



West Midlands  
Combined Authority

## Audit, Risk & Assurance Committee

<b>Date</b>	4 October 2023
<b>Report title</b>	Key Financial Systems Audit: Accounts Payable Update
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<b>Report has been considered by</b>	n/a

**Recommendation(s) for action or decision:**

**Audit, Risk & Assurance Committee is recommended to:**

- (a) Note the progress update set out in this report on implementing Accounts Payable audit recommendations that were set out in the Key Financial Systems audit report for 2022/23.

## **1. Purpose**

- 1.1 Members were presented with the Internal Audit Report: WMCA Key Financial Systems 2022/23 in April this year. Accounts Receivable, Budgetary Control, General Ledger and Treasury Management all received an overall conclusion of 'Substantial' whilst Accounts Payable received an overall conclusion of 'Satisfactory'.
- 1.2 This report therefore sets out progress made to date in implementing the audit recommendations for Accounts Payable.

## **2. Background**

- 2.1 An audit of West Midlands Combined Authority's key financial systems was undertaken as part of the approved internal audit plan for 2022/23.
- 2.2 All the key financial systems are considered to have a potential effect on the annual accounts. Therefore, these audit reviews are undertaken on an annual basis. The controls tested as part of the audit work are deemed as core controls.
- 2.3 The following key financial systems were reviewed:
  - Accounts Payable
  - Accounts Receivable
  - Budgetary Control
  - General Ledger
  - Treasury Management
- 2.4 This report focuses on the Accounts Payable recommendations set out in the Key Financial Systems audit report.

## **3. Key Financial Systems Audit 2022/23 – Accounts Payable**

- 3.1 The audit was conducted in conformance with Public Sector Internal Audit Standards and considered the objectives set out below for Accounts Payable and the potential risks to the achievement of those objectives, that adequate controls are in place for key financial systems and they are operated in accordance with the Combined Authority's Financial Regulations and Contract Procedure Rules.
  - Adequate controls, including separation of duties are in place for approval of purchase requisitions / orders and invoices in accordance with the scheme of delegation,
  - Adequate controls ensure 3-way matching of invoices to goods receipting and purchase orders.
  - Payments have been matched to the correct invoice and allocated to the correct creditor account.
  - Payment runs are appropriately processed and authorised (including BACS processing and cheque control).
  - CHAPS/Faster payments are appropriately processed and authorised.
  - Adequate controls are in place in respect of creating supplier records and amending supplier details including bank details.

- Adequate controls are in place for the approval and processing of AP spreadsheet uploads.

3.2 The audit was limited to current year systems and transactions testing. Testing was undertaken for the period April 2022 to September 2022. The reviews also included the follow-up of previous recommendations made in 2021/22.

3.3 Examples of good practice in the management of risk identified during the course of the audit work, achieved through effective design and application of controls are set out overleaf:

#### **Purchase requisitions, orders and invoices**

- Business World had been used to process the payments.
- Purchase orders had been suitably raised and appropriately approved in accordance with the Scheme of Delegation for each invoice payment against these orders.
- Where required, Procurement approval had been suitably evidenced within workflow within Business World.
- Purchase orders had been suitably raised prior to invoice tax date (date services / works / goods provided) in most cases. Where purchase orders had been issued after that date, the delay was minimal.
- Invoice details agreed to the corresponding purchase order and goods receipting (per Business World) in all cases tested.
- 3-way match re Purchase Order, Goods Receipting and Invoice / payment amounts are understood to be auto-matched by the system per workflow once a PO is raised, receipting undertaken, and invoice registered within Business World.
- A separation of duties was suitably in place and evidenced in all cases tested regards ordering, goods receipting and authorisation.
- For the No Purchase Order invoices / exception payments tested, payments had been appropriately approved in accordance with the Scheme of Delegation.
- Sundry creditor payments suitably agreed to supporting documentation.

#### **Payment runs / CHAPS**

- Payments made via CHAPS (Telegraphic Transfer) processes agreed to supporting information regarding details and amounts.
- Reconciliation of Business World payment run reports to bank statements showed that payments had been made accurately and completely.

#### **Supplier records new and amended**

- Business World workflow is used for the customer amendment forms, includes approval stages.
- Business World is used to process supplier amendment forms. Spreadsheet uploads
- Sampled transactions processed via uploading spreadsheets directly into Business World were confirmed as accurate

- 3.4 However, the audit identified 5 amber issues where improvements could be made, leading to a 'satisfactory' assurance rating, arising from the following:
- Goods receipting was not always completed promptly, and some invoices were paid outside the expected payment period of 30 days.
  - CHAPS / Telephonic Transfer forms were not always fully completed and evidence of approval throughout the process was not always evident.
  - Payment runs (BACS processing) did not always show evidence of approval throughout each stage of the process.
  - New and amended supplier supporting information to validate changes made was not always evident, and the completion of finance officer checks was not always evident.
  - A budget manager had approved a high value spreadsheet upload transaction; however, this was above the level defined in the Scheme of Delegation.
- 3.5 All of the audit recommendations made were agreed by the Accounts Payable / Accounts Receivable Manager and are either already complete or in progress. The audit recommendations along with their status and progress made to date are set out overleaf.
- 3.6 Good progress has been made towards implementing the recommendations set out in the audit report with 4 out of 5 recommendations completed and work progressing well on the 5<sup>th</sup>, laying the foundations for a more effective Accounts Payable control environment.

