

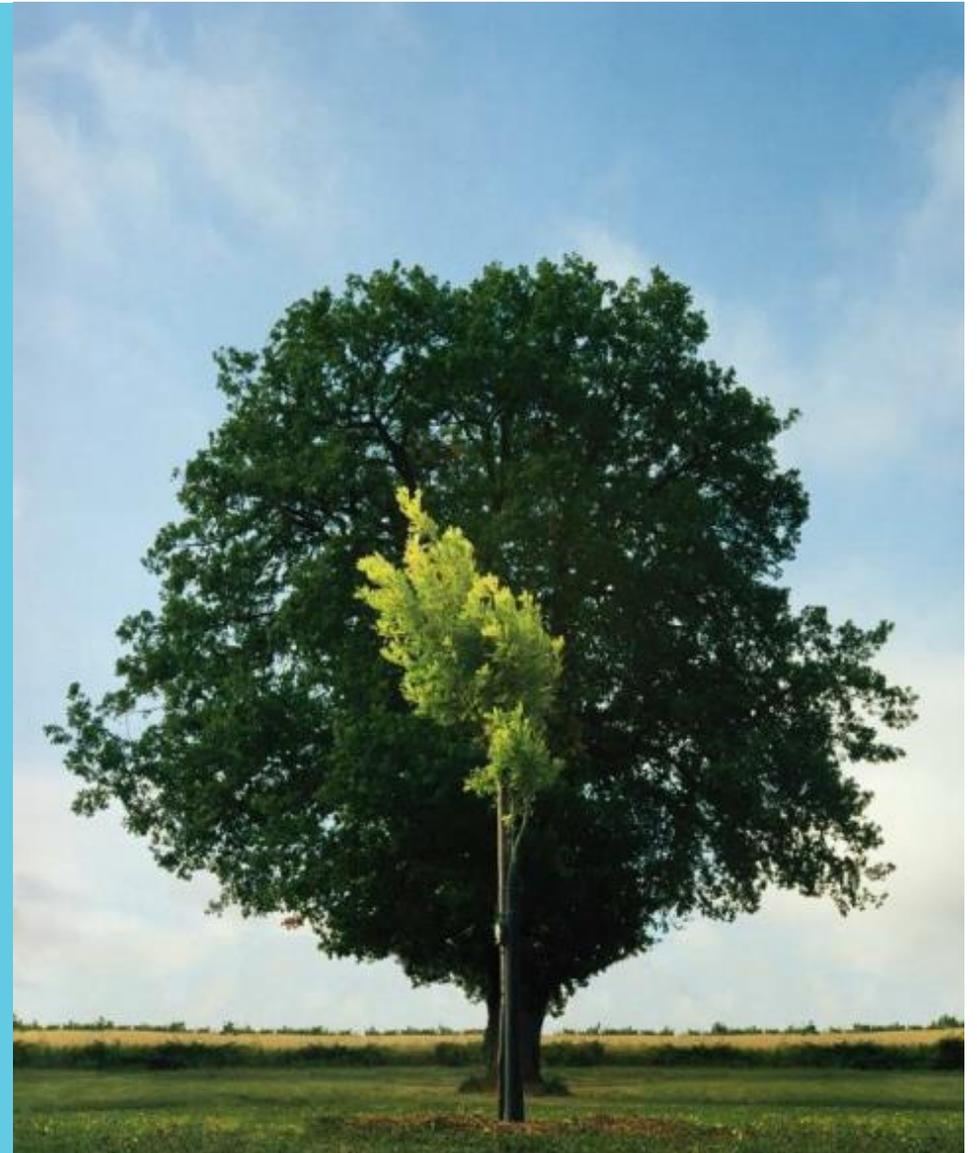
Oxford City Council

INTERNAL AUDIT REPORT

Audit.1b Accounts Receivable

107
December 2015

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
MODERATE	LIMITED



FINAL



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REPORT STATUS	
Auditors:	Yasmin Ahmed, Audit Senior and Gurpreet Dulay, Audit Manager
Dates work performed:	19 - 23 October 2015
Closing meeting:	29 October 2015 attended by Gurpreet Dulay, Yasmin Ahmed, Nigel Kennedy, Anna Winship, Damon Venning, Kevin Lacey and Neil Markham
Draft report issued:	23 November 2015
Final report issued:	5 December 2015

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Damon Venning	Accounts Receivable: Rents Team Manager
Kevin Lacey	Accounts Receivable: Recovery Team leader
Neil Markham	Accounts Receivable: Support and Prevention Team Lead

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 V FOR DEFINITIONS)

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions
Effectiveness	Limited	Non-compliance with key procedures and controls places the system objectives at risk

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX V FOR DEFINITIONS)

High  3

Medium  4

Low  2

Total number of recommendations: 9

OVERVIEW: ACCOUNTS RECEIVABLE

Oxford City Council's (the Council's) accounts receivables central team is led by a dedicated Rents Team Manager for those transactions which come through the Council's main financial system, Agresso. The accounts receivable function has within the past six months transferred to the responsibility of the Rents Team Manager who is supported by the three staff management team covering the areas of support and prevention, arrears and processing receivables - see appendix VI for the agreed scope which provides greater detail on our approach to this review. The Council has relatively high levels of aged debt, 25% over 90 days old as at September.

