



---

## Internal Audit Report

### Craven District Council Sundry Debtors 2012/13

Report ref: C3/3

---

Report Issued

Draft: 8/5/13  
Final: 17/6/13



## Contents

Background	page 2
Scope	page 3
Audit Opinion	page 6
Detailed Findings & Action Plan	page 8

**Auditor:** Laura Daffern

**Distribution:**

<b>Name</b>	<b>Job Title</b>
Nicola Chick	Interim Finance Manager
Diane Harper	Finance Support Officer
Claire Hudson	VFM & Improvement Manager
David Wood	Technical Officer
Michael Brown	Bereavement Services Manager

# 1 Background

- 1.1 This audit was undertaken as part of the Craven District Council annual audit plan for 2012/13. Sundry debtors is audited on a yearly basis; the system was given a good level of assurance in the 2011/12 audit (report reference C2/4) and 5 recommendations were made.
- 1.2 Debtor invoices raised from January to December 2012 totalled £2.6 million (- 8% from the previous year), credit notes raised in the same period totalled £147.8k (- 40% from the previous year), and invoices written off totalled £7.5k (- 69% from the previous year). These values illustrate the financial significance of the debtors system and so the need for strong control. The major variances were investigated in the audit and found to be as a result of improved staff practices; the reduction in credit notes was due to more accurate inputting of invoices on Agresso web and the reduction in write offs largely attributed to keeping this process up to date without accumulating aged debt.
- 1.3 Internal Audit is an assurance function that provides an independent and objective opinion to the Council on the control environment by evaluating its effectiveness in achieving the Council's objectives. Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.4 As part of the audit, Internal Audit undertook a walkthrough of the system which identified the following Key Control Objectives (KCO's):
- Debtor invoices are raised for all goods and services provided
  - Debtor invoices are correct and appropriate, raised in a timely manner and are fully documented
  - The charges on the debtor invoice agree with the Council's approved fees and charges where appropriate, or with supporting paperwork
  - Credit notes are raised on the Agresso system after receipt of an appropriate request from a departmental officer
  - Debt is monitored and prompt recovery action taken
  - Write offs are performed on the Agresso system after obtaining the correct level of approval

## 2 Audit Scope

2.1 The following testing was undertaken:

KCO	Test	Sample size
Debtor invoices are raised for all goods and services provided	Comparison of previous 3 years of number and value of invoices and credit notes raised on Agresso to identify any major variances for investigation.	January to December 2010, 2011 & 2012
	Analytical review of debt types sorted to show which debt types had the most invoices raised during January and December 2012. Departmental billing records reviewed for 3 largest debt types. Debt types reviewed in the last 3 years audits with no issues identified were not selected but the next largest debt type selected. Sample of 1 billing period for each of these 3 debt types selected and traced to Agresso. The total value raised was reconciled.	Trade Waste: biannual direct debit invoice CAMEX interface reports for latter part of 2012/13 (raised in October 2012) Crematorium: BACAS report for December 2012 Water Sampling: FLARE system for December 2012
Debtor invoices are correct and appropriate, raised in a timely manner and are fully documented	10 debtor invoices of any value raised between January and December 2012 across all Departments. Selected proportionately in line with the debt type split in the analytical review performed. Tested for: accuracy of input, segregation of duties, timeliness- raised promptly after service & after receipt of request form, completeness of information (goods/services provided, date of provision, accountancy code, VAT) and supporting documentation. The possibility of collecting the payment in advance or at the time that the service/goods were provided was also considered.	10 (1% of total 6777)
	Produced report from Agresso of all debtor invoices raised between January and December 2012 below £30, and split into £0.01 - £10.00, £10.01 - £20.00, £20.01 - £30.00. Investigated all those £10.00 and under and determined whether low level invoices are consistently raised for certain debt types.	89
	Reviewed zero value invoices raised between January and December 2012 to determine the reason for raising a zero value invoice and to ensure that they have been raised for the correct value.	None found to be raised for a zero value in this period

