Audit Committee
24 July 2017

INTERNAL AUDIT PROGRESS REPORT – July 2017

1 Purpose

1.1 To receive the Internal Audit Progress Report of activity undertaken since March 2017.

2 Recommendations

2.1 The committee is recommended to note the progress report.

3 Supporting Information

3.1 This report provides an update on the progress made against the 2016/17 Internal Audit Plan and includes information on:

- Summary of internal audit reviews completed and in progress
- Overdue recommendations and follow up work
- 2017/18 internal audit plan and resource

3.2 The Committee requested that all internal audit reports are presented in full. These are included in Appendix 4.

4. Reasons for Recommendations

4.1 Ensuring a proper and effective flow of information to Audit Committee Members enables them to perform their role effectively and is an essential element of the corporate governance arrangements at the Council.

5. Resource Implications

5.1 There are no resource implications to report.

Contact Officer: Kate Mulhearn, Corporate Governance Manager 01296 585724
Background papers: none

Internal Audit

Progress Report

July 2017

Contents

1. Activity and progress

The 2016/17 internal audit plan was approved by the Audit Committee in March 2016. A summary of the plan is included in Appendix 2. We monitor progress against the plan during the year and advise the Audit Committee of any changes.

The Internal Audit Strategy and Plan for 2017/18 is presented at the July 2017 meeting of the Audit Committee. Work has not yet started on reviews identified in this plan.

Final reports issued since the previous Committee meeting

Name of review	Conclusion*	Date of final report	No of recommendations made*			
			🔴 Critical	🟠 High	🟡 Medium	🟢 Low
Accounts Receivable	High	12 July	-	2	2	2

See Appendix 1 for the basis for classifying internal audit findings and reports.

The full report is attached in Appendix 4 and summarised below:

Accounts Receivable

This report is classified as high risk.

There is a lack of corporate and local oversight of the debt held in each service area and irregular monitoring of the age profile of debt. There are no corporate performance indicators to identify areas which are performing less well in their debt management to allow more effective corrective action to be taken. There is also a lack of clarity over the roles and responsibilities of the central Income Team and service areas regarding which team is responsible for debt management. The Council recognises these challenges and in November 2016 set up a Corporate Debt Project to address the issues and improve debt management processes.

Through the work of the Debt Project, issues have been identified between the system interfaces and manual processes that ensure information on housing benefit overpayment debt is consistent and reconciled between the finance system (TechOne) and benefits system (Northgate). During June/July 2017 the project team has been working to reconcile the two systems and clear any discrepancies. At the time of concluding this report all electronic matching and sorting has been completed on the data from both systems. The task in process is to work though manually each unmatched item and investigate both

systems to correct the difference. At this stage we understand that it will not result in a material adjustment to the reported debt figures.

Work is also progressing with the software providers to address the underlying issue around the interface between TechOne and Northgate. In the mean time, dedicated resource has been identified to ensure manual processes will operate effectively to maintain ongoing updates and accuracy.

Further findings relation to:

- Invoices for trade waste collection are not issued promptly
- Invoices may not be subject to the correct approval in line with delegated limits when re-directed from the original approver
- Back up documentation to evidence credit notes is not held on TechOne

2016/17 internal audit plan work in progress

As at the date of preparing this report the following reviews are in progress:

Name of review	Update on progress
Debt Recovery	As outlined in the Accounts Receivable report, the Corporate Debt Project work is ongoing. The latest update will be provided at the July 2017 meeting of the Audit Committee. Progress is monitored by internal audit.
Service Charges	Draft report awaiting management approval

2. Overdue recommendations and follow up work

We monitor the implementation of actions and recommendations raised by internal audit reviews to ensure that the control weaknesses identified have been satisfactorily addressed. The overall progress and detail of those which are considered overdue is set out in Appendix 3. To the end of June 2017, there were 14 "high" and "medium" agreed audit actions due of which 7 are still outstanding and have been given a revised date for implementation.

Actions arising from low risk audit findings are followed up by management and reviewed, but not validated by internal audit.

3. 2017/18 internal audit plan and resource

2017/18 internal audit plan

The Internal Audit Strategy and Plan 2017/18 is presented for approval at the July Audit Committee meeting.

Internal audit resource

As part of the Commercial AVDC restructure, the Council's model for the provision of internal audit was reviewed. To achieve the Council's objectives the preferred model for delivery is a co-source arrangement with a retained Head of Internal Audit position, fulfilled by the Corporate Governance Manager, and buying-in resource to deliver the annual internal audit work programme. This model allows for the flexibility, insight and innovation achieved through using external suppliers who work with a rage of other public and private sector organisations, and also retains the desired level of proximity to the issues and knowledge of AVDC.

Since the last Audit Committee meeting, this proposal has been approved and work has started to develop the scope of work and tender to procure the internal audit service. This is likely to be for a three year term, with options to extend.

Between now and the time at which a contract can be procured, we will continue to engage the services of BDO Internal Audit.

