

**Report to: Audit Committee**

**Subject: Summary of Audit Activity**

**Date: 11<sup>th</sup> December 2012**

**Author: Service Manager - Audit & Risk Management**

## **1. PURPOSE OF REPORT**

To summarise the outcome of Internal Audit activity for the period October to December 2012.

The report will highlight all final reports issued and associated key findings, concerns identified in any work in progress, details of liaison with management and External Audit and provide details of any changes to the Annual Audit Plan.

## **2. SUMMARY OF INTERNAL AUDIT ACTIVITY**

### **Final Reports Issued**

The following reports have been finalised for the period October – December 2012.

- IAR1213-06 Debtors
- IAR1213-08 Banking

### **IAR1213-06 Debtors**

The report provided **limited assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. One high, two medium and three low risk recommendations were made.

The high risk recommendation relates to the failure to complete a full reconciliation between the data held in the Direct Services system and the Civica Debtors system. The reconciliation has now been confirmed as complete, however, this should have been completed at the time of migration to in-house provision to minimise errors. A process has been agreed to ensure reconciliations are undertaken in a timely manner in future.

In addition, two medium risk recommendations were made relating to the timely processing of debt write-off's following authorisation and the need to undertake timely reconciliations between the Civica system and the debt collection agency system. The latter of these two recommendations has been confirmed as implemented.

The full report is provided as an annex for member consideration.

#### IAR1213-08 Banking

The report provided **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed. One low risk recommendation was made relating to the correct alignment of expenditure codes on credit card purchases.

#### Work in Progress

Audit fieldwork and testing has been completed for the Council Tax and NDR reviews. Draft reports are being prepared, however, there were no significant issues raised during the audit reviews. The review of fuel procedures is has commenced and fieldwork is ongoing.

#### **4. RECOMMENDATION**

The Audit Committee are asked to note the report and in particular that the level of assurance provided in each audit assignment will be taken into account when Internal Audit provide an overall opinion on assurance in the Annual Report at the end of the financial year.





## EXECUTIVE SUMMARY

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### Introduction

The Debtors function was previously outsourced to Rushcliffe Borough Council, however was brought back in-house in April 2011. The Council uses the Civica system for debtors, taxation and housing benefits transactions.

Since April 2012, the Debtors department has incorporated the Garden / Trade Waste Function, as the Direct Services wanted to provide the direct debit functionality for all customers. Direct Services were therefore required to migrate 9026 customer accounts from their system onto the Civica system. However during this migration, there were discrepancies identified such as out-of-date account details and the possibility of incorrect figures. A reconciliation exercise is therefore currently being completed by Direct Services O with the aid of the sundry debtors team to ensure that all accounts have been migrated over and are being accurately identified on the Civica system.

The Civica system allows staff from individual departments to raise invoices from supporting documentation. Should the debtor not pay their invoice within 30 days, the chasing process begins. A first reminder is sent out 30 days after the invoice and a final reminder is sent out 14 days after the first reminder. Should the debtor still not pay, the debtor is passed to a debt collection agency or the Council's legal department depending on the circumstance and amount.

Debtors can pay their invoice through various means such as at the cashier's office or through a standing order. All methods of payment are clearly set out on the correspondence sent to all debtors along with the invoice. Any income being received into the Council is reviewed on a daily basis and is posted to each account.

### Principal Findings

	High	Medium	Low
Number of recommendations	1	2	3

The detailed findings and associated recommendations are provided in the second part of this report. The main findings are detailed below:

- In terms of debt chasing from our sample selected, we found that it took an average of 45 days to issue the first reminder letter (against a target of 30 days) and an average of 25 days to issue the final reminder (against a target of 14 days);
- We found five instances where it took over 120 days to pass over account details to B&S, the debt recovery agency used by the Council;
- We found 15 write-off's that had been authorised appropriately by the Head of Corporate Services/Chief Financial Officer in March 2012, however, these had not been processed through the financial system at the time of the audit;
- No reconciliation was undertaken between the previous Direct Services system and the migration to the new Civica system. Spread sheets are currently sent out to Direct Services for them to check causing inefficiencies in the process.

