

# Oxford City Council

## INTERNAL AUDIT REPORT - FINAL

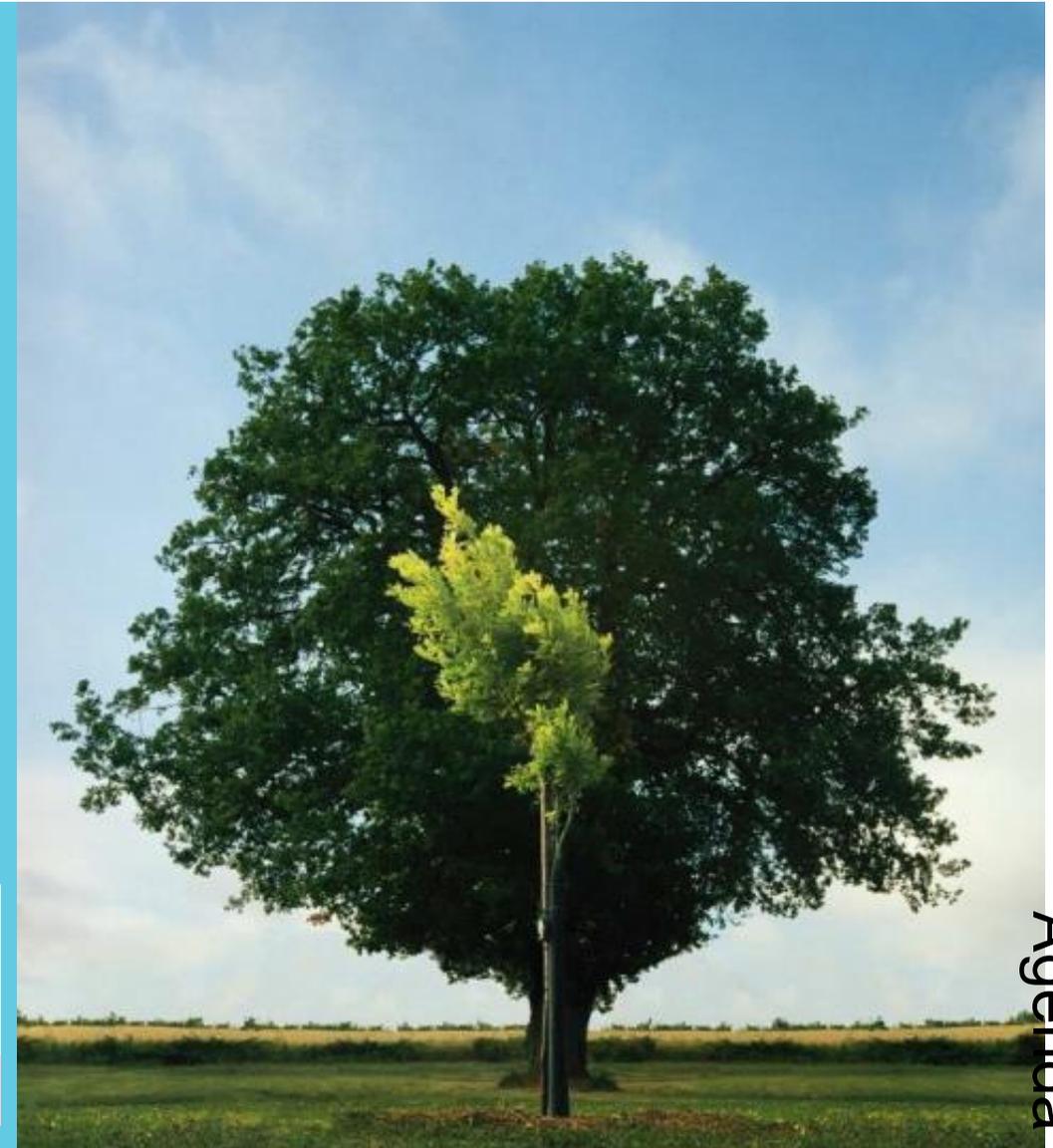
Audit. 10 Accounts Receivable

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December 2016

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
LIMITED	LIMITED

**FINAL**



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REPORT STATUS	
Auditor:	Yasmin Ahmed, Audit Senior
Dates work performed:	26 - 04 October 2016
Closing meeting:	20 October 2016 attended by Yasmin Ahmed, Anna Winship, Katie Ball, Kevin Lacey and Neil Markham
Draft report issued:	24 November 2016
<b>Final report issued:</b>	<b>2 December 2016</b>

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## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY

## OXFORD CITY COUNCIL STRATEGIC OBJECTIVE THIS REVIEW RELATES TO

Efficient, Effective Council: A flexible and accessible organisation, delivering high-quality, value-for-money services

## LEVEL OF ASSURANCE (SEE APPENDIX III FOR DEFINITIONS)

Design      Limited      System of internal controls is weakened with system objectives at risk of not being achieved.

Effectiveness      Moderate      Evidence of non compliance with some controls, that may put some of the system objectives at risk.

## SUMMARY OF RECOMMENDATIONS (SEE APPENDIX III FOR DEFINITIONS)

High       4

Medium       4

Low       1

**Total number of recommendations: 9**

## OVERVIEW

Oxford City Council's (the Council) accounts receivables team underwent a major restructuring process whereby the incomes team and the rents team have been amalgamated into one single incomes team. Through the restructure of the team specific controls and processes were considered to be inadequately followed, for example an absolute balance of £140,000 of transactional amendments was not cleared from the error account for over one year. Furthermore, there is a severe lack of communication between various originator departments and the incomes team leading to untimely debt collection. In addition the Council has relatively high levels of aged debt in comparison to 2015 - 16, 69% of aged debt was due for over 180 days as at 28 September 2016.