Appendix 1: Internal audit opinion and classification definitions

Individual reviews - Basis of classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual findings are considered against a number of criteria and given a risk rating based on the following:

Finding rating	Assessment rationale
Critical	A finding that could have a: • *Critical* impact on operational performance; or • *Critical* monetary or financial statement impact [quantify if possible = materiality]; or • *Critical* breach in laws and regulations that could result in material fines or consequences; or • *Critical* impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • *Significant* impact on operational performance; or • *Significant* monetary or financial statement impact [quantify if possible]; or • *Significant* breach in laws and regulations resulting in significant fines and consequences*; or* • *Significant* impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • *Moderate* impact on operational performance; or • *Moderate* monetary or financial statement impact [quantify if possible]; or • *Moderate* breach in laws and regulations resulting in fines and consequences; or • *Moderate* impact on the reputation or brand of the organisation.
Low	A finding that could have a: • *Minor* impact on the organisation's operational performance; or • *Minor* monetary or financial statement impact [quantify if possible]; or • *Minor* breach in laws and regulations with limited consequences; or • *Minor* impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2: Internal audit plan and progress tracker

The 2016/17 Annual Internal Audit Plan was approved by members of the Audit Committee in March 2016. Progress and changes are reported below.

Review	Description	Status/Comment	Overall Risk Rating
General Ledger	Ongoing input to Commercial AVDC Finance Review project (Q1&Q2) and assurance over implementation and effectiveness of processes (Q3 &Q4)	Complete	Medium
Payroll		Complete	Low
Accounts Receivable		Complete	High
Accounts Payable		Complete	Low
Treasury		Complete	Medium
Fixed Assets		Complete	Medium
HR - Recruitment	Review recruitment processes and controls	Processes are being assessed as part of Commercial AVDC reviews. Consider audit in 2017/18.	Reconsider as part of 17/18 plan
Electoral & Democratic Services	Deferred from 15/16. Roll out of ModGov – review processes post implementation	Implementation has gone well so far but not yet using full functionality. This is being considered as part of the Business Review. IA to consider once review has concluded.	Reconsider as part of 17/18 plan
Contract Management	Review of contract performance monitoring processes and controls	Complete	Medium
Budget Management		Complete	Low
Information Governance	Information governance effectiveness review.	Internal Audit has supported work on the Information Management Strategy and review of the IGG Terms of Reference.	N/A - Advisory
Health & Safety	Compliance with OHSAS18001; review of H&S Management System	Audit deferred until H&S Officer is in post and Management systems are in place – Consider as part of the 2017/18 annual plan	Reconsider as part of 17/18 plan
Safeguarding	Review pre Sec 11 audit. Also consider vulnerable adults.	Complete	Medium
Debt Recovery	Council wide review of debt management and recovery processes, including council tax, business rates, HB overpayments and other income streams.	Work commenced July 2016 to support review of processes. This is IA advisory work.	N/A - Advisory
My Account	Review security of payments, information and interfaces with other systems	Not considered a key risk area for focus at this time.	Remove
Good Governance Framework for Local Government	Review compliance with new CIPFA code and implications for AGS 16/17	CIPFA framework has been published and AGS prepared on this basis. Review of governance	Ongoing

		arrangements is ongoing.	
Risk Management	Continuous assurance over risk management process	Corporate risk register reviewed and reported to Audit C'ttee.	Ongoing
Enterprise zones	Processes governing management of E Z partnerships	Not considered a key risk area for focus at this time.	Remove
Housing benefits	Review of controls to ensure benefits are issued accurately and timely	Complete	High
Council Tax & Business Rates	Review of key controls around issue of bills and the calculation and collection of funds	Complete	Low
Estates – Service Charges	Basis for and calculation of service charges, collection processes	In progress – draft report awaiting management approval	
Business Reviews	Ongoing	Internal audit has supported Commercial AVDC reviews: • Procurement & Contract Management • Business Intelligence • Financial Systems and Processes	N/A - Advisory
Vale Lottery	The review focussed on four areas identified as being key to ensuring that the lottery is being operated effectively and in compliance with the Gambling Act.	Complete	Low
Additional reviews agreed in response to identified risks:			
Company Governance – Aylesbury Vale Broadband	Review of the Council's governance arrangements over its investments in commercial companies. The first review focussed on AVB, subsequent reviews will consider AVE and Vale Commerce.	Complete – reported in March 2017	N/A - Advisory

Appendix 3: Overdue audit actions and follow up work

We monitor the implementation of actions and recommendations raised by internal audit reviews for all critical, high and medium actions to ensure that the control weaknesses identified have been satisfactorily addressed. We report the overall progress and detail of those which are considered overdue. Actions arising from low risk audit findings are followed up by management and reviewed, but not validated by internal audit.

To the end of June 2017, there were 14 agreed audit actions due of which 7 are still outstanding and have been given a revised date for implementation.