## **Follow Up**

One medium and five low recommendations were raised as part of the 2011/2012 Debtors Review. One low recommendation relating to credit control was not agreed by the Debtors Team as revised procedures superseded this recommendation. The agreed elements of the medium risk recommendation relating to the 5% audit check was fully implemented.

The low recommendation relating to the write-off could not be confirmed as being completed due no write-offs being processed within this financial year. Therefore the recommendation has been re-raised within the write-off recommendation (4) in this report.

The low recommendations relating to the day-to-day procedural documentation, Financial Regulations and credit notes were confirmed as being fully implemented.

## **Assurance Statement**

Internal Audit can provide **Limited Assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

## **INTRODUCTION**

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### **Objective & Scope**

The purpose of the audit review was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion.

The key risks associated with the system objectives are:

- Procedural Documentation;
- Debtor and Invoice Creation;
- Credit Control;
- Write-offs; and
- Accounting for debt and reporting.

The following limitations to scope of the audit were agreed when planning the audit:

- Our work will not provide assurance that the organisation has identified all debts / monies owed to it.
- We will not consider the suitability of wording used in credit control letters.
- We will not consider the effectiveness of credit control actions taken, only whether actions have been taken.
- We will not consider the procedures or performance of any third party debt management contractors used.
- We will not substantively re-perform reconciliations.
- Testing will be completed on a sample basis from transactions within the current financial year.
- Our work does not provide absolute assurance that material error, loss or fraud does not exist.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the Authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

