



Internal Audit Report

Craven District Council Sundry Debtors 2014/15

Report ref: C5/3

Report Issued

Draft: 12/3/15

Final: 18/3/15



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Auditor: Laura Daffern

Distribution:

Name	Job Title
Nicola Chick	Strategic Manager- Financial Services (S151 Officer)
Claire Hudson	VFM & Improvement Manager
Diane Harper	Finance Officer – Debtors
Michael Brown	Bereavement Services Manager
Cc Paul Ellis	Director of Services
Paul Shevlin (Final only)	Chief Executive

1 Background

- 1.1 This audit was undertaken as part of the Craven District Council annual audit plan for 2014/15. Sundry debtors is audited on a yearly basis; the system was given a 'Good', moving towards 'Significant' level of assurance in the 2013/14 audit (report reference C4/3) and 4 recommendations were made.
- 1.2 In the period January to December 2014:
- debtor invoices raised totalled £3.4 million (+ £525k (+ 18%) from 2013 largely due to an increase in recycle collection income, a compensation claim for works to Coach Street Car Park, and a rise in charges for garage rents)
 - credit notes raised totalled £229.4k (+ £63k (+ 38%) from 2013 due to an error transferring charges from the Licensing FLARE system resulting in a batch cancellation of 328 invoices. These credit notes created in error were not sent to customers)
 - invoices written off totalled £13.7k (- £2.6k (- 16%) from 2013).
- These values illustrate the financial significance of the debtors system and so the need for strong control.
- 1.3 The Key Control Objectives (KCO's) are as follows:
- 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
 - Debt is monitored and prompt recovery action taken
 - Regular reconciliations take place between debtors income received and the Agresso general ledger
 - Adequate controls have been established to protect information and data from unauthorised access
 - The Council has adequate processes in place to detect fraud and corruption relating to sundry debtors
- 1.4 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.5 The IDEA system was used to carry out a number of tests which checked 100% of Agresso system data to identify potential duplicate transactions and data quality issues. Using this technology, assurance can be given on the whole population rather than a sample.
- 1.6 The raising of debts for swimming lesson fees at Craven Swimming Pool is now undertaken by the site using their Legend system. These charges were not included in the scope of the audit and will be audited separately. At the point of transfer no large debts were present.

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 raised on Agresso to identify any major variances for investigation.	January to December 2012, 2013 & 2014
	Review of service billing system in place to ensure that all charges have been raised and adequate reconciliation undertaken to Agresso.	Cemetery & Crematorium charges debt type
Debtor invoices are correct and appropriate, raised in a timely manner and are fully documented	IDEA report produced to compare the service from and to dates with the date the invoice was raised to determine whether debtor invoices are raised on a timely basis either in advance / after the service as appropriate.	10 from Cemetery & Crematorium charges debt type (0.9% of total 1151). Sample period January to December 2014
	Produced report from Agresso of all debtor invoices raised with a value less than £30. Investigated reasons for raising low level invoices that may cost more in officer time to raise / recover, as opposed to collecting the payment in advance of the service provided.	299 invoices (100%). Sample period January to December 2014
	IDEA reports produced to identify any duplicate debtor invoices; by duplicate invoice number reference or by duplicate invoices from different debtor accounts.	All 5,883 invoices raised from January to December 2014 (100%)
Debt is monitored and prompt recovery action taken	Debtor invoices raised with recovery action taken; tested for compliance with debt recovery stages in the Fair Debt Collection Framework.	10 (1.6% of total 618 with recovery action taken (reminder level 2)). Sample period January to December 2014
	Determine how performance of sundry debt recovery is measured and reported and whether current arrangements are adequate.	N/A
	IDEA report produced to identify the highest levels of aged debt over 90 days old. Reasons why the debt remained outstanding ascertained and queried debt recovery undertaken by the service.	Outstanding debt over 90 days old @ 5/1/15: 5 highest value debt types (28% of total 18 debt types) 5 highest value debtor invoices (1% of total 510 debtor invoices)
	IDEA report produced to identify those debtors with more than 1 invoice outstanding with an aged debt (over 90 days old) to determine whether the service provided should / has been stopped.	26 debtors @ 5/1/15 (100%)