<b>KCO</b>	<b>Test</b>	<b>Sample size</b>
Debtor invoices are correct and appropriate, raised in a timely manner and are fully documented	IDEA report produced to identify those debtors set up more than once on the system.	All debtors
	IDEA report produced to identify any duplicate invoice numbers on Agresso.	All 6777 invoices raised from January to December 2012
The charges on the debtor invoice agree with the Council's approved fees and charges where appropriate, or supporting paperwork	Debtor invoices of any value raised between January and December 2012 across all debt types. Sample selected proportionately in line with the analytical review. Tested: accuracy of charging. Determined whether fees and charges on the Council website were correct to agreed fees and charges.	10 (1% of total 6777)
Credit notes are raised on the Agresso system after receipt of an appropriate request from a departmental officer	Credit notes raised between January and December 2012 across all debt types. Sample selected proportionately in line with the analytical review. Tested: link to debtor invoice, adequate supporting documentation correct approval, reason recorded, segregation of duties between person raising invoice and amending invoice.	10 (2% of total 628)
	Reviewed the credit note requests in the credit note sample and tested to ensure that these had been actioned promptly and in the correct financial year.	10 (2% of total 628)
	Produced a report from Agresso of all credit note reversals from January to December 2012 to ensure only Financial Services had input them.	All cancelled invoice (CI) reversals
Debt is monitored and prompt recovery action taken	Debtor invoices raised between January and December 2012 with recovery action taken. Tested for compliance with debt recovery stages in the Fair Debt Collection Framework.	10 (1% of total 6777)
	Produced a report using the IDEA system to identify the highest levels of aged debt over 90 days old for all debt types. Contacted the Department to ascertain what debt recovery was undertaken by the service.	10 debt types with the highest value of outstanding debt over 90 days old
	The aged debt analysis spreadsheet was used to identify those debtors with more than 1 invoice outstanding to determine whether the service provided should / has been stopped.	All outstanding debt @ 1/3/13
	Ascertained the responsibility of outstanding debt for Market Traders (debt type MT) after the service has transferred to Skipton Town Council from April 2013.	N/A

KCO	Test	Sample size
Write offs are performed on the Agresso system after obtaining the correct level of approval	Write offs approved from January to December 2012. Tested for timeliness of input after approval, acceptable reason for write off, accurate input onto Agresso.	10 (10% of total 99)
	Reviewed the report to Committee notifying of write offs during 2011/12 to determine compliance with the Financial Procedure Rules (FPRs). Reviewed authorisation of the quarterly write off report to ensure in line with the FPRs and subsequent Policy Committee recommendation made on 25/7/07. Reconciled write offs on Agresso to total write off figures approved.	Policy Committee meeting minutes 10/7/12 Write off reports: Q4 2011/12 - Q3 2012/13
	Produced a report on Agresso to ascertain any open payments (ID transaction type) to December 2012.	Full system
	Produced a report on Agresso showing the total number of write offs per debtor to identify any customers still receiving a service despite not paying.	All 99 write offs from January to December 2012

## 3 Audit Opinion

3.1 A summary of Internal Audit's opinion levels and their definitions is provided below:

Level	Definition
<b>Significant Level of Assurance</b>	The system of internal control is designed to support the Council's corporate and service objectives and controls are consistently applied in all the areas reviewed.
<b>Good Level of Assurance</b>	There is generally a sound system of control designed to support the Council's corporate and service objectives. However, some improvements to the design or application of controls is required.
<b>Partial Level of Assurance</b>	Weaknesses are identified in the design or inconsistent application of controls which put the achievement of some of the Council's corporate and service objectives at risk in the areas reviewed.
<b>No Level of Assurance</b>	There are weaknesses in control, or consistent non-compliance which places corporate and service objectives at risk in the areas reviewed.

