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## Report of the Director of Resources

### Corporate Governance and Audit Committee

Date: 15<sup>th</sup> November 2010

### Subject: Duplicate Creditor Payments

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#### Electoral Wards Affected:

Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

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## 1.0 Purpose Of This Report

1.1 The purpose of the report is to provide assurance on the robustness of internal controls in operation to prevent duplicate payments in accordance with the terms of reference of the Corporate Governance and Audit Committee.

## 2.0 Main Issues

2.1 Leeds City Council is aware that the possibility of creditor invoices being paid more than once is an issue for all organisations, both in the public and private sectors. This is evidenced by the number of organisations set up to offer services to identify and recover such payments.

2.2 The Institute of Internal Auditors has previously reported duplicate payments typically make up between 0.1 and 0.5% of annual invoice payments. A recent analysis of Leeds City Councils creditor payments for 2009/10 identified £0.5m of potential duplicate payments out of total payments of £962m. This represents 0.05% of total payments, well below the typical figures quoted above. This may be partly due to the fact Leeds City Council has been taking positive action to manage this risk for a number of years and that internal controls are operating well in direct comparison to other organisations.

### Creditor Payment Internal Audit Assurance

2.3 The Internal Audit report covering central creditor payments at the Business Support Centre (BSC) for 2009/10 provided substantial assurance that both appropriate systems of control were in place and that they were being complied with. Of the two directorates covered in 2009/10, one was given substantial assurance on the control environment and good assurance on compliance whilst the other was given good assurance on the control environment and acceptable assurance on compliance.

- 2.4 For the two years prior to this, the control environment relating to creditor payments was given substantial assurance, both centrally at the BSC and within the directorates reviewed. Acceptable assurance was provided in most instances with regard to compliance, with the exception of central creditor payments in 2007/08 where substantial assurance was provided.
- 2.5 This demonstrates that Leeds City Council has had good systems of control in place covering creditor payments for a number of years, and that these are generally complied with.

### **Existing Controls to Prevent or Identify and Recover Duplicate Payments**

- 2.6 The internal controls in place to address the issue of duplicate payments fall into two categories, preventative and identification & recovery. These controls are summarised below:

#### **Preventative controls:**

- 2.7 All creditor payments are input into the creditor payment system. When an invoice is input the details are automatically checked against the details of previously entered invoices. Where the supplier, invoice reference and invoice date are the same as a previously entered invoice the system generates a message saying the invoice already exists and prevents further input.
- 2.8 In addition, if other criteria are met, the system flags the invoice as a potential duplicate. All such invoices must then be reviewed by a supervisor within the Central Payments Team to verify whether or not they are duplicates. Those identified as duplicates are stopped at this stage and only those verified as not being a duplicate are released for payment. It is not uncommon to receive invoices from a supplier with the same invoice reference and value where the charge relates to regular payments, e.g. monthly or quarterly rental charges. The criteria the creditor payment system uses to identify potential duplicate payments are:
- the same supplier, invoice reference and invoice value;
  - the same supplier and invoice value if over £5,000 (gross invoice value) ;
  - the same supplier, invoice date and invoice value;
  - the same invoice reference, invoice date and invoice value.

#### **Identification & Recovery controls**

- 2.9 The creditor may contact Leeds City Council if they are overpaid and refund the relevant amount.
- 2.10 Individual service area budget monitoring arrangements should highlight any significant overspends, which should then be reviewed. This should identify any duplicate creditor payments of a significant amount.
- 2.11 The Central Payments Team has introduced a new piece of software during 2010/11 that includes a duplicate payment detection facility. Initially this is being run on a quarterly basis, with the identified potential duplicate payments identified then being reviewed and recovered where appropriate. This review covers both creditor invoice payments and purchasing card transactions.

- 2.12 The Central Payments Team review the details held in the creditors master file to try ensure only one record is held for each supplier. Having multiple master records for the same supplier increases the chances of duplicate payments being made.
- 2.13 Annually, Internal Audit use a data interrogation piece of software to review the previous year's payments data. Identified potential duplicate payments are then reviewed to verify if they are genuine duplicate payments and whether the monies have already being recovered. Steps are then taken to recover any outstanding monies. Internal Audit has been undertaking this review since 2004/05 and continually strives to improve the process. The amounts recovered are shown in the table below.