During the review we noted the following areas of good practice:

- The Council's high level policies i.e. the financial regulations and the corporate debt policies were relevant, up to date and fit for purpose
- Effective and adequate controls are in place to ensure that transactions are raised, approved and paid in an accurate, complete and timely manner
- Effective management information is reported and adequate key performance indicator information is assessed to monitor the activities undertaken
- Sufficient procedures are in place to confirm the validity of data and approval of income collection.

However we also found the following areas for improvement:

- Segregation of duties are not in place within the self service system enabling individuals to create and authorise customer accounts (Detailed Finding 1)
- The incomes team leaders are not aware of the Customer Due diligence (CDD) procedures carried out by the Council's originator departments (Detailed Finding 2)
- Two out of a sample of five customer creation forms could not be evidenced; as a result we could not verify sufficient customer account approval (Detailed Finding 3)
- Transactional amendments were not carried out in a timely manner and there was insufficient oversight of transactions (Detailed Finding 4)
- Debt recovery arrangements continue to be inadequate with 69% of debt remaining overdue for more than six months as at 28 September 2016 (Detailed Finding 6)
- There continues to remain inadequate co-operation between the originator departments and the incomes team despite management meetings taking place on a weekly basis resulting in ineffective debt recovery arrangements (Detailed Finding 6 & 9)
- Three out of a sample of five debt write off forms could not be evidenced (Detailed Finding 7)
- There are a number of inconsistent scripts causing interfaces such as garden waste to occasionally fail; furthermore, there are no alerts to key personnel to notify of failed scripts (Detailed Finding 8).

## Conclusion

We have issued four high, four medium and one low level recommendation resulting in a limited design of controls and a limited effectiveness of controls. This is due to the new self service system which currently does not have a segregation of duties implemented; as a result, income officers are able to potentially create and authorise customer accounts and possibly credit balances to unsolicited accounts. Furthermore, the insufficient debt collection arrangements and the lack of co-operation between the originator departments has resulted in a high level of overdue debts.

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: New or existing customer/supplier change controls are inadequate to safeguard the integrity of changes made to data held

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Ref.	Finding	Sig.	Recommendation
1	<p>The Council have recently introduced a self service system allowing both income officers and originator departments to create a customer on the system which is subsequently linked to Agresso. On creation of the customer account the Agresso system allows both the incomes team and/or the originator department to raise invoices.</p> <p>Initially the originator department or the incomes officer must specify all details of the customer via a customer creation form and ensure to obtain authorisation from an appropriate officer. The originator department proceeds to create a customer on the self service system. Subsequently, the request for a new customer is directed to a generic work flow where various income officers are able to execute the request. The incomes officer who initially picks up the request is required to check the details of the customer, for example check whether the customer was an existing customer and an overall payment history. Once the incomes officer is satisfied with the customer created they must authorise the account creation request. The customer is then created on the Agresso system.</p> <p>As part of this review, we reviewed the process and controls in place embedded within the self service system to authorise a customer creation. Through discussions with income officers and management and observation of the controls we found that there are insufficient segregation of duties implemented within the self service system; currently an income officer is able to create a customer on the self service system and also authorise the customer created.</p> <p>If there are no segregation of duties implemented within the self service system, there is a high level of fraud risk. Unsolicited accounts could be created on the system and credited with funds leading to a negative financial impact on the Council.</p>	H	<p>a) A parameter must be implemented within the self service system whereby individuals who are able to create a customer are unable to authorise the customer on the system</p> <p>b) If the council are unable to implement a suitable parameter within the Agresso system, a retrospective check must be completed by the incomes manager on a Quarterly basis whereby, all customer details inclusive of bank details must be verified and a segregation between approval and creation must be validated.</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
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<p>Agreed: Income Management will be raising a V-Fire to be picked up by Integra. We will be requesting an amendment of the system to ensure the Officers can't create a customer account and also authorise. Historically it seems this was seen as a save in time / resources but it's understood this isn't viable for audit purposes. It's noted though that the Income Team don't use the Self Service part of Agresso to create customers, they use the full desktop service. The only users creating customers on the self-service system are the originating departments and they are unable to authorise accounts.</p> <p>Alternatively if the above parameter is not possible we will do a quarterly retrospective check to see if anyone has created and authorised a customer and review this. To do each one would be too time consuming for the Incomes Team.</p>	<p><i>Responsible Officer: Katie Ball, Income Manager and All Originator departments</i></p> <p><i>Implementation Date: 31 January 2017</i></p>
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# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: New or existing customer/supplier change controls are inadequate to safeguard the integrity of changes made to data held