The Council is undergoing a major restructuring process which has led the department to fundamentally reconsider the team structure and the roles and responsibilities within the accounts receivables department. Furthermore, the Council is currently in the process of upgrading their main financial system, Agresso to reflect a more efficient process within accounts receivables and wider areas within the Council.

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

- Adequate financial regulations and policies and procedures are in place promoting a strong strategic framework for accurate, complete and timely transactions
- Amendments to transactions were subject to sufficient oversight and approval procedures to validate their accuracy prior to issuing credit notes or reissuing invoices
- Sufficient arrangements are in place to review and approve debt write-offs.

However we also found the following areas for improvement:

- The Authorised Signatory Listing (ASL) did not specify budgetary limits for each individual included within the ASL (Detailed Finding 1)
- Individuals regarded as authorisers of the 'request to raise an invoice' form were not included within the ASL and instances were identified where appropriate segregation of duties between preparer and approver of the 'request to raise an invoice' form was not demonstrated (Detailed Finding 2 and 3)
- Monthly management meetings do not implement action plans or the follow up of action plans for issues identified within the monthly management information reports (Detailed Finding 4)
- The debt recovery procedures were considered inadequate as automatic letters were sent out inconsistently, cases were not formally considered for legal or civil recovery procedures in line with Council policy and evidence to support regular communication with customers to recover debt was not demonstrated (Detailed Finding 5).

Conclusion

We have issued three high, four medium and two low recommendations. We see there is a moderate design of controls because there are strategic controls in place with Financial Regulations and the Money Laundering Policy in addition to software designed to capture and record accounts receivable transactions. Although we have not identified any major errors, the lack of effectiveness of the controls over debt recovery and invoice requests creates risks around income collection and segregation of duties. As a result we have given moderate assurance on the design of the controls and limited assurance over the operational effectiveness of the controls.

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Access to systems and data is not effectively managed extending the risk that data may be amended or deleted without appropriate approval

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Ref.	Finding	Sig.	Recommendation
1	<p>The accounts receivables department hold a hard copy Authorised Signatory Listing (ASL), accessible to all members within the accounts receivables department. We would expect that certain defined activity within the department is only conducted by those on the ASL.</p> <p>All invoices are raised via a 'request to raise an invoice' form. This is completed by the originator department in the Council or the accounts receivables department. All 'request to raise an invoice' forms must be authorised by an appropriate individual listed within the ASL prior to raising an invoice to a customer.</p> <p>We would expect the accounts receivables ASL to consist of a list of budget holders, the corresponding cost centres for each line of service and a budgetary limit that each individual is permitted to approve to authorise a 'request to raise an invoice'.</p> <p>As part of this review, we obtained the hard copy ASL held and from our review we found:</p> <ul style="list-style-type: none"> • The ASL does not specify budgetary limits for every individual within each service area • The ASL is not updated on a timely basis and a number of service areas had not been updated since 2013. Therefore, the ASL did not reflect all staff changes made to date • We could not identify the cost centres that each individual was authorised to approve for a number of service areas. <p>Please note that for accounts payable transactions there is a work flow built into the accounting software which ensures approvals are made in line with delegated limits however, for accounts receivable a manual control environment as detailed above, governs the authorisation activities undertaken.</p> <p>If the hard copy ASL does not set budget limits and is not distributed on a timely basis to capture the latest changes to those on the list, there is a risk that invoices will be raised to customers without appropriate approval and for incorrect amounts.</p>	M	<ul style="list-style-type: none"> a) For each approver included within the ASL the appropriate budget limits and corresponding cost centres should be clearly outlined for each service area b) The ASL should be distributed in full on an annual basis to reflect any changes and updates to all relevant departments and individuals c) If there are staff changes prior to the quarterly update, the ASL should be amended to reflect these changes immediately and the changes should be distributed to all relevant departments
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. We will update an annual ASL listing and distribute this to all relevant staff. We will also issue quarterly ASL listings with amendments only so that these can be appended to the annual full distribution list.</p>		<p>Responsible Officer: Caroline Wood</p> <p>Implementation Date: March 2016</p>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Inadequate financial regulations, polices and procedures are in place which weakens the framework to support accurate, complete and timely transactions