<b>Invoice Payments Reviewed Relating to</b>	<b>Amount Recovered by Internal Audit</b>
2002/03 & 2003/04	265,697
2004/05	47,884
2005/06	53,248
2006/07	5,911
2007/08	8,670
2008/09	84,040
<b>Total</b>	<b>465,450</b>

- 2.14 Following this review an external organisations is commissioned to review the payment data to identify and recover any overpayments may not have identified. The cost of commissioning these reviews is based on a commission charge, typically 25% of amounts actually recovered. At one point during our last external review, the auditor undertaking the groundwork commented on the fact there was so little for him to find it was hardly worth him being there. This reflects on the quality of the analysis and recovery work already completed by Leeds City Council staff. The amount recovered by the external organisations are shown in the table below.

<b>Period Reviewed</b>	<b>Total Recovered by External Organisations</b>
2002/03 to 2004/05	197,571
2005/06 & 2006/07	15,124
2007/08	9,053
<b>Total</b>	<b>221,748</b>

- 2.15 The external organisations also look at unclaimed VAT whilst undertaking their reviews. The total amount recovered from this for invoices paid in 2002/03 to 2007/08 is £106,539.
- 2.16 The above demonstrates that Leeds City Council takes the issue of duplicate creditor payments seriously. It is recognised that whilst strong systems of control greatly reduce the number of duplicate payments made, they will not totally

eradicate them in a large organisation like ours. This is why procedures have been in place since 2004 to review creditor payment data retrospectively to allow us to identify any such payments and recover the monies if this has not already been done.

### **Recent Publicity**

- 2.17 The Guardian newspaper reported on the 13 October that The Communities and Local Government Secretary made a speech claiming Local Authorities are wasting public monies by paying suppliers twice. A further report in the Yorkshire Evening Post (YEP) on the 14 October states that he claimed Leeds City Council overpaid suppliers by £500,000 in 2009/10. These claims were said to come from research completed by Experian.
- 2.18 The YEP report stated that a project carried out by the council and credit experts Experian recovered half a million pounds of overpayments. This is incorrect in that Experian have not been involved in recovering overpayments. Leeds City Council has had procedures in place since 2004 to retrospectively review the creditor payment data and to recover any identified duplicate payments.
- 2.19 The Internal Audit review of 2009/10 creditor payments is currently in progress. To date the value of duplicate payments identified is approximately £500k (gross). Of this £482k (96.4%) had been recovered prior to the Internal Audit review and a further £8k (1.6%) recovered by Internal Audit. Work is continuing to recover the remaining £10k (2%).

### **3.0 Implications For Council Policy And Governance**

- 3.1 The terms of reference of the Corporate Governance and Audit committee is to review corporate governance issues and system controls. Following recent adverse comments in the press, this report provides a more complete picture with regard to duplicate creditor payments, to give assurance that appropriate systems of control are in place to address this issue.
- 3.2 An important point to make is that as the complexities of the partners and organisations involved in the 'Big Society' agenda increase then so will the potential for duplicate payments to be made. This is compounded by the inevitable pressures on internal control and risk appetite that the forthcoming budget reductions will bring. The controls already in place and the 'belt and braces' retrospective review is an exemplar of good practice and should reduce the risks to this organisation brought about by these changes.

### **4.0 Legal And Resource Implications**

- 4.1 The resource implication of potential duplicate payments is the cost of staff time in undertaking the retrospective reviews of creditor payments. This is detailed and time consuming work and equates to one FTE member of staff within the Internal Audit section, plus the time that will be taken within BSC that is not yet known.

## **5.0 Conclusions**

- 5.1 The work being done within the Council specifically relating to the risk of duplicate payments demonstrates that Leeds City Council is committed towards safe guarding public monies. Duplicate payments are a global problem that happens in all large organisations. Those organisations that acknowledge this problem exists and takes action to identify and recover such sums demonstrate a respect for their finances and that they have tight control on their purse strings. It is those organisations who do not take positive action to both prevent and recover duplicate payment that are not properly controlling their purse strings.
- 5.2 Leeds City Council has good controls in place with regard to creditor payments. This is supported by the level of assurance Internal Audit have provided for these systems of control over the last few years. In each of the previous three years, the central creditors audit at BSC has provided substantial assurance on the control environment in operation.

## **6.0 Recommendations**

- 6.1 Corporate Governance and Audit Committee are asked to consider the content of this report and the assurance provided as to the Council's approach to preventing and where appropriate identifying and recovering duplicate creditor payments.

### Background Documents

Yorkshire Evening Post 14<sup>th</sup> October 2010