

Taunton Deane Borough Council

Corporate Governance Committee – 23 May 2011

SAP Controls - update

Report of the Strategic Finance Officer

(This matter is the responsibility of Executive Councillor Terry Hall)

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.

The implementation of this system was an extremely challenging time for TDBC with significant issues needing to be addressed quickly, resulting in some “work arounds” that bypassed the controls built into the system.

Officers have worked hard over the past two years to ensure that the controls are fully operational.

Audit reports over the past 2 years have highlighted significant issues and this report updates Corporate Governance Committee on the issues raised and also highlights ongoing work on controls.

2. Background

- 2.1 On 1st April 2009 Taunton Deane Borough Council introduced a new financial system call SAP. This new system covered both payment of invoices and the raising of sundry debtors.
- 2.2 During 2009 there were significant issues with SAP which lead to several “work arounds” to ensure that our suppliers were paid. Some of the normal processes with the controls built into the system were bypassed.
- 2.3 The system has settled down and the various modules of SAP that are being used are following set processes and therefore the controls inherent within the system are working.

3. SAP Controls

- 3.1 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
- 3.2 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. Equalities Impact

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

7. Risk Management

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

8. Partnership Implications

- 8.1 There are no partnership implications of this report.

9. Recommendations

- 9.1 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 with authorisation (see above)	
<p>Periodic reconciliation of the payroll system to personnel records does not take place.</p> <p>Individual departments do not review the accuracy of their payroll bills.</p>	<p>A report is produced on a quarterly basis which is issued to Theme Managers asking them to review the list of staff and report back any errors.</p> <p>Any errors identified are investigated and corrected where necessary.</p>	
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.	

CREDITORS (invoice payment)

Risk	SAP Controls in Place	Ongoing work
<p>All invoices are not correctly authorised before being paid.</p> <p>Payment is incorrect</p> <p>Invoices are not paid to terms agreed</p>	<p>All invoices are process through SAP.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	

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	<p>Duplicate payment identification is made throughout the whole process with potential duplicate payments being identified manually or through a computer program.</p> <p>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.</p>	
Duplicate vendors created		<p>Southwest One recognised that this is a significant issue and are currently investigating the number of potential duplicates.</p> <p>Once the number are known a timetable will be written for the safe removal of the duplicate records from SAP.</p>
Training is insufficient	<p>Significant work has been carried out on training staff during 2010/11 and quick reference guides are available for all payment processes within SAP that breakdown the process and have screen shots for staff to follow.</p> <p>There are also SAP champions throughout the organisation to help staff that have any issues using SAP.</p>	A request to budget holders has been made to ask if they require further training and in which areas. Once this has been collated further training will be organised.

	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.)		An electronic form known as a E-PRF is currently being piloted in a couple of services within TDBC. This form is loaded into SAP and follows the delegations set up in SAP to ensure that the payment is correctly authorised. When the E-PRF is ready for a full launch guidance will be issued to staff on its use.

Debtors (sundry debts)

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.	<p>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.</p> <p>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</p>	Aged debts reports will be discussed at Theme Manager meetings (starting May 11) and will then discussed at CMT.
Procedures are not adhered to	Quick reference guides are on the SAP sharepoint site. These are communicated through the AR user group meeting. Any issued around procedures can be discussed at these meetings 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	A new role is being developed by Southwest One which will allow approval of credit notes to be made in

	changes.	SAP. Only those staff given the role will be able to approve credit notes.
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)	

MASTER DATA

Risk	SAP Controls in Place	Ongoing work
Incorrect data/changes are processed	<p>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.</p> <p>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</p>	
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.	