

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF DEBTORS - INCOME AUDIT FOR 2016-17

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

Cc: Peter Turner, Finance Director

Prepared by: Senior Auditor (Mazars LLP on behalf of LBB)
Principal Auditor

Date of Issue: 16 June 2017

Report No.: CX/067/02/2016

REVIEW OF DEBTORS - INCOME AUDIT FOR 2016-17

INTRODUCTION

1. This report sets out the results of our systems based audit of Debtors – Income Audit for 2016/17. The audit was carried out in quarter 4 as part of the programmed work specified in the 2016-17 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 29/12/16. The period covered by this report is from 01/01/16 to 31/12/16.
4. As at 31/01/2017 there was an outstanding in year sundry debt figure of £7.19 million and an outstanding in year domiciliary care debt figure of £2.21 million. For sundry debts, this is a £1.14 million increase from the start of the 2016/17 financial year. For domiciliary care debts, this is an £80,000 decrease from the start of the 2016/17 financial year.
5. As at 31/01/2017 there was an outstanding non in-year balance of £4,833,245 and £3,712,118 had been collected.

AUDIT SCOPE

6. The scope of the audit is detailed in the Terms of Reference.

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.

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MANAGEMENT SUMMARY

8. The following areas were tested: 25 debts on suppression, 5 invoices in dispute dated between 2010 and 2014, 25 outstanding debts, 25 invoices that have been raised, 10 credit notes that have been raised, 10 payment arrangement cases and 25 write-offs.
9. Controls were in place and working well in the areas of:
 - Policies and procedures are in place, readily available to staff and up to date;
 - Debtors system 'A' is regularly reconciled to the General Ledger;
 - Income due is allocated to the correct General Ledger codes; and
 - Aged debtors reports are produced and monitored on a monthly basis.
10. However we would like to bring to Managements attention the following issues:
 - Testing of a sample of 25 debts in suppression found that in 8 cases there had been a change in dispute code. However, there is no clear audit trail to show when these codes had been changed and whether actions taken for suppressed cases were done in a timely manner in accordance with Dispute ID procedures;
 - A report of current invoices in dispute identified that there were 25 invoices dated between 2011 and 2014 totalling £175,015.34. A random sample of five was selected and in all cases, there was insufficient correspondence confirming what had been done to resolve the disputes.
 - Testing of a sample of 25 outstanding debts and 25 debts in suppression found the following:
 - 6 cases where there was insufficient correspondence on the V1 system showing what action had been taken to recover debts;
 - 3 cases where recovery action was undertaken in an untimely manner; and
 - 2 cases where insufficient recovery action had taken place to recover debts.
 - Testing of a sample of 25 outstanding debts found that in one case, an invoice relating to domiciliary care was marked for write off on 7th January 2016 and sent to the Assistant Director by Head of Exchequer Services on 10th November 2016. However, there was no evidence that this had been authorised and returned to the Exchequer Contractor;
 - Testing of a sample of 25 debts that were written off found that in six cases supporting documentation could not be located;

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- Testing of a sample of 25 invoices raised found that one invoice had not been raised within five working days of the invoice request. This particular invoice request was dated 6th November 2016 and the invoice was raised on 21st November 2016. A recommendation was raised in the 2015-16 report that a sample of invoices raised should be monitored to determine the time taken to raise invoices. A 5% sample of invoices is checked on a monthly basis for accuracy and timeliness and as such, no recommendation has been raised;
- Testing of a sample of 10 credit notes found that three of them were as a result of errors made on invoices. The recommendation made within the 2015-16 report for credit memos was found through testing to remain outstanding and therefore has been re-recommended; and
- For the samples selected for suppressed invoices, outstanding debts, raised invoices and credit notes, there were instances where invoice images were missing on the V1 system, This was later resolved during the audit and no issue has been raised.