Name of review	*Agreed actions due*	*Outstanding*			*Completed actions*
		Critical	**High**	**Medium**	
Fixed Assets	2	-	-	2	0
Treasury Management	2	-	-	0	2
Payroll	1	-	-	0	1
Benefits	6	-	1	1	4
General Ledger	3	-	-	3	0
Total	**14**	**-**	**1**	**6**	**7**

Overdue recommendations

Name of review	Action	Finding risk rating	Update	Revised Date
Fixed Assets	Finance Manager should contact the IT Manager and Fleet Manager in February each year to request: • A comprehensive listing of all capital assets they hold • The location of the assets • The unique identifier of the asset • The current cost estimate of the asset • The useful economic life of the asset The Finance Manager should ensure the details are received by 31 March each year. Any necessary updates to LogoTech along with the relevant accounting changes should be made. Ongoing, regular reconciliation should be undertaken to ensure that system errors are identified and corrected. Management should determine the frequency but if there is significant movements, this could be quarterly.	Medium	IT Assets Finance emailed IT on 24 April 2017 to request 'IT hardware that we had at the 31 March'; IT responded by providing a schedule which was valid in November 2016. Whilst the difference between November 2016 and 31 March 2017 will not provide a material difference to the Annual Accounts, the Finance Team should re-email IT to verify those assets on 31 March 2017. Furthermore, Finance should speak with IT to explain that in future they require an estimation of the useful economic life of the assets should they differ from the Council's Accounting Policy. Fleet Assets As per IT Assets.	~~30 April 2017~~ 31 August 2017
Fixed Assets	When the fixed asset register is updated annually in April the following steps should be taken:	Medium	The steps outlined were not followed in terms of documenting the checks undertaken on a template. Whilst the balance sheet has already	~~30 April 2017~~ 31 August 2017

Name of review	Action	Finding risk rating	Update	Revised Date
	• Sample checks should be conducted to verify the correct calculation of depreciation in line with the Council's Accounting Policy • A review of the draft fixed asset register should be performed by the Finance Manager to identify any anomalies such as those identified as part of this review and these should then be investigated and corrected • The above tasks should be recorded on a template to identify that one member of the Finance Team conducted the sample checks and another member of the Finance Team (i.e. the Finance Manager) reviewed these checks. The template should be signed and dated by the two separate members of the Finance Team.		been constructed and given to external audit for review, as the 2016-17 Annual Accounts process is not yet complete, we recommend this action is undertaken immediately and any findings shared with external audit.	
Housing Benefits	Quarterly meetings should be set up to discuss: • Monthly KPI reports should be produced and reviewed by management • A quarterly a meeting should take place involving the Group Manager, Assistant Director for Customer Fulfilment and with escalation to the Director of Finance as needed • The purpose of this group should be agreed and outcomes of the meeting should be minuted.	High	This is not yet in place however, discussions around this have begun. The Benefits Team have focussed on ensuring the basics around quality checking are embedded. Now this has been developed, they will be aiming to set up a quarterly meeting covering the areas set out in this recommendation. Please note that the quality check results have been emailed to Directors and therefore some steps have been taken to ensure there is senior	~~31 May 2017~~ 31 August 2017

Name of review	Action	Finding risk rating	Update	Revised Date
			oversight of benefits activity. Also note that the Benefits Team are expecting in July 2017 to have produced an outturn figure of benefits subsidy vs. thresholds; once this has been devised it will be issued to Directors and discussed at the quarterly meetings.	
Housing Benefits	• The Council must understand the current position on overpayments and whether sufficient resource is in place to reconcile the two systems data and then take appropriate action to improve the control environment. These issues are being addressed through the Corporate Debt Project but need to be overseen and actioned by the Housing Benefit Team. • As part of Quality Checks undertaken, the Council should review whether Case Officers are flagging overpayment cases effectively and taking appropriate action.	Medium	The Council recognise that this is a significant project. At a meeting on 4 July 2017 to discuss this area it was clear that additional work was needed; the meeting discussed: • Filling additional posts to clear debts currently held on Tech1 • Discussing how Tech1 can be better used to manage overpayment debt • Discussing how the debtors module on Northgate could be implemented. As these discussions are on-going and significant actions are still being undertaken, this is incomplete.	~~30 June 2017~~ 30 November 2017
General Ledger	The Finance Team need to: • Revisit each individual area process notes and decide whether a reconciliation is required • Issue a standard reconciliation document to each area where a reconciliation is required – see	Medium	Work on delivering this regular and full reconciliation of all Council sub-systems to the Council finance system is in process, but further work is required to complete this. A number of factors are relevant to current progress:	~~03 May 2017~~ 30 October 2017

Name of review	Action	Finding risk rating	Update	Revised Date
	appendix 3 as an example • Establish a central shared electronic document which records the expected frequency for each reconciliation and a record of when all reconciliations took place. This central record should also note the balance of any unreconciled items along with an explanation • Reissue the revised system notes to areas and ensure these are agreed with the key lead from the area; a central log should be held for when the area should be revisited to review the process notes, at least annually.		• The auditors provided flowcharts after the recent internal audit which were a good starting point but these did not fully reflect the system processes and reconciliation activity, requiring further detailed work to capture, resolve and report on reconciliation processes across the Council. Process paused slightly pending reallocation of roles across the Council through the recent AVDC Commercial programme. • A project is currently in process to reconcile historic debt associated with Business rates, Council tax, Penalty charge notices and Housing benefit, of which the first three are complete. This activity creates a good foundation for future reconciliation work for those systems. Work on reconciling Housing Benefit debt continues and is expected to be concluded in early August. Regular and accurate reconciliation of the Councils finance and sub-systems remains a high priority and it is planned that dedicated project resources will be engaged to deliver the work to satisfy this requirement by the end of October 2017.	