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Ref.	Finding	Sig.	Recommendation
2	<p>Customer Due Diligence (CDD) is required by the Money Laundering Regulations 2007. The aim of the regulation is to prevent fraud and malpractice behaviour. The regulation enables organisations to better identify suspicious transactions if the organisation knows their customer and enables the customer to understand the reasoning behind the instructions provided by the organisation. CDD does not need to be conducted on all customers and the Council's Money Laundering Policy sets out where it should apply.</p> <p>Through interviews held with the incomes team leader and incomes officers it became apparent that there was a lack of knowledge from the incomes team over whether originator departments conducted CDD. Furthermore, management were not aware of the level of evidence retained on completion of these checks. In addition, management and incomes officers confirmed that they were not confident CDD processes within originator department are taking place. Therefore, this review confirms there is a lack of confidence amongst management staff over whether CDD is applied and, if it is applied, there is a lack of knowledge over whether this is being recorded/retained consistently in line with Council policy.</p> <p>Best practice CDD goes further than copying the identification of the customer and requires the Council to consider the purpose and vision of the organisation transacted with and to confirm who the beneficiary owner is.</p> <p>If CDD is not exercised there is a heightened risk of a breach in legislation and the Council policy.</p>	M	<p>a) The requirement to perform Customer Due Diligence (CCD) checks must be communicated to all relevant staff setting out the consequences to the Council of non-compliance with legislation</p> <p>b) The communication regarding CDD to relevant staff including all originator departments must set out how to conduct these checks and evidence must be retained</p> <p>c) As part of the Agresso milestone 6 upgrade (due in March 2017) the Council should enforce a parameter whereby, staff are prompted to ensure that CDD checks have been completed and/or considered prior to submission for authorisation.</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>1. We will look at revising the New customer form to see if we can add a Y/N tick box to say CDD has been considered alongside what functionality there is to accommodate this in Agresso</p> <p>2. Awareness raising through training- suggest that the Head of Service organises refresher training through the Investigations Team for all staff</p>	<p><i>Responsible Officer:</i> 1. Neil Markham, Incomes Team Leader and 2. Nigel Kennedy, Section 151 Officer</p> <p><i>Implementation Date:</i> 1. 31 March 2017 2. 31 March 2018</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: New customers/suppliers are not subject to sufficient due diligence to provide reasonable comfort over the nature and background of the customers/suppliers

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Ref.	Finding	Sig.	Recommendation
3	<p>The Council have recently introduced a self service system allowing both income officers and originator departments to create a customer on the system which subsequently allows the incomes team or the originator department to raise invoices for a particular customer. All corresponding documentation for the creation of the customer must be retained by the incomes officer or the originator department dependent on whom created the customer.</p> <p>Furthermore, where originator departments direct income officers to create customer accounts on their behalf a relevant customer creation form or raise to request form must be provided to the incomes officer.</p> <p>As part of this review, we sample tested five new customers created on the Agresso system via the self service system from April 2016 to October 2016. From our review we found that:</p> <ul style="list-style-type: none"> <li>Although two out of a sample of five customers were created via the self service system, we could not obtain the corresponding documentation for the creation of the customers from the originator departments - this comprised of a customer created by Direct services and also Rose hill Gym. Due to insufficient documentation being retained, it was not possible to review whether the relevant due diligence checks have been completed or whether the more simplistic checks of customer payment history and the duplication of customers have been checked. Furthermore, we were also unable to evidence whether the customer was authorised by a relevant officer within the originator department prior to being created on the system.</li> </ul> <p>If corresponding documentation is not retained there is a risk that the relevant checks and authorisations have not been obtained and a customer has been created on the Council's system. There is a risk of a negative financial impact on the Council if the customer is not fit and proper.</p>	M	<p>a) All corresponding documentation must be retained by the originator departments and/or income officers depending on whom has created the customer</p> <p>b) Income officers should seek to review the customer creation forms or confirm that they were completed on the creation of a customer</p> <p>c) The incomes team and/or the originator departments must complete a spot check of an average sample of five new customers on a Quarterly basis to ensure that customer creation forms are retained.</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed: The originating department were unable to supply the documentation. Income Team Leaders liaised with these departments and requested the corresponding documentation, which for one reason or another did not materialise. This is in the process of being rectified. The Corporate Services team are scanning documents sent up to St Aldate's so that the Income Team has access to the data and can deal with queries</p> <p>The Incomes Team understand that Direct Services are getting their own scanner which will save time in transferring documents to St Aldate's. The Originating Departments will be required to provide evidence of self checking their scanning files quarterly</p>	<p><i>Responsible Officer: Service Managers of Originating Departments and Incomes Team</i></p> <p><i>Implementation Date: 31 March 2017</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Amendments to transactions are not subject to sufficient oversight and approval procedures to validate their accuracy

Ref.	Finding	Sig.	Recommendation
4	<p>The accounts receivables error account code '99999999' comprises of both debit and credit balances due to be re-allocated to a specific customer account. The main reasons for balances to exist on the Council error account are due to:</p> <ul style="list-style-type: none"> <li>• Customers making payment using the incorrect account number</li> <li>• Customers making payment using the incorrect invoice number</li> <li>• Customers making duplicate payments to one invoice</li> <li>• Customers making insufficient payments or incorrect payments.</li> </ul> <p>We would expect the Council error account to be cleared on a daily basis to prevent a large build up of debit and credit balances. The clearance of error accounts will also help to ensure a seamless process of re-allocating balances to correct customer accounts, preventing continuous customer queries and incorrect debt reminder letters sent to customers. Furthermore, we would expect there to be sufficient oversight of amendments and approvals by management. As part of this review, we sample tested 10 transactional amendments that were originally allocated to the Council error account from April 2016 to October 2016. From our review we found that:</p> <ul style="list-style-type: none"> <li>• Transactional amendments were not completed on a regular basis; transactional amendments varied within a range of 21days to 1 year to complete. Within our sample we found that               <ul style="list-style-type: none"> <li>• Four out of ten amendments took two months, six months, seven months and ten months to complete respectively</li> <li>• Two out of ten amendments took four months to complete</li> <li>• Two out of ten amendments took one month to complete</li> <li>• One out of ten amendments took one year to complete</li> </ul> </li> <li>• There was no sufficient oversight and approvals process of authorising transactional amendments by the income team leaders</li> <li>• An overall balance of £140,000 of transactional amendments comprising of debit and credit balances remained on the Council's error account from 2001 to 2016; this report was run as at 13 October 2016.</li> </ul>	H	<ul style="list-style-type: none"> <li>a) Transactional amendments should be cleared from the Council's error account on a daily basis by allocated income officers</li> <li>b) Management should ensure to review and authorise all transactional amendments</li> <li>c) A threshold should be set on the balance that the error account is not allowed to exceed</li> <li>d) Where there are transactional balances over one year of age comprising of both debit and credit transactions these must be cleared/removed from the error account.</li> </ul>