SIGNIFICANT FINDINGS (PRIORITY 1)

11. None

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

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><u>Debt Suppression</u></p> <p>Testing of a sample of 25 debts in suppression dating back to April 2016 found that in 8 cases, there had been a change in dispute code:</p> <ul style="list-style-type: none"> • Customer number 96107957, invoice dated 21st November 2016 for £1,403.52 (10.5 to 9.80); • Customer number 96107766, invoice dated 21st November 2016 for £775.00 (10.5 to 9.70); • Customer number 96104297, invoice dated 7th March 2016 for £414.00 (L to 6.00); • Customer number 96104869, invoice dated 26th April 2016 for £306.60 (L to 8.00); • Customer number 96077719, invoice dated 7th March 2016 for £2,299.29 (L to 10.00); • Customer number 95519460, invoice dated 7th June 2016 for £7,410.00 (10 to 3.00); and • Customer number 95008326, invoice dated 30th September 2016 for £3,875.00 (6.1 to 8.00). <p>There is no clear audit trail to determine whether actions taken for suppressed cases were done in a timely manner in accordance with Dispute ID procedures. There is no notes facility within Oracle to confirm when there has been a change in dispute code as a result of actions taken. Discussion with the Operations Manager – Income and Recovery stated that there is the intention to implement a notes facility within the new debt management</p>	<p>Ineffective monitoring of debts in suppression</p>	<p>Where there is a change in dispute code, it should be visible on the Accounts Receivable system.</p> <p>[Priority 2]</p>

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>system.</p> <p>In one case, customer number 96102985, invoice dated 15th January 2016 for £180.43, there was no dispute date recorded on Oracle.</p>		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
2	<p><u>Credit Notes</u></p> <p>Testing of a sample of 10 credit notes found that in three instances, inaccuracies on the invoices caused a credit note to be raised:</p> <ul style="list-style-type: none"> • Customer number 95003212, credit note date 13th December 2016 for £570.96, • Customer number 96095814, credit note date 29th February 2016 for £205,500.00; and • Customer number 96075720, credit note dated 2nd December 2016 for £17,271.67 <p>Between April 2016 and February 2017, the Income Team raised a total of 11,987 sundry invoices. Of these, 2,149 invoices were subsequently credited. This is an increase of 1.9% from the previous year. (Up from 16% to 17.9%). The breakdown of the reasons for the credit notes are as follows:</p> <ul style="list-style-type: none"> • Amended information received, 363; • AR Billing error – initiators error, 489; • AR Billing error – CIT, 155; • Cancellation, 805; (This refers to when the customer has cancelled the service) • Credit and Rebill – CIT, 33; • Credit and Rebill, 53; • Duplicate Billing, 64; • Incorrect debtor, 6; • Part cancellation, 6; 	<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>Management should ensure that invoices raised are accurate to prevent the need to raise credit notes.</p> <p>[Priority 2]</p>

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<ul style="list-style-type: none"> • Service not required, 16; • Tax rate error, 2; • Upload error, 20; and • 149 had been raised with no reason given 		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
3	<p><u>Debt Recovery</u></p> <p>Testing of a sample of 25 outstanding debts and 25 suppressed cases found that in six cases, there was insufficient correspondence on the V1 system showing what action had been taken to recover the debts. The cases are as follows:</p> <ul style="list-style-type: none"> Customer number 95501939, invoice dated 15th July 2015 for £8,093.47 (outstanding debt): Dunning letters had been sent to Debtor 1 on 18th August 2015 and 2nd September 2015. Monthly school statements are sent out, but only one example of these was sighted on V1. This statement was dated 16th September 2016. Discussion with the Operations Team Leader established that due to volume, these statements are not all scanned onto V1. However, no summary notes were available confirming that statements had been sent out on a regular basis in an attempt to recover the debt. Customer number 96093234, invoice dated 22nd June 2016 for £22,990.00 (outstanding debt): Dunning letters had been sent to Debtor 2 on 14th July 2016 and 1st August 2016. All utility companies receive monthly statements of account but no evidence of these statements were sighted on V1. Customer number 96072157, invoice dated 20th January 2015 for £2,470.00 (outstanding debt): Dunning letters had been sent to Debtor 3 on 15th February 2015 and 26th February 2015. No further recovery action was recorded 	<p>Ineffective monitoring of non-payments. Debts owed to the Authority remain outstanding.</p>	<p>Evidence of all actions taken to recover outstanding debts should be recorded, with all correspondence available to view on V1</p> <p>The contractor should be reminded to ensure that sufficient, timely and appropriate action is taken to recover debts, including invoices under dispute</p> <p>The contractor should be reminded to process debts for recovery promptly.</p> <p>[Priority 2]</p>