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Ref.	Finding	Sig.	Recommendation
2	<p>In order to raise a receivables invoice the accounts receivables department and all originator departments complete a ‘request to raise an invoice’ form. The form includes the following key information:</p> <ul style="list-style-type: none"> • Name of the requisitioner of the invoice • Department invoice request was raised by • Allocated cost centre and account code • Customer reference number • Amount to be invoiced • Authoriser of the invoice request • Officer who input all invoice details and raised the invoice on the Council’s accounting software. <p>We would expect a ‘request to raise an invoice’ to be fully complete with all the above information prior to raising an invoice to a customer. In addition, we would expect all individuals who are permitted to authorise a ‘request to raise an invoice’ form to be included within the Authorised Signatory Listing (ASL) with an appropriate budgetary limit and the corresponding cost centres. As part of this review we selected a sample of 10 ‘request to raise an invoice’ forms from 1 April 2015 to 14 October 2015 and upon review we found:</p> <ul style="list-style-type: none"> • For three out of 10 of our sample, the individual who authorised the ‘request to raise an invoice’ form was not listed on the ASL • Where a ‘request to raise an invoice’ form is completed by the originator department it was not possible to ascertain whether the officer who raised the invoice checked to ensure the authoriser is included within the ASL. <p>If ‘request to raise an invoice’ forms are authorised by individuals who are not included on the ASL there is a risk that individuals with insufficient approvals levels may be issuing invoices on behalf of the Council.</p>	M	<p>a) The ASL should be distributed in full on an annual basis to reflect any changes and updates to all relevant departments and individuals - see Detailed Finding 1</p> <p>b) All ‘request to raise an invoice’ forms that come through to the receivables department or are raised through the originator department, must ensure that the individual approving the form is included within the ASL prior to raising an invoice. If an appropriate authoriser has not approved the form, the officer should return the form and seek appropriate approval in line with the ASL</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. We will reinforce procedure to ensure all ‘request to raise invoice’ forms are checked against the ASL. Communication to all relevant staff will be made and expectations clarified.</p>		<p>Responsible Officer: Damon Venning</p> <p>Implementation Date: December 2015</p>	

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: Ineffective and inadequate controls are in place to ensure that transactions are raised, approved and paid in an accurate, complete and timely manner

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Ref.	Finding	Sig.	Recommendation
3	<p>Receivable invoices are raised via a 'request to raise an invoice' form within the originator department or the receivables department.</p> <p>We would expect a 'request to raise an invoice' form to be raised by the originator department or the receivables department and for all forms to be completed and authorised by an appropriate person listed within the ASL.</p> <p>We would also expect segregation of duties between the individual who prepares the form and the individual who authorises the request. In addition, we would expect the invoice to be raised against the correct customer reference number and within the appropriate cost centres and account codes.</p> <p>Furthermore, we would expect the originator department to raise an invoice request promptly once all goods or services have been delivered. As part of this review we selected a sample of 10 receivable invoices from 1 April 2015 to 14 October 2015 and upon review we found:</p> <ul style="list-style-type: none"> • Four out of 10 'request to raise an invoice' forms were raised and approved by the same individual, therefore we could not identify a segregation of duties • In one case we could not identify the individual who raised the invoice once the 'request to raise an invoice' form was received, therefore we could not identify a segregation of duties • One out of 10 'request to raise an invoice' forms were raised by the originator department three months after the service was provided to the customer. The service was provided in December 2014 however, the request to raise an invoice was not issued until March 2015. <p>If protocol around timely raising of invoices after service delivery and segregation of duties to raise invoices are not upheld there is a risk that Council may not be able to recover the monies that are owed due and the control environment to raise invoices is undermined resulting in inaccurate, incomplete, fraudulent and/or negligent invoices being raised.</p>	H	<p>a) A 'request to raise an invoice' form must be raised and approved by separate individuals. This should be the case for both originator departments and the receivables department</p> <p>b) The individual who raises the invoice must ensure to print, sign and date the request to raise an invoice form</p> <p>c) Upon successful completion of goods and services both the originator departments and the receivables department must ensure to request to raise an invoice immediately. This process should be clearly emphasised within the financial regulations</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. We will reinforce communication to both Heads of Service, Operational Managers particularly Operational Managers in charge of larger portfolios i.e. Commercial Waste. We will also reinforce procedures to reject 'request to raise invoice' forms where minimum standards are not met.</p>		<p>Responsible Officer: Damon Venning</p> <p>Implementation Date: January 2016</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
4	<p>The accounts receivables department began undertaking monthly management meetings from August 2015. The main agenda of the monthly management meetings includes discussions around the underlying issues identified within the monthly management information reports. The main management information reports reviewed by the accounts receivables department are:</p> <ul style="list-style-type: none"> • Accounts receivables key performance indicators • Aged debtor analysis by department and Council • Monthly reports on invoices raised for various service areas • Monthly income collection performance. <p>We would expect management within the accounts receivables department to maintain and review management information reports on a monthly basis. In addition we would expect management to discuss the results of these reports in detail and where actions to resolve issues identified are set out, these are expected to be formally recorded in an action plan. Where issues identified affect the originator departments we would expect the originator departments to be involved in the monthly management meetings.</p> <p>As part of this review an interview was held with the management within the accounts receivable department who discussed the recent development of the monthly management meetings incorporated since August 2015. Management further explained that although monthly management reports are produced, formal actions plans are not discussed or implemented to address the underlying issues affecting accounts receivables. Furthermore, there is minimal contribution by the originator departments within the monthly management meetings.</p> <p>It should be noted that currently actions are undertaken post monthly meetings however, the procedures are informal i.e. via email or verbally. Whilst this may be considered acceptable in some environments, it would not be for the Council as their monthly management procedure is not fully developed. When reviewing the management information for September 2015 we identified that 50% of the outstanding income was greater than 31 days and 25% was over 91 days; these percentages are high and actions need to be monitored formally to reflect the severity of these outstanding balances.</p> <p>If underlying issues affecting accounts receivables are not identified and addressed in a timely manner there is a risk that these issues can further escalate which may have a detrimental impact on the Council's financial budget and the Council reputation.</p>	H	<p>a) The accounts receivables department should hold monthly management meetings to discuss all issues affecting the accounts receivables department</p> <p>b) Key performance indicators should be considered and formally reported to each monthly meeting</p> <p>c) Given the newness of the monthly meetings, the Council should set out an agenda and timetable of events for each month including:</p> <ul style="list-style-type: none"> • The date the meeting must take place post the previous month's activity • When any responses to actions plans must be responded to by, before a monthly meeting takes place. <p>d) All issues should be discussed and a monthly action log should be maintained detailing the following key areas:</p> <ul style="list-style-type: none"> • Issue identified • Risk relating to the issue • Action plan to mitigate the risk identified • Severity rating for the level of risk as high, medium or low • Responsible officer to implement the action plan • Due date of the action to be implemented • Due date to follow up the action implemented • The responsible person to oversee the action log. <p>See appendix III for best practice key performance indicators which should be considered for reporting at the monthly meetings along with an example action log.</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed. Part of the recommendations have already been implemented i.e. discussions with service areas and setting subsequent actions has commenced. We expect to full implementation of the recommendations to ensure effectiveness by the implementation date.	Responsible Officer: Damon Venning Implementation Date: December 2015

