introduced a new financial system which has been used since 1st April 2009.
>
> There are controls built into the SAP system and these are a crucial part of the internal control regime.
>
> During 2011/12 there have been improvements in the control environment.
>
> Work continues in this area to reduce/eliminate risk to the council.

2. **Background**

2.1   On 1 April 2009 Taunton Deane Borough Council introduced a new financial system call SAP (Systems, Applications and Products). This new system covered both payment of invoices and the raising of sundry debtors.

2.2   2011/12 was the third year of the council using SAP and officers have continued to work on the controls within SAP to reduce risk to the council.

2.3   In 2011/12 further functionality has been rolled out to the organisation. These are
   - LSO – online learning booking tool
   - Claiming expenses
   - Electronic Payment Request Form
   - Personal Change Request Form
   - Enhanced equalities functionality
   - HR headcount reports

3. SAP Controls

3.1 There are controls built into the system and these inherent controls are a crucial part of the internal control regime.

3.2 The appendices attached to this report give details of the risks identified within the separate modules of SAP, the current controls in place and any ongoing work on controls

3.3 There are 4 appendices being Payroll/OM Structure Appendix A, Creditors Appendix B, Debtors Appendix C, Master Data Appendix D.

4. Finance Comments

4.1 This is a finance report and there are no further comments to make.

5. Legal Comments

5.1 It is essential that adequate controls are in place to ensure the council pays its invoices on time in order to avoid incurring any additional cost through non-payment and potential court actions. This report identifies what controls are in place.

6. Links to Corporate Aims

6.1 The SAP system supports the whole organisation and therefore supports all of the corporate aims indirectly.

7. Environmental Implications

7.1 There are no environmental implications of this report

8. Community Safety Implications

8.1 There are no community safety implications of this report.

9. Equalities Impact

9.1 This is an information only report and has no equalities issues to assess.

10. Risk Management

10.1 The controls that are in place within SAP are there to reduce risk of both a financial and reputational nature.

11.   Partnership Implications

11.1   There are no partnership implications of this report.

12.   Recommendations

12.1   This is an information only report and there are no recommendations attached to this report.

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Risk	SAP Controls in Place	Ongoing work
Positions created/deleted/amended without authorisation	The Retained HR Manager or Strategic Finance Officer approve any changes to The OM structure within SAP	
The OM structure within SAP does not match the organisations structure	The structure has been recently reviewed and changes made to reflect the current organisation. No changes can be made without authorisation (see above)	The structure will be regularly reviewed and the completion of the SAP establishment report will be a further opportunity for this to be undertaken.
A fictitious employee is paid.	Quarterly reports are provided by SW1 to Theme Managers to confirm staff on payroll. The Authorised Signatory list has been overhauled during 2011/12 and half yearly reviews built into the process of ensuring that this is kept up to date. This is signed off by the Retained HR Manager and Strategic Finance Officer. If new employee documentation comes through with the incorrect signatures then there is an agreed escalation procedure in place before they are added to the Payroll	
Periodic reconciliation of the payroll system to personnel records does not take place.	A report is produced on a quarterly basis which is issued to Theme Managers asking them to review the list of staff and	

Individual departments do not review the accuracy of their payroll bills.	report back any errors. Any errors identified are investigated and corrected where necessary.	
False Allowance claims are paid.	Expenses claims are made through SAP and following the OM structure for authorisation. No paper claims apart from Non ESS staff are accepted by payroll.	
Payroll costs are not coded accurately	Monthly budget monitoring includes details of salary costs for budget holder review. Any errors are discussed with the accountant and are rectified within the Payroll System.	

Risk	SAP Controls in Place	Ongoing work
Transaction or event has not occurred or does not relate to the authority	SAP will confirm that a scanned document is either an invoice or credit note. Those items that fail this control are rejected by the system. This ensures that TDBC does not pay on incorrect invoices	
Fraudulent/Duplicate payments made	Duplicate payment identification is made throughout the whole process with potential duplicate payments being identified manually or through a computer program. A program called Etesius is run prior to all payment runs to identify potential duplicate= invoices. These are manually investigated and where proved to be a duplicate are removed from the payment run. There were no duplicate payments made in 2011/12	
Training is insufficient	Quick reference guides are available for all payment processes within SAP that breakdown the process and have screen shots for staff to follow. There are also SAP champions throughout the organisation to help staff that have any issues using SAP. The sharepoint site for SAP also has a	