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>until an email on 13th December 2016 and 7th January 2017 confirming that the Exchequer Contractor were liaising with Debtor 3 and that they have been referred to the debt collector.</p> <ul style="list-style-type: none"> • Customer number 96077719, invoice dated 7th March 2016 for £2,299.99 (suppression case): This debt had been marked as with the Exchequer Contractor for pre-debt collector/court checks. On V1, there was a gap between 13th April 2016 informing the debtor of the outstanding debt until 28th December 2016 detailing the phone call from nephew discussing discrepancies with liability dates for private and domiciliary care. No correspondence was received from the next of kin. The debtor died in October 2016. Probate searches had been carried out on 4th January 2017 and 1st February 2017. Probate was granted and the first executor letter was sent 7th February 2017. • Customer number 96015491, invoice dated 17th May 2016 for £17.68 (suppression case): The Exchequer Contractor were instructed to place this invoice on hold. The charges are for Debtor 4 telephone charges. Due to a lack of response from the department, this issue was escalated to the Head of Exchequer Services on 17th October 2016. The total balance outstanding for this debtor was £6,113.59. No further correspondence was sighted. • Customer number 95519460, invoice dated 7th June 2016 for £7,410.00 (suppression case): There was an issue with non-receipt of information from the department on this account. This was escalated to the Head of Exchequer 		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>Services in May 2016. On 28th February 2017, a statement of accounts was sent to Debtor 5. No further correspondence was sighted.</p> <p>A report of current invoices in dispute identified that there were 25 invoices dated between 2010 and 2014 totalling £175,015.34. A random sample of five was selected and in all cases, there was insufficient correspondence confirming what had been done to resolve the disputes. The cases are as follows:</p> <ul style="list-style-type: none"> • Customer number 95502542, invoice number 70054224 dated 13th February 2013 for £10,745.61. This case was escalated to the department on 17th September 2013, but no further correspondence from this date was sighted; • Customer number 96075737, invoice number 70060375 dated 20th August 2013 for £144.14. There was a gap in correspondence between an email dated 17th October 2013 and another email on 13th March 2014 from the Income and Debtors team to the department chasing the outstanding disputes. The invoice had been escalated to the department on 1st August 2014. No further correspondence from this date was sighted; • Customer number 96077667, invoice number 70047690 dated 26th June 2012 for £5,600.00. The latest correspondence sighted for this case was an email sent on 2nd July 2015 requesting for the invoice to be written-off. However, there was no evidence to confirm that this had been processed; • Customer number 96075735, invoice number 70069620 		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>dated 26th June 2014 for £640.57. An email dated 9th March 2015 was sighted from the Income and Debtors team to the school’s finance team asking whether the invoice needed to be cancelled or written off. The latest correspondence sighted was an email on 9th November 2015 about a VAT query; and</p> <ul style="list-style-type: none"> Customer number 96076926, invoice number 70041015 dated 19th October 2011 for £840.00. An email dated 27th January 2012 chasing payment for this invoice was sighted. The latest correspondence sighted was an email dated 23rd June 2015 from the Income and Debtors team querying whether there had been an update on the disputed invoice. <p>In three cases, recovery action was undertaken in an untimely manner:</p> <ul style="list-style-type: none"> Customer number 96103474, invoice dated 18th January 2016 for £112.84 (suppression case): This debt was with the Exchequer Contractor for