

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF DEBTORS - INCOME AUDIT FOR 2015-6

Issued to: Claudine Douglas-Brown, Head of Exchequer Services

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Date of Issue: 8th March 2016

Report No.: CX/067/01/2015

REVIEW OF DEBTORS - INCOME AUDIT FOR 2015-6

INTRODUCTION

1. This report sets out the results of our systems based audit of Debtors - Income Audit for 2015-6. The audit was carried out in quarter Q3-4 as part of the programmed work specified in the 2015/2016 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 13/11/15. The period covered by this report is from 01/01/15 to 31/12/15.
4. As at 31/03/14 there was an outstanding debt figure of £12.67 million, including debts over a year old totalling £2.5 million. At 30/09/15 the outstanding debt figure was £6,157K, of which £3,107k was over a year old.

AUDIT SCOPE

5. The scope of the audit is detailed in the Terms of Reference.
6. In addition to this, the audit reviewed a significant proportion of ECHS debt.

AUDIT OPINION

7. Overall, the conclusion of this audit was that Limited assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

MANAGEMENT SUMMARY

REVIEW OF DEBTORS - INCOME AUDIT FOR 2015-6

8. The following areas were tested. 25 debts on suppression, 25 invoices that have been raised, 15 credit notes, 8 arrangements over £5000, 25 long term debts, 15 write offs.
9. Controls were in place and working well in the areas of:
 - The aged debtors summary account is reconciled to the general ledger control account.
 - Income due is posted to the correct account
 - A procedure has been drafted by Liberated.
10. However we would like to bring to Managements attention the following issues:
 - Large numbers of invoices are being raised which subsequently have to be cancelled
 - Sufficient recovery action is not being taken to recover some debt over a year old.
 - Invoices are not always been created promptly as per timescales in the SLA.
 - Cases in suppression are not always being progressed and action taken is not being recorded on the system.
 - Documentation in relation to debts is not always scanned onto Oracle
 - Debts due to be written off are not always being actioned promptly
 - Dom Care debts for some clients have built up with insufficient action taken to recover or review clients' needs

SIGNIFICANT FINDINGS (PRIORITY 1)

11. No significant findings were identified during this review.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

12. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

REVIEW OF DEBTORS - INCOME AUDIT FOR 2015-6

13. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>Testing of a sample of 15 credit notes and cancellations raised found that all 13 were correctly approved. In the two instances where this was not the case, they have been instigated by the Exchequer Contractor member of staff, where it has not been recorded that the department have stated the invoice should be cancelled or a credit note created.</p> <p>It was found that in 5 instances the reason to apply a credit note, was to cancel the invoice, due to inaccuracies on the invoice.</p> <p>Stats were obtained of the number of invoices that were cancelled/credited between April and September 2015. The Income Team raised 8,301 sundry invoices with a value of £27.17m from 1st April 2015 to 30th September 2015 which was £10.46m more than in the previous year. Of these, 1,112 invoices, with a value of £2.52m, were subsequently cancelled. This is an increase of 4% from the previous year. (up from 9% to 13%)</p> <p>165 were cancelled due to the initiators error, 42 due to duplicate error, 130 due to tax rate error and 70 due to contractor error. (the other 700 are due to amended info</p>	<p>Invoices may be sent out with the wrong details on them, leading to debt not being recovered. Accounts could potentially be overstated.</p>	<p>Action should be taken to ensure invoices raised are accurate. [Priority 2]</p>

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

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	<p>received 384, cancellation 146, part cancellation 90 and a number of other assorted reasons.) It was noted that only about 70 invoices were cancelled due to contractor error , with the rest being due to an error by the service department raising the debt or information being subsequently received.</p>		
2	<p>A sample of 25 outstanding debts was selected to test whether sufficient recovery action had been taken. It was found that for three of the debts it was not possible to determine if reminder letters had been sent as due to an Oracle upgrade, details of sending out reminder letters had been deleted.</p> <p>Of the 25, 7 debts have been received or cleared. It was determined that for 6 of remaining 18 debts, timely or effective recovery action hasn't been taken.</p> <p>96078819 Debtor 1 £7445.55 (Invoice raised 16/03/15, no recovery action taken till 11/12/15)</p> <p>95505398 Debtor 2, £95 (Invoice raised 21/08/15, no recovery action recorded until 11/12/15 when carried out address check)</p> <p>96081952 Debtor 3 £58.01, invoice raised 19/08/15, recovery reminders sent out, but nothing on file between November 2014 and 11/12/15)</p> <p>95519534 Debtor 4 £145 (invoice raised 23/12/14, change of</p>	<p>Ineffective monitoring of non-payments, debts owed to the Authority remain outstanding.</p>	<p>The contractor should be reminded to process debts for recovery promptly or write them off. [Priority 2]</p>