	document that gives staff details of the escalation process should they have any problems with SAP.	
Outputs from the creditors system are reconciled regularly to the information in the General Ledger	Bank reconciliations are carried out that ensure the output from the creditors system (that appear on the bank statement) are within the SAP General Ledger.	
All invoices received are not loaded onto the system	During the various stages of scanning invoices to upload into SAP SWOne are able to quickly identify and correct any issue through reconciliations.	
Direct input bypasses all controls and incorrect payments are made. (Direct input is used for payment of items such as grants where an invoice is not received.)	In 2011/12 the electronic payment request form was introduced throughout the whole organisation. Guidance on when and how to use the form was given when it was launched.	There are other records that are directly input such as direct debit payments and treasury investments. These payments will be reviewed in 2012/13 to ensure that the controls in place are sufficient.
Duplicate vendors created	During 2011/12 the cleansing of the vendor records has started. The process of requesting new vendor records checks for records that already exist to ensure new duplicates are not created.	The vendor cleansing will continue during 2012/13.

All invoices are not correctly authorised before being paid.	All invoices are process through SAP. All cost centres within SAP have position numbers against them that can authorise spend within a given band. SAP uses this delegation table to pick authoriser for spend.	
Payment is incorrect		
Invoices are not paid to terms agreed	SAP will only allow invoices requiring a purchase order to be paid through the 3 way match process (automatic payment on receipt of an invoice without manual intervention) if the invoice quotes a valid purchase order number and the good receipt input by staff matches the invoice. The approval comes from the purchase order which is approved by an Officer from the delegation table. When an invoice is received that does not require a purchase order (i.e. a utilities bill) then SAP will require a member of staff to "code" the invoice. By doing this the member of staff is confirming that the invoice is correct and which budget line the expenditure is to be shown against. There is then an approval stage where the authorisers for that code from the delegation table can release the invoice for payment. The invoice will not be paid until both stages are fully completed. As long as staff following the process that has been communicated to them in a timely manner invoices will be paid within the suppliers agreed terms.	

Risk	SAP Controls in Place	Ongoing work
All invoice request forms are not authorised, before information is put onto the debtors system	Not all members of staff have access to raise sundry debtor accounts. For those staff that do not have access there is a form to complete to request a debtor account is raised. If the form is not completed or data is missing the request is passed back to the service.	
Debts are not recovered.	When an account is not fully paid then the recovery processes begins. SAP produces an initial reminder if the account has been marked ok for recovery and the account exceeds its payment terms. If the customer still does not pay the account then the customer will either receive a final reminder produced by SAP or will be contacted by the AR team. SAP has an aged debt report suit which allows managers to check their debts at a high level, service level or customer level. This highlights to managers debts that are not being repaid and any areas of concern	Aged debts will be monitored as part of the budget monitoring process. The Financial Planning Team will monitor the level of debt in their monthly meetings.
Procedures are not adhered to	Quick reference guides are on the SAP sharepoint site. Any changes to the procedures are communicated via the Business Support Units. Any issues around procedures are discussed at the Business Review Group (BRG) and best practice is shared between officers.	

All credit notes are subject to appropriate level of authorisation.	An authorised signatory list has been compiled on a Theme basis which gives details of who can approve these changes.	A new role is due to go live on 30th June 2012 which will allow the release of credit notes to be made in SAP? This will provide segregation of duties as a person who raises a credit note will not be able to release it.
A block on recovery is not removed.		SAP scripting is being developed that will identify those accounts with a "dunning block" so SWOne can investigate and remove the block wherever necessary.
Not all invoices are printed and issued	A list of invoices that should be printed is produced. A manual check is performed and any missing invoices re re-printed.	
All write offs are subject to appropriate level of authorisation	The AR team are aware of the write-off procedure. A debt will not be written off without the agreement of the s151 officer, head of paid services or executive (depending on debtor value)	

Risk	SAP Controls in Place	Ongoing work
Users may have unauthorised access to update master data records.	Only those staff with the approved role can amend master data records. A segregation of duties matrix ensures that this role is not assigned to staff with conflicting roles.	
Incorrect data/changes are processed	The creation of and amendment of Supplier and customer details follow a strict process. Forms for the creation of new data are required along with supporting documentation which is checked. Updating supplier and customer details are thoroughly checked as this is a major fraud area. The master data team have stopped some potential frauds by following a robust process	
New cost centres are created without approval. Funds can be misappropriated or discrepancies hidden.	All new cost centres and GL accounts are approved by the Strategic Finance Officer before creation after a case for creation has been reviewed.	