

Final Internal Audit Report 2011/12

London Borough of Hammersmith and Fulham


Debtors

May 2012

This report has been prepared on the basis of the limitations set out on page 14

This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 14 April 2011 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of London Borough of Hammersmith & Fulham. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Introduction	<p>As part of the 2011/12 Internal Audit Plan, agreed by the Audit Committee on 17 February 2011, we have undertaken an internal audit of Accounts Receivable (Debtors).</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.</p> <p>The agreed objective and scope of our work is set out in the Audit Brief issued on 19 October 2011.</p>
---------------------	---

Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
				

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Legislation Policies and Procedures			0	0	1
Debtor Transactions and Records			0	1	0
Standing Data Amendments			0	1	0
Raising Invoices			0	3	0
Collection			0	0	0
Refunds			1	1	0
Debt Recovery & Enforcement			1	1	0
Management Reporting			0	0	0

Please refer to the attached documents for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Key Findings	Key Statistics
<ul style="list-style-type: none"> • Access rights to amend/add new debtors on OLAS is restricted and has been subject to recent review prior to roll out of the new version of OLAS in January 2012; • From a sample of 20 invoices raised: <ul style="list-style-type: none"> ○ We received no response to our request for evidence of certification and authorisation in three cases; ○ In eight cases the invoices had not been certified as correct; and ○ Eleven had no formal authorisation prior to the invoices being raised. • Income received is identified and matched against BACS reports on a daily basis; • Although reconciliations were undertaken between CEDAR and any feeder / dependent systems these were not certified by the officer undertaking the reconciliation or a second officer as evidence of review; • Monthly debt management reports are generated and presented to the Financial Strategy Board; and • From a sample of ten refunds selected: <ul style="list-style-type: none"> ○ Seven refunds had been processed correctly; ○ Two refunds appeared as 'PAID' on OLAS but payment had not yet been processed; and ○ One of the above refunds had also been authorised by an individual without the appropriate level of authority according to the Scheme of Delegation. • A number of write offs were not formally authorised by an officer with sufficient delegated authority. 	<ul style="list-style-type: none"> • The Sundry Debt Profile of the Council as at August 2011, broken down by the length of time they have been outstanding, is listed below: <ul style="list-style-type: none"> ○ < 1 month - £3,605,515; ○ 1-6 months - £6,844,4442; ○ 6-12 months - £1,448,823; and ○ >12 months - £2,512,395. • The total debt balance of the Council, as at August 2011, (Sundry Debt/Trade Refuse/License ledgers only) was £14,411,175; and • As at September 2011, the value of outstanding debt which was made up of individual debts larger than £10,000 and older than six months was £2.102m. There were 55 outstanding payments making up this amount.

Acknowledgement

We would like to thank the management and staff of the Accounts Receivable Team for their time and co-operation during the course of the internal audit.

1. Review of Income Management Policy

Priority	Issue	Risk	Recommendation	
3	<p>The current version of the Income Management Policy was last updated in April 2010. There is no evidence that it has been reviewed since this date.</p> <p>In addition, there is no document in place outlining the process for setting up or amending the details of a debtor account on OLAS.</p>	<p>Where the Income Management Policy is not reviewed on an annual basis there is a risk that staff may be following incorrect or inappropriate working practices.</p>	<p>The Income Management Policy should be subject to review on an annual basis and updated where applicable.</p> <p>The procedure for setting up or amending the details of a debtor account on OLAS should be documented either in the Income Management Policy or as a separate procedure document.</p> <p>The date of last review should be recorded on the document.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed & Implemented. Income Management Policy Reviewed –April 2012 by Recovery Manager. The Income Management Policy now includes the procedure for amending debtor account details.</p>			Deputy Director of Finance	31/03/2012

2. Reconciliations Between CEDAR & Feeder/Dependent Systems

Priority	Issue	Risk	Recommendation	
2	<p>CEDAR interfaces with the following systems:</p> <ul style="list-style-type: none"> • Fleetmaster; • Abacus (Homecare and Residential Care); • iWorld; and • Powersuite. <p>Examples of reconciliations between the each of the systems and CEDAR was provided however these reconciliations were not certified by the officer undertaking the reconciliation or a second officer as evidence of review.</p>	Where reconciliations between feeder systems and CEDAR are not certified by the officer undertaking the reconciliation and a second officer, accountability is reduced.	<p>Staff undertaking reconciliations between feeder systems and CEDAR should be instructed that all reconciliations should be certified by the officer undertaking the reconciliation and a second officer as evidence of independent review. This may be in hard copy or electronic format.</p> <p>Assurance should be gained that this certification is occurring.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – All reconciliations between feeder systems and Cedar are reconciled on a monthly basis and signed off by the officer producing the reconciliation and the Head of the Financial Systems and Controls team</p>			Systems Accountant	31/03/2012