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	<p>address details received by department 13/07/15 and asked to send details of money owed, they did not, weren't chased by the Exchequer Contractor until 04/11/15. 96083724 Debtor 5 £1,603.78, (invoice raised 25/06/15, reminder sent 26/08/15, then nothing recorded as happening until 22/11/15, when sent to DCA) 96100150 Debtor 6, £19452.00, (invoice raised 23/06/15 and no action was taken until a reminder letter was sent on the 22/11/15).</p>		
3	<p>Testing of a sample of 25 invoices raised in the last year could not determine that 6 had been raised promptly within the SLA required of 5 days. For four it appeared that it took longer than the 5 days and for 2 it was not possible to tell given backing documentation for the invoice was not available on Oracle. 70078009, 70080788, 70079698, 70049358 63007814, 70085426</p> <p>It could not also be determined for 2 invoices that they had been raised for the correct amount, one owing to backing documentation not being available and one had been raised for a different amount to the request document. All invoices were raised for the correct cost centre. 70080616, 21105485</p>	<p>Delays raising invoice can result in an inability to recover debt.</p>	<p>The Exchequer Service Manager should consider monitoring a sample of invoices raised to determine the time taken to raise invoices. [Priority 3]</p>

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	<p>It is identified that whilst this is reported as part of the monthly performance reports, the target is frequently not met. Testing above identified that statistics produced are not consistent with the results of the testing.</p>		
4	<p>Testing of a sample of 25 debts on suppression found that sufficient evidence is held to support 21 of them. For the 4 where this isn't the case, evidence was available for 2, however it had not been scanned onto the system and evidence does not exist for the other 2. Debtor 7 20012994 £2297.39 Debtor 8 63005877 £17792.86</p> <p>Testing found that for 3 of the sample the suppression code does not seem reasonable. Debtor 8 63005877- Apparently with Council's legal section, no evidence of this. Debtor 9 70072522- code should have been changed to write off. Debtor 10 70079221, this was sent back to the department for advice, though they don't really know what to do. (CIL debt)</p>	<p>Ineffective monitoring of non-payments, debts owed to the Authority remain outstanding.</p>	<p>Cases in suppression should be reviewed to make sure they are progressed for recovery.</p> <p>Evidence off suppressions should be attached on Oracle. [Priority 2]</p>

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	It was determined that for 6 of the samples insufficient action has been taken to continue chasing the debt. Debtor 10 63004340 £3541.93 Debtor 11 70028124 £4312.27 Debtor 12 70032455 £18678.17 Debtor 13 70051075 £893.99 Debtor 14 70030615 £10411.92 Debtor 15 70079221 £ 20567.75		
5	Testing of a sample of 25 debts that were written off found that 24 had been appropriately authorised for write off. For the one that has not, documentation cannot be found which shows that this was authorised for write off. (Debtor 16, 93004092). It was also found that details about write offs are not held on Oracle and had to be provided to the Auditor and in one instance, further details about a write off could not be located. It was also found that information for 5 invoices that have been raised, the Invoice request document was also not scanned.	Debts may not be recovered due to all documentation not being available.	The contractor should ensure that all documentation relating to debts is scanned and held on the system. [Priority 2]
6	The domiciliary care accounts were reviewed on 7/10/15 for the current balances. Three accounts had large balances	Dom Care debts may not be recovered	Where large account balances exist on debtor