3.2 This audit has been given a Good Level of Assurance which is consistent with the opinion level given in 2011/12. Significant progress has been made since the previous audit on the monitoring and recovery of outstanding debts in departments. This area has seen a real focus by Financial Services in encouraging departments to take ownership of debts for their service, at both officer and management level. The reporting of sundry debt has also become more transparent and open to scrutiny and challenge by members since the debt levels have been included in the quarterly budget monitoring clinics. Based on the samples examined, good controls are also in place for the full and accurate raising of debtor invoices, correct charging to customers, the raising of credit notes, and the writing off of debts in practice.

3.3 Limited progress has been made since the previous audit in terms of implementing the previous recommendations. 1 recommendation relating to the reporting of outstanding debt has been implemented, however the remaining 4 remain outstanding as follows:

- implementing the interface between the Crematorium billing system (BACAS) and Agresso
- updating of debtors processing procedures
- an efficient method of taking payment in advance for memorials at the Crematorium
- amending the FPRs to reflect a change in authority for write offs approved by the Policy Committee.

It is recognised that the resources of both staff and the Agresso consultant have been restricted in the past year, and that progress has been made towards developing the procedures and the BACAS export file. In addition, a facility called CIVICA webstaff was utilised for the Crematorium for payments in advance but this has not been fit for purpose to realise any time efficiencies for the service.

3.4 Of the 6 key controls reviewed, 3 were found to be fully met and 3 partly met. 9 recommendations have been made; 1 Priority 1, 5 Priority 2 and 3 Priority 3. 4 of the recommendations were carried forward from the previous audit as stated in paragraph 3.3. The 5 recommendations arising from the current audit are relating to:

- reconciling the monthly Trade Waste direct debit amounts to the Agresso debtors payment run
- reducing the number of multiple debtors on the system
- implementing the legal debt recovery module purchased in Agresso
- managing debt recovery for outstanding Market Trader debts now the service has been transferred to Skipton Town Council
- allowing write offs under £10 to be performed ad hoc by the Finance Support Officer

3.5 One finding should be noted for information only; no recommendation has been made. The finding is concerning the future potential to send debtor invoices to customers electronically via e-mail. There are efficiencies to be made here for officer time, printing, stationery and postage costs. This suggestion was discussed with the Finance Support Officer who advised that, with the assistance of the Agresso consultant, there may be a possibility of piloting this process for funeral directors using the Crematorium. BACAS customer information would need to include an e-mail address for each debtor, which of course would be required for all debtors set up on Agresso should this process be expanded to other services.



## 4 Detailed Findings & Action Plan

The audit findings are detailed in this section on an exception basis only for the attention of management, therefore KCO's with adequate controls based on the samples examined are not included.

Recommendations are prioritised as follows;

Priority 1- relating to significant gaps in the Internal Control Framework

Priority 2- relating to minor gaps in the Internal Control Framework or significant issues of non-compliance with key controls

Priority 3- relating to minor issues of non-compliance with controls.

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>Recommendations made in the 2011/12 audit report that remain outstanding:</b>				
1	The interfacing of BACAS with Agresso will create an efficiency in invoice processing. Since the previous audit information can now be extracted from BACAS however the Agresso consultant has advised that additional invoicing information needs to be extracted for the interface. The next step is for the Agresso consultant to liaise with the BACAS consultant in order to determine the amount of information required. However in order for this to progress further, funds need to be sought from the Crematorium budget.	Duplication of input uses more officer time than should be required, process not efficient	Priority 2 Progress should continue to be made to interface BACAS with Agresso.  <b>VFM &amp; Improvement Manager</b> <b>23/5/13:</b> Recommendation agreed.	Bereavement Services Manager  November 2013
2	Guidance has been circulated to staff on raising free text sales orders during the training provided for the Agresso upgrade. Draft debtor processing procedures for creating a new debtor have also been produced, however they have yet to be formally issued.	No approved working practices to follow to ensure business continuation, input / processing errors, increased telephone calls to Financial Services requesting inputting help	Priority 2 Updated debtor processing procedures should be fully completed and circulated to all staff.  <b>VFM &amp; Improvement Manager</b> <b>23/5/13:</b> Recommendation agreed.	VFM & Improvement Manager  November 2013