KCO	Test	Sample size
Debt is monitored and prompt recovery action taken	Review of parked debtors to establish controls for monitoring and to determine the validity of the reasons for suspending recovery.	19 parked invoices @ 5/1/15 (100%)
	Review of the suspense account to determine frequency of monitoring and volume of suspense items present.	N/A
	IDEA report produced to identify any debtor invoices raised but written off quickly (within 3 months).	6 invoices (100%) Sample period January to December 2014
Regular reconciliations take place between debtors income received and the Agresso general ledger	Review of reconciliation documentation to determine whether any differences or anomalies that arose were investigated and rectified.	Months January to December 2014
Adequate controls have been established to protect information and data from unauthorised access	Review of all current users of Agresso with specific testing on those users who can input and amend data on the debtors system. Test to ensure that active Agresso users are current employees and determine whether staff have been allocated debtor roles appropriate to the responsibilities of their post.	127 Active users on Agresso to current staff members list from Payroll @ 15/1/15 (100%) Review staff allocation to key debtor roles: MDDEBTADMIN, MDACCOUNTANT, MDSYSTEM & SUPER Review of data control debtor roles allocated to 2 key debtors staff in Licensing
	Review the registration of Craven District Council on the Information Commissioner's website and determine still valid for data protection purposes.	N/A
The Council has adequate processes in place to detect fraud and corruption relating to sundry debtors	Ascertain adequate procedures are in place to deal with failed or cancelled payments to protect against fraud.	N/A
	Determine whether staff are aware of the risks involved in receiving overpayments of debtor invoices and subsequent requested refunds. Review of controls for processing of debtor refunds.	N/A
	IDEA report produced to identify any patterns for invoice credits and write offs. Determine whether staff are alert to potential indicators of a staff member colluding with a debtor in order to avoid paying monies owed.	All 587 credit note and 77 write off transaction types (100%). Sample period January to December 2014. Investigated: <ul style="list-style-type: none"> • debtors with more than 1 write off (1) • debtors with more than 5 credit notes (3)

3 Audit Opinion

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

Level	Definition
Significant Level of Assurance	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.
Good Level of Assurance	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.
Partial Level of Assurance	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.
No Level of Assurance	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, moving towards Significant; consistent with the opinion given in 2013/14. Based on the samples examined, good controls are in place for the raising of debtor invoices, the monitoring, reporting and recovery of outstanding debt, the reconciliation of debtors income to the general ledger, system user access controls, and the processing of debtor refunds. The BACAS system interface to Agresso for Crematorium charges has now been implemented, resulting in efficiencies in raising debtor invoices and savings generated from the e-mailing of invoices to customers. Assurance can be given that adequate checks are in place to ensure that all charges are exported correctly to Agresso.

3.3 The following 5 recommendations address the issues that prevent the award of Significant Level of Assurance for the audit. There are 2 Priority 2 and 3 Priority 3, made to improve control further and where appropriate create efficiencies, relating to:

- Implementation of the legal debt recovery module purchased in Agresso and service responsibility for legal recovery action
- Review of sundry debt recovery strategy after the legal debt recovery module has been implemented
- Creation of standard operating procedures to document the BACAS interface process to Agresso for Crematorium charges
- Introducing a segregation of duties to raise a credit note on BACAS for Crematorium charges
- Taking payment for the marked register of electors and dog waste bags in advance of the service provided

The first 2 recommendations were outstanding from the previous audit. Of the latter 3 new recommendations for 2014/15, the 2 relating to BACAS processes arose outside of the scope of the audit test due to the interface being audited for the first time. The remaining new recommendation related to a minor efficiency saving which did not affect the overall key control opinion. This explains the reason why all 6 key control objectives were met overall and the audit opinion remains consistent with the previous year.

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
Recommendations made in the 2013/14 audit report that remain outstanding:				
1	<p>The debt recovery strategy as a whole is currently being reviewed; currently the Fair Debt Collection Framework includes all income collected by the Council however the creation of a separate policy for sundry debtors is being considered.</p> <p>The review of policy for sundry debt would be of benefit, in order to give clear guidance on how debts outstanding after the 2nd reminder stage should be treated, and to take account of the automated legal debt processes after implementation of the legal debt recovery module.</p>	<ul style="list-style-type: none"> • Out of date working practices for departmental staff to follow • Increase in level of outstanding debt 	<p>Priority 3</p> <p>The Fair Debt Collection Framework should be reviewed in terms of sundry debt recovery strategy.</p> <p>VFM & Improvement Manager 17/3/15: Recommendation agreed.</p>	<p>VFM & Improvement Manager</p> <p>September 2015</p>