pre-debt collector/court checks. A phone call was made on 1st April 2016 and a second phone call on 18th December 2016. Action was overdue here and the debt was cleared on 4th January 2017. Customer number 96103262, invoice dated 15th December 2015 for £3,687.60 (outstanding debt): The account was being investigated by the Cashiers department due to them allocating funds incorrectly. It was explained that this 		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>was due to confusion as to where payments should be allocated as schools converted to academies. The allocations issue was resolved by Cashiers on 8th February 2017 and is now with the Exchequer Contractor to clear on Oracle.</p> <ul style="list-style-type: none"> Customer number 96104842, invoice dated 18th March 2016 for £10,654.58 (suppression case): This debt had been marked as with the Exchequer Contractor for pre-debt collector/court checks. A one month hold on recovery was requested on 15th April 2016 and the hold was removed on 10th June 2016 by the department. Recovery could not continue until the team received confirmation that no response had been received to a letter issued to debtor's son dated 23rd August 2016. Confirmation was received on 13th November 2016 to state that they had not received a response and recovery action could continue. This account is overdue for phone calls (ECHS debts must have phone calls before referring to debt collector). A probate search carried out on 9th February 2017 yielded no results. A subsequent letter was sent on 23rd February 2017 regarding client contributions at Elmwood, asking if payment could be made from the Estate of Debtor 6, or contact details of the Executors. A phone call was also attempted on 23/02/2017. <p>In two cases, insufficient recovery action had taken place to recover debts:</p>		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<ul style="list-style-type: none"> • Customer number 96107085, invoice dated 30th September 2016 for £1,750.00 (suppression case): This debt had been marked as an internal hold within the Exchequer Contractor team. The client had calculated that £1,265.22 was owed to cover current rent. This payment was received on 21st October 2016. A further payment of £1,750.00 was received on 18th January 2017, but no payments have been made since, and no further correspondence was sighted on V1. The balance due is currently £484.74. • Customer number 96088396, invoice dated 12th July 2016 for £456.00 (suppression case): School statements had been sent the Academy requesting payment and/or dispute details on 15th September 2016, 28th December 2016 and 1st February 2017. A further email was sent on 13th February 2017 for all outstanding invoices. No further action was sighted. Discussion with the Operations Manager – Income and Recovery established that it is a last resort to send schools to the debt collector. <p>In one other outstanding debt case (Customer number 93006724, invoice dated 22nd November 2015 for £6574.60), the correspondence trail on V1 confirmed that this invoice had been in dispute. However, it was not clear when the dispute had been resolved and whether the first reminder letter, sent on 6th January 2017, had been sent in a timely manner.</p>		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
4	<p><u>Write-Offs</u></p> <p>Testing of a sample of 25 outstanding debts found that in one case, an invoice relating to domiciliary care was marked for write off on 7th January 2016 and sent to the Assistant Director by Head of Exchequer Services on 10th November 2016. However, there was no evidence that this had been authorised and returned to the Exchequer Contractor.</p> <p>The case is as follows: Customer number 92600429, invoice number 92600429 dated 31st March 2006 for £7,128.94.</p>	<p>Delays in writing off debts can result in the Authority overstating its debt.</p>	<p>Debt write-offs should be actioned in a timely manner, with arrangements put in place to follow up any which have not been actioned within a given period.</p> <p>[Priority 2]</p>