## **Acknowledgement**

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

## DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 1 - Credit Notes / Cancellations</b></p> <p><b>Level of Risk - Low</b></p>			
<p>Invoices can only be cancelled upon receipt of a cancellation form. There are two types of cancellation forms within the Council. Due to Direct Services recently including waste management within the services, a spreadsheet with all the details is provided to the debtors team which is authorised by the Waste Services Manager. The second form is produced directly from the system. This form is completed and signed by the department and processed within seven days of receipt of the authorised request form. It was confirmed that one member of staff requests the cancellation and a member of staff within the List of Authorised Officers can authorise the cancellation.</p> <p>Our testing of a sample of 15 credit notes showed instances where one member of staff had both requested and authorised the cancellation forms.</p> <p>For one other in the sample, the credit note had not been signed as evidence of authorisation.</p> <p>On two occasions, the credit notes were authorised by a member of staff who was not on the List of Authorised Officers.</p>	<p>There is a risk that credit notes are not being appropriately checked and authorised, potentially resulting in incorrect/invalid credit notes.</p>	<p>a) In order to ensure segregation of duties, the Council should ensure that all credit notes are requested by one member of staff and authorised by another member of staff as per procedures prior to processing on the Civica system.</p> <p>b) The List of Authorised Officers should be updated to ensure all appropriate members of staff are named on the list. This should be reviewed on a regular basis and available for all relevant staff.</p> <p><b>Action: Rosie Caddy, Local Taxation Manager</b></p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Change to form to ensure that user has to obtain signature rather than being able to put own signature on. Updated list of signatories. Staff to be more vigilant when checking. Email sent to everyone to explain changes.</p> <p><b>Timescale:</b> Implemented.</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 2 - Reminder Letters / Recovery Action</b></p> <p><b>Level of Risk - Low</b></p>			
<p>The Civica system has parameters set whereby it will not send out a final reminder unless the first reminder has been sent out. There are standard letters that the system produces which are sent out to debtors which have not made a payment when due.</p> <p>We looked at a sample of 30 outstanding debts and noted it was taking longer for the reminders to be sent out compared to the dates stated within the control documents, the Council's internal procedures. Within the sample, it had taken an average of 45 days to send out the first reminder and had taken an average of 25 days to send out the final reminder.</p>	<p>If outstanding debts are not chased promptly and in accordance with procedures, it is a loss to the Council.</p>	<p>The Council should ensure that 1<sup>st</sup> and final reminders are sent out 30 days and 14 days after the previous reminder respectively in accordance to the number of days outlined within the procedural documentation.</p> <p><b>Action: Rosie Caddy, Local Taxation Manager</b></p>	<p><b>Management Comment:</b></p> <p>Unfortunately the sample used contained cases prior to the change to weekly reminder runs. At that stage reminder runs were conducted monthly, therefore these cases would have a much longer period prior to progression. Additionally Garden Waste accounts were included in the sample, these cases are invoiced nearly three months in advance and a reminder is only issued, if necessary, over 70 days after invoice issue.</p> <p>Issuing the reminders/finals within these timescales would be impossible. Firstly SD customers have 30 days to pay and 14 days following a reminder, they then are allowed 7 days 'grace'.</p> <p><b>Planned Corrective Action:</b></p> <p>As agreed with Internal Audit control document to be updated to reflect difference in recovery on Garden Waste and Licensing debts and to formally recognise the 'grace' period.</p> <p><b>Timescale: by 31/12/2012</b></p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 3 - Debt Collection Agency / Recovery Action</b></p> <p><b>Level of Risk - Medium</b></p>			
<p>If a debtor fails to settle their account, the sundry debtors (SD) team passes on the details to a debt collection agency. The Council uses two agencies: Rossendale's LTD and Bristow &amp; Sutor (B&amp;S).</p> <p>Through testing a sample of 30 debtors, we noted that on five occasions it had taken over 120 days to provide B&amp;S the account information to begin the chasing.</p> <p>On two occasions, it was confirmed that the Council had not yet provided B&amp;S with the account details for the recovery process to start.</p> <p>On another occasion, the B&amp;S system had noted that the debtor had been returned back to the Council; however the SD Team was not aware of any cases being sent back.</p>	<p>If outstanding debts are not chased promptly and in accordance with procedures, it is a loss to the Council.</p>	<p>a) The Council should ensure that all cases that are to be chased up by Bristow &amp; Sutors are registered onto the B&amp;S web database within a timely manner.</p> <p>b) The Council should complete a reconciliation of the Civica system to the B&amp;S database to ensure that all cases which are noted as having been returned have indeed been received by the Council. The reconciliation should be completed on a periodic basis.</p> <p><b>Action: Rosie Caddy, Local Taxation Manager</b></p>	<p><b>Management Comment:</b> Recommendation agreed.</p> <p><b>Planned Corrective Action:</b> Reconciliation scheduled in every month. FNR list scheduled in every fortnight to pick and progress any appropriate cases, extra stage added to ensure progress to this stage.</p> <p><b>Timescale:</b> Implemented.</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 4 - Write-offs</b>  <b>Level of Risk - Medium</b></p>			
<p>There is a formal process for writing off bad debts which is set out in the Constitution and the control documents.</p> <p>We looked at a sample of 15 write-offs and in all 15 cases there was evidence to support they had been authorised by the Head of Corporate Services/Chief Financial Officer on 30th March 2012. This was in line with procedures as all write-offs sampled were below the £5,000 threshold.</p> <p>Although the write-offs had been authorised, we noted they have not yet been processed and therefore this is not in line with the write-off timetable contained within the control document.</p>	<p>If write-offs are not processed timely, this may create inefficiencies when chasing debts.</p>	<p>a) The formal process for writing off bad debts, set out in the Constitution and the control document, should be followed to ensure that a consistent approach is adopted.</p> <p>b) Once the write-offs have occurred, there should be a final check carried out by an individual other than the one processing the write-offs in the system to verify that the amounts written off are the amounts that have been authorised for write-off.</p> <p><b>Action: Revenues Services Manager</b></p>	<p><b>Management Comment:</b>  Recommendation agreed.</p> <p><b>Planned Corrective Action:</b></p> <p>a) Reiterate to Client Services importance of keeping to the timetable.</p> <p>b) Planned changes within the restructure of Revenues places responsibility of Write Offs within Local Taxation, this will allow for better resilience and will ensure write offs will be finalised more regularly and efficiently</p> <p><b>Timescale:</b>  a) Immediately b) Dependent on restructure.</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 5 - Reconciliations</b>  <b>Level of Risk - High</b></p>			
<p>Through discussions with the Waste Services Manager and the Local Taxation Manager it was confirmed that there have been some problems with reconciling the accounts from the Direct Services system to the Civica System.</p> <p>Regular spread sheets detailing paid and unpaid accounts from the Civica system are sent to Direct Services to ensure these are represented correctly on the previous system. Any discrepancies identified, then Direct Services investigate with the sundry debtor department.</p> <p>However since the start of the migration process in January 2012, a full reconciliation has not yet been completed.</p>	<p>There is a risk that not all accounts are accounted for on the Civica system and this could result in the potential loss of income and inaccurate records maintained.</p>	<p>The Council should ensure that the reconciliation between Direct Services system and the Civica System is completed as soon as possible to prevent further inefficiencies and the reliance on spread sheet checks having to be undertaken.</p> <p><b>Action: Caroline McKenzie, Waste Services Manager and Rosie Caddy, Local Taxation Manager</b></p>	<p><b>Management Comment:</b>  The reconciliation has now been conducted by the Waste Services Manager. However, documentation has not been kept in a suitable format to assess this.</p> <p><b>Planned Corrective Action:</b>  Following discussions with Internal Audit a further reconciliation is to be carried out prior to issuing 2013 invoices in January. This will be conducted by both the Waste Services Manager and Local Taxation Manager who will ensure evidence is kept. This will then be used to reconcile the number of invoices issued in January.</p> <p><b>Timescale:</b>  31/12/2012</p>