Name of review	Action	Finding risk rating	Update	Revised Date
General Ledger	As part of implementing the actions agreed in Finding 1, all systems including Uniform and Waste should be included to ensure appropriate reconciliation is performed. Thereafter escalation should take place as needed. iWorld reconciliations a) Reconciliations must occur on a monthly basis b) Reconciliations not occurring on a monthly basis and significant unreconciled balances must be escalated to the Strategic Finance Manager.	Medium	As per above.	As per above.
General Ledger	Supplier Access a) Suppliers who have full access to the system should be reviewed and restricted and their accounts must be locked by the Council's system administrator b) Suppliers who require access to the system must request permission from the system administrator and their account must be locked immediately after use. The access should only be granted for a specific time limit i.e. 12 hours. Tech1 User Access c) A review of users access rights should be undertaken for all Tech1 users on conclusion of the Council's restructure and thereafter at least annually.	Medium	Supplier access to Tech 1 were reviewed and removed from the system on 2nd May 2017. Review of user access rights is due by the end of July 2017, reflecting changes arising from the Council's restructure process.	~~31 July 2017~~ 31 August 2017

Appendix 4: Internal audit reports

The Committee requested to see all internal audit reports in full. Those completed since the last meeting are attached below.

1.   Accounts Receivable

Internal Audit Report 2016/17

Accounts Receivable

July 2017

Contents

Distribution List

For action   Gary Wright, Ratings & Recovery Manager
Debbie White, Group Manager
Marie Morgan-Geary, Transactional Manager
Strategic Finance Manager

For information   Andrew Small – Director, Section 151 Officer
Andy Barton – Assistant Director, Commercial & Business Strategy
Isabel Edgar Briancon – Assistant Director, Business Support & Enablement
Jeff Membery – Assistant Director, Customer Fulfilment
Audit Committee

This report has been prepared only for Aylesbury Vale District Council (the Council), in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation.

1. Executive summary

Report classification*	Total number of findings				
		Critical	High	Medium	Low
High risk (28 points)	Control design	-	1	1	2
	Operating effectiveness	-	1	1	-
	Total	-	**2**	**2**	**2**

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as High Risk. We have identified 2 high, 2 medium and 2 low risk findings.

There is a lack of corporate and local oversight of the debt held in each service area and irregular monitoring of the age profile of debt. There are no corporate performance indicators to identify areas which are performing less well in their debt management to allow more effective corrective action to be taken. There is also a lack of clarity over the roles and responsibilities of the central Income Team and service areas regarding which team is responsible for debt management. The Council recognises these challenges and in November 2016 set up a Corporate Debt Project to address the issues and better position the Council to manage its debt.

Through the work of the Debt Project, issues have been identified between the system interfaces and manual processes that ensure information on housing benefit overpayment debt is consistent and reconciled between the finance system (TechOne) and benefits system (Northgate). During June/July 2017 the project team has been working to reconcile the two systems and clear any discrepancies. At the time of concluding this report all electronic matching and sorting has been completed on the data from both systems. The task in process is to work though manually each unmatched item and investigate both systems to correct the difference. At this stage we understand that it will not result in a material adjustment to the reported debt figures.

Work is also progressing with the software providers to address the underlying issue around the interface between TechOne and Northgate. In the mean time, dedicated resource has been identified to ensure manual processes will operate effectively to maintain ongoing updates and accuracy.

Key Findings:

- Corporate or service area monitoring of debt levels is not happening regularly or effectively to understand the levels of debts held and whether effective action is being taken (Finding 1 – High).

- There are differences in Housing Benefit Overpayment debt held on TechOne and the benefits system. Work is progressing on the reconciliation and to resolve issues with the system interfaces and manual processes to ensure information is consistent and reconciled (Finding 2 – High)

- The roles and responsibilities in the debt management process between the Income Team and service areas are not clear. Action taken to recover and write off debt is not always timely (Finding 3 – Medium).

- Invoices for trade waste collection are not issued promptly (Finding 4 – Medium).

- Invoices may not be subject to the correct approval in line with delegated limits when re-directed from the original approver (Finding 5 – Low).

- Back up documentation to evidence credit notes is not held on TechOne (Finding 6 – Low).

Good practice noted:

- The Corporate Debt Project is actively working to address issues with debt management and improve processes going forward.

- All bar one invoice from our sample of 20 were approved by the appropriate managers and in a timely manner.

- There are debt procedure notes on how to raise invoices and chase debts on TechOne.

- Changes to customer accounts are supported by backing documentation to verify their address/identification.

2. Background and Scope

Background

Accounts receivable, including commercial property, waste, housing benefit overpayments and other sundry debtors is managed through the financial system, TechOne. Debts relating to Council Tax, Business Rates and Parking are not managed on TechOne and are outside the scope of this review.

