

# Dacorum Borough Council - Internal Audit Final Report

## Accounts Receivable

### Distribution list:

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### Key dates:

*Date of fieldwork: September 2011*

*Date of draft report: October 2011*

*Receipt of responses: March 2012*

*Date of final report: March 2012*

This report has been prepared on the basis of the limitations set out in Appendix C.

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# Contents

- 1. EXECUTIVE SUMMARY 3
- 2. SCOPE OF ASSIGNMENT 5
- 3. ASSESSMENT OF CONTROL ENVIRONMENT 7
- 4. OBSERVATIONS AND RECOMMENDATIONS 8
  - Recommendation 1:** Procedure notes (Priority 3) 8
  - Recommendation 2:** VAT rates (Priority 2) 9
  - Recommendation 3:** Reporting of Management Information (Priority 3) 10
- APPENDIX A – REPORTING DEFINITIONS 11
- APPENDIX B – STAFF INTERVIEWED 13
- APPENDIX C - STATEMENT OF RESPONSIBILITY 14

# 1. Executive summary

## 1.1. Background

As part of the Internal Audit programme for 2011/12, approved by the Audit Committee in February 2011, we have undertaken an audit of the Council's systems of internal control in respect of Accounts Receivable.

The Accounts Receivable function is made up of a Sundry Debtors Lead Officer and seven Finance Officers. Up until April 2011 the Accounts Receivable team were structured under the remit of the Group Manager Revenues and Benefits; since this date they are now under the remit of the Group Manager Financial Services.

## 1.2. Objectives and Scope

The overall objectives of this audit was to assess the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to Accounts Receivable.

In summary, the scope covered the following areas: Policies, Procedures and Legislation, Debtor Transactions and Records, Standing Data Amendments, Raising Invoices/Bills, Collection, Refunds, Debt Recovery and Enforcement, Management Information and Security of Data and Following up of previous recommendations. Further detail on the scope of the audit is provided in Section 2 of the report.

## 1.3. Summary assessment

Our audit of DBC's internal controls operating over Accounts Receivable found that there is a sound system of internal control design. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Government Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for Accounts Receivable is shown in Section 3.

#### **1.4. Key findings**

We have raised one priority 2 recommendation and two priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Procedure notes should be reviewed and updated;
- Tax codes should be checked prior to raising invoices; and
- Evidence for the reporting of management information should be retained.

Full details of the audit findings and recommendations are shown in Section 4 of the report.

As a result of the follow up from recommendations raised in the 2010/11 report, it was confirmed that all four recommendations had been implemented.

#### **1.5. Management Response**

*The management response has been included in the main body of the report.*

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

## 2. Scope of assignment

### 2.1 Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Accounts Receivable, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

### 2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner

### 2.3 Areas covered

The audit was carried out to evaluate and test controls over the following areas:

- *Policy, Procedures and Legislation*  
All staff act consistently in compliance with legislative and management requirements and the administration of the Debtors function is conducted in an economic, efficient and effective manner.
- *Debtor Transactions and Records*  
The reliability, integrity, confidentiality and security of the debtors system and records is maintained through the reliable operation of the system and its interfaces to the main accounting and feeder systems.
- *Standing Data Amendments*  
Additions, deletions and amendments to creditor standing data are completely, accurately and validly processed in a timely manner.
- *Raising Invoices/ Bills*  
Invoices / bills are completely, accurately, validly and timely raised and recorded in the authority's accounts in respect of fees and charges for goods/ services delivered and other income streams are raised in line with management and regulatory requirements.
- *Collection*  
Fees, charges and other income streams are completely, accurately, validly and timely collected, allocated and recorded in the authority's accounts in line with management and regulatory requirements.

- *Refunds*

Credit notes or refunds for incorrectly raised debts and / or overpayments are completely, accurately and validly paid, allocated, and recorded in the authority's accounts in a timely manner.

- *Debt Recovery and Enforcement*

Appropriate action to recover overdue fees and charges is taken in a timely manner and only uneconomic and irrecoverable outstanding amounts are validly written off in the authority's accounts.

- *Management Information*

Information on invoices raised, outstanding debts and any instalment arrangements are completely, accurately, validly and timely produced and secured to facilitate effective monitoring and decision making.

- *Security of Data*





















Debtors data is adequately protected and prevents unauthorised access to the data.

- *Follow-up Previous Audit Recommendations*

Recommendations raised in the previous audit report have been implemented.

