

Taunton Deane Borough Council

Corporate Governance Committee – 20 May 2013

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 1 April 2009.

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

Work continues in this area to reduce/eliminate risk to the council.

2. Background

2.1 On 1st 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 2012/13 was the fourth year of the council using SAP and officers have continued to work on the controls within SAP to reduce risk to the council.

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.

- 3.4 Following the loading of an upgrade a control issue has come to light. Before the upgrade a person requesting goods and services via a purchase order could not approve their own order. Following the upgrade this is now possible, where the approver is absent and the requester is listed on SAP as the substitute for the approver. This is not widely known.

SAP continues to work on this to resolve the issue. In the interim a list is produced weekly of any instances where the requisitioner and the approver are the same person. Since October 2012 there has been just one incident and closer investigation showed that the order was correct.

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 SAP is supported by Southwest One.

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	SW1 HR has been running an exercise with SW1 Finance and Theme Managers to cleanse the OM structure from posts which are not required and are not budgeted for.	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.	<p>Quarterly reports are provided by SW1 to Theme Managers to confirm staff on payroll.</p> <p>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.</p> <p>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</p>	
<p>Periodic reconciliation of the payroll system to personnel records does not take place.</p> <p>Individual departments do not review</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.	

the accuracy of their payroll bills.	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.	
There is missing equalities data on SAP	SWOne HR has during 2012/13 carried out an exercise with staff to ensure that the equalities details are completed by staff.	

CREDITORS (invoice payment)

Appendix B

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 invalid 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>Process Director flags potential duplicate payments as well as a program call Etesius.</p> <p>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. This is a manual process and during 2012/13 there were 3 duplicate payments made to a value of £1,561.17. All of these have been recovered in full.</p>	During 2013/14 the Strategic Finance Officer will be reviewing the high incidences of potential duplicate payments within SAP, looking at the reasons for the potential duplicates and how these can be stopped at source.
Training is insufficient	<p>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</p>	

	<p>the organisation to help staff that have any issues using SAP.</p> <p>The sharepoint site for SAP also has a document that gives staff details of the escalation process should they have any problems with SAP.</p>	
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 daily reconciliations.	
<p>Direct input bypasses all controls and incorrect payments are made.</p> <p>(Direct input is used in exceptional circumstances only)</p>	<p>The use of Electronic Payment Requests is Monitored by SWOne. Any payments that appear to have been paid incorrectly by this method are investigated and the person who raised the payment is contacted.</p> <p>Direct Input is only used in exceptional circumstances with agreement from TDBC</p>	SWOne will continue to monitor these payments.
Duplicate vendors created	<p>Vendor cleansing continued in 2012/13</p> <p>During 2012/13 the process of vendor creation was moved from 2 separate departments into one. Controls are in place to ensure that duplicate vendor records are not created.</p>	

<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 processed 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. Staff receive prompts direct to their inbox to remind them that they</p>	
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	<p>have invoices awaiting their approval or coding and SWOne produce regular reports to the retained Finance Officer to highlight staff who have high volumes of invoices in the system awaiting payment</p>	
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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>	<p>Aged debts will be monitored as part of the budget monitoring process.</p> <p>The Financial Planning Team Continues to monitor the level of debt in their monthly meetings.</p> <p>SWOne is working on improvements to the debt recovery process in terms of both the timetable employed in TDBC and also processes for identifying problem debts through a tool called SAP scripting</p>
Procedures are not adhered to	<p>Quick reference guides are on the SAP sharepoint site. Any changes to the procedures are communicated via the Business Support Units.</p> <p>Any issues around procedures are discussed at the Business Review Group (BRG) and best practice is shared between officers.</p>	

	There is an AR user group in place which has TDBC representation	
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. There is segregation of duties within SAP that ensures that a person who raises a credit note cannot 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 daily and any missing invoices 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)	

MASTER DATA

Appendix D

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	<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> <p>SWOne carry out significant internal checking of all master data changes to customers and vendors, this is also independently verified by SWOne's own business controls team and by SWAP</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.	