At 31 March 2017 total debt in Tech One was approximately £5.9M of which £2.6M relates to housing benefit overpayments. Whilst some sectors within the Council now input their own invoices, the normal practice is for this to be done by the central team in Transaction Services.

Invoices are sent to customers electronically and different recovery cycles can be set up for different customer types. Management information from the system both on an overall position and by department is generated. The emphasis is on individual departments to run their own management information and take action. Whilst debts are managed departmentally, write-offs are approved centrally.

At the time of completing this internal audit review, a separate project was underway to assess the Council's overall approach to debt management and reporting. The findings of this review will help to inform the wider debt management project.

Scope

The scope covered the review of controls and processes to address the key risks set out in the Terms of Reference (see Appendix 2). Our testing included:

- Review of management reports that set out overall or local position of debt levels

- Obtaining a sample of 20 invoices raised across various income streams between the period 1 April 2016 to 31 January 2017

- Obtaining a sample of 10 balances set to be written-off between 1 April 2016 and 31 January 2017.

 This does not represent a comprehensive list of tests conducted.

3. Detailed findings and action plan

1. Lack of management information and performance indicators – Control design

Finding
Management Information is a fundamental part of the Accounts Receivable function to monitor performance against pre-determined Key Performance Indicators and support a more active rather than reactive response to debt recovery. It is expected that managers review reports on an at least a monthly basis, discussing the results of these reports in detail and forming an action plan to resolve issues identified.

Service area/local level
Each service area can run from TechOne a listing of their debts and this can be filtered by date to allow an assessment of the age of the debt. During monthly or quarterly budget meetings, these balances may be considered however, the budget meetings do not consider the aged profile of debt held (the focus tends to be on whether income billed is line with expected levels rather then cash collected). Through discussions with service areas it became apparent that there is limited local assessment of aged debt. In fact, in preparation for the meeting with internal audit, some areas ran off the reports for the first time only to then realise balances were long outstanding and action was needed to chase debt.

Corporate level monitoring
There is no established reporting process to monitor and review debt on a corporate basis. We would expect that levels of statutory and non statutory debt and recovery rates are monitored as part of corporate KPIs. In response to internal audit recommendations arising from 2015/16 reviews, in October 2016 a Corporate Debt Management project commenced, the original scope of the project included:

- understand the level of debt – including all income streams and age profile
- identify reporting needs and develop reporting tools to effectively monitor and manage debt at the budget holder and corporate level
- develop strategic direction/policy for debt management and recovery action
- recommend future operating model, structure of teams and resources to maximise efficient collection of debts
- ensure clarity over responsibility & ownership of debt collection
- identify best practice and benchmark debt management elsewhere
- apply customer insight to profile debtors which will support more focused recovery action and reduce overall debt |

Work has progressed to understand the levels of debt and to develop a new corporate consolidated reporting platform to address the lack of management information (not just for debt but across all areas of the Council). In March 2017 a Business Analysist was appointed to the debt project to focus on mapping the financial data and developing the suite of reporting tools to better understand and analyse debt going forward. Until this work is completed, there remains a lack of management information to adequately review the integrity of data and recoverability of the Council's debt.

Risks / Implications
Debt is not monitored, impacting the ability to collect debts. Inaccurate debt reporting.

Finding rating	Action Plan	
High	• Develop a set of indicators and performance targets and agree reporting process. • Monitor and analyse performance on a regular basis and implement actions to achieve targets.	*Responsible person / title* Andy Barton & Isabel Edgar Briancon – Assistant Directors *Target date* 30 September 2017

2. Interfaces between TechOne and supporting systems – Operating effectiveness

Finding
The debt project outlined above has focused initially on identifying and reconciling debtor balances across all systems with the financial system, TechOne. Reconciliations of Council Tax, Business Rates and Parking Charge Notices have been completed and processes to ensure ongoing validity in these areas are adequate. The most significant area of debt in TechOne is Housing Benefit Overpayment, approximately £3.8M in June 2017 (this does not include overpayments which are recovered from ongoing benefit claims and held in Northgate). Issues were raised relating to housing benefit overpayment in the March 2017 Housing Benefit internal audit report. Since this report was completed, work performed as part of the debt project has identified issues with the TechOne and Northgate interface for housing benefit overpayment and also some weaknesses in manual processes which require data to be entered into two systems. During June/July 2017 the project team has been working to reconcile Northgate and TechOne Housing Benefit Overpayment debt and clear any discrepancies between the two systems. At the time of concluding this report all electronic matching and sorting has been completed on the data from both systems. The task in process is to work though manually, each unmatched item and investigate both systems to correct the difference. At this stage we understand that it will not result in a material adjustment to the reported debt figures. Never-the-less, it is critical these balances are reconciled at an individual account level to ensure customer debt is accurate, and collection mechanism applied appropriately. Work is also progressing with the software providers to address the underlying issue around the interface between TechOne and Northgate. In the mean time, dedicated resource has been identified to ensure manual processes will operate effectively to ensure ongoing updates and accuracy.

Risks / Implications
Debt may be misstated. Debt may not be recovered and/or customers may be inappropriately chased for outstanding payments.

