

Report to the Council

Report of: Overview and Scrutiny

Date: 22 February 2011

Subject: Financial Regulations – Acceptance of E-Invoices

Chairman: Councillor Richard Morgan

Item:

Recommendations:

(1) To approve an amendment to Financial Regulation 3.24 to read as follows:

"3.24 To ensure that payments are not made on a faxed invoice, statement or other document other than a formal invoice. Formal invoices may include e-invoices received in PDF format via the dedicated e-mail address provided by the Chief Finance Officer in the Finance and ICT Directorate";

(2) To note the internal controls which will be put in place to regulate the receipt and processing of e-invoices; and

(3) To note that there are no other proposals to bring forward in relation to Financial Regulations as part of the 2010/11 review.

Report:

1. Last year, the Constitution & Member Services SSP considered a proposal to allow E-Invoicing as part of the annual review of Financial Regulations, and we agreed their recommendation to run a pilot scheme with a number of ICT providers. Invoices were received into a secure internal mailbox and over the course of this pilot no duplicate invoices were received and no negative issues were identified.

2. The process was exactly as with the receipt of paper invoices, with the exception that invoices were received in PDF format and were printed out in house as opposed to the receipt of paper invoices by post, from which point all existing controls were applied.

3. E-Invoicing is already accepted by many other local authorities within their e-procurement systems, including Essex County Council. A number of these authorities use a facility on the Marketplace system to enable suppliers to e-invoice through the Marketplace which links to the orders. This function would be available in the future if the Council were to develop the E-Invoicing option further.

4. Though reservations were previously held about E-Invoicing, in regard to security risks and the practicality of this implementation, Internal Audit has taken the opportunity to review this pilot scheme as part of the planned creditors' audit within the 2010/11 Audit Plan, through in-depth discussion with key figures in the process and evaluation of the benefits to the authority.

5. Internal Audit Findings

We have received a report from the Chief Internal Auditor on this review as follows:

(a) Benefits to the Authority

E-Invoicing would streamline and improve the efficiency of the creditor process and assist in meeting key requirement of the creditor's policy to ensure invoices are paid to terms. By removing the time lost by the mail process, aside from this benefit, it would be more viable for the authority to take advantage of any discounts offered on prompt payment.

Also any costs added on to invoices by suppliers for printing and posting costs would be nullified. Currently 16,700 invoices have been processed since April 2010. One supplier has adopted a charge in the region of £1.30 per invoice. If this was adopted by all suppliers the hypothetical cost implication would be:

No. of Invoices	Sample Period	Multiplier	Indicative Charge	Indicative Cost
16,700	7 months	12	£1.30	£37,217

In addition to this, with the invoices in PF format data can be shared easily, internally for such purposes as budget management and monitoring of utilities invoices.

(b) Benefit to Local Suppliers

With the authority keen to support it's local and small businesses, by moving to E-Invoicing the Council would be eradicating some of the suppliers expenditure by removing the printing and mailing costs involved in the paper invoicing process. Also with the process more time efficient at our end, payments would be swifter, helping the cash flow of local business, especially important to the smaller companies.

(c) Security

Security and fraud are high on the list when it comes to risk to local authorities. The move to E-Invoicing, potentially viewed as more corruptible, is in reality a much safer method of receiving invoices. In the context of paper invoicing it is very easy to intercept an invoice and alter it for a fraudulent purpose. With E-Invoicing the skill level required is much greater. It firstly is a complex and intricate process to intercept an e-mail and secondly it is very difficult to alter an invoice in PDF format, with the requirement of specialist software being obtained to be able to do so.

(d) New process

The process would involve one central email inbox with access restricted to members of the creditors team, with clearly defined responsibilities. An initial mail shot would be sent to the suppliers selected for the first phase of the change which would fully explain the requirements of the process. Guidance on the adoption of E-Invoicing and advice on the

process of obtaining the free of charge software Adobe, the package on which PDF invoices are created, would be offered. If this initial phase was successful and confidence in the process remained, a full phasing in of the change would commence.

(e) Audit's Future Role

Audit would be involved and on hand for consultation throughout the move to E-Invoicing and would evaluate, as required, the ongoing assurance in the new process as well as including E-Invoicing in each annual systems audit. It is planned that audit would, through the use of specialist audit software, run regular data sampling exercises to ensure that no duplicate invoices were processed.

(f) Conclusions

With security fears addressed, Audit gave assurance in the move to E-Invoicing with respect to the receipt of invoices in PDF format into a secure internal mailbox. No negating issues were highlighted and only benefits to both the authority and suppliers were identified. The process would need to be phased in to ensure workload is manageable and the process is correctly adopted.

6. We are satisfied that, in the light of the pilot E-Invoicing Scheme and the review by Internal Audit, the Council should introduce the system on a permanent basis.

7. There are no other items arising from this year's review of Financial Regulation and therefore recommend as set out at the commencement of this report.