MAZARS CROYDON

Final Internal Audit Report
Debtors - Accounts Receivable
March 2017

Distribution: Executive Director Resources (Final only)
Director Customer & Corporate Services
Head of Business Support and Customer Contact
Strategic Collection Manager
Corporate Debt Recovery Support Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	6
	Priority 3	3

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Executive Summary

1. Introduction

1.1 Customers make payments to the Council for a variety of purposes and services received. These payments are administered by the Accounts Receivable Team, separate to the Corporate Debt Recovery Team. The exceptions are Council Tax, Business Rates and Housing Rents.

1.2 Following the implementation of One Oracle in 2014, individual service departments are responsible for raising their own invoices.

1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. Key Issues

Priority 2 Recommendations
A short survey of a sample of invoice requestors has highlighted some training needs **(Rec 1.)**
Only a few debts had been referred to the Professional Enforcement Team **(Rec 2.)**
Appropriate debt recovery actions were not always being evidenced for smaller and staff debts **(Rec 3.)**
Unresolved disputed debts were held on the system indefinitely, some for as many as 24 years **(Rec 4.)**
Evidence that instalment arrangements were being actively monitored was not available **(Rec 5.)**
Debt write offs were not processed on a quarterly basis **(Rec 6.)**

Priority 3 recommendations are detailed under item 4 below.

3. Actions and Key Findings/Rationale

Control Area 3: Raising and Issuing Invoices

Priority	Recommendation 1	Detailed Finding/Rational
2	Review the results of the survey and consider how best to address the concerns raised, (whether this is through the use of general or targeted training, revised guidance or FAQ).	As part of the audit process, a short survey of a sample of Accounts Receivable invoice requestors was conducted to establish how well trained staff considered themselves to be. Analysis of the 20 survey responses identified that: • 9 respondents had had issues raising invoices on Oracle • 4 respondents had not obtained formal training on how to raise invoices requests and • 7 respondents required further training on how to raise invoices. The comments included in the survey included: • Tried to access the online training, but it wouldn't load; • I would like to have a good general overview of the whole process to guide and advise my customers better. At the moment, I keep having to ask colleagues. • Poor training for me. A copy of the full analysis of the survey has been provided to the Strategic Collection Manager. Where invoice requesters are not trained on how to raise invoices, there is an increased risk that invoices may be raised incorrectly, which may result in delays in customers receiving invoices and paying for goods or services provided by the Council.

Management Response	Agreed/Disagreed	Responsible Officer	Deadline

It is compulsory for all new users to complete online training on how to raise invoices prior to receiving access to oracle. Managers are confirming that their staff are completing the training to the one oracle team when that member of staff makes an application for access. The corporate debt recovery support manger has developed guidance notes on how to correctly raise invoices. These can be used for new/existing users. If the corporate debt recovery support manager is made aware of any new users to oracle, she actively makes contact with that staff member and will send them the guidance notes and ask for 1 invoice to be raised and checked to ensure this is done correctly. In addition to this we will set up fortnightly workshops and invite anyone who is having difficulty raising invoices to attend and receive training and guidance. We will also contact one oracle help desk to get a list of all new users to invite to the workshops.	Agree	Debt Recovery Manager / Strategic Collections Manager	End of June 2017

Control Area 5: Debt recovery Actions

Priority	Recommendation 2	Detailed Finding/Rational
2	Staff should be reminded of the corporate debt sundry referral to professional enforcement and returns process document in the team library and of the need to, where appropriate, refer debt to the Professional Enforcement Team.	A clearly documented debt collection guidance will help ensure that appropriate and consistent debt recovery actions are adopted in a timely manner by the debt collection officers. The corporate debt sundry referral to professional enforcement and returns process document was finalised during September 2015 and is available to review in the team library under shared procedures within SharePoint. However, discussions with the Debt Collection Officer established that each debt collector's judgement is used when making decisions on when and how to go about collecting delinquent debts and that it

<table>
<tr><td></td><td></td><td colspan="3">is not clear at what point Debt Collection Officers should be referring cases to the Professional Enforcement Team.

Examination of the sundry debt referral spreadsheet identified that only 18 sundry debts had been referred to the Professional Enforcement Team between April and October 2016 (out of 4681 aged debts, each exceeding £5,000.) While it is acknowledged that the debt collector's professional judgement could take precedence over certain guidance notes, staff actions should be guided by best practise procedure notes.