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# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Amendments to transactions are not subject to sufficient oversight and approval procedures to validate their accuracy			
Ref.	Finding	Sig.	Recommendation
4 Cont.	If transactional amendments are not cleared on a regular basis there is a risk of a build up of unknown debit and credit balances within the error account. Furthermore, a lack of management oversight of transactional amendments could lead to credit balances being incorrectly credited to unsolicited accounts (see Detailed Finding 1) heightening the risk of fraud and error.		
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed: Incomes are responsible for clearing the Agresso error account. More focus will be given to ensure the Income Officers are actioning this on a daily basis. A new process will be put in place, which is completed and monitored by management.</p>			<p><i>Responsible Officer: Katie Ball, Incomes Team Manager</i></p> <p><i>Implementation Date: 31 December 2016</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Ineffective management information is reported and inadequate key performance indicator information is assessed to monitor the activities undertaken

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Ref.	Finding	Sig.	Recommendation
5	<p>The income team leaders currently engage with direct services, trade waste and commercial rents on a weekly basis through weekly management meetings. The agenda of the meetings typically includes the following:</p> <ul style="list-style-type: none"> <li>• Discussing relevant KPIs with the originator departments for example overdue debts, late payments and or non payments</li> <li>• Aged debtor analysis</li> <li>• Monthly reports on invoices raised for various service areas</li> <li>• Monthly income collection performance</li> <li>• Issues concerning customer accounts that the incomes team must be made aware of</li> <li>• Action plans for both originator departments and the incomes team</li> </ul> <p>We reviewed the management meetings minutes to understand whether robust discussions were taking place and also to better understand the effectiveness of management meetings. Although there were appropriate discussions taking place within management meetings, we found that holding management meetings on a weekly basis added insufficient value as unrealistic deadlines were set for action plans resulting in action plans not being addressed within a short period of time. Furthermore, there was a lack of attendance of meetings as meetings were cancelled and held the following week on some occasions, demonstrating a lack of significance associated with the management meetings held on a weekly basis.</p> <p>If management meetings are held on a too frequent basis there is a risk of no added value to the meetings resulting in a lack of attendance and significance attached to the meetings and time wasted by those who do attend.</p>	L	<p>a) Management meetings should be held on a fortnightly basis to allow the incomes team and originator departments to discuss areas of relevance</p> <p>b) Realistic timescales should be set for action plans.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed: These meetings have already been changed to fortnightly to allow for actions to be undertaken.</p> <p>Any actions to be completed are addressed and resolved.</p>		<p><i>Responsible Officer: Neil Markham, Incomes Team Leader</i></p> <p><i>Implementation Date: 31 December 2016</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Debt recovery arrangements are inadequate and ineffective to achieve the maximum return of funds in line with the Council's values  
 Risk: Timeliness of communication between service areas and the central accounts receivable team is considered inadequate to allow effective debt collection to take place

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Ref.	Finding	Sig.	Recommendation
6	<p>The accounts receivables department payment terms are that payments are to be made immediately on the issue of an invoice. There are instances where payment arrangements have been agreed with the customer through the originator department; however, this only exists in rare circumstances.</p> <p>The incomes team will manage the recovery of all invoices issued on the Council's accounting system, Agresso. The Council's approach is that if an invoice is not paid within 14 working days from the invoice due date, an automatic letter is produced by the Agresso system and issued to the customer. There are no diarised debt recovery procedures in place apart from the initial automatic letter. The debt recovery policy states that after 28 days from the invoice date, each invoice outstanding should be considered over how to proceed i.e. whether to re-issue a debt follow up letter or involve legal/civil recovery proceedings.</p> <p>We selected a sample of five overdue debts ranging from 54 to 175 days from 1 April 2016 to 14 October 2016. We found:</p> <ul style="list-style-type: none"> <li>For a sample of two out of five debts comprising of a total value of £108,389.05, two invoices for the same customer on the 25/04/2016 and 07/06/2016 respectively remained outstanding at the point of our review - therefore the invoices were 175 and 126 days overdue respectively. We queried what action had been taken to recover these funds. We evidenced an initial automatic letter issued via the Agresso system on 12/05/2016 and 13/09/2016 respectively. Further contact was only maintained on 14/09/2016 by the client requesting a purchase order to be sent for the corresponding amounts. For a balance overdue for 175 days and 126 days respectively, we would expect a high degree of debt recovery activity. Furthermore, three out of five transactions from our sample were overdue with insufficient action taken; the only level of action taken were automated reminder letters sent to customers, with the largest balance on our sample of £93,369 being overdue by 160 days</li> <li>The Council's Debt Policy specifies that where invoices are 28 days overdue from the invoice due date, the involvement of legal or civil enforcement companies must be considered on a case-by-case basis. However, the Council could not evidence consideration of either legal or civil enforcement companies for five out of five cases that were more than 28 days overdue from the date of the invoice. From our discussions with accounts receivable staff it was apparent that 28 days may not be considered the appropriate point at which to consider debts for legal or civil recovery proceedings. The values ranged from £100 to £90,000 within our sample</li> </ul>	H	<p>a) The roles and responsibilities of the originator departments and the incomes team should be clearly defined</p> <p>b) The ultimate responsibility of debt collection should be clearly communicated to the incomes team</p> <p>c) The originator department should communicate effectively with the incomes team on any customer issues that concern effective debt recovery</p> <p>d) Income officers should be proactive in monitoring overdue debt and ensuring contact is maintained at agreed follow-on dates until the debt is fully recovered.</p> <p>As a measure of good practice we have included the debt recovery procedures in place by other Councils; please see Appendix I.</p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Debt recovery arrangements are inadequate and ineffective to achieve the maximum return of funds in line with the Council's values  
 Risk: Timeliness of communication between service areas and the central accounts receivable team is considered inadequate to allow effective debt collection to take place