Observation	Risks	Recommendation	Management's Response
<p><b>Recommendation 6 - Reporting and KPIs</b>  <b>Level of Risk - Low</b></p>			
<p>It was confirmed through discussion with the Revenues Service Manager and the Local Taxation Manager that an analysis of the aged debtors is completed regularly; however the KPI "percentage of sundry debtors paid within 90 days" is not reported to the Head of Corporate Services as required within the Control document.</p> <p>We also noted the sundry debtors team does not have any other KPIs such as the number of days taken to raise invoices from request.</p>	<p>There is a risk that the performance of the sundry debtors team cannot be fully assessed.</p>	<p>a) Performance information on the percentage of sundry debtors paid within 90 days should be reported to the Head of Corporate Services as stated within the Control Document.</p> <p>b) Management should also consider reporting performance against other KPIs including the average number of days taken to raise invoices.</p> <p><b>Action: Report to obtain figure- Rosie Caddy, Local Taxation Manager.</b></p> <p><b>Reporting - Revenues Services Manager</b></p>	<p><b>Management Comment:</b>  Although aged debtor reports are compiled and reported on this figure had not been publicised.</p> <p><b>Planned Corrective Action:</b>  Report to be written to obtain figure.</p> <p><b>Timescale:</b>  31/12/2012</p>

## ANNEX A

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### Risk & Assurance – Standard Definitions

#### Audit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

#### Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect to the risks emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are a number of significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

## **What Happens Now?**

The final report is distributed to those involved with discharging the recommended action, the Chief Financial Officer, Audit Commission and, where applicable, the relevant Corporate Director.

A synopsis of the audit report is provided to the Authority's Audit Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Committee.

## **Any Questions?**

If you have any questions about the audit report on any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Service Manager – Audit & risk Management on telephone number 0115 9013850 or via e-mail to [vince.rimmington@gedling.gov.uk](mailto:vince.rimmington@gedling.gov.uk)