Where staff do not adhere to the guidance in place, there is a risk that debt collection decisions are not made in a timely and consistent manner, this could result in the failure to collect recoverable debt and financial loss to the Council.</td></tr>
<tr><th colspan="2">Management Response</th><th>Agreed/Disagreed</th><th>Responsible Officer</th><th>Deadline</th></tr>
<tr><td colspan="2">The Corporate debt recovery manager has already spoken with staff in December 2016 to ensure that the team are following the guidance correctly. Staff have a target within their appraisal to have a minimal of 12 referral cases accepted by the professional enforcement team each year.</td><td>Agree staff need to follow the process correctly.</td><td>Debt Recovery Manager / Strategic Collections Manager</td><td>Is already being picked up in staff appraisals.</td></tr>
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Priority	Recommendation 3	Detailed Finding/Rational
2	The weekly and monthly monitoring of each debt collector and their debt portfolio's should include checks to ensure that appropriate recovery actions are taken for all values and ages of debts.	Taking timely actions to recover delinquent debts will help maximise collection rates. A sample of 10 debts assigned to the respective debt collector portfolios were examined for timely recovery actions and the results were as follows: • Two cases were identified where notes of actions taken by a debt recovery officer were not maintained on Oracle. These were both low value debts of £379 and £399 respectively [redacted]; • One case was identified where the examination of Oracle account notes suggest that full payment was received in 2005 but the account still appears as an aged debt and assigned to a Debt Collection Officer for recovery [redacted]; and • Case notes on another case suggest that the debt was very old and as such the debt recovery team could not identify the delinquent debtor and the original invoice requester [redacted]. An additional sample of 20 outstanding staff debts was examined and the following established: • Five cases were identified where the date of last action taken by the debt recovery team was noted to be over two years ago (dating back to 17 November 2014) [redacted], and • 16 cases were identified where the only type of recovery action taken was reminder letters being sent out, [redacted] Discussion with the Debt Recovery Manager established that batches of debts that need to be collected will be added to each debt collectors existing portfolio of debts and that priority is generally given to the higher debts, with smaller debts not being afforded the same level of attention and, in some cases, not being progressed. Where appropriate and timely actions are not taken to recover debt or to pass debt to the professional enforcement team, there is an increased risk that recoverable debts may not be recovered at all/timely.

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
The corporate debt recovery manager is reviewing all aged debt with a view to establishing further recovery options or recommending write offs. This will also be reviewed monthly in staff appraisals.	Agreed	Debt Recovery Manager / Strategic Collections Manager	Quarter 1 & 2 2017/18

Priority	Recommendation 4	Detailed Finding/Rational
2	Critically review customer accounts held on the system as 'in dispute'. Agree an escalation and write off policy for disputed debts with the Director of Finance Investment and Risk. (Any such policy should consider the role of the original invoice requestor).	The London Borough of Croydon Corporate Write off Policy was found to state that *'Unrecoverable debt must be classified as such at the earliest opportunity and accounted for under the appropriate legislation and procedures'.* Discussions with the Debt Collection Officer established that disputed invoices remain in the in the debt collectors portfolio until they are either paid or cancelled with a credit note. Examination of the list of disputed invoices identified that customer accounts are held as in dispute for as many as 24 years (since March 1992). The debt write off policy does not deal with longstanding disputed invoices. Where longstanding unresolved disputes are not cleared from the debt collector's portfolio, there is a risk that resources may be used to chase irrecoverable amounts which could result in inefficiencies.

Management Response	Agreed/Disagreed	Responsible Officer	Deadline

The date of the invoice is not the date of the dispute, each account needs to be checked manually to establish the date of dispute. It has been established that staff have been using the "dispute" stage as a holding bucket before putting accounts forward for write off. This process has now been stopped. We would not advocate writing off long outstanding disputes as this would mean the organisation is paying twice for the service, i.e. 1) when the invoice is raised and the department is credited with the value of the invoice and 2) the cost to the bad debt provision if the debt is subsequently written off. The cost of long outstanding disputed invoices should be borne by the department through either dealing with the dispute appropriately, or raising a credit note. As the service departments are automatically credited when an invoice is raised there is no driver to resolve disputes in a timely manner. What would be helpful to aid recovery and appropriate dispute resolution is if a recommendation is made to change the policy so that if disputes are not resolved within 3 months (or reasonable time scale) a credit note should be raised by the department. This then puts the onus back onto the service to deal with disputed cases.	Agree	Debt Recovery Manager / Strategic Collections Manager	By the end of quarter 2 2017/18

Control Area 6: Instalment Arrangements

Priority	Recommendation 5	Detailed Finding/Rational
2	Instalment arrangements should be regularly and actively monitored.	Instalment arrangement are normally agreed to enable debtors to reduce larger debts over a period of time. Discussions established that each of the debt collection officers will have some debtors with instalment arrangements. There was, however a lack of evidence to demonstrate that instalment arrangements were being monitored and that any default instalment payments were being identified and appropriate actions taken. Where instalment arrangements are not actively monitored, there is a risk that debtors defaulting on these arrangements may not be detected in a timely manner, which will impact on the debt recovery process.