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Ref.	Finding	Sig.	Recommendation
6 Cont.	<ul style="list-style-type: none"> <li>Due to the restructure of the incomes team to streamline the debt collection process it is paramount for the originator department and the incomes team to establish better communication to enable a seamless process in recovering debt. As the initial customer relationship is built by the originator departments and income collection is completed by the incomes team both parties need to communicate frequently, enabling them to act upon debt collection in a timely manner. Through discussions with the incomes team leaders, income officers and sample based testing on overdue debts it was clear that effective communication is not being held between both the originator departments and the income officers leading to a time lag in the collection of debt and further leading to an irrecoverability of debt.</li> </ul> <p>If there is a lack of communication amongst the originator departments and the incomes team there is a risk that debts will not be collected effectively or due to no communication debt recoverability will become more difficult. This can result in a negative financial impact on the Council.</p>		
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed: We will work through the recommendations. We suggest looking at an SLA that covers the recommendations and places ownership on all service areas to make this work</p>			<p><i>Responsible Officer: Katie Ball, Incomes Team Manager and Originator Departments</i></p> <p><i>Implementation Date: 30 September 2017</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Insufficient arrangements are in place to review and approve debt write-off and/or approval is not undertaken in-line with financial regulation procedures set-out

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Ref.	Finding	Sig.	Recommendation
7	<p>The Council’s corporate debt write off policy outlines that all debt write off requests must be made to the section 151 Officer, who is required to review and approve debt write offs in the following circumstances:</p> <ul style="list-style-type: none"> <li>• Cumulative debts under £50, where no payment has been received within six months of sending the final demand</li> <li>• All debts where a Debt Collection Agent advises they are unable to collect and all options are exhausted - in these circumstances the Head of Financial Services will deem it not cost-effective to pursue</li> <li>• All debts where Legal Services advises the debts are irrecoverable or that legal action is unlikely to be cost effective</li> <li>• Debts that are absconded and/or unable to trace</li> <li>• Bankruptcy of debtor</li> <li>• Debtor is deceased and there are insufficient funds in the Estate to clear the outstanding charge</li> <li>• The debt is uneconomical to pursue</li> </ul> <p>The policy further outlines that all recovery methods must be exhausted prior to raising a request to write off the debt. The Council complete debt write off forms as a measure to ensure all avenues have been exhausted and authorisation has been appropriately obtained prior to write off. We sample tested five debt write offs from April 2016 to October 2016; we found that:</p> <ul style="list-style-type: none"> <li>• Three out of a sample of five debt write off forms could not be evidenced - all avenues of obtaining the debt write off forms were exhausted. Although these debts were written off on the Agresso system these debts were all classified as ‘uneconomical to pursue’. As the debt write off forms were not in place it was not possible to verify whether all relevant checks in obtaining the debts were carried out and whether appropriate approval from the S151 Officer was obtained.</li> </ul> <p>If there are no debt write off forms retained there is a risk of non compliance with the debt write off policy and also a risk that the business cases have not been reviewed in accordance with the policy.</p>	M	<ul style="list-style-type: none"> <li>a) The incomes team should ensure that all debt write off forms are retained once the write off has been performed</li> <li>b) Notes should be included within the Agresso system on the areas considered as per the debt policy prior to write off.</li> </ul>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>A tighter process will be in place by management to ensure relevant write off documents are scanned on, and a record saved in our Income Folder. This error was a potential misplaced batch to scanning.</p> <p>There is a corporate debt policy, which is what our process will be based on going forward</p>	<p><i>Responsible Officer: Katie Ball, Incomes Team Manager</i></p> <p><i>Implementation Date: 31 December 2016</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Insufficient arrangements to ensure a robust control environment for the upgraded or new accounts receivable/general ledger software