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>Recommendations made in the 2011/12 audit report that remain outstanding:</b>				
3	<p>The 2011/12 report recommended that the Crematorium utilised CIVICA webstaff, an add on system to the cash receipting system, to take payment in advance for memorials. However subsequent to this recommendation the Auditor has now been made aware that this software should only be used for transactions when the customer is not present and is therefore not suitable. From May 2013 the new cash receipting system will be in place and there is capacity for more chip and pin devices, however the distance of the site from the server will need to be considered.</p>	<p>Inefficiency in officer time raising a debtor invoice and potential debt recovery, postal costs incurred</p>	<p>Priority 2  Further opportunities for introducing payment in advance for memorials at the Crematorium should be investigated with the ICT Manager alongside the implementation of the new cash receipting system.</p> <p><b>VFM &amp; Improvement Manager 23/5/13:</b> Recommendation agreed however a chip and pin facility is not possible. Web pay staff is possible and we will look to investigate this option. However, this could be hampered by the current broadband line down to the site, which IT are looking to upgrade.</p>	<p>Bereavement Services Manager  November 2013</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>Recommendations made in the 2011/12 audit report that remain outstanding:</b>				
4	<p>The FPRs currently state that the Corporate Head of Financial Management is authorised to agree the write off of bad debts up to £2k and approval should be obtained from the Policy Committee for write offs exceeding £2k. It was agreed at Policy Committee on 25/7/07 that the FPRs should be amended to give her delegated authority to write off debts of any value subject to first consulting the appropriate ward member of the proposed write offs. In addition it was recommended that she should report annually to Policy Committee on bad debts written off during the past year.</p> <p>During the 2011/12 audit the Corporate Head of Financial Management advised that an annual write off report would start to be submitted to Policy Committee on an annual basis, and the FPRs would be amended.</p> <p>The findings from the current audit confirmed that bad debt figures written off in 2012/13 were reported to the Policy Committee on 10/7/12, however the FPRs are still yet to be formally amended.</p>	FPRs do not reflect current practice and recommendations for amendment by Policy Committee	<p>Priority 3 The recommendation made by the Policy Committee on 25/7/07 to amend the FPRs in relation to delegated authority by the Corporate Head of Financial Management to write off bad debts should be implemented.</p> <p><b>VFM &amp; Improvement Manager 23/5/13:</b> Recommendation agreed.</p>	<p>Corporate Head of Financial Management</p> <p>November 2013</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>KCO 2: Debtor invoices are correct and appropriate, raised in a timely manner and are fully documented</b>				
5	<p>Whilst it is recognised that there is occasionally a business need for the same debtor to be set up with different addresses perhaps for different services, a total of 246 duplicate debtors were identified at 15/1/13. This is a housekeeping issue which needs to be resolved to increase efficiency by ensuring all debtors' debt is visible in one total. This should also greatly improve the recovery of these debts should the Council enlist help from a bailiff.</p>	<p>The setting up of multiple debtors is not efficient and the cumulative figure outstanding may be missed when undertaking debt recovery.</p>	<p>Priority 3  A housekeeping exercise should be undertaken to ensure debtors held in the system are appropriate and that details are correct. Officers in departments should be reminded to check the existing debtor database to check whether a debtor exists for the appropriate debt type prior to setting up a new one.</p> <p><b>VFM &amp; Improvement Manager 23/5/13:</b>  Recommendation agreed.</p>	<p>Corporate Head of Financial Management / Finance Support Officer</p> <p>November 2013</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>KCO 1: Debtor invoices are raised for all goods and services provided</b>				