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

Ref.	Finding	Sig.	Recommendation
5	<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 occurs in rare circumstances.</p> <p>The accounts receivable department 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 14 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 other than 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 chaser letter or involve legal/civil recovery proceedings.</p> <p>As part of this review we selected a sample of five overdue debts ranging from 20 to 200 days from 1 April 2015 to 14 October 2015 and upon review we found:</p> <ul style="list-style-type: none"> For a sample of one out of five debts with a value of £103.71, an invoice was raised on the 01/04/2015 however, this remained outstanding at the point of our review - therefore this was over 200 days overdue. We queried what action has been taken to recover these funds during this time period and the only evidence we were provided with was the initial automatic letter issue via the Agresso system. For a balance overdue for 200 days we would have expected significantly more debt recovery activity. Three further transactions from our sample were overdue with insufficient action taken with the largest balance being 155 days overdue for a value of £48,000. It should be noted that the Council have now established a 'note' functionality which records steps taken to recover funds. Previously steps may have been taken however, they were not noted. An automatic letter is expected to be issued via the Agresso system after 14 working days from the invoice due date. However, the days in which the automated letter was issued varied between 7 to 18 days for all overdue debts (with no payment arrangements). We questioned with the Recovery Team Leader and Rents Team Manager why the automatic letter was sent out over a variety of dates and not always 14 days after the invoice date if it is an automatic process. Initially, it was not known why this was the case however during the review it was suspected (although not confirmed) that when individuals set up parameters to chase debts for their service area they had set the number of working days after the invoice date that a letter should be issued. As a variety of individuals have set up these parameters it has led to inconsistencies in when the initial automatic letter is sent out 	H	<p>a) The accounts receivable management should reconsider the point at which the accounts receivables team must contact legal enforcement or a civil enforcement company to recover overdue debt. This must in line with the Council's appetite to recover funds using these means and we would expect this consideration to be in line with a set operational plan for debt recovery</p> <p>b) The accounts receivable team should ensure reminder letters are sent at consistent points within the process, including a first reminder one week after the invoice due date</p> <p>c) Receivables officers must be proactive in monitoring overdue debt and ensuring contact is maintained at agreed follow-on dates until the debt is fully recovered</p> <p>d) The Council should consider introducing behaviour economics into the recovery of their debt particularly via the presentation of the letters sent to customers when recovering debt</p> <p>As a measure of good practice we have attached various 'nudge and shove' behavioural economic techniques which can be used to modify reminder letters which are proven to have a significantly positive impact on the recovery of debt - see appendix II.</p>

