

# Cross Council Assurance Service

## **Internal Audit Report** ***Finance Global Design Principles Control Mapping*** ***Follow-up Audit Review: Accounts Receivable*** (Service Area Processes) **2020/21**

**To:** Director of Finance  
Assistant Director, Investments and Innovation  
Head of Finance (Exchequer)  
Assistant Director, Business Partnering  
Assistant Director, Communities and Performance – Adults & Health  
Head of Finance Adult Social Care & Public Health  
Head of Finance Environment, Parking & Corporate Reporting  
Head of Finance Growth, Housing & Corporate Services  
Head of Finance Children’s Social Care & Education  
Head of Finance Planning & Strategy

**Copied to:** Assistant Finance Manager (AR)  
Finance Manager – Financial Systems  
Head of Finance Chief Accountant  
Capita Finance Systems CST Manager

**From:** Internal Audit Executive, LBB  
Head of Internal Audit, LBB

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

## Executive Summary

Assurance level	Number of recommendations by risk category				
<b>Limited Assurance</b>	<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
	-	1	3	-	-
<b>Scope</b>					
<p>This review was undertaken as part of the London Borough of Barnet Internal Audit &amp; Anti-Fraud Strategy and Annual Plan 2020-21, which was approved by the Council's Audit Committee on 14th July 2020.</p> <p>In March 2020 Finance undertook a self-assessment of their financial control environment by comparing/mapping expected control processes (principle questions) to control processes in operation in LBB finance systems. The exercise covered control processes in operation in various control categories/levels within the finance systems: Purchase to Pay, Order to Cash, Record to Report, Tax, Payroll, Expenses, Investment Appraisal, Project Accounting, Non-Current Assets and Cash Management. The assessment by control category/level was rated green, amber or red depending on whether expected controls existed in the LBB Finance control environment. The following overall ratings applied - green (over 80% of expected controls met), amber (50-80% of expected controls met) and red (less than 50% of expected controls met). The objective rating of the AR consists of green (Process management 88% and supporting activities 85%), amber (Master data set up 65%, Invoice generation 73%, Receipting 67% Debt management 68%) and red (Compliance control 38%, Management information 45%). It was agreed at the time that Internal Audit would undertake a review six months later to assess whether the identified controls were operating as expected.</p>					
<b>Summary of findings</b>					
<p>This audit has identified 1 high and 3 medium risk findings.</p> <p>We identified the following issues as part of the audit:</p> <ul style="list-style-type: none"> <li>• <b><u>Accuracy of Credit Note Processing - Unallocated credit notes (High)</u></b>: We found 214 cases of unallocated credit notes of a total sum of £678,899. 23/214 (10.7%) of these unallocated credit notes have been outstanding for over three years.</li> <li>• <b><u>Accuracy of Credit Note Processing - Approval limits (Medium)</u></b>: We established that the approval limits are set for all Managers and above to £999,999.00. There is no limit set up on the system relevant to the Manager's approval limit set up in the delegation of authority.</li> <li>• <b><u>Authorisation of Refunds - Lack of Interface (Medium)</u></b>: We established within our sample that 2/15 (13%) of the refunds tested were not fully allocated to the invoices. We also established that the invoicing system and the refund systems are not linked together by an interface.</li> <li>• <b><u>Invoice Accuracy - Replication of customer master file changes (Medium)</u></b>: We noted that the master files are not replicated in other systems as there is no interface (for e.g. Mosaic, GL Feeder systems).</li> </ul>					