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Ref.	Finding	Sig.	Recommendation
8	<p>There are a number of interfaces run in relation to the Councils Accounts receivable. These are as follows:</p> <ul style="list-style-type: none"> <li>• Garden waste interface</li> <li>• Trade waste interface</li> </ul> <p>Interfaces are automatically run on a daily basis; we would expect all interfaces to be run successfully. However, where interfaces are not successful we would expect the ICT department and the responsible officer for the interfaces to be alerted and subsequently re-run once all errors are corrected. As part of this review, we discussed with the ICT applications manager the controls and processes for the accounts receivables interfaces and also obtained an understanding as to reasons for the unsuccessful completion of interfaces. From our discussions we found that, where interfaces are not successful there are no alerts sent to the ICT department or responsible officers on the unsuccessful run of the interface. Furthermore, the main cause of the unsuccessful run of the interface is due to the inconsistency within the interface scripts.</p> <p>The Council is currently in the process of preparing for the Agresso upgrade 'milestone 6'; the upgrade will assist in re-writing scripts for interfaces. Previously, the Council engaged with standalone consultants to aid the Council through the Agresso milestone 4 transition process in March 2016. As of October 2016 the Council have initiated a contract with 'Integra' who are currently assisting the Council with IT call logs; issues that cannot be easily resolved by the local Council IT call desk. Furthermore, there are further discussions on the re-writing of interface scripts to enable both alerts to be set and scripts to be run successfully.</p> <p>If the Council do not correct the underlying cause of the interface failings there is a risk that crucial interfaces will not be run resulting in a negative financial impact within the Council.</p>	M	<p>a) The Council should engage with Integra at their earliest convenience to rewrite the scripts for interfaces</p> <p>b) Where interfaces fail, alerts should be set up to notify responsible officers and the ICT department as soon as possible</p> <p>c) Regular reports should be run to ensure interfaces have run correctly.</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed: Garden Waste: This is an automated process, any errors were flagged in the past to ICT in particular one individual who was the Agresso support. The flagging of errors regarding garden waste was not updated on this person leaving. A request will be made to ICT to ensure that the current ICT Support recipients list is correct. We are awaiting for fixes to be put in place through Integra support</p> <p>Trade Waste: Anytime an interface fails, an e-mail is sent to the Incomes e-mail Inbox, this is how the process was set up with a contractor and procedures are now in place.</p>	<p><i>Responsible Officer: Neil Markham, Incomes Team Leader</i></p> <p><i>Implementation Date: 31 December 2016</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Timeliness of communication between the central function and the originator departments in regards to communication with customers over debt collection is unclear

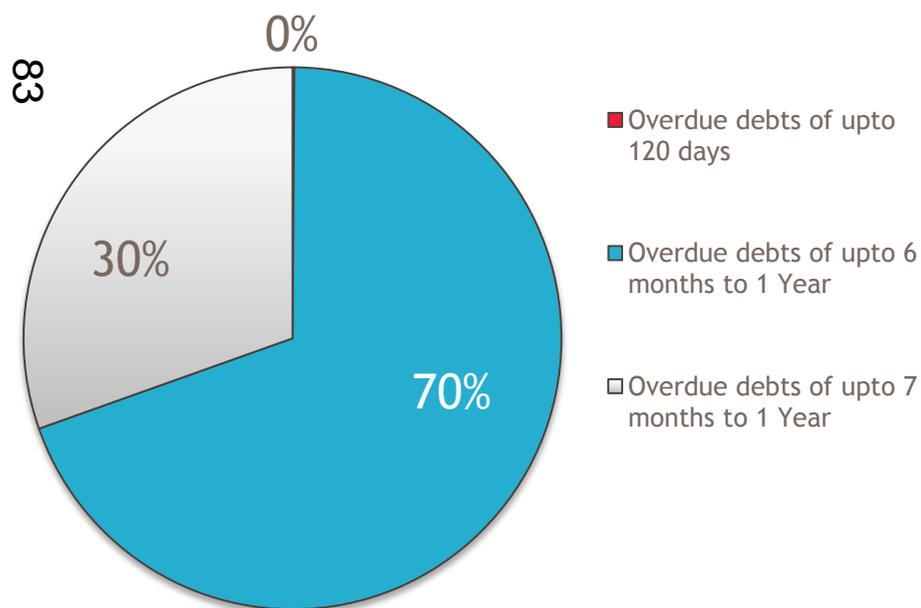
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Ref.	Finding	Sig.	Recommendation
9	<p>The interdependence amongst the originator departments and the incomes team to raise and recover funds from customers was apparent at the time of our review. Both the originator departments and the incomes team raise invoices through the self service function. However, only the incomes team are required to recover funds. Consequently, there are a number of cases whereby the originator department will understand the relationship with the customer however, the incomes team who do not know the customer are charged with recovering the funds. This can lead to significant inefficiencies due to the following chain of events:</p> <ul style="list-style-type: none"> <li>• The incomes team will field customer invoice queries</li> <li>• Where the incomes team is unable to answer the queries raised; communication will be established with the originator department</li> <li>• The originator department is required to answer the query often resulting in the incomes team having to refer back to the customer and acting as a intermediary</li> <li>• This process could repeat several times via phone, email or other communication to ensure all evidence required such as lease queries, agreed service, discount queries and non completion of services is collated to resolve the query.</li> </ul> <p>It is clear that the above process is inefficient and that it causes misunderstandings between both teams. This inefficiency is exacerbated as the relationship between the Incomes team and originator departments is not well established. Furthermore, although weekly management meetings are currently being held it has not resolved the issue of debt recovery as some Originator departments are not fully co-operative with the incomes team.</p> <p>It should be noted that the incomes team are aware of this inefficiency and are in the process of taking steps to rectify this issue. Furthermore, there is now sufficient involvement by the section 151 officer to recover large outstanding debtor balances with particular clients. It was raised by the incomes team Manager within 2015 - 16 and through conversations with originator departments that an end-to-end process map must to be drawn to allow future efficiencies to be maximised. A review is scheduled within the 2016 - 17 audit plan to complete an end to end process map between the incomes team and the originator departments.</p> <p>If the incomes team and originator departments do not act upon the challenges due to the interdependence within the raising and recovery of invoice processes, further inefficiencies in the process will persist.</p>	H	<p>a) An end-to-end map should be drawn of the relationship between the incomes team and the originator departments with regards to the raising and recovery of Council monies. As part of the 2016 - 17 internal Audit plan we will be carrying out an end to end map of the relationship between the incomes team and the originator departments. The map will aim to set a clear direction of how efficiencies in the process can be made</p> <p>b) Effective communication must be established between the originator department and the incomes team where both teams work collectively and swiftly to recover outstanding debt balances.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>This could be due to questions on the lease, agreed service, discount queries, and any non-completion of service. We will be working towards the recommendations raised by the Audit.</p>		<p><i>Responsible Officer: Katie Ball</i></p> <p><i>Implementation Date: 30 April 2017</i></p>	

