



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

## Internal Audit Report 2006/07

West Wiltshire District Council  
Income, Debtors and Cash Receipting  
**DRAFT:** 9th March 2007

**Overall Report  
Rating:**

**Good**

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### Status of Report

Discussion draft issued: 9 March 2007

Management Responses Received:

Final Report Issued:

Presented to Audit  
Committee

### Distribution

To (for action):

Ian Jamieson – Head of Finance

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# 1. Executive summary

## Introduction

As part of internal audit's review of the general control environment within the Council a review of Income, Debtors and Cash Receipting was undertaken. This audit was completed as part of the agreed internal audit plan for 2006/2007. The objective of the audit was to provide management with information as to the adequacy and effectiveness of the financial control environment in place which ensures objectives are achieved and risks adequately managed. This approach included:

- Determining the key risks impacting on the achievement of the objective;
- Identifying the controls in place to mitigate these risks;
- Assessing the design of these controls; and
- Reviewing the operation of these controls.

## Context

The main income streams for the Council (other than council tax and business rates) are from property management, car parks, fees charged for licensing and planning applications and chargeable services provided such as pest control.

Income is received by several methods – in cash, cheque, or direct to the bank electronically. The cash receipting system is uploaded to the main accounting system – Agresso – on a daily basis. These totals are checked on a daily basis.

Invoices are raised by the Finance Department from an order, raised either by Finance or a Council department. The invoice is then sent to the customer by Finance or by the originating department.

Debtors and the recovery of arrears is managed by the central Finance team. The recovery procedure is:

- 21 days – initial reminder;
- 35 days – second reminder;
- 50 days – final reminder with warning of possible action from debt collection agency.

## Acknowledgements

We would like to take this opportunity to thank your staff for their significant assistance and co-operation during our work.



# 1. Executive summary - continued

## Conclusion

From the work performed on the Income, Debtors and Cash Receipting systems, we consider that there is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved. As a result, we have graded this area as Good.

We have made one recommendation, which will address the identified weakness. The implementation of our recommendation should enhance the control environment and provide an increased level of assurance to the Council and management from the date of implementation.

The main findings of our review are highlighted below. Further details, together with our recommendations, are included in the 'detailed findings and recommendations' section of the report which can be found on page 7.

Areas of good practice	Areas for further development
<p>Our review identified the following areas of good practice:</p> <ul style="list-style-type: none"><li>•The Council has written procedures for Income, Debtors and cash receipting;</li><li>•Aged debtor listings are used for the control and monitoring of arrears;</li><li>•Orders are utilised for the raising of invoices and subsequent income recognition;</li><li>•Segregation of duties exist between the raising of invoices and receipt of payments;</li><li>•Cash totals received are checked on a daily basis;</li><li>•A variety of payment methods are offered by the Council;</li><li>•A debt recovery procedure has been established which specifies the action to be taken and timescales;</li><li>•Reminders are automatically issued by the computer system;</li><li>•Procedures have been established for writing off debts.</li><li>•Debt levels and their recovery rates are periodically reported to management and Council.</li></ul>	<p>Our work also identified the following areas where controls could be further strengthened:</p> <ul style="list-style-type: none"><li>•Debtor balances to the volume of £9,000 are still held on the old debtors system - IMAN</li></ul>

# 1. Executive summary - continued

We have assessed each finding in our report and assigned it a priority rating as follows:

High <span style="color: red;">□</span>	Medium <span style="color: yellow;">□</span>	Low <span style="color: green;">□</span>
Issues arising referring to important matters that are fundamental and material to the system of internal control. We believe that the matters observed might cause a system objective not to be met or leave a risk unmitigated. It will need to be addressed as a matter of urgency.	Issues arising that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part, or a risk may be adequately mitigated, but the weakness represents a deficiency in the system.	Issues arising that would, if corrected, improve the internal control in general but are not vital to the overall system of internal control.

The table below details the number of recommendations made, the priority assigned and those accepted by management.

	High	Medium	Low	Total
Recommendations Made	-	-	1	1
Agreed	-	-	-	-
Not agreed	-	-	-	-

The table below details the number of recommendations previously made in our 2005/06 review of Income, Debtors & Cash Receipting, accepted for implementation by the Council. Further information is provided in Appendix B.