Finding rating	Action Plan	
High	With oversight from the Debt Project, complete work to: • Correct the TechOne /Northgate interface • Review, reconcile and clear the mismatched payments and credits to each housing benefit customer account	*Responsible person / title* Andy Barton & Isabel Edgar Briancon – Assistant Directors

    	• Review all system interfaces with TechOne – this is part of a wider system integration and reconciliation process (see also General Ledger report) • Establish ongoing control processes to check and maintain accuracy of system interfaces going forward. These should be automated wherever possible to avoid manual input	*Target date* 30 September 2017

3. Lack of policy and clarity around responsibility for debt management. Action taken with aged debt is not prompt – Control design

Finding

Policy and responsibility for debt management
The Council has undergone significant change in the past two years with the introduction of a new general ledger system, TechOne in 2015, and the organisational re-structure which is nearing conclusion. These two factors have contributed to a lack of clarity on the roles and responsibilities for debt collection. In the previous year's internal audit reports we identified there was a lack of corporate policy for debt management. The "Debt Project" will deliver the policy, but this has not been progressed.

When a customer transacts with the Council the details of the invoice to be raised are input onto TechOne by the service area. After this the system will ensure a reminder letter is sent out to the customer 14 days after the invoice has been raised to chase payment if it has not been received. After this point however, there is a lack of clarity over who is responsible for chasing outstanding debt. Through discussion with various service areas and the Income Team it is apparent that the service area sees the role of debt collection being the Income Team's responsibility and the Income Team sees it to be a service area responsibility. There are instances where monitoring of outstanding debt does occur and examples of service areas contacting the customer and/or the income team sending additional chasers, but this is ad-hoc and lacks any centralised oversight. Service areas felt that a clear corporate message had not been issued regarding who held responsibility for debt and that in some areas there is a lack of knowledge on how to run reports to enable them to perform effective debt monitoring.

Timeliness of recovery action and write off
Debt write offs are conducted in one of the following ways:
* where debt is under £1000 this is approved by the section 151 officer
* where debts are over £1000 the debt is sent for cabinet approval

When an overdue debt is identified, an initial reminder will be sent to the customer, following 14 days a second reminder will be sent to the customer. If the customer fails to comply with the second reminder further debt recovery proceedings are considered.

We reviewed a sample of 10 write-offs and 10 aged debts from April 2016 to November 2016 and considered whether the actions taken by the income team were in line with the Council's set procedures. From our testing we identified significant delays between the second reminder letter and the date of write-off/further review. For example one debt for £3552 originating in April 2009 remained overdue for 3 years before it was concluded as uneconomic to pursue

by the DWP in May 2012. The debt remained on the overdue debtors listing for a further 4 years and 4 months before it was approved for write off by Cabinet in September 2016. In another case for a debt of £1200 due in May 2016, there were delays in appointing a credit controller following the issue of the second reminder. The debt was paid in November 2016.

We understand there has been a resource strain on the Income Team over the past year which created a back log and delay in the debt management process. The Income Manager is currently in the process of recruiting an agency worker who will be dedicated to the debt management process.

Risks / Implications
Poor management and recovery of debt.

Finding rating	Action Plan	
Medium	The need to develop a Debt Policy was identified in 2015/16 and is part of the scope of the corporate Debt Project. The additional processes set out below are needed to improve day-to-day management and will support the strategic policy when it is completed. • Document the detailed process with clear lines of responsibility for debt management, including raising invoices, chasing payment and writing off, for all types of debt. This should include timeframes and responsibilities for action/escalation. Consideration should be given to the most effective means of recovery and the need to maintain customer relations for some debts. • Income Manager to run a script which automatically on the first day of the month sends a service area lead an email with an attachment setting out the aged debt listing. • Guidance on how to run reports should be issued to all relevant users.	*Responsible person / title* Andy Barton & Isabel Edgar Briancon – Assistant Directors *Target date* 30 September 2017

4. Trade waste income is not billed promptly – Operating effectiveness

Finding
For the year ended 31 March 2017, the value of trade waste income billed was £950k with outstanding debt of £8k. Trade waste invoices are currently raised quarterly in arrears. We note that this often occurs late leaving a significant time period from when the Council provided the service to when the debt is raised with the customer. For example, in quarter 2 (July to September 2016) the invoices were raised in mid-November 2016. There has been no manager in post for this area since around October 2016, which has contributed to the delays. Good debt recovery is underpinned by the principle of; the shorter the period of time from when the service was delivered to when the invoice was raised, the greater chance that the debt will be recovered. Invoices should be raised monthly in arrears to support improved income collection. Going forward, consideration should be given to billing in advance as a more commercial way to manage this significant income stream.

Risks / Implications
Poor recovery of income.

Finding rating	Action Plan	
Medium	Commercial Waste should be invoiced monthly in arrears rather than quarterly. Invoices should be raised on a timely basis. Consideration is being given to billing monthly in advance on assumed tonnage. A technological solution will be required and this is to be integrated into the wider "Waste" IT related projects and the Connected Knowledge programme. Timescale for implementation need to be determined, but we should have a clearer picture in the next month.	Responsible person / title
		Jeff Membery - Assistant Director, Customer Fulfilment
		Target date
		30 September 2017 – to be reviewed when there is a plan for the technical solution.