Recommendation	Progress to date
<p><b>1. Purchase requisitions / orders and invoices</b></p> <p>Wherever possible:</p> <ul style="list-style-type: none"> <li>• Purchase orders should be raised prior to receipt of the invoice or the invoice tax date.</li> <li>• Goods receipting should be promptly undertaken following the receipt of goods / services.</li> <li>• Invoices should be paid within 30 days to avoid any potential late interest payment charges.</li> </ul> <p><b>Status: IN PROGRESS</b></p>	<p>This recommendation highlights issues experienced by many authorities who are operating a No PO No Pay Policy. The Combined Authority's approach was launched some years ago and it is now felt that a refresh of approach is needed including relaunching the No PO No Pay Policy and raising awareness of the Purchase to Pay (P2P) process across the business and with our suppliers.</p> <p>We have therefore set up a P2P project team to address these issues longer term. The team comprising members of the Procurement and Finance teams will report on and deliver a number of actions in the autumn, using evidence obtained from the Business World finance system to highlight where problem areas are, including:</p> <ul style="list-style-type: none"> <li>• Raising awareness of the P2P process across the Combined Authority and with our suppliers</li> <li>• Providing training courses and online training material to ensure Budget Holders and system users are aware of the Combined Authority's No PO No Pay Policy</li> <li>• Routinely returning invoices to suppliers where a valid PO number is not quoted</li> </ul> <p>This approach is intended to improve the processing times for purchase orders, goods receipting and invoice approvals by raising awareness of the P2P process and No PO No Pay Policy across the business and with our suppliers.</p>

**2. CHAPS / TT Payments**

- CHAPS / TT forms should be fully completed and evidenced as approved to show a separation of duties in accordance with the Scheme of Delegation.
- Approvals for CHAPS payments, whether by email or TEAMS, should be recorded on the form or should be easily retrievable and provided for inspection on request.
- Checks to confirm that prices are correct, goods had been received and checked should be certified within the relevant section by a responsible officer within a service area.
- Incomplete and / or unauthorised forms should be returned for remedial action by the initiating service area to ensure payments are only made based on fully completed and authorised forms.

**Status:** COMPLETE

CHAPS and TT payments are both mechanisms for making same day payments to suppliers. A review was undertaken over the summer and CHAPS forms have now been updated to ensure that they are fit for purpose and include a valid reason for a same day payment, owing to the increased control risk in this area. Evidence collected over the summer also highlighted that the numbers of payments were increasing, therefore, additional Deputy s151 officer approval was introduced in August 2023 to ensure that same day payment is appropriate and necessary with challenge back to the initiator where necessary. The AP/AR team have also improved their checks on documentation and are returning incomplete forms to initiators.

**3. Payment runs**

- Approvals or evidence of approvals throughout the payment run / BACS process should be retained and be easily retrievable for review.

**Status:** COMPLETE

Evidence of all approvals throughout the payment run / BACS process are now automatically held on the Finance team's BACS channel on MS Teams.

**4. New / Amended Supplier Records**

- Supporting evidence used for bank detail verification checks as well as the corresponding online form should be held centrally together within Business World and attached to the supplier record within the supplier master file to create a central record. This would provide a clear audit trail when records are requested for query / inspection.
- Documents / letters received that do not comply with WMCA processes should be challenged with the supplier, recorded on the Bank Details Log and further appropriate documentation (e.g. letterheaded / signed) should be obtained.

**Status:** COMPLETE

Evidence relating to new and amended supplier records is now held centrally within the Business World system. Documents that do not comply are also routinely returned to suppliers.

**5. AP Spreadsheet Uploads**

- Approval in accordance with the Scheme of Delegation should be suitably evidenced.

**Status:** COMPLETE

The Accounts Payable team have been reminded of the strict Scheme of Delegation requirements particularly where payments are made via spreadsheet upload.

#### **4. Financial Implications**

4.1 There are no direct financial implications arising from this report , however a failure to implement the recommendations set out in the internal audit report will expose the Combined Authority to unnecessary financial risk.

#### **5. Legal Implications**

5.1 There are no direct legal implications in relation to this report.

#### **6. Equalities Implications**

6.1 Not applicable.

#### **7. Inclusive Growth Implications**

7.1 Not applicable.

#### **8. Geographical Area of Report's Implications**

8.1 Not applicable.

#### **9. Other Implications**

9.1 Not applicable.

#### **10. Schedule of Background Papers**

10.1 Internal Audit Report: WMCA Key Financial Systems 2022/23 [Final updated Consolidated KFS Report 202223.pdf \(wmca.org.uk\)](#)