### 3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

<b>Control Objectives Assessed</b>	<b>Design of Controls</b>	<b>Operation of Controls</b>	<b>Recommendations Raised</b>
<i>Policy, Procedures and Legislation</i>			<b>Recommendation 1</b>
<i>Debtor Transactions and Records</i>			
<i>Standing Data Amendments</i>			
<i>Raising Invoices/Bills</i>			<b>Recommendation 2</b>
<i>Collection</i>			
<i>Refunds</i>			
<i>Debt Recovery and Enforcement</i>			<b>Recommendation 1</b>
<i>Management Information</i>			<b>Recommendation 3</b>
<i>Security of Data</i>			
<i>Follow up previous audit recommendations</i>			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

## 4. Observations and Recommendations

### Recommendation 1: Procedure notes (Priority 3)

**Recommendation**

Procedure notes for the Sundry Debtor processes should be reviewed and updated on a regular basis.

**Observation**

The maintenance of up to date procedure notes helps to ensure that guidance available to staff accurately reflects the current processes and structure of the Accounts Receivable function.

It was identified during the testing that the Sundry Debtor procedure notes have not been updated since the Accounts Receivables function moved from Revenues and Benefits to Finance in April 2011, having last been updated in 2009. As a result of the restructure, the Accounts Receivable function is now under the Group Manager (Financial Services), whereas prior to the restructure they were under the Group Manager (Revenues, Benefits and Fraud). In addition, the job title for Sundry Debtor Team Leader has been changed to Sundry Debtor Lead Officer, and the Revenues Officers are now Finance Officers.

Where procedure notes are not kept up to date there is a risk that staff follow incorrect and / or inconsistent working practices.

**Responsibility**

Sundry Debtors Lead Officer

**Management response / deadline**

Agreed.

The procedure notes were updated following receipt of the draft report in December 2011.



**Recommendation 2: VAT rates (Priority 2)**

**Recommendation**

All Officers who are able to manually adjust VAT codes on the Financial Management System should be trained on when the use of manual adjustments is appropriate. Additionally, explanations for any manual adjustments to VAT codes should be documented within the paperwork or within the Financial Management system.

**Observation**

The Financial Management system automatically allocates VAT rates to invoices raised based on debtor profile. When money is owed to the Council, the accounting team will input details of money owed onto the Financial Management System and an invoice will be automatically raised. Accounting officers are able to manually adjust VAT codes where errors are noticed.

From a sample of 20 Sundry Debtor invoices raised it was identified that one invoice had been raised with the incorrect tax code. For the one invoice raised incorrectly, the VAT exempt code should have been used as per the debtor profile on the system. We found that one of the Finance Officers had manually adjusted this invoice to a standard VAT code, which resulted in an overcharge of £120. There was no explanation provided on any of the documentation or electronic files as to why the manual adjustment took place.

Where incorrect VAT rates are applied to invoices raised there is a risk that debtors are over / under charged leading to financial loss or reputational damage for the Council. Additionally, this could result in penalties from HMRC due to the Council's VAT claim being incorrect.

**Responsibility**

Sundry Debtors Lead Officer

**Management response / deadline**

All officers who are able to manually adjust VAT codes do receive training. Manual errors will occur from time to time but there is a low risk of failure.

However, steps could be taken to reduce further the risk of error. The relevant Team Leader is exploring the option of implementing an automated checking facility to ensure that the correct VAT code is raised. A decision on this will be made by 30 June 2012.

### **Recommendation 3: Reporting of Management Information (Priority 3)**

#### **Recommendation**

Meetings whereby management information, such as Debtors Days, a key performance indicator for accounts receivable, and aged debt, is reported by the Sundry Debtor Lead Officer to the Group Manager should be minuted and retained.

#### **Observation**

Revenues and Benefit Management team meetings took place until June 2011. At these meetings Sundry Debtor information was reported and discussed, including Debtor Days and outstanding debt. After June these meetings ceased. The Sundry Debtor Lead Officer now has one-to-one meetings with the Financial Services Group Manager where Sundry Debtor performance is discussed.

It was found that the one-to-one meetings are not minuted and therefore there was no evidence that no information relating the Sundry Debtors team performance is reported to management.

Where management information is not reported, there is a risk of ineffective decision making. Furthermore, the opportunity to take appropriate action to address any issues may be lost.

#### **Responsibility**

Sundry Debtors Lead Officer

#### **Management response / deadline**

Agreed.





Performance has been discussed in all 1-2-1 meetings between GM and Lead Officers, however, we are now documenting as recommended.

In addition, we have arranged for the Debtors Team performance indicator to be included within the CORVU monthly performance reporting.

## Appendix A – Reporting definitions

### Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

### Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B – Staff interviewed

The following personnel were consulted:

Clare Dempsey	-	Sundry Debtors Lead Officer (Accounts Receivable)
Lyn Smith	-	Revenues Officer (Accounts Receivable)
Claire Morgan	-	Finance Officer (Accounts Receivable)
Elaine Bowman	-	Finance Assistant (Payments, Income & Right to Buy)
Lana Linden	-	Corporate Training Coordinator

We would like to thank the staff involved for their co-operation during the audit.

## Appendix C - Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

### **Deloitte & Touche Public Sector Internal Audit Limited**

**London**

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