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
5	<p><u>Debts – supporting documentation</u></p> <p>Testing of a sample of 25 debts that were written off found that in 19 cases, the authorisation forms, as well as the supporting information behind the write-offs had been scanned onto the V1 system. In six cases, supporting documentation could not be located. The write-off cases and totals are as follows:</p> <ul style="list-style-type: none"> • Customer number 9606003, invoice number 70027620 for £6,000.00; • Customer number 96015870, invoice number 52107916 for £299.37; • Customer number 96081750, Invoice number 70054408 for £4,632.91; • Customer number 96055995, invoice number 63003235 for £441.54; • Customer number 93005345, invoice number 03-06-07/00640792 for £6.64; and • Customer number 93007385, invoice number 12-07-15/10916620 for £40.95. 	<p>Debts may be inappropriately written off without supporting documentation.</p>	<p>The contractor should ensure that all documentation relating to debts is scanned and held on the system.</p> <p>[Priority 2]</p>

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	Where there is a change in dispute code, it should be visible on the Accounts Receivable system.	2	<p>Oracle only holds the details of the most recent dispute code and the date the original dispute was added. There is also the facility to add a short note. Unfortunately the date the code is changed is not available in this version of Oracle.</p> <p>In all of the sample cases documents on V1 DbWebQuery shows that action was taken in a timely manner.</p> <p>In the case of 96102985 a dispute code had not been added and this resulted in a delay in recovery action. This has since been addressed by the contractor.</p> <p>The new debt management system has a full audit trail of movement between recovery stages which should resolve this issue.</p>	<p>The Exchequer Contractor Operations Manager</p> <p>Head of Exchequer Services/ Technical Project Manager & Architect</p>	<p>Completed</p> <p>31st July 2017</p>

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APPENDIX B

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
2	Action should be taken to ensure invoices raised are accurate.	*2	<p>Around 40% of the credits are due to errors made by the Service Departments when requesting the invoice. A reminder will be issued on the importance of raising accurate invoices.</p> <p>Where services are billed in advance there will always be cancellations where the service is no longer required. This accounts for around 38% of the credits.</p> <p>The contractor conducts 5% checks on invoices raised and where errors are identified they look at what additional processes could be put in place to reduce future occurrences. This involves training and/or reminders of the processes issued to staff.</p>	<p>Head of Exchequer Services</p> <p>The Exchequer Contractor Operational Manager</p>	<p>30/06/17</p> <p>Ongoing</p>

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			The majority of the credits where no reason was given related to automatic uploads and reverse receipts for cancelled cheques which need to be manually created as a credit memo.		
3	<p>Evidence of all actions taken to recover outstanding debts should be recorded.</p> <p>The contractor should be reminded to ensure that sufficient and appropriate recovery action is taken to recover debts.</p> <p>The contractor should be reminded to process debts for recovery promptly.</p>	*2	<p>Regular monitoring is carried out by the Contract Monitoring Officer and cases are brought to the attention of the contractor where there has been a delay or inappropriate recovery action.</p> <p>Issues are discussed and addressed at the monthly service reviews.</p> <p>The contractor's staff have been reminded of the importance of scanning all relevant documents onto the accounts.</p> <p>The new debt management system will provide enhanced reporting and improved visibility for monitoring the action taken by the contractor.</p>	Contract Monitoring Officer/The Exchequer Contractor Operations Manager	On going

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
4	Debt write-offs should be actioned in a timely manner with arrangements put in place to follow up any which have not been actioned within a given period.	2	<p>The write off spreadsheet is being reviewed and updated to show where write offs have been processed in Oracle.</p> <p>Any that have not been returned by the Director/Head of Finance or have been returned to the Exchequer Contractor and not processed will be followed up.</p> <p>Particular care will be taken to ensure that the spreadsheet is kept up to date in future.</p> <p>The contractor has been reminded to carry out monitoring to ensure write offs that are returned to them are processed in a timely manner and recorded on the spreadsheet.</p>	Contract Monitoring Officer/The Exchequer Contractor Operations Manager	31/07/17

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
5	The contractor should ensure that all documentation relating to debts is scanned and held on the system.	*2	<p>The contractor’s staff have been reminded of the importance of scanning all relevant documents onto V1 DbWebQuery.</p> <p>The contractor has changed their procedures to ensure the write off documents are not destroyed until the Team Leader has checked they have been scanned onto V1 DbWebQuery.</p>	The Exchequer Contractor Operations Manager/Team Leader	Completed

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.