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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

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Ref.	Finding	Sig.	Recommendation
5 cont.	<ul style="list-style-type: none"> The Councils 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 four 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. These values ranged from £100 to £48,000 The automated debt letters issued to the customers were generic and consideration has not been given to behavioural economic techniques to support the recovery of funds. It should be noted that the Council are aware they need to make the letters they issue more sophisticated and have begun discussions on how this could be implemented in 2016. See appendix II where we have set out both 'nudge and shove' behavioural economic techniques which the Council should consider. <p>Debt recovery is a fundamental operation of any accounts receivable department. If robust debt recovery procedures are not embedded and are not followed up in a timely and considered manner there is an increased risk of not recovering the overdue debt. This directly impacts the Council achieving its aims to be efficient and effective in their operations.</p>		
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. With reference to the four recommendations:</p> <ol style="list-style-type: none"> We will be taking our Debt Policy and turning this into an Operational Plan/Schedule to diarise when we would expect the various dates for debt recovery to occur The Agresso system is due to be upgraded at which point we will ensure consistency in the debt reminder letters after 14 days The team has undergone a restructure which is due to be in operation from December 2015. We will be immediately ensuring the new structure utilise the 'note' facility and Operational Plan/Schedule to chase debt in a timely manner We will be engaging with customers as part of our Customer Insights Strategy in April 2016. 		<p>Responsible Officer: Damon Venning</p> <p>Implementation Date:</p> <ol style="list-style-type: none"> January 2016 December 2015 January 2016 April 2016 	

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
6	<p>A successful method to improve the effectiveness of the accounts receivable function would be to engage directly with customers. This engagement would aim to understand from customers what the Council could do to improve the recovery of funds i.e. how invoices are raised, presented, can be paid and customer support regarding the invoices. The theory here is that, you cannot manage what you do not understand.</p> <p>The Rents Team Manager informed the review that a process, as detailed above, was held with social housing tenants within the last 12 months. The accounts receivable team face a number of challenges with improving customer relationships namely:</p> <ul style="list-style-type: none"> • Some customers are billed for multiple services from different originator departments and the central accounts receivable team; in some cases this can be in excess of 50 invoices per month. Where this is the case the Council should engage with the customer about how this could be streamlined which could benefit the customer and save the Council money by sending and processing fewer invoices • The Council are expanding the customer base and a new customer is Oxford Brookes University. Engagement with new and significant customers, should occur proactively i.e. before invoicing commences and as part of contract discussions • There is particular challenge with a specific debtor with whom the Council are seeking to recover large values of debt. The specific debtor have outsourced part of their accounts payable provision which has led to difficulties with recovering payments. This has been escalated to the Council's Section 151 Officer. <p>The accounts receivable team are considering undertaking such customer engagement and initial internal discussions have been held about how and when to do this.</p> <p>The risk here is that the less you understand a customer the more likely your application of debt recovery procedures will not be well received. This may increase the likelihood of not recovering funds resulting in the council becoming less effective.</p>	L	The accounts receivable team should arrange a customer engagement event to improve the understanding of customers needs
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
Agreed. We will be identifying customer that could benefit from different billing processes and working with service areas to ensure changes occur. We have already identified and changed some practices since the completion of on-site fieldwork of this review.		Responsible Officer: Damon Venning Implementation Date: April 2016	

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
7	<p>Customer Due Diligence (CDD) is required by the Money Laundering Regulations 2007. The aim of the regulation is to combat fraud and malpractice behaviour by the notion that you can better identify suspicious transactions if you know your customer and understand the reasoning behind the instructions they give you. CDD does not need to be conducted on all customers and the Council's Money Laundering Policy sets out where it would apply.</p> <p>From our review it became apparent from interviews held that there was no knowledge from the accounts receivable team over whether originator departments conducted these checks and how and where they kept evidence if they did undertake CDD. When we spoke with originator departments they confirmed that they were not confident these processes 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 seek confidence of who the beneficiary owner is.</p> <p>The risk here is that CDD may not be applied which would be in breach of legislation and Council policy. This may lead to a less effective Council as instances of non-compliance could impact the Council's reputation and led to financial penalties.</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 CCD to relevant staff must set out how to conduct these checks and where evidence must be retained</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed. In discussion with the Investigations Team (Scott Warner) we will communicate the requirements of CDD to staff and ensure there are agreed procedures for how this must be recorded.			<p>Responsible Officer: Damon Venning</p> <p>Implementation Date: January 2016</p>