## 2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk category	Agreed action
1.	<p><b><u>Accuracy of Credit Note Processing - Unallocated credit notes</u></b></p> <p>We reviewed the credit notes report and we found 214 cases of unallocated credit notes of a total sum of £678,899.27. The majority of these were related to invoices raised by Adults Social Care.</p> <p>Approved credit notes are mandated to be matched to the invoices, but the review of the current process revealed inadequacies in the control process. Each credit note is supposed to be matched with its invoice within 7 days of its approval, but our testing revealed that (see table below):</p> <ul style="list-style-type: none"> <li>• 23/214 (11%) of the unallocated credit note cases are over 1000 days. Furthermore, the three oldest unallocated credit notes in this category are over 2000 days old. They were produced between February and March 2015.</li> <li>• 3/214 (1%) of the unallocated credit note cases are over 800 days old, while 35/214 (16%) are above 500 days.</li> <li>• 37/214 (17%) of the unallocated cases are over 200 days</li> <li>• 28/214 (13%) the cases are above 100 days.</li> <li>• 88/214 (42%) of the cases are above 10 days old.</li> </ul> <p>The delays are contrary to standard accounting procedure and are not in line with good financial practice. This might impact negatively on the council's account balances, could lead to inaccurate accounting records, and if not addressed could become material, leading to the</p>	<p>If - based on delays or erroneous actions - customer invoices are not credited where due, <b>then</b> there is a risk of reputational damage to the Council where action is taken to collect debts which are not due</p>	<p><b>High</b></p>	<p>a) <i>Budget Managers will take responsibility for credit notes raised and allocated in their area. Budget Managers will track and report on credit notes raised in their budget area and ensure that all outstanding unallocated credit notes are matched with their invoices.</i></p> <p>b) <i>Finance Managers will ensure there is a regular (as appropriate to the service, at least half yearly) review of credit notes to identify where processes have lapsed with a view to moving credit notes through the system.</i></p> <p>c) <i>A query code will be created by the Systems Manager for aged credit notes, to enable a report on credit notes that have not been approved to be identified. This will facilitate reporting on unactioned / previously chased / old &amp; approved / old &amp; unapproved credit notes.</i></p> <p>d) <i>Diary notes will be utilised to give details of actions taken or progress made.</i></p> <p><i>Facilitate reporting on <b>Responsible officer:</b></i></p> <p>a) <i>Budget Managers in all Directorates</i>  a) &amp; b) <b>Adult Social Care:</b> <i>Assistant Director Communities and Performance</i></p>

Ref	Finding	Risks	Risk category	Agreed action																											
	<p>eventual qualification of the year end final accounts by the external auditor.</p> <table border="1"> <thead> <tr> <th colspan="3">Analysis of Unallocated Credit Note</th> </tr> <tr> <th>Age of Credit Note</th> <th>Number of Cases</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Above 1000 Days</td> <td>23</td> <td>11</td> </tr> <tr> <td>Above 800 Days</td> <td>3</td> <td>1</td> </tr> <tr> <td>Above 500 Days</td> <td>35</td> <td>16</td> </tr> <tr> <td>Above 200 Days</td> <td>37</td> <td>17</td> </tr> <tr> <td>Above 100 Days</td> <td>28</td> <td>13</td> </tr> <tr> <td>Above 10 Days</td> <td>88</td> <td>42</td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>214</b></td> <td><b>100</b></td> </tr> </tbody> </table>	Analysis of Unallocated Credit Note			Age of Credit Note	Number of Cases	%	Above 1000 Days	23	11	Above 800 Days	3	1	Above 500 Days	35	16	Above 200 Days	37	17	Above 100 Days	28	13	Above 10 Days	88	42	<b>TOTAL</b>	<b>214</b>	<b>100</b>			<p>supported by Head of Finance, Adult Social Care &amp; Public Health</p> <p>a) &amp; b) <b>All other Directorates: All Finance Business Partners</b></p> <p>c) Finance Manager – Financial Systems</p> <p>d) All Service Finance Managers/Officers and Assistant Income Manager</p> <p><b>Target date:</b></p> <p>a), b) &amp; d) 30 September 2021</p> <p>c) 30 November 2021</p>
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2	<p><b><u>Accuracy of Credit Note Processing - Approval limits</u></b></p> <p>We reviewed the credit notes' production process to confirm its effectiveness and accuracy. Our review revealed that credit notes are checked and authorised online on the Integra system by a wider group of staff than those covered by delegated limits. We noted (through discussion with the Assistant Manager – Finance) that the approvals are set to £999,999; and are not subject to business or individual budget manager authorisation limits. Effectively any one can authorise a credit note raised, even if this is not in their service area, giving rise to opportunity for collusion and fraud. The system needs to be configured to ensure that each staff member who can raise or allocate a credit note can only do so within a set delegated approval level and within a specified service area.</p>	<p>If - based on fraudulent or erroneous actions - customer, credits notes/refunds are invalid or debts are written off when they can be collected, <b>then</b> there is a risk of lost income and financial loss to the Council.</p>	Medium	<p>a) <i>The Chief Accountant will agree separate delegated limits needed for credit notes; as to what limits shall apply to each category of staff either through a separate document applying to credit note processing or by staff post.</i></p> <p>b) <i>The Systems Manager will devise a system to implement a process of locking down credits notes to who can raise them, and who can authorise them based on the position of the person who raised them.</i></p> <p><b>Responsible officer:</b></p> <p>a) Head of Finance Chief Accountant</p>																											