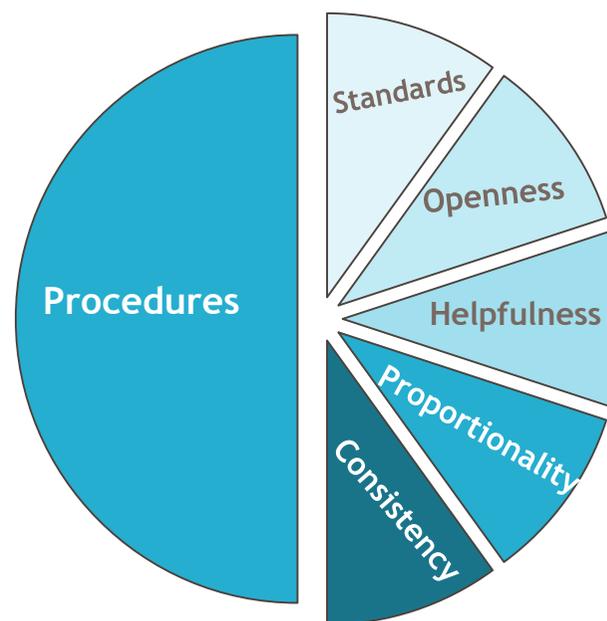
# APPENDIX I - OVERDUE DEBTS BENCHMARKING PROCEDURES

As a measure of good practise we have analysed the percentage of overdue debts currently standing at the Council as at 28 September 2016. We have also outlined the principles of Enforcement used by a number of Councils to help design an adequate debt recovery process where 50% of debt recovery is dependent on tight debt recovery procedures. In addition we have outlined the debt recovery procedures carried out by other Councils and outlined areas that will be beneficial to the Council.

Oxford City Council Overdue debts as at September 2016



Principles of Enforcement



In order to ensure Councils are adopting robust and consistent debt write off processes the following principles of openness must be considered. 50% of successfully obtaining overdue debts is through debt write off procedures followed by:

- Standards: Clear and appropriate standards
- Openness: Advice in plain language and remain transparent on how there work is set
- Helpfulness: to advise and assist with compliance
- Proportionality: actions are proportionate to risks
- Consistency: work to be carried out fair, equitable and in a consistent manner.

# APPENDIX I - OVERDUE DEBTS BENCHMARKING PROCEDURES

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Name of Council	Who identifies the debt?	Reminder Letters sent?	Agencies?	Other notes
Birmingham City Council	The Enforcement Team	Initial Reminder sent Second Reminder sent Final Reminder sent	External Agencies are used to recover debt	N/A
North Somerset Council	Incomes Team and Originator Departments	First reminder Letter 30 days from invoice being issued  Second reminder letter issued 45 days from invoice due date  After 55 days the Originator department will receive a work flow task in Agresso. A response is required within 10 days for the following: <ul style="list-style-type: none"> <li>• Expecting payment</li> <li>• Invoice disputed/on hold</li> <li>• Write back requested</li> <li>• Incomes team to send Legal debt recovery</li> </ul> <p>If the workflow task is not responded to within 10 days the task will be escalated to the originators manager.</p>	External legal debt recovery	Team Budget holders are able to view the reminder letter in Agresso
Norwich City Council	Not specified	Not specified	Bailiffs	Debts are split between priority and non priority debts
Manchester City Council	Incomes team	<ul style="list-style-type: none"> <li>• First reminder sent 7 days from invoice due date</li> <li>• Second reminder sent 14 days from invoice due date</li> <li>• Final reminder sent due immediately Court summons</li> </ul>	Court Summons/Bailiffs	N/A

# APPENDIX II - STAFF INTERVIEWED

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

NAME	JOB TITLE
Kevin Lacey	Incomes Team - Team Leader
Neil Markham	Incomes Team - Team Leader
Kelly Clarke	Incomes officer
Donna Dixon	Incomes officer
Simon Parks	ICT Business Development Manager
Tanya Bandekar	Service Manager- Revenue and Benefits

# APPENDIX III - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

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Recommendation Significance	
<b>High</b>	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b>	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b>	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX IV - TERMS OF REFERENCE

## BACKGROUND

The central team is led by a dedicated Income Team Manager for those transactions which come through the Council's main financial system, Agresso. The accounts receivable function has within the past twelve months transferred to the responsibility of the Income Team Manager who is supported by the three team leaders covering the areas of support and prevention, arrears and processing receivables. This review will not be considering those accounts receivable from council tax, business rates and benefits. This review will consider those accounts receivable raised in Agresso which will cover other Council activities such as licensing, subscriptions, trade and garden waste and parks and leisure.