DETAILED FINDINGS AND RECOMMENDATIONS

Risk: The team structure does not set out the roles and responsibilities

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Ref.	Finding	Sig.	Recommendation
8	<p>The accounts receivable team are going through a restructure and centralisation to move into two teams, specifically:</p> <ul style="list-style-type: none"> Recovery team. This team will manage high level debts Advising team. This team will manage low level debts. <p>Both teams will be overseen by the Rents Team Manager who reports to the Service Manager for Revenues and Benefits. At the time of the review the team were going through consultation with regards to the restructure and it was expected that no difficulties were to arise from this. The new team will officially commence operation in November 2015.</p> <p>A significant challenge for the team is that they will require training to ensure they can share staff, skills and knowledge to enhance the collective knowledge and resilience in terms of staff capacity. Through discussion with the Rents Team Manager it was confirmed that the training of the team to reach the knowledge levels required will take 12 months to complete. This training is to be delivered in-house and on the job and at the time of the review a formal plan setting out the training to be delivered was not in place.</p> <p>Without sufficient training in the team the staff undertaking the day-to-day activities of the accounts receivable function may be under equipped to perform their role and therefore this may result in a less efficient and effective function.</p>	L	<p>a) A planned training programme with all team members trained in the income streams ensuring improved resilience should be implemented in a staged process with full completion of all staff members within 12 months</p> <p>b) The plan should maximise the resilience of the team to unexpected leave and loss of tacit knowledge</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed. The training plan has already been developed and commence when the new team structure is in operation in December 2015. This will lead to 12 team members fully trained in all processes and procedures of each income stream with the team's remit. The training plan has commenced we expect the first three team members fully trained by February 2016 with full completion by December 2016.</p>			<p>Responsible Officer: Damon Venning</p> <p>Implementation Date: December 2016</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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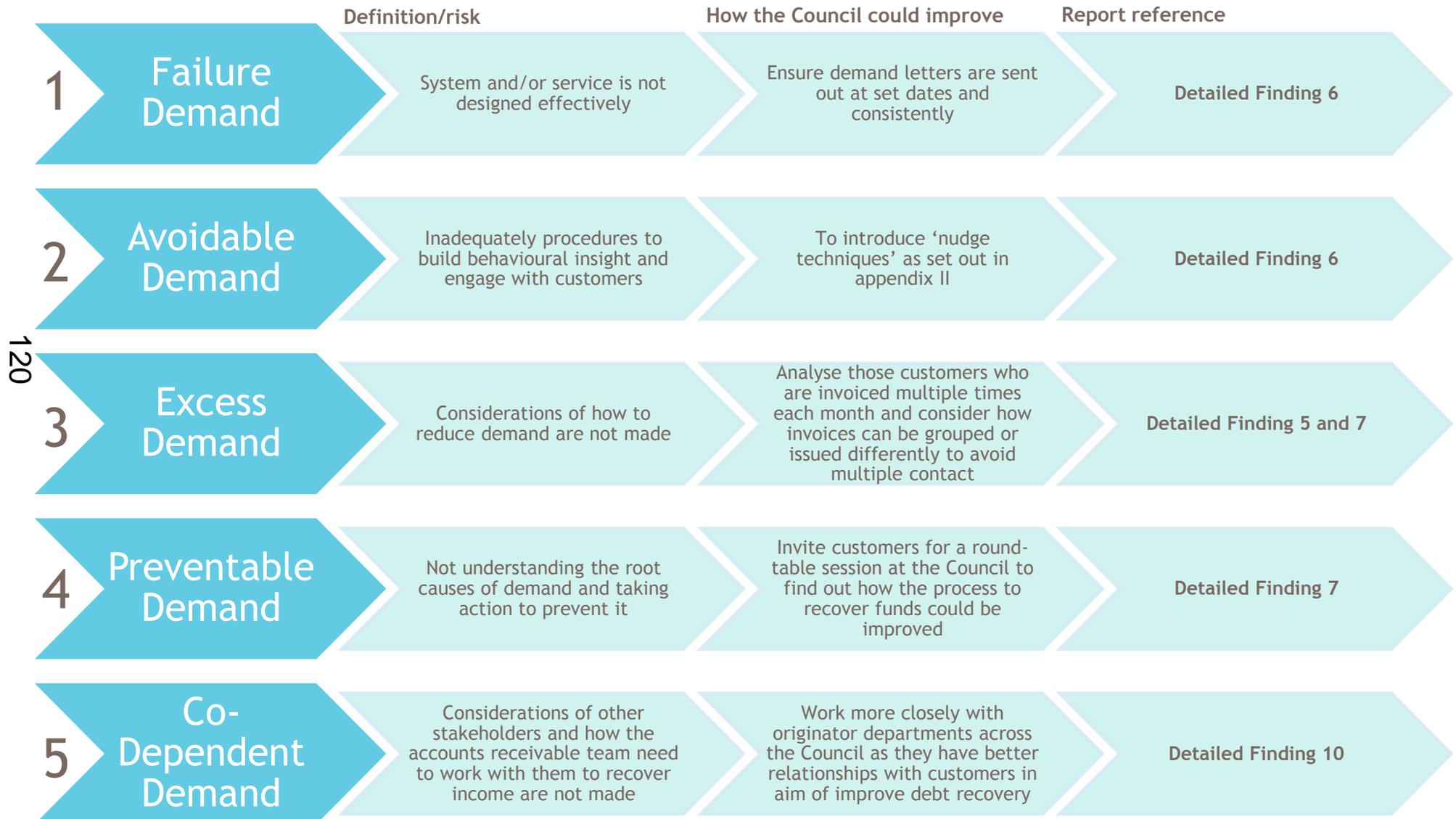
Ref.	Finding	Sig.	Recommendation
9	<p>The interdependence across the Council to effectively perform the raising and recovering of funds from customers became quickly apparent. Both the originator departments and the central accounts receivable team raise invoices however, only the central accounts receivable team recover funds.</p> <p>Consequently, there are a number of cases whereby the originator department will understand the relationship with the customer however, the central accounts receivable team who do not know the customer are charged with recovering funds. This can lead to significant inefficiencies due to the following chain of events:</p> <ul style="list-style-type: none"> • The accounts receivable team will field customer invoice queries • As the accounts receivable team cannot answer the question and only the originator department can answer the query, they will then need to communicate with the originator department to raise the question • The originator department then need to answer the question with often the central accounts receivable team going back to the customer and acting as a go-between • This process could repeat several times via phone, email or other communication until it is resolved. <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 accounts receivable team and originator departments is not well established. It is expected that relationships will improve based on the monthly management meetings established since August 2015 (see Detailed Finding 5).</p> <p>It should be noted that the accounts receivable team recognise this inefficiency and are taking steps to rectify this with the introduction of instant messenger capabilities on computers which can allow communication to originator departments instantly should they be online. However, this process was being introduced at the time of this review and is not embedded and furthermore it is not seen as the complete solution to this issue. It was raised by the Rents Team Manager and via conversations with originator departments that an end-to-end process map needs to be drawn to allow future efficiencies to be maximised.</p> <p>The risk here is that if the accounts receivable team do not act upon the challenges due to the interdependence within the raising and recovery of invoices process, then inefficiencies in the process will persist.</p>	M	<p>a) An end-to-end map needs to be drawn of the relationship between the central accounts receivable team and the originator departments with regards to the raising and recovery of Council monies</p> <p>b) This map then needs to be critiqued by all stakeholders with clear direction set out for how efficiencies in the process can be made</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
Agreed. This engagement between the central accounts receivable team and service areas has already begun and further development is required. We would aim to complete a end-to-end mapping process to develop any efficiencies in the process engaging with internal staff and the internal audit function.	<p>Responsible Officer: Damon Venning</p> <p>Implementation Date: April 2016</p>