	High	Medium	Low	Total
Recommendations accepted	-	5	1	6
Implemented	-	4	1	5
Partially implemented	-	-	-	-
Not implemented	-	1	-	1

## 2. Detailed findings and recommendations

#	Observation and priority	Risk	Recommendation	Management Response
1	<p><b>Debtors on the IMAN system</b></p> <p>The finance team have recently written off some of the debts on the former Income management system, IMAN. This system has been replaced by Agresso and is no longer used. However, as at December 2006 a debtors balance of £9,712.10 remained on the IMAN system.</p> <p>Low <input type="checkbox"/></p>	<p>Mis-posting errors could occur leading to the inaccurate reporting of financial and management information.</p>	<p>The Council should consider clearing the debtors on the IMAN system and recording them on Agresso in order to reduce the number of reconciliations and monitoring required to reduce the risk of mis-posting errors.</p>	<p>Accepted</p> <p>All IMAN debts are to be reviewed and live debts moved across to the Agresso system.</p> <p>To be completed by 30 September 2007.</p>

## Appendix A: Summary of work undertaken and risks reviewed

Summary of risks reviewed	Work undertaken	Controls operating effectively/as designed <sup>1</sup>	Management assessment <sup>2</sup>
<b><i>Income, Debtors and Cash Receipting</i></b>			
<ul style="list-style-type: none"> <li>Income due is not identified and billed</li> </ul>	<ul style="list-style-type: none"> <li>A sample of 5 license fees applications, 5 planning applications and 5 land charge applications was checked against the charge made in the ledger and the standard fee listings to ensure the correct fee had been charged</li> </ul>	Yes	Agreed
<ul style="list-style-type: none"> <li>Income due is not received in full</li> </ul>	<ul style="list-style-type: none"> <li>A sample of 30 debtor transactions was traced from invoice request to payment to ensure that payment was received in full in accordance with the amount invoiced.</li> <li>A sample of 2 amounts received in the ledger in respect of commercial property income was agreed to the invoice from the Council's agent Kavanagh's to ensure the amounts agreed.</li> </ul>	Yes	Agreed
<ul style="list-style-type: none"> <li>Income is not received in a timely manner</li> </ul>	<ul style="list-style-type: none"> <li>A sample of 4 debts from two of the monthly aged debt reports was reviewed to ensure that the arrears process had been followed</li> </ul>	Yes	Agreed
<ul style="list-style-type: none"> <li>Income is not banked promptly</li> </ul>	<ul style="list-style-type: none"> <li>A sample of 15 bankings relating to car park income was agreed to records maintained by Riverway Depot to ensure they had been banked promptly and the amount recorded in the depot database agreed to the amount banked.</li> <li>A sample of 30 debtor transactions was traced from invoice request to payment to ensure that the amounts received had been banked promptly.</li> </ul>	Yes	Agreed

<sup>1</sup> Control designed/operating effectively - this is our assessment as to whether controls identified are effectively designed and operating as intended based on our audit testing

<sup>2</sup> Management Assessment – management's decision as to whether they accept the risk (tolerate), agree to reduce the risk (treat) or they agree with our assessment that no further action is required (agreed).



## Appendix A: Summary of work undertaken and risks reviewed (continued)

Summary of risks reviewed	Work undertaken	Controls operating effectively/as designed <sup>1</sup>	Management assessment <sup>2</sup>
<ul style="list-style-type: none"> <li>Income is not recorded correctly on the general ledger</li> </ul>	<ul style="list-style-type: none"> <li>A sample of 5 credit notes was reviewed to ensure they had been authorised correctly and the credit recorded on the ledger</li> <li>Reconciliations of the IMAN and Agresso debtor control accounts for two months each were reviewed to ensure they had been prepared and reviewed in a timely manner and supporting documentation was on file and agreed to the reconciliation.</li> </ul>	Partially – see recommendation 1	Agreed
<ul style="list-style-type: none"> <li>Inappropriate sums received into the Council's bank accounts</li> </ul>	<ul style="list-style-type: none"> <li>A sample of 30 debtor transactions was traced from invoice request to ensure that the payment received as per the cash receipting report and bank statement agreed with the amount due as per the invoice.</li> </ul>	Yes	Agreed

<sup>1</sup> Control designed/operating effectively - this is our assessment as to whether controls identified are effectively designed and operating as intended based on our audit testing

<sup>2</sup> Management Assessment – management's decision as to whether they accept the risk (tolerate), agree to reduce the risk (treat) or they agree with our assessment that no further action is required (agreed).