3. Amendments to Standing Data Subject to Authorisation

Priority	Issue	Risk	Recommendation	
2	It was identified that no authorisation is currently required prior to an officer (with the required access rights) adding a new debtor or making amendments to standing data on the OLAS system.	Where authorisation is not obtained for adding a new debtor or amending details of debtor accounts, there is a risk that inappropriate, inaccurate and/or incomplete information is input into the system, which may impair future recovery action.	Authorisation should be obtained prior to making any amendments to the debtor account standing data on OLAS. This authorisation should be documented.	
Management Response			Responsible Officer	Deadline
Agreed & Implemented: .The Income Management Policy has been updated to reflect the need for authorisation of debtor account changes. The revised policy has been distributed to Heads of Finance.			Deputy Director of Finance	31/03/2012

4. Timeframe for Raising Invoices Processing Refunds

Priority	Issue	Risk	Recommendation	
2	<p>There is currently no target timescale by which an invoice should be raised following the delivery of a service.</p> <p>Furthermore, there is currently no established timescale within which a refund must be processed following its identification.</p>	<p>Where there is no timeline in place, there is a risk that invoices may not be raised promptly, reducing the likelihood that invoices will be collected in full.</p> <p>Where a timeframe is not established for processing a refund, there is a risk that the Council will suffer reputational damage amongst its debtors.</p>	<p>A target timescale should be defined for raising an invoice following the delivery of a service and also for processing refunds owed to debtors.</p> <p>Where existing systems allow, or it is practical to update existing systems, these target timescales should be monitored against.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed & Implemented: The Income Management Policy has been updated with target timescales for raising invoices. Targets for the processing of refunds are included in the Refunds Principles document..</p>			Deputy Director of Finance	31/03/2012

5. Certification and Authorisation of Invoice Request Forms

Priority	Issue	Risk	Recommendation	
2	<p>From a sample of twenty invoices selected for testing:</p> <ul style="list-style-type: none"> • A copy of the invoice request form was not provided in three cases; and • Five did not show evidence of being certified as correct prior to being processed; • Eight did not show evidence of authorisation prior to being processed. <p>It is acknowledged that invoices are certified when being input into the OLAS system; however this is not always undertaken by the officer requesting the invoice.</p>	Where standard invoice request forms are not completed, certified as correct and authorised for each invoice raised there is a risk that incorrect or inappropriate invoices are raised. This may result in deterioration of the relationship between the Council and its debtors and a risk that a distorted view of the Council's debt position is presented.	Staff should be instructed that invoice request forms should be completed for each invoice raised. These forms should be certified as correct by the individual completing them and authorised prior to being raised on OLAS.	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – LBHF already has a AR Invoice request form which has been distributed to officers and is available on the Finance intranet page. Further communications have been sent to Heads of Finance and agreed at FDB to re-emphasise the need to use the template.</p>			Deputy Director of Finance	31/03/2012

6. Retention of Sales Ledger Reports

Priority	Issue	Risk	Recommendation	
2	From a sample of 20 invoices selected for testing, corresponding sales ledger reports where these invoices should have been listed could not be located in nine cases. Evidence of the invoices being checked prior to being issued could therefore not be demonstrated.	Where all sales ledger reports are not retained as evidence that invoices have been checked prior to being issued, there is a risk that errors or anomalies may not be identified and resolved.	Copies of all the sales ledger reports generated listing the invoices due to be issued should be retained by the Recovery Team.	
Management Response			Responsible Officer	Deadline
Agreed & Implemented - . Reports of invoices raised are now received electronically on a daily basis and are checked before invoices are issued by the Civil Debt Recovery Manager.			Civil Debt Recovery Manager	31/01/2012