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
Collectors monitor their special arrangements within their portfolio. The portfolios are now kept on the shared drive, so that the manager can clearly access to monitor these. When an instalment is not paid an electronic reminder notice is generated by Oracle. Collectors check this on a daily basis.	Agree	Debt Recovery Manager / Strategic Collections Manager	Monitored monthly during appraisals and quality assurance checks by manager.

Control Area 7: Write off

Priority	Recommendation 6	Detailed Finding/Rational
2	Debt write off should be processed on a quarterly basis. Critically review all debts over six years old and consider writing off these debts.	The Council's Corporate write off policy states that *'Internal and External auditors have recommended that write offs are completed in a timely manner i.e. quarterly. Old debt should not be allowed to accrue in the Council's financial records."* Discussions with the Debt Recovery Manager established that write offs are not currently being processed on a quarterly basis. Internal audit established that as at November 2016, the last processing of write off that was carried out in March 2016. Additionally, the examination of the list of outstanding staff debt identified 3,086 debts where the invoices were due over six years ago. Furthermore, the examination of the list of unpaid debts assigned to Debt Collection Officers in September 2016 identified that some delinquent transactions dated back to the year 1992 (24 years). Where debts are not regularly reviewed and written off where applicable, there is a risk that unnecessary recovery actions may be taken where it has already been established that the debt is irrecoverable.

Management Response	Agreed/Disagreed	Responsible Officer	Deadline
Write offs will be done quarterly from 2017/18.	Agreed	Debt Recovery Manager / Strategic Collections Manager	2017-18

4. Priority 3 Recommendations

Recommendation	Findings
a) The Central approval team should ensure that invoices are raised within the two days target following department approval. __Management Response__ We will investigate these.	The invoice request and approval guidance states that *'Once the invoice is at DEPT. APPROVED status, target to Central Approve = 2 working days from date the request was Dept. Approved.'* On examination of a sample of 20 invoices raised on oracle, four cases were identified where invoices were raised more than two days following department approval. [redacted] Where invoices are not raised on Oracle timely, there is a risk that customers may not receive invoices in a timely manner, which could result in delay in the council receiving payment and poor liquidity to the Council.
b) Evidence should be retained to show that credit notes have been checked against original invoices prior to being raised on Oracle. __Management Response__ All credit notes are checked against original invoice the process has been changed to record the name of the person whom is carrying out the check. This was previously shown on the work plan, but initials have now been added to the checking process	Credit notes should be checked against the original invoice to ensure correct customer account details and correct amounts prior to being raised on Oracle. While discussions established that credit notes were checked against original invoices prior to being raised on oracle, evidence of this check was not maintained in the 10 sampled cases examined. Where credit notes are not checked against the original invoice, there is risk that credit notes may be raised incorrectly which could result in financial loss to the Council and wasted time rectifying errors.
c) Staff guidance notes should be periodically reviewed. Guidance in place relating to the provision of doubtful debt should be made available. __Management Response__ The dispute guidance note will be brought up to date by the end of this financial year. Doubtful debt and bad debt is the same thing. This was explained to the auditor by our accountants when they queried this during the audit. __Audit Comment:__ A bad debt is where debt recovery actions are exhausted and the debts are written off as irrecoverable. Doubtful	Examination of a sample of six procedure notes, identified that the dispute escalation guidance note was out of date. It was also identified that there was no guidance in place relating to the provision of doubtful debt.

debt is an accounting provision, where the true value of bad debts is estimated for the annual accounts.	

Appendix 1

Audit Terms of Reference

Debtors – Accounts Receivable

1. INTRODUCTION

1.4 Customers make payments to the Council for a variety of purposes and services received. These payments are administered by the Accounts Receivable Team, separate to the Corporate Debt Recovery Team. The exceptions are Council Tax, Business Rates and Housing Rents.

1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. OBJECTIVES AND METHOD

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes relating to Debtors.

2.2 The audit will for each area included in the scope:

- Document and evaluate the risks and controls for each process to consider the key controls;
- Walkthrough the processes to consider the key controls;
- Undertake sufficient testing of controls operating, on a representative sample basis; and
- Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE

3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements;	0	0	1
Amendments to Standing Data ;	0	0	0
Raising Invoices;	0	1	0
Income collection and Monitoring ;	0	0	1
Debt Recovery Action;	0	3	0
Instalment Arrangements ;	0	1	0
Write offs;	0	1	0
Provision for Bad Debts;	0	0	1
Risk Register.	0	0	0
Total	**0**	**6**	**3**

Appendix 2

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

Appendix 3

STATEMENT OF RESPONSIBILITY

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

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our 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 our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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