Ref	Findings	Risk	Recommendations and Management Response
Recommendations made in the 2013/14 audit report that remain outstanding:			
2	<p>The legal debt recovery module is in the final testing stage. The estimated implementation date has been pushed back due to the impact of the garden waste project.</p> <p>At the time of the audit there was only 1 long term outstanding debt requiring legal debt recovery, for which a court hearing had been scheduled for February 2015. Due to limited staff availability for this date, the Legal section were approached to attend the hearing. However the Legal section did not consider the background papers prepared by the Finance Officer (Debtors) to be adequate. The Solicitor to the Council and Monitoring Officer advised that the case had since been withdrawn as in her Legal opinion there were a number of procedural issues with the claim.</p>	<p>Until the legal debt recovery module is in operation;</p> <ul style="list-style-type: none"> • legal debt recovery is not automated • outstanding debts that could have been recovered via the legal debt recovery process may be written off • delays could affect recovery success • time efficiencies in generating paperwork not realised 	<p>Priority 2</p> <p>The legal debt recovery module purchased should be implemented in Agresso, subject to available resources.</p> <p>A management decision should be made as to whether responsibility for preparing court documentation and attending court hearings should transfer from Financial Services to the Legal section. This will require them to have access to the legal debt recovery module to process debt recovery cases.</p> <p>VFM & Improvement Manager 17/3/15: Recommendation not agreed. Following further discussion with the Council's Monitoring Officer, Solicitor and Strategic Manager Finance, it has been decided not to progress with implementation of legal debt recovery. HM Courts have now introduced Money Claims Online and are in discussion regarding its further expansion as the preferred route for such claims in line with the Government information/transformation of services strategy. It has been decided that moving to use this system would be the most cost effective and efficient option for administration of claims going forward. Further implementation costs and ongoing software support costs will be saved as a result.</p> <p>Internal Audit 18/3/15: The reasons provided for not implementing the legal debt recovery module are noted. Management should however accept the interim service risks presented by not having an automated system until the online HM Courts facility can be adopted. An interim management decision has been made since the audit on service ownership of legal debt recovery administration per type of debt, however standard procedure will be established once the online claims guidance has been considered.</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
KCO1: Debtor invoices are raised for all goods and services provided				
3	<p>The BACAS interface process for Crematorium charges is adequate and effective, however formal standard operating procedures should be established so that all members of staff have a reference tool for the process.</p>	<ul style="list-style-type: none"> No reference document to assist staff in the process, resulting in potential inconsistencies omissions and invoicing errors 	<p>Priority 3</p> <p>The BACAS interface process to Agresso should be documented in a user friendly format and used to deliver training to members of staff at the Crematorium.</p> <p>VFM & Improvement Manager 17/3/15: Recommendation agreed.</p>	<p>Bereavement Services Manager</p> <p>September 2015</p>
4	<p>The Bereavement Services Manager advised that any BACAS user can raise a minus invoice on BACAS which is interfaced over to Agresso, creating a credit note on the debtor account. The standard process for raising a credit note for other debt types on Agresso is for the departmental officer to make a request to the Finance Officer (Debtors).</p> <p>In 2014, 1,151 debtor invoices and 17 credit notes were raised against the CM (Cemetery & Crematorium Charges) debt type.</p>	<ul style="list-style-type: none"> Potential undetected collusion between staff member and debtor to avoid paying the monies owed Undetected minus invoices raised in error 	<p>Priority 2</p> <p>An additional control should be introduced in order to evidence an adequate segregation of duties to raise a credit note for Cemetery and Crematorium charges, being either:</p> <ul style="list-style-type: none"> Manual- A minus invoice appears on the daily Invoices not yet printed report and export report, therefore a manual control could be introduced for the Manager to sign the report to confirm the credit. System- A system control could be introduced on BACAS to require approval by the Manager before it is exported to Agresso. <p>VFM & Improvement Manager 17/3/15: Recommendation agreed.</p>	<p>Bereavement Services Manager</p> <p>June 2015</p>

Ref	Findings	Risk	Recommendations and Management Response	Officer Responsible and Implementation Date
KCO2: Debtor invoices are correct and appropriate, raised in a timely manner and are fully documented				
5	<p>11 invoices with a value less than £30.00 were identified in the audit testing for the register of electors and dog waste bags (debt types EL & EP respectively). Both these services can be paid for in advance of receipt, by contacting Customer Services and paying by card over the telephone. The raising of a debtor invoice for these services is not efficient when payment can be made by the customer at the point of sale.</p> <p>Of the 11 invoices identified, 7 required debt recovery in order to chase the debt therefore incurring additional costs.</p>	<ul style="list-style-type: none"> • Cost of raising an invoice when cheaper payment alternatives were available • Delays in receiving the income after the service has been provided 	<p>Priority 3</p> <p>Payment for the marked register of electors and dog waste bags (debt types EL and EP respectively) should be taken in advance of the service provided.</p> <p>VFM & Improvement Manager 17/3/15: Recommendation agreed. To be discussed and investigated with services. Will mean a change in the way they work but should be achievable.</p>	<p>VFM & Improvement Manager</p> <p>September 2015</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 Internal Audit on 01423 556112. Internal Audit would like to thank the officers involved for their assistance during this audit.