A review on Accounts Receivable was performed and reported to the December 2015 Audit Committee which led to a moderate opinion for design and limited opinion for effectiveness.

## PURPOSE OF REVIEW

To review the design and effectiveness of controls in relation to accounts receivable and accounts payable activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.

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## SCOPE OF REVIEW

This review will consider the design and operational effectiveness of the key controls relied on by External Audit relating to accounts payable and receivable in addition to the Key Risks identified in this Terms of Reference.

## EXCLUSIONS

Processes for receivables and payable transactions in relation to council tax, business rates, housing benefit overpayments and rents, and cash collection are outside the scope of this review.

## APPROACH

Obtain an understanding of the risk and controls with regards to accounts receivable and payable through discussions with key personnel, review of systems documentation and substantive tests. Our approach includes:

- Identifying the key risks relating to accounts receivable and payable
- Evaluating the design of the controls in place to address the key risks
- Testing the operating effectiveness of the key controls.

# APPENDIX IV - TERMS OF REFERENCE

## KEY RISKS

Based on the risk assessment carried out during the creation of the internal audit operational plan, our discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- Inadequate financial regulations, policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions
- Access to systems and data is not effectively managed extending the risk that data may be amended or deleted without appropriate approval
- New or existing customer/supplier change controls are inadequate to safeguard the integrity of changes made to data held
- New customers/suppliers are not subject to sufficient due diligence to provide reasonable comfort over the nature and background of the customers/suppliers
- Ineffective and inadequate controls are in place to ensure that transactions are raised, approved and paid in an accurate, complete and timely manner
- Amendments to transactions are not subject to sufficient oversight and approval procedures to validate their accuracy
- Ineffective management information is reported and inadequate key performance indicator information is assessed to monitor the activities undertaken.
- The team structure does not set out the roles and responsibilities
- Insufficient procedures are in place to confirm the validity of data and approval of income collection
- Debt recovery arrangements are inadequate and ineffective to achieve the maximum return of funds in line with the Council's values
- Timeliness of communication between service areas and the central accounts receivable team is considered inadequate to allow effective debt collection to take place
- Insufficient arrangements are in place to review and approve debt write-off and/or approval is not undertaken in-line with financial regulation procedures set-out
- Insufficient arrangements to ensure a robust control environment for the upgraded or new accounts receivable/general ledger software.

# APPENDIX IV - TERMS OF REFERENCE

## DOCUMENT REQUEST

Where available, please ensure that electronic copies of the following documents have been forwarded to us in advance of the review:

- The latest Financial Regulations pertaining to the Council
- The latest Delegated Authority list
- Procedures notes for any aspects of the accounts receivable or accounts payable process including Agresso, Key2 and Servitor.
- Document showing the current and future proposed team structure
- A transaction listing of all accounts receivable transactions for the period 1 April 2016 to 9 September 2016
- Once a sample has been selected we will require:
  - The invoice raised by the Council
  - Evidence of the approval for raising the invoice in Agresso
  - Evidence to support what the invoice relates to (if this not obvious from the invoice)
  - Evidence of the income collection and debt recovery procedures undertaken i.e. audit trail of actions undertaken to receipt the income
  - Evidence the income was receipted and recorded in the Council bank account i.e. copy of the income collection batch document and bank account transaction.

These documents will assist the timely completion of our fieldwork, however this list does not necessarily constitute a complete list of all documentation and evidence that we may need as part of our review.

# APPENDIX IV - TERMS OF REFERENCE

## TIMETABLE

Audit Stage	Date
Commence fieldwork	26 September 2016
Number of audit days planned	10
Planned date for closing meeting	4 October 2016
Planned date for issue of the draft report	21 October 2016
Planned date for receipt of management responses	4 November 2016
Planned date for issue of proposed final report	7 November 2016
Planned date for Section 151 and Executive Director review	14 and 21 November 2016 respectively
Papers deadline	5 December 2016
Planned Audit Committee date for presentation of report	14 December 2016

## KEY CONTACTS

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Oxford City Council		
Nigel Kennedy	Section 151 Officer and Audit Sponsor	t: 01865 252 708   e: nkennedy@oxford.gov.uk
Anna Winship	Management Accounting Manager	t: 01865 252 517   e: awinship@oxford.gov.uk
Katie Ball	Accounts Receivable: Rents Team Manager	e: kball@oxford.gov.uk
Kevin Lacey	Accounts Receivable: Recovery Team Leader	e: klacey@oxford.gov.uk
Neil Markham	Accounts Receivable: Support and Prevention Team Leader	e: nmarkham@oxford.gov.uk
Jackie Yates	Executive Director for Organisational Development and Communications	e: jyates@oxford.gov.uk

## SIGN OFF

On behalf of BDO LLP:		On behalf of Oxford City Council:	
Signature:		Signature:	NIGEL KENNEDY
Title:	HEAD OF INTERNAL AUDIT	Title:	SECTION 151 OFFICER
Date:	20 June 2016	Date:	21 June 2016



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