APPENDIX I - FIVE POINT STRATEGY TO MANAGE DEBT

The Local Government Chronicle released a publication on 'Managing Demand Building Future Public Services' in 2014 - this publication can be seen in full via the following link <http://www.lgcplus.com/Journals/2014/02/24/y/i/c/Managing-Demand-Building-Future-Public-Services.pdf>.

This publication sets out a five stage approach which has been modified and adapted below in relation to the accounts receivable activities of the Council. This strategy should be considered when assessing the overall accounts receivable function to identify gaps for improvement.



APPENDIX II - BEHAVIOURAL ECONOMIC TECHNIQUES

In 2010 the Cabinet Office set up the 'Behavioural Insights Team' with the purpose of improving outcomes by introducing models of human behaviour to policy. As part of their outcomes was the concept of applying 'nudge techniques' to modify user behaviour. Nudge techniques are a flexible and modern concept for understanding of how people think, make decisions, and behave, helping people improve their thinking and decisions. Nudge techniques are widely used for the recovery of debt.

Therefore, as a measure of good practise we have included methods for implementing nudge techniques which can be embedded into the accounts receivable process to increase the percentage of debt recovery.

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Nudge techniques		Report reference
1	Make it easy: Make it as straightforward as possible for people to pay debts, for example by pre-populating a form with information already held and ensure the language in the letter is simple and to the point.	Detailed Finding 7
2	Personal signature: Adding a personal signature (not electronic) to debt recovery letters. This could not be applied to every letter however, could be added to particular accounts which are difficult to recover funds from or who owe significant sums to the Council	Detailed Finding 6
3	Direct contact: Personal messages to the customer can increase debt recovery i.e. text message or call. This could not be applied to every contact however, could be added to particular accounts which are difficult to recover funds from or who owe significant sums to the Council	Detailed Finding 6
4	Use emotive language: Language should be considered to make it more emotive and personal. The inclusion of the reasons why debt recovery is important to meet the social aims of the Council could be added alongside addressing customers by their first name.	Detailed Finding 6
5	Use imagery: Using images on debt recovery letters. There is evidence to suggest that greater use of imagery can support increase recovery of funds i.e. with commercial waste debt, a picture of refuse collection personnel collecting refuse could be added	Detailed Finding 6
6	Highlight positive behaviour of others: Where possible, setting out the statistics of repayment of others has shown to increase levels of debt recovery i.e. x% of people pay on time who are in your post-code or x% pay on time who use this service	Detailed Finding 6
7	Highlight the risk and impact of dishonesty: Emphasise the impact of fraud or late payment on public services, as well as the the consequences for those caught. This is a tougher nudge technique and should be considered where particular difficulties persist	Detailed Finding 6