Ref	Finding	Risks	Risk category	Agreed action
	<p>The current control is inadequate and there is a risk of fraudulent approval or collaboration.</p>			<p>b) Finance Manager – Financial Systems Assistant Income Manager</p> <p><b>Target date:</b> a) &amp; b) 30 November 2021</p>
3.	<p><b><u>Authorisation of Refunds - Lack of interface:</u></b></p> <p>A sample of 15 refunds cases were randomly selected from the year 2020/21 refund report obtained from the Accounts Receivable Team for our testing.</p> <p>The testing established that the refunds were checked for accuracy and authorised appropriately before they were made. However, we noted that:</p> <ul style="list-style-type: none"> <li>• 2/15 (13%) of the refunds in Adults Social Care were not fully allocated to the invoices. The invoices for the two payments were unallocated by the time they were refunded; and</li> <li>• Refunds could differ from the invoice amount because invoices and refunds are processed on separate systems of Integra which do not have an interface to validate the amounts processed. (Invoices are produced through the Sales Ledger while refunds are processed API debit of integra). Consequently, differences in invoice and refund values will not be identified and investigated. Potentially higher (fraudulent) refunds can be made.</li> </ul>	<p><b>If</b> - based on fraudulent or erroneous actions - customer invoices are incorrectly refunded or debts are written off when they can be collected, <b>then</b> there is a risk of financial loss and reputational damage to the Council. The impact of this could lead to the qualification of the accounts.</p>	Medium	<p>a) <i>When a refund is entered and matched to an invoice/account, a PDF report will be generated summarising the entry (content to be agreed) to replace evidence from Integra that the account is in credit (by way of Screen shot of the unallocated payment on the customer account). The PDF report will be generated automatically on allocation and sent by email to either a) the person entering the refund, b) person matching the refund to a payment/credit note or c) AR team. This will need to go to the person who will submit the request in AP.</i></p> <p>b) <i>In the longer term, the AP form/process will be amended by the systems team. When the exception code of refund is selected, the form will prompt for the refund reference number from the Sales Ledger. This will only allow the selection of a fully allocated refund that has not been</i></p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>We discussed this with the Finance Manager – Financial systems who informed us that this interface is not possible in Integra and manual matches need to be made.</p>			<p><i>processed before. (When the manager is approving, they will be presented the name and address details of the customers to compare to the details provided on who is to be paid. This will remove the requirement from Integra that the account is in credit (by way of Screen shot of the unallocated payment on the customer account).</i></p> <p>c) <i>The change at (b) will be added to the changes discussed at the AP/Integra/Schools Traded Services Contract Monitoring Meeting (CMM), so this can be monitored to completion.</i></p> <p><b>Responsible officer:</b></p> <p><b>a) Adult Social Care:</b> Assistant Director Communities and Performance supported by Head of Finance, Adult Social Care &amp; Public Health</p> <p><b>a) All other Directorates: All Finance Business Partners</b></p> <p><b>b) Finance Manager – Financial Systems</b> (supported by Capita Finance Systems CST Manager)</p> <p><b>c) Head of Finance (Exchequer)</b></p> <p><b>Target date:</b></p> <p>a) 31<sup>st</sup> July 2021</p> <p>b) and c) 30 September 2021</p>

Ref	Finding	Risks	Risk category	Agreed action
4.	<p><b><u>Invoice Accuracy - Replication of customer master file changes</u></b></p> <p>We reviewed the process and controls in place to establish if master files are replicated in other systems to ensure accuracy of data and information across the accounting process.</p> <p>Our discussion with the Assistant Manager - Finance revealed that master files are not automatically replicated on other systems as required. For example, the 'Masterfile' on the Mosaic system is not automatically replicated on the sales ledger system used in producing invoices; thereby making the process inefficient as members of staff have to manually update the files to process such information.</p> <p>There is a risk of mistakes in the process of replicating the master file information as there are no interfaces in place to assist in automated replication of the master files across the system.</p>	<p><b>If</b> - master files information is not automatically replicated on other systems as required, <b>then</b> there is risk of errors incorrect charges leading lost income and financial loss to the Council.</p>	<p><b>Medium</b></p>	<p>a) <i>Management will look at the possibility of automated interfaces between the systems to ensure adequate communication and reduce errors and time wasted on manual replication of files by staff.</i></p> <p><b>Management Comments:</b></p> <p><i>Finance are unable to take ownership of this action due to the IT scope. The requirements of this action cover master data such as supplier and customer databases, employee data and various codes used across systems which is a high level and strategic project that will involve a lead from each of the various IT systems.</i></p> <p><b>Responsible officer: None</b></p> <p><b>Target date: N/A</b></p>

## Appendix 1: Definition of risk categories and assurance levels in the Executive Summary

Note: the criteria should be treated as examples, not an exhaustive list. There may be other considerations based on context and auditor judgement.

