Report of the Chief Auditor

Audit Committee – 10 December 2019

Fundamental Audits 2018/19 Recommendation Tracker

Purpose:	This report provides a summary of the recommendations made following the fundamental audits in 2018/19 and identifies whether the agreed recommendations have been implemented.
Policy Framework:	None.
Consultation:	Legal, Finance, Access to Services
Recommendation(s):	It is recommended that Committee review and discuss the progress made in implementing the recommendations made following the fundamental audits 2018/19.
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1. Introduction

1.1 The Internal Audit Section has defined follow up procedures which are designed to provide assurance that agreed recommendations have been implemented by management within the agreed timescales. For fundamental audits, a Recommendations Tracker exercise is completed each year where the auditor will review the actions taken to implement the agreed recommendations.

1.2 The fundamental audits are the systems which are so significant to the achievement of the Council's objectives that they are audited ether annually or every two years.

1.3 The Recommendations Tracker identifies the actions agreed by management at the end of each fundamental audit and tracks whether they have been implemented by the agreed date.

1.4 This report summarises the position as at 30 September 2019 on the implementation of the recommendations made following the 2018/19 fundamental audits.

2. Recommendations Tracker 2018/19

2.1 The following systems are considered to be fundamental and until 31 March 2014 were subject to an annual audit.

- Main Accounting System (2)
- Fixed Assets (2)
- Housing and Council Tax Benefit (2)
- Council Tax (2)
- NNDR (2)
- Cash (2)
- Accounts Payable (1)
- Accounts Receivable (1)
- External Investments and Borrowing (2)
- Pension Fund Investments (2)
- Employee Services (Payroll) (1)
- Pensions Administration (1)
- Teachers Pensions (2)
- Housing Rents (2)

2.2 From 2014/15, a risk based approach was taken to determine the required frequency of fundamental audits. Any audits which had received the highest level of assurance for 3 consecutive years were moved to a 2 year cycle. The number of years between each audit is shown in brackets above and is subject to an annual review as part of the audit planning process. It should also be noted that following the completion of the 2018/19 fundamental audits, 12 out of the 14 audits had received a High Assurance rating, one audit has a Substantial Assurance rating (Accounts Payable) and one has a Moderate Assurance Rating (Accounts Receivable) at the last time of audit.

2.3 Appendix 1 shows, for each fundamental audit, the number of recommendations made following the 2018/19 audits and whether they have been implemented, partly implemented, not implemented or are not yet due.

2.4 The latest position on the 46 recommendations made is summarised in the following table

Recommendations	Number	%
Implemented	34	74
Partly Implemented	5	11
Not Implemented	6	13
Not Yet Due	1	2
Total	46	100

2.5 Ignoring the recommendations which are not yet due for implementation, the percentage of recommendations implemented by 30 September 2019 is 76%.

2.6 An analysis of the 11 recommendations, which have been partly or not implemented over the classification of audit recommendations used by the Internal Audit Section, is attached in Appendix 2. The Appendix shows that of the five recommendations that had been partly implemented, one was classed as high risk, two were medium risk, one was low risk and one was a good practice recommendation. The partly implemented High, Medium and Low Risk recommendations all related to the Accounts Receivable audit. This audit continues to be completed on an annual basis, and as a result the implementation of the outstanding recommendations will be reviewed as part of the 2019/20 audit. Please also see the additional commentary below in relation to the Accounts Receivable follow up results.

2.7 The remaining 6 recommendations that had not been implemented were classed either low risk or good practice and were in relation to the Accounts Payable audit. This is also audited on an annual basis.

2.8 Further details on the recommendations which have been partly or not implemented can be found in Appendix 3.

3. Accounts Receivable Audit

3.1 The Accounts Receivable Audit was issued with a moderate level of assurance in March 2019, with a summary of the key issues that resulted in the assurance rating being reported to Audit Committee in June 2019 as part of the Internal Audit Quarterly Monitoring Report.

3.2 The Audit Committee also received an update report from the Service Centre Manager and Cash Management & Accounts Receivable Manager, which detailed the progress that had been made in implementing the recommendations made as at May 2019.

3.3 The Chair of the Audit Committee queried whether the ‘decentralisation’ of debt recovery was prolonging the recovery process and assurances were sought in relation to the effectiveness of the debt recovery process via the follow up exercise.

3.4 The results of the follow up exercise revealed that the actual recovery of debt hasn't been 'decentralised' as such, as the Accounts Receivable (AR) Team, in collaboration with the Legal Department, still retain overarching responsibility for the debt recovery process. This process, and the associated time limits, has not changed. However, it was confirmed that the Accounts Receivable Team do rely on Service Department (SD) involvement at various stages during the process.

