SURREY
COUNTY COUNCIL

Audit and Governance Select Committee
06 December 2012

Progress report on creditor balance

Purpose of the report:

The purpose of this report is to update the Committee on progress made on the work undertaken to identify the extent of a potential overstatement of The Council's creditors, identified by the external auditor's Annual Governance Report.

Introduction:

1. The Annual Governance Report for the 2011/12 statement of accounts was presented to this Committee in September by the external auditors. The report identified an amount of £9.3m, which had built up over a number of years and related to multiple small differences between the value of goods receipt notes and either the value of invoices paid or where no invoice has yet been received.

2. This balance had arisen because there is a requirement to record the value of goods upon receipt. The potential £9.3 million overstatement had arisen where the value of goods was not adjusted to match the invoiced value. It was the auditor's opinion that this amount should have been written off during the 2011/12 closure, however, officers expected that some of this balance was a 'real' liability and that the actual overstatement was likely to be substantially less than the full £9.3m. The mis-match between the goods receipt amount and the invoice could be due to the invoice amount being lower in value than the amount originally recorded, the invoice received was incorrect or an invoice is yet to be received. It was confirmed at the September meeting of this Committee that officers were working systematically to review this balance and agreed to report back to the Committee at regular intervals on progress.

3. This report provides an update to Audit & Governance Committee on progress made in identifying the extent of any potential overstatement of liabilities.

Recommendations:

4. The Committee is asked to:

   a) Note the progress made to date.

   b) Agree to receive further updates on progress and proposed treatment in the 2012/13 statement of accounts.

Progress made:

5. The auditors figure of £9.3m was calculated by taking all open line items on the account which dated back to before the 1 April 2011. Open line items are entries that had not automatically cleared by a match being detected by the system. The net position of all open line items from prior to 1 April 2011 amounted to £9.3m.

6. In investigating this balance Finance examined the balance at the 31 March 2012, as some of the invoices in relation to the previous year's balance may have been received during 2011/12. The effect of this is to reduce the outstanding balance to £7.6m as some of the outstanding balances had been cleared through the normal process, as expected.

7. The next step was to analyse this balance by vendor, in order to break the issue down into manageable parts. The first step was to investigate the vendors with balances over £50,000. There were 20 vendors with balances greater than £50,000 and they totaled £3.2m. Work on analysing these balances is now well underway and of it can be classified into 3 groups:
   - £1.1m – it is clear that the goods have been paid for by alternative means, but the credit balance has not been cleared.
   - £1.4m – it looks likely that the goods have been paid for but the balance has not been cleared. This cases need to be confirmed with accounts payable and/or procurement teams.
   - £0.7m – there is nothing to suggest that an invoice has been received or payment has been made . This cases need to be confirmed with accounts payable and/or procurement teams and vendors contacted.

8. Some early findings and recommendations are that the problem is partly being caused by the interim accounts payable process - those payments to vendors that do not follow the standard SRM process for various reasons. We are already working with accounts payable and procurement to identify what changes need to be made.

Conclusions:

9. Progress has been made in analysing the balance identified and it has proved an accurate decision to not write-off this balance during the 2011/12 closing process.

10. A number of process changes have been identified and further work is being undertaken to avoid a balance of this nature developing in the future.

11. Once the final issues remaining with vendors balances greater than £50,000 are resolved, the focus will be on the smaller balances. Investigating these items is likely to be more difficult and time consuming due to the number of line items requiring analysis. Consideration will then be given to the value of the balance left and the number of purchase orders, before a final decision is made on the most efficient and effective course of action in relation to these remaining balances.

Financial and value for money implications

12. There are no direct financial implications of this report. Once this analysis is complete, the treatment in the 2012/13 statement of accounts will be outlined and any financial implications will be assessed at that time.

Equalities Implications

13. There are no direct equalities implications of this report.

Risk Management Implications

14. There are no direct risk management implications of this report.

Next steps:

15. An analysis of the vendors with balances over £25,000 and then over £10,000 will be carried out. Consideration will then be given to the value of the balance left and the number of purchase orders, before a final decision is made on the most efficient and effective course of action in relation to these remaining balances.

16. Further updates on progress will be brought to this Committee alongside the proposed treatment in the 2012/13 statement of accounts.

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Sources/background papers: Annual Governance Report 2011/12, Audit Commission.

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