5. Approving invoices can bypass the delegated authority limits – Control design

Finding
There are two types of invoices: batch/recurring and ad-hoc. Batch/recurring invoices are for debts raised through housing benefit overpayments and ad-hoc invoices are usually for one-off services. • Recurring invoice runs have been set up in TechOne by a member of the Income Team. A file is generated by other interfaces, such as Northgate for housing benefit (see finding 2), and will be picked up automatically by TechOne and invoices raised. The Income Team can also upload an excel file to TechOne which will then prepare the invoices accordingly. • Ad-hoc invoices are raised by individuals on TechOne. There is an automatic workflow which requires all invoice requests to be approved by the managers prior the Income Team issuing the invoice. We noted from our testing that all invoices were approved by the appropriate managers.   We discussed the approval process of invoices with the incomes team manager and discovered that if an approver is not available through annual leave/sickness, approvers can delegate their approval rights to other individuals in the Council. There is limited awareness of this function across the Council. This could result in a back log of invoice requests pending approval, delaying the timeliness of the raising of invoices. Further review of the delegation function and discussion with the System Administrator noted that approvers can delegate to anyone in the Council. There is therefore a control weakness that invoice requests may be approved by an officer who does not have appropriate understanding of the service to ensure accuracy and validity of bills raised.

Risks / Implications
Delayed raising of invoices increases the time taken to receive payment from a customer. Invoices may not be subject to appropriate review and approval, if delegated to an approver with little or no knowledge in the service line.

Finding rating	Action Plan	
Low	• Remind all TechOne users to utilise the delegation function when they are out of office • Consider whether the current setting of delegation is appropriate and provide guidelines to all TechOne users on how the choose the most appropriate person to delegate.	Responsible person / title
		Strategic Finance Manager
		Target date
		30 September 2017

6. Evidence of credit note authorisation – Control design

Finding
Credit notes are raised by officers and authorised by their managers. For a sample of 15 credit notes we reviewed the procedures followed to ensure they were in line with expected practice. Although a narrative of who authorised the credit note is entered onto TechOne the physical evidence of the credit note request and approval is not attached to the system.

Risk
Invalid credit notes may be issued.

Finding rating	Action Plan	
Low	Attach confirmation emails showing the approval of credit notes to TechOne to ensure there is a complete audit trail.	Responsible person / title
		Strategic Finance Manager
		Target date
		30 September 2017

Appendix 1.   Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		*Points*
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	A finding that could have a: • **Critical** impact on operational performance; or • **Critical** monetary or financial statement impact **[quantify if possible = materiality]**; or • **Critical** breach in laws and regulations that could result in material fines or consequences; or • **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • **Significant** impact on operational performance; or • **Significant** monetary or financial statement impact **[quantify if possible]**; or • **Significant** breach in laws and regulations resulting in significant fines and consequences*; or* • **Significant** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • **Moderate** impact on operational performance; or • **Moderate** monetary or financial statement impact **[quantify if possible]**; or • **Moderate** breach in laws and regulations resulting in fines and consequences; or • **Moderate** impact on the reputation or brand of the organisation.
Low	A finding that could have a: • **Minor** impact on the organisation's operational performance; or • **Minor** monetary or financial statement impact **[quantify if possible]**; or • **Minor** breach in laws and regulations with limited consequences; or • **Minor** impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2.   Terms of Reference

The key risks agreed in the Terms of Reference are set out below.

Sub-process	Risks	Objectives
Policies and Procedures	Little or no guidance to perform tasks at an acceptable level	• Policies and procedure are clear, understood and followed to ensure the objectives of payroll activity are met
Access	Data may be amended or deleted without appropriate approval	• Access to systems is controlled to manage unauthorised manipulation of data
Customer Accounts	Inaccurate information held on the system	• New or existing customer change controls are inadequate to safeguard the integrity of changes made to data held • New customers are subject to sufficient due diligence to provide reasonable comfort over their nature and background
Raising Invoices	Loss of income	• Controls in place to ensure transactions are raised, approved and paid in an accurate, complete and timely manner
Credit Notes	Loss of income	• Amendments to transactions are subject to sufficient oversight and approval procedures to validate their accuracy
Management Information	Accounts receivable performance not to an acceptable level	• Management regularly produce and assess management information to monitor and improve performance
Debt recovery	Weak understanding of debt levels and actions required to be taken Loss of income Debt write off	• Debts recovery procedures are co-ordinated across the Council to take the most effective and efficient route to maximise income collection • Timeliness of communication between service areas and the central accounts receivable team is considered adequate to allow effective debt collection to take place
Write-Off's	Loss of income	• Arrangements are in place to review and approve debt write-off and/or approval is in-line with financial regulation procedures set-out.