3.5 The steps involved in the invoicing and debt recovery process have been summarised in the table in Appendix 4. This shows that Service Departments are involved in the following stages of the process:

i) Raising of the invoice.
ii) Resolving invoice disputes.
iii) Monitoring outstanding debt in collaboration with the AR Team. AR promotes SD engagement with the debtor by liaising with SD Officers and educating them on how to access system reports and advising on monitoring processes. Due to the limited resources of the AR team, a flexible approach is taken so that selective engagement is targeted at those SD's with high value debts, where recurring services are being provided and/or where there is evidence of a lack of action being taken by the SD to engage with debtors. The debt areas selected is varied so that all areas are covered at some point but it is not possible to target all areas at once with the current resources and backlog.
iv) As per the AR/Legal Department Protocol, where the debt remains outstanding, AR contact the SD to provide evidence of the debt as required by the Pre-Action protocol legislation as this is required before any court action can be taken by the Legal Department.

3.6 To conclude, whilst it is clear that the AR Team encourage SD's involvement in the debt recovery process, the underlying AR/Legal protocol stipulates the deadlines and associated actions that are initiated during the debt recovery process. The underlying process has not changed. However, as noted above, the AR Team has sought to encourage greater involvement of SD Officers in an attempt to increase engagement with debtors throughout the debt recovery process.

3.7 It should be noted that any lack of action by SD's would not have any impact on the underlying actions that are initiated as stipulated in the AR/Legal Protocol. As such, the debt recovery process has not been 'decentralised', with AR and the Legal Department processes remaining unchanged.

3.8 As noted in the Accounts Receivable Audit Report, the deterioration in the debt recovery rates is primarily the result of the reduced resources in both the Accounts Receivable Team and in the Legal Department.

3.9 Discussions with the Accounts Receivable Manager revealed that due to regulatory requirements, SD's have to provide evidence of any debt before the Legal Department is able to take any action. As a result, some debts remain with AR pending referral to Legal whilst awaiting evidence of the debt from the SD's. It is accepted that on occasion, this has prolonged the time taken by AR to refer debts to Legal. (Note that previously, AR referred the debt to Legal and the Legal Department was required to obtain evidence of the debt from SD's. Retention of this step by AR has standardised the evidence request process).

3.10 As noted in Appendix 3, one high risk and two medium risk recommendations had not been fully addressed at the time of the AR follow-up review. As noted previously, the main reason provided for the recommendations not being implemented was resource limitations, and it is not envisaged that the resource challenges faced by the AR and Legal Department will ease in the near future. The full annual audit of AR is due to commence imminently and the results will be reported back to Committee in due course.

3.11 Following the introduction of the new referral process, officers in Legal have been dealing with cases referred from AR in a timely manner and as a result there is no backlog of recent referrals. However, the long standing issue of the variances in the historical debt listing between Legal and AR remains and will do so until the reconciliation process is completed. As a result, it was agreed that current referrals would be prioritised over historical debts until the data cleansing exercise had been completed. Please note that all six of the debts in the sample noted in Appendix 3 (Recommendation 3.6.7) where it was noted that legal action had not been taken were debts currently listed on the historical reconciliation list, and hence these were not considered as a priority.

3.12 In connection with the points above, Committee should be made aware of the fact that due to Oracle Cloud testing that commenced in November 2019, three of the six existing AR staff have been seconded to this project for a year. It is envisaged that the three vacancies in the AR team will be filled and the remaining staff will be required to provide training. This will have a further immediate impact on the department's capacity to undertake recovery activities.

4. Conclusion

4.1 Overall the results of the Recommendations Tracker exercise to the end of September 2019 are positive with 35 (75%) of agreed recommendations due for implementation being implemented.

4.2 A small number of recommendations still require work to implement or are due for implementation prior to the end of the financial year. Progress on the implementation of these recommendations will be reviewed during the fundamental audits for 2018/19.

4.3 The Accounts Receivable and the Accounts Payable fundamental audits are completed on an annual basis and the results of the current year audits will be reported to Committee in due course.

5. Equality and Engagement Implications

5.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

5.2 There are no equality and engagement implications associated with this report.

6. Financial Implications

6.1 There are no financial implications associated with this report.

7. Legal Implications

7.1 There are no legal implications associated with this report.

Background Papers: Fundamental Audit Reports 2018/19

Appendices: Appendix 1 – Implementation of Recommendations
Appendix 2 – Classification of Recommendations
Appendix 3 – Not or Partly Implemented Recommendations
Appendix 4 – Invoice & Debt Recovery Process