It should be noted that the introduction of nudge techniques do not replace previous tried and tested methods to recover accounts receivable. Traditional methods for debt recovery can be termed as 'shove techniques' and these are still useful however, should be complemented by nudge techniques where possible.

It is believed that where nudge techniques are implemented well, that shove techniques then achieve better outcomes when applied. Striking the right balance between nudge and shove is difficult and ideally different balances would be set for different customers however, where done effectively it can transform the ability to recover funds. In the table below we have noted three shove techniques which should all be embedded in any accounts receivable activity.

Shove techniques		Report reference
1	Consistent letter timings: Sending out letters requesting payment at set intervals is an effective method to recovering funds because there is a correlation between more frequent and timely contact and collection of debt	Detailed Finding 6
2	Strong language around consequences: It is accepted that after the first request for payment that stronger language and setting out the consequences for non-payment prompts action from customers by setting out either legal or civil recovery proceedings	Detailed Finding 6
3	Use of legal and civil recovery services: There will come a time in the process whereby either legal or civil recovery proceeds must be undertaken because without following up on consequences the Council undermines its authority with customers.	Detailed Finding 6

APPENDIX III - MANAGEMENT INFORMATION

Management information and subsequent action planning are critical to a continuously developing the accounts receivable function. Councils need to strike the right balance right in terms of the quantity and quality of management information that they assess. We have set out below a number of key performance indicators which could be considered for monitoring and reporting as part of the monthly meetings established since August 2015. In monthly meetings documented action plans would be a useful way for the Council to focus on ideas and to ensure steps to a achieve particular goal are met.

Accounts receivable function key performance indicators

- ✓ Invoices processed per full time equivalent
- ✓ Processing cost per customer invoice
- ✓ % of invoices received within 0-30, 31-60, 61-90 and 90+ days
- ✓ Total cost of the accounts receivable process per £1,000 revenue
- ✓ Total number of customers
- ✓ % of customers engaged at Council engagement events
- ✓ % of invoices under query
- ✓ % of low value invoices (less than £x)
- ✓ % of invoices paid electronically
- ✓ % of prompt settlement discounts that are taken (if offered)
- ✓ % of time spent resolving customer queries
- ✓ % of cases involving legal or civil recovery procedures

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We have included the recommended areas that can be used to set up action plans within monthly management meetings.

Reference	Issue identified	Risk to mitigate	Action plan	Status rate of risk (Red / Amber / Green)	Responsible officer	Due date of action	Status of action plan at the next management meeting/ specify a date to follow up

APPENDIX IV - 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
Nigel Kennedy	Section 151 Officer
Anna Winship	Management Accounting Manager
Damon Venning	Accounts Receivable: Rents Team Manager
Kevin Lacey	Accounts Receivable: Receivables Team Leader
Kelly Charles	Accounts Receivable: Incomes officer
Donna Dixon	Accounts Receivable: Incomes officer
Harald Schulz	Agresso Consultant

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APPENDIX V - DEFINITIONS

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LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	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.
Moderate	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.
Limited	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.
No	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.

Recommendation Significance	
High	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.
Medium	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.
Low	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 VI - TERMS OF REFERENCE

BACKGROUND

The central team is led by a dedicated Rents Team Manager for those transactions which come through the Council's main financial system, Agresso. The accounts receivable function has within the past six months transferred to the responsibility of the Rents 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.

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.

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 VI - 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.

APPENDIX VI - 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
- Final internal report regarding the team structure, role and responsibilities that was undertaken in 2015
- A transaction listing of all accounts receivable transactions for the period 1 April 2015 to date
- 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 VI - TERMS OF REFERENCE

TIMETABLE

Audit Stage	Date
Commence fieldwork	19 October 2015
Number of audit days planned	12
Planned date for closing meeting	23 October 2015
Planned date for issue of the draft report	6 November 2015
Planned date for receipt of management responses	13 November 2015
Planned date for issue of proposed final report	20 November 2015
Planned Audit Committee date for presentation of report	16 December 2015

KEY CONTACTS

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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

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:	7 October 2015	Date:	8 October 2015



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