Risk rating	
<b>Critical</b> 	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale &amp; service performance (e.g. mass strike actions); or</li> <li>• Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or</li> <li>• Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members &amp; Senior Directors are required to intervene; or</li> <li>• Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.</li> </ul>
<b>High</b> 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale &amp; performance of staff; or</li> <li>• Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or</li> <li>• Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or</li> <li>• High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.</li> </ul>
<b>Medium</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale &amp; performance of staff; or</li> <li>• Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or</li> <li>• Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or</li> <li>• Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.</li> </ul>
<b>Low</b> 	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or</li> <li>• Minor impact on the reputation of the organisation; or</li> <li>• Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or</li> <li>• Handled within normal day to day routines; or</li> <li>• Minimal financial loss, minimal effect on project budget/cost.</li> </ul>
Level of assurance	
<b>Substantial</b> 	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
<b>Reasonable</b> 	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>
<b>Limited</b> 	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>
<b>No</b> 	<p>There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.</p>



## Appendix 2 – Analysis of findings

Area	Critical		High		Medium		Low		Total
	D	OE	D	OE	D	OE	D	OE	
Area 1 Invoice Accuracy	-	-	-	-	-	1	-	-	1
Area 2 Accuracy of Credit Note Processing	-	-	-	1	-	1	-	-	2
Area 3 Authorisation of Refunds	-	-	-	-	-	1	-	-	1
Area 4 Debtor Management	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	1	-	3	-	-	4

### Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate; however, the control is not operating as intended resulting in potential risks arising in this area.

Timetable					
<b>Terms of reference agreed:</b> Date: <b>15 September 2020</b>	<b>Fieldwork commenced:</b> Date: <b>17 December 2020</b>	<b>Fieldwork completed:</b> Date: <b>24 December 2020</b>	<b>Draft report issued:</b> Date: <b>2 Feb 2021</b> Then revised version to whole group <b>28 May 2021</b>	<b>Management comments received:</b> Various. Final agreement received 28 June 2021.	<b>Final report issued:</b> Date: <b>28 June 2021</b>

### Appendix 3 – Identified controls

Area	Objective	Risks	Identified Controls
<b>Invoice Accuracy</b>	All customers are invoiced accurately and in a timely fashion. Invoices are subject to review and approval before submission to customers.	<b>If</b> - based on fraudulent or erroneous actions - customer invoices are incorrectly charged, credits notes/refunds are invalid or debts are written off when they can be collected, <b>then</b> there is a risk of lost income and financial loss to the Council.	There is process in place to check accuracy and authorise invoices and credit note before they are finally processed.  Bulk invoices are approved by senior officers
<b>Accuracy of Credit Note Processing</b>	Credit notes are appropriately and independently authorised	<b>If</b> - based on fraudulent or erroneous actions - customer invoices are incorrectly charged, credits notes/refunds are invalid or debts are written off when they can be collected, <b>then</b> there is a risk of lost income and financial loss to the Council	Identified control Credit notes are checked for accuracy  Credit notes are authorised for processing by senior officers.
<b>Authorisation of Refunds</b>	Refunds to customers are appropriately authorised (refer to API processing in Accounts Payable objective)	<b>If</b> - based on fraudulent or erroneous actions - customer invoices are incorrectly charged, credits notes/refunds are invalid or debts are written off when they can be collected, <b>then</b> there is a risk of lost income and financial loss to the Council	Identified control Refunds are checked and authorised before payments are made.
<b>Debtors</b>	Outstanding debts are monitored and chased for collection routinely	<b>If</b> debtors' balances are allowed to remain unpaid for excessive periods, <b>then</b> there is a risk that amounts due may	Age debts analysis is produced monthly to monitor the debts.  Doubtful debts are passed to the debt collection agents for action

	Bad debts are appropriately authorised.	never be recovered and that a culture of non-payment may arise compromising the Council's financial position in the long term.	Bad debts are compiled periodically for senior management approval before they are written off.
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## **Appendix 4 – Internal Audit roles and responsibilities**

### ***Limitations inherent to the internal auditor's work***

We have undertaken the review of ***Finance Global Design Principles Control Mapping - Follow-up Audit Review: Accounts Receivable***, subject to the limitations outlined below.

#### ***Internal control***

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Specifically, we will not:

- Include system access controls as this will be part of the GL audit
- Be focusing on account receivable receipts collection and reconciliation processes as this will be reviewed under the cash and bank audit

#### ***Future periods***

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

### ***Responsibilities of management and internal auditors***

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.