7. Refund Request Forms

Priority	Issue	Risk	Recommendation	
1	<p>From a sample of ten refunds tested, authorised Refund Request Forms could not be obtained in two cases. We were informed that these two appeared as 'Paid' on OLAS but payment had not been made to the debtor. These refunds were for £559.61 and £2,745.58.</p> <p>OLAS is currently updated as "Paid" when the refund request form is sent to the Payments team and there is no mechanism to notify the Recovery Team once a refund has been paid.</p>	<p>Where Refund Request Forms are not completed and retained for each refund processed, there is a risk that accountability cannot be assigned. This may also make it more difficult to investigate any refunds made in error.</p> <p>Where refunds are recorded as 'Paid' on OLAS prior to payment being made, there is a risk that unpaid refunds may not be identified. This may result in both poor relations with customers and the Council's financial records being distorted.</p>	<p>A Refund Request Form should be completed and retained for all refunds to be processed.</p> <p>Notification should be sent to the Recovery Team once the refund payment has been processed. All refunds should remain outstanding on the AR system as per OLAS until payment has been made.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – Refund Request Forms are retained by the Recovery team, and e-mail notification is now sent by the Payments team to the requestor once a refund is processed. Other teams which regularly make refunds have also been reminded of the need to complete and retain the Refund Request Form.</p>			Systems Accountant & Civil Debt Recovery Manager	29/02/2012

8. Authorisation of Refunds & Write-Offs in line with Scheme of Delegation

Priority	Issue	Risk	Recommendation	
1	<p>From a sample of ten refunds tested, one case was identified where a refund was authorised by an officer that was above his financial limit according to the Council's Scheme of Delegation (£6521.69 against a limit of £5,000).</p> <p>From a sample of 20 write-offs selected for testing, six had been approved by an officer in excess of their level authority of £5,000. Namely:</p> <ul style="list-style-type: none"> • £5,740.71 - Inv. 642602; • £8,324.21 - Inv. 649066; • £14,076.00 - Inv. 649068; • £36,480.00 - Inv. 649065; • £6,932.82 - Inv. 642592; and • £6932.82 - Inv. 642594. <p>Discussions established that agreement to write these sums off was given by the Deputy Director of Finance; however this was not documented.</p>	Where refunds and write offs are not approved in line with the Council's Scheme of Delegation, there is a risk that staff are making decisions that are outside their delegated authority.	All write offs and refunds should be approved by an officer with the appropriate level of financial authorisation as per the Council's Scheme of Delegation.	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – No write offs and refunds are processed unless authorisation is in line with the Scheme of Delegation. A summary note of Scheme of Delegation levels has been sent to those who are regularly involved in the authorisation and processing of refunds and write-offs, to remind them of limits.</p>			Civil Debt Recovery Manager	31/01/2012

9. Follow-Up Action Taken on All Invoices with 'Stopped Recovery Action'

Priority	Issue	Risk	Recommendation	
2	From a sample of ten invoices with 'stopped recovery action' assigned to them, evidence of the follow-up action taken could not be identified in three cases.	Where action taken against stopped invoices is not recorded there is a risk that no action has been taken, action may be duplicated, or that other officers may not be able to resolve queries in the event of staff absence.	Staff should be reminded to record any follow up action taken for all invoices with 'stopped recovery action' assigned to them.	
Management Response			Responsible Officer	Deadline
<u>Agreed & Implemented</u> – All staff in Recovery Team have been reminded of the need to record all actions on an account and what action has taken place.			Civil Debt Recovery Manager	31/01/2012

10. Scheme of Delegation

Priority	Issue	Risk	Recommendation	
2	The Scheme of Delegation provided during the course of the audit did not define responsible officers for processing refunds above £5,000 other than in relation to Housing Benefit refunds.	Where the Scheme of Delegation does not define delegated authority for approval of all refunds, there is a risk that unauthorised individuals continue to approve refunds and write-offs which may be above their financial limit.	The Scheme of Delegation should be updated to identify the authorised individual permitted to approve refunds above £5,000 (not related to Housing Benefits).	
Management Response			Responsible Officer	Deadline
Agreed & Implemented: The Scheme of Delegation has been updated to identify those permitted to approve refunds over £5,000.			Deputy Director of Finance	31/03/2012

Statement of Responsibility

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

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

Deloitte & Touche Public Sector Internal Audit Limited

London

May 2012

In this document references to Deloitte are references to Deloitte & Touche Public Sector Internal Audit Limited.

Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 4585162.

Deloitte & Touche Public Sector Internal Audit Limited is a subsidiary of Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Member of Deloitte Touche Tohmatsu Limited