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	<p>Sample 2, 5 and 10. One account had a credit balance of £1334.94 – Sample 8.</p> <ul style="list-style-type: none"> • Sample 2 - £3500.20 outstanding. The contractor has advised that regular payments received but insufficient to cover current weekly charges. Insufficient instalment letter sent on 10th October 2015’. • Sample 5 - £2023.93 outstanding. Regular payments received but insufficient to cover current weekly charges. Insufficient instalment letter sent on 10th October 2015’. • Sample 10 - £4751.86 outstanding. The last payment made by this client in respect of care charges was 7/2/11. The contractor advised that this account ‘appeared on the ‘returned from debt collector list, also sent a letter on 23rd September requesting payment. No response, moving forward to do a county court claim’. 		<p>accounts for care charges, notwithstanding debt recovery procedures, a review may be required to determine whether the client is able to manage their own finances. [Priority 2]</p>
7	<p>Testing of a sample of 15 debts that have been written off, found that 3 C&D write offs were not written off promptly after that had occurred.</p> <p>Whilst also testing 25 debts on suppression found two debts</p>	<p>Inappropriate write offs leading to financial loss to the Council.</p>	<p>Debts should be written off in a timely manner once all avenues of pursuit have been exhausted</p>

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	<p>which are due to be written off. One of the debts with Debtor 17 for £18678.17, has been due to be written off since January 2013, though has not been actioned. The other debt for debtor 18 £892. Has been due to be written off since July 2014 and has not yet been done so.</p>		<p>[Priority 2*]</p>

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	Action should be taken to ensure invoices raised are accurate.	2	<p>The authorisation for the 2 cancellations referred to in the report have now been scanned. Invoices are raised according to the instructions provided by the service departments. If cancellations are subsequently requested, these are also actioned according to instructions.</p> <p>Once the invoice details are correct, recovery is more probable providing the investigations and corrections are completed promptly.</p> <p>The increase in the number of cancellations can be attributed to a larger than usual amount of</p>	All service departments/Head of Exchequer Services	1 st April 2016

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			<p>cancellations in respect of disputed Thames Water invoices and cancellations due to incorrect application of VAT.</p> <p>Service departments will be reminded of the need to insure invoice requests are accurate and VAT is correctly applied.</p>		
2	The contractor should be reminded to process debts for recovery promptly or write them off.	2	The Exchequer Contractor is regularly reminded of the importance of prompt debt recovery and there is a process in place for escalation of performance issues. The Exchequer Contractor is currently reviewing all invoices raised prior to 1 st April 2015 to ensure the appropriate recovery action is taken.	The Exchequer Contractor Finance Service Delivery Manager/Senior Operations Manager	On going

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
3	The Head of Exchequer Services Manager should consider monitoring a sample of invoices raised to determine the time taken to raise invoices.	3	Quarterly monitoring will be carried out from April 2016.	Head of Exchequer Services	April 2016
4	Cases in suppression should be reviewed to make sure they are progressed for recovery. Evidence off suppressions should be attached on Oracle.	2	Suppressed cases are reviewed by the Exchequer Contractor and by the Head of Exchequer Services as part of contract monitoring. Issues identified are addressed at the monthly service reviews.	The Exchequer Contractor Senior Operations Manager/ Head of Exchequer Services	1 st April 2016 on going
5	The contractor should ensure that all documentation relating to debts is scanned and held on the system.	2	Not all invoice backing documentation can be scanned to Oracle but can be provided upon request, i.e. bulk invoice requests and system uploads. Historically, write offs were not scanned to Oracle however these	The Exchequer Contractor Senior Operations Manager	30 th June 2016

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			are now being scanned.		
6	Where large account balances exist on debtor accounts for care charges, notwithstanding debt recovery procedures, a review may be required to determine whether the client is able to manage their own finances.	2	The Exchequer Contractor has been reminded of the requirement to follow the debt management policy for social care debts that was implemented in June 2015. The policy refers to the actions that must be taken where there are concerns about the client's mental capacity to manage their finances.	The Exchequer Contractor Senior Operations Manager	7 th March 2016
7	Debts should be written off in a timely manner once all avenues of pursuit have been exhausted	2*	Agreed. The Exchequer Contractor has been actively submitting unrecoverable debts to be written off. This is also monitored by the Contract Monitoring Officer.	The Exchequer Contractor, Senior Operations Manager/ Head of Exchequer Services	On going

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OPINION DEFINITIONS

APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level

Definition

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.