6	<p>The Auditor is satisfied that good controls are in place in the initial setting up of Trade Waste Direct Debits (DDs) and that these match to contracted terms. However where adjustments are required in CAMEX due to service changes the controls in place are weaker. Our testing has identified that there is no reconciliation between the adjusted figures in CAMEX to the adjusted monthly Agresso DD payment plans.</p> <p>Please refer to Appendix A for a diagrammatical summary of the current process.</p>	Any incorrect monthly DD adjustments from the original payment plan would not be identified prior to the DD payment run.	<p>Priority 2 The Technical Officer should develop a spreadsheet every month showing all DD adjustments required and sent to the Finance Support Officer for action. An additional independent spreadsheet should then be created in order to reconcile the total monthly DD figure Agresso to CAMEX.</p> <p><b>VFM &amp; Improvement Manager</b> <b>17/6/13:</b> Agreed the first part of the recommendation and to perform regular spot checks to ensure that DD monthly payments have been correctly adjusted. Although it is recognised that an independent spreadsheet would be beneficial, there are other higher priorities for the Trade Waste function which are under pressure due to current capacity issues.</p> <p><b>Internal Audit:</b> The recommendation still stands. There are capacity issues preventing full implementation, however the agreement to develop a formal record of DD adjustments and subsequent spot checks does improve reconciliation control. Management should accept the risk of unidentified incorrect DD amounts by not implementing the recommendation in full.</p>	<p>Technical Officer September 2013</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>KCO 5: Debt is monitored and prompt recovery action taken</b>				
7	The legal debt recovery module has been purchased for the Agresso system, which will provide an automated debt recovery process by generating paperwork for submitting to the County Court. It is understood however that the implementation of this module is subject to available resources and priorities of the Agresso consultant. In the interim a member of staff from the Legal section currently has capacity to coordinate legal debt recovery and is assisting the Finance Support Officer as required.	Legal debt recovery is not automated; delays could affect recovery success, time efficiencies in generating paperwork not realised	<p>Priority 2 The legal debt recovery module purchased should be implemented in Agresso, subject to available resources.</p> <p><b>VFM &amp; Improvement Manager</b> <b>23/5/13:</b> Recommendation agreed.</p>	<p>Corporate Head of Financial Management</p> <p>November 2013</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
<b>KCO 5: Debt is monitored and prompt recovery action taken</b>				
8	Skipton Town Council took over responsibility for managing the Markets function from March 2013. The Finance Support Officer advised at the time of the audit that there had been no formal decision on who would be responsible for the recovery of outstanding debts. The amount of outstanding debt for debt type MT at 7/5/13 was £3292.10.	No debt recovery is undertaken on outstanding debt resulting in the monies not being recovered and loss of income to the Council.	<p>Priority 1 There should be formal arrangements in place to manage the debt recovery for outstanding Market Trader debts once the service has been transferred to Skipton Town Council.</p> <p><b>VFM &amp; Improvement Manager 23/5/13:</b> Recommendation agreed.</p>	<p>Corporate Head of Financial Management</p> <p>Director of Services</p> <p>June 2013</p>
<b>KCO 6: Write offs are performed on the Agresso system after obtaining the correct level of approval</b>				
9	65 write offs under £10 were performed from quarter 4 2011/12 to quarter 3 2012/13. These small balances are subjected to the same formal write off procedures as debts up to £2k involving the S151 Officer which is burdensome. A more efficient solution is to allow the Finance Support Officer to write off these small balances (debit and credit) on an ad hoc basis once standard debt recovery has been exhausted (in the case of debit balances).	Including very low value balances in the aged debt report and quarterly write off reports make them less relevant and concise	<p>Priority 3 Consideration should be given to allowing write offs (debits and credits) under £10 to be performed by the Finance Support Officer on an ad hoc basis. This could be granted under delegated authority by the Finance Manager (Deputy Section 151 Officer) or in their absence the Corporate Head of Financial Management (Section 151 Officer).</p> <p><b>VFM &amp; Improvement Manager 23/5/13:</b> Recommendation agreed.</p>	<p>Corporate Head of Financial Management</p> <p>November 2013</p>

The agreed actions will be subject to a follow up review to establish whether they have been implemented.

Any queries or requests for further information regarding this report should be directed to Laura Daffern, Internal Auditor, Monday to Thursday by email at [laura.daffern@harrogate.gov.uk](mailto:laura.daffern@harrogate.gov.uk) or by telephone on 01423 556112.

Internal Audit would like to thank the officers involved for their assistance during this audit.