Appendix 3.   Best Practice – Management Information

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

Management information and subsequent action planning are critical to continuously developing the accounts receivable function. The Council need to strike the right balance in terms of the quantity and quality of management information that they assess. We have set out a number of key performance indicators which could be considered for monitoring and reporting as part of regular meetings. Assigning staff to actions raised and following up on these at the next management review, will potentially better the debt recovery and the overall receivables process.

Appendix 3.   Best Practice – 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 practice we have included methods for implementing nudge techniques which can be embedded into the accounts receivable process to increase debt recovery.

Nudge techniques	
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.
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
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
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.
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
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
7	Highlight the risk and impact of dishonesty: Emphasise the impact of fraud or late payment on public services, as well as the consequences for those caught. This is a tougher nudge technique and should be considered where particular difficulties persist

Appendix 3.   Best Practice – Behavioural Economic Techniques

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
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
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
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.

Appendix 4.   Follow-up of Previous Recommendations

As part of this review, we followed up on the recommendations raised in the previous internal audit report.

#	Finding	Agreed Action	Original Target date	Action Taken	Complete?
1	There is a lack of documented financial procedures setting out the processes for financial management, including raising, approving and making payment, and raising sales invoices and collecting debts. There is a lack of clarity over responsibility and accountability over these processes between the central finance team and budget holders.	The financial regulations will be reviewed and updated to reflect the current organisation structure and the agreed responsibilities and accountabilities for financial management. The regulations will be approved by Corporate Board and Members. A suite of procedure documents will be developed to support officers in fulfilment of their financial responsibilities. This should include detailed process notes for using the financial system, T1.As financial processes and controls are clarified and documented, the T1 financial system controls and reporting will be configured accordingly. Testing will be performed to ensure controls are robust.	(no date set – part of Management Action Plan)	There are financial procedures in place and a delegated authority limit built into user profiles on TechOne. However, there is still no corporate debt policy and there is a lack of clarity over roles and responsibilities in debt collection between the central Income Team and service areas.	No – see finding 3.
2	The scheme of financial delegation and the way in which it is set up within the finance system is a key control to prevent unauthorised spend. We acknowledge that the Council does have a number of controls such as budget reviews and reporting which, if	The scheme of financial delegation will be reviewed to ensure it reflects the Councils objectives of strong financial management and budgetary control and is aligned to the organisational structure. The scheme of delegation will be approved by	(no date set – part of Management Action Plan)	There are financial procedures in place and a delegated authority limit built into user profiles on TechOne.	Yes – although note a minor control weakness has been identified with re-

operating effectively, may subsequently identify inappropriate transactions, but these are reactive rather than proactive controls. At the time of this review there are 70 officers that have the rights to authorise up to £1,000 and a further 60 that can authorise up to £30,000. Of the 60, 55 officers are below cost centre manager level yet can authorise up to £30,000. Having financial delegation so widely spread across the Council could diminish the importance of the authorisation control. It also means that budget managers may not be in control of the majority of expenditure in their budgets. In the absence of data relating to Accounts Payable/Receivable we were unable to test that these approval limits are operating as designed or that the scheme of delegation remains appropriate.	Corporate Board and reviewed periodically to ensure it remains appropriate. A process for making changes to authorisation rights, including justification and timeframe (for interim/temporary positions) will be established and documented. A periodic review of changes made to the scheme of delegation set up within the financial system will be performed.		directing approvals to those without sufficient limits – see finding 5

3	The T1 system is far more complex that the previous financial system. For officers to be given access to T1 when it went live, they had to attend an awareness event. There is no such training for users that have been given access to the system since. There is also no requirement for them to acknowledge that they have read and understood the guidance. Therefore users are accessing the system without having had training or an understanding of what is required of them. The lack of up to date Financial Procedures compounds the risk.	Along with documented financial procedures (Finding 1), a training programme should be designed for new users to ensure that they are equipped to perform the duties required of their role. Access to T1 should only be given once training has been completed and for those users who have authorisation rights.	(no date set – part of Management Action Plan)	Training has been provided however, specifics over running reports are still not as a strong knowledge area as it could be.	Partly, but further instruction is required around reporting and revising debt balances – see finding 3.
4	We requested data relating to debtor accounts (Sundry Debtors including Housing Benefit Overpayments) and their balances within T1 to assess whether debts are valid and being raised in a timely and accurate manner. Finance were not able to extract this data and it is recognised that further support from T1 is needed to fully utilise the reporting functionality of the system. Since the introduction of T1 the central Finance process of producing and monitoring aged debt has ceased, with a view to getting services to take responsibility of monitoring their own aged debt. We found that these officers were generally unaware that this was happening.	Processes for raising invoices and managing outstanding debts should be agreed and documented. Clear responsibilities should be established.

Management reports on outstanding debt liabilities by service area should be produced monthly and reported to Corporate Team, as a matter of routine. If AVDC is unable to extract this level of information about its debt liabilities the Finance Team should resolve this with the software provider. The Finance team should provide Services with methods of monitoring and understanding their outstanding debts. | (no date set – part of Management Action Plan) | The monitoring of aged debt is still considered limited despite some improvements since the prior report.

Issues have been identified with the reconciliation between TechOne and Northgate for housing benefit overpayment | No – see finding 1 and 2. |