

Dacorum Borough Council - Internal Audit Final Report

Accounts Receivable

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Key dates:

Date of fieldwork: November 2013

Date of draft report: December 2013

Receipt of responses: December 2013

Date of final report: December 2013

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

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1. Executive summary

1.1. Background

As part of the Internal Audit programme for 2013/14, we have undertaken an audit of the Council's systems of internal control in respect of Accounts Receivable.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Accounts Receivable, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas; Policy, Procedures and Legislation, Debtor Transactions and Records, Standing Data Amendments, Raising Invoices / Bills, Collection, Refunds, Debt Recovery and Enforcement, Management Information, Security of Data and Follow 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 designed to achieve the system objectives. 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 Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance 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.

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 two recommendation where we believe there is scope for improvement within the control environment. This is set out below:

- Write off schedules should be produced and authorised on a monthly basis in accordance with the Council's Financial Regulations. Consideration should be given to a

review of the write off requirements within the Financial Regulations, to include a minimum total value for a schedule and / or the frequency of schedules to be produced.

Audit noted that the Performance Management Report indicated that the level of aged debt had risen from £848,915 at the end of April 2013 to £1,200,180.44 at the end of September 2013, however the report recorded that increasing action was being taken to address aged debt, including a steady rise in the implementation of legal action, use of debt collection agents and referrals to Taylor Walton (solicitors) for the period April to September 2013. It should be noted that the outstanding debt in August was £1,313,021, a reduction of £112,840 achieved in September.

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

1.5. Management Response

We received the management responses in a timely manner and these have 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 to the areas set out in section 2.3, are adequate, 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*
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 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*
All 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 in line with regulatory requirements.
- *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 in line with management and legislative requirements.
- *Management Information*
To confirm that information on invoices raised, outstanding debts and any instalment arrangements is completely, accurately, validly and timely produced and secured to facilitate effective monitoring and decision making.
- *Security of Data*
Debtors' data is adequately protected and unauthorised access to the data is prevented.
- *Follow-up Previous Audit Recommendations*
To confirm that 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.

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

Recommendation

Write off schedules should be produced on a monthly basis in accordance with the Financial Regulations. Each schedule should be processed and appropriately authorised in the subsequent month and accounts updated.

Consideration should be given to a review of the write off requirements within the Financial Regulations, to include a minimum total value for a schedule and / or the frequency of schedules to be produced.

Observation

The Dacorum Borough Financial Regulations state, "Where there are multiple write-off requests, the requests shall be compiled into a schedule for each month. The write-off request must be supported by appropriate working papers that support the reason for writing off the debt. The individual request or schedule of requests must be approved by the relevant Group Manager and the Section 151 Officer."

It was identified that as at November 2013, no write offs had been processed for the 2013-14 financial year. Write off schedules had been produced in the months of July (£26,605.08) and October (£38,617.70), both of which had values of (£14,196.5 and £37,879.67 respectively) which management considered high value and had yet to make decision on.

Examination of the July schedule identified that monthly schedules had not been produced, as the following months had been included on the July schedule:

- Three write of requests dated in April 2013;
- Four write off requests dated in May 2013; and
- Two write off requests dated in June 2013.

Further examination of these nine requests identified that the total value to be written off was £6,029.53, which included one value of £4,074.41. In the month of April the total was only £8.95 and the total for May was £1,930.59, values which had not been considered necessary to warrant a schedule produced.

Where write offs schedules are not approved and processed in a timely manner, there is a risk that the financial accounts do not provide an accurate reflection of the financial position and the assets of the authority.

Responsibility

Group Manager (Financial Services)

Management response / deadline

Partly Agreed.

The Deputy Section 151 officer had requested further evidence and legal advice for one of the July debts. This was due to its unusual circumstances and the need to establish whether there were any further legal channels available to recover the funds before agreeing the write off. The legal team needed to take external advice which was received in November. On receipt the schedule was signed and actioned within 3 working days.

The October schedule included a large sum which requires under the financial regulations approval by the portfolio holder. A report has been submitted and awaiting the approval following call in period.

We recognise the importance of write off schedules being produced and approved in a timely manner; however, we also have to ensure that we are confident that the decision to write the debt off is the appropriate action.





The normal process for preparing a write off schedule and processing the transactions takes a maximum of 5 days. However, given the exceptional circumstances regarding 2 large and complex debts the process in the highlighted instances took longer than customary.

When looking at the preparation of write off schedules each month, the value and the number of debts are considered. If the value of the debts is unlikely to have any impact (as in April and May) these are held until there is a reasonable amount to cover the administration involved.

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
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		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.
Limited		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.
Nil		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
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	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
Catherine Hamilton	-	Finance Manager
Robbie File	-	Business System Developer

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

Appendix C - Statement of responsibility

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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