## Appendix B: Follow up of previous recommendations raised

Original recommendation	Original management response	Implementation date	Updated position
<p><b>Recommendation 1</b></p> <p>The Council should develop and implement an appropriate system for the management of penalty fees.</p> <p>Priority: Medium</p>	<p>Accepted:</p> <p>It is agreed that the current manual system needs to be replaced.</p> <p>The Council may wait for the introduction of decriminalised parking (on street parking) before a new computer system is introduced. Potentially then a system encompassing on street and off street car parking enforcement may be introduced.</p> <p>The cost of the new system is the current barrier; a SARP bid may be put forward, but is unlikely to succeed prior to the introduction of decriminalised parking.</p>	<p>Timescale:</p> <p>Ongoing.</p> <p>Officer responsible:</p> <p>Interim Commercial Services Manager</p>	<p>Not implemented, although the Interim Commercial Services Manager has confirmed that the project to introduce decriminalised parking is underway and as part of that project a new system to manage on and off street parking will be purchased.</p>
<p><b>Recommendation 2</b></p> <p>The Council should develop and agree a formal policy for the recovery of car park penalty fees. This policy should be reliant on input from both legal services and commercial services staff, and should take account of the cost effectiveness of any actions proposed.</p> <p>Priority: Medium</p>	<p>Accepted:</p> <p>This recommendation has been implemented.</p> <p>Financial Services and Commercial Services have drawn up a new policy and procedure on the recovery of car park penalty fees. Using the existing two letter system, defaulters are now sent to the Council's debt collection agency rather than the legal section. The Council's legal section is happy with this approach.</p> <p>Persistent offenders will still be forwarded on to legal for chasing.</p>	<p>Timescale:</p> <p>Implemented.</p> <p>Officer responsible:</p> <p>Financial Accountant</p>	<p>Implemented. An email has been sent within finance to inform staff of the new procedures for chasing up car parking fines.</p> <p>Since the start of the year, the depot has regularly sent a list of all those who have not responded to the final reminder notice to the finance team</p> <p>The details are copied into a master spreadsheet of all car parking debts to go to the collection agency and sent to the agency when a sufficient number have built up. This year, debts for car parking have been sent in July, September and November.</p> <p>Finance monitor progress in terms of cash collected either directly from the agency (CapQuest) or through the cash office at the council.</p>

## Appendix B: Follow up of previous recommendations raised (continued)

Original recommendation	Original management response	Implementation date	Updated position
<p><b>Recommendation 3</b></p> <p>In developing a policy on the recovery of car park penalty fees, the Council should consider explicitly the course of action to be taken in respect of foreign registered vehicles.</p> <p>Priority: Low</p>	<p>Not accepted:</p> <p>This is a nationwide issue and is outside of the Council's control.</p> <p>The Council is dependant on the DVLA for issuing details of car owners who default on penalty fees. Although Commercial Services will request the information, the DVLA currently does not issue details of foreign drivers.</p>	<p>Timescale:</p> <p>Ongoing.</p> <p>Officer responsible:</p> <p>Interim Commercial Services Manager</p>	N/A
<p><b>Recommendation 4</b></p> <p>When a car park penalty fee is issued, the Council should recognise this as a debtor in its financial accounts.</p> <p>Priority: Medium</p> <p>The Council may wish to consider raising penalty fees through the finance section. This would put such fees on a par with other forms of income, and could serve to streamline the recording and recovery procedure for the fees.</p> <p>This course of action would respond to recommendations one and four in this report.</p>	<p>Not accepted:</p> <p>As penalty fees are issued at source and use only the offending car details, raising a debtor is not practical. To be able to raise a debtor an actual name and address would need to be obtained. This would delay the penalty fee process as details are obtained from the DVLA and may take up to three weeks.</p> <p>An invoice could still be raised once details have been obtained and payment is still outstanding, although this may complicate the process further with another tier of procedures for this type off penalty fee.</p>	<p>Timescale:</p> <p>Ongoing.</p> <p>Officer responsible:</p> <p>Financial Accountant</p>	N/A

## Appendix B: Follow up of previous recommendations raised (continued)

Original recommendation	Original management response	Implementation date	Updated position
<p><b>Recommendation 5</b></p> <p>The Council should formalise the contract between itself and Kavanaghs in respect of the management of commercial property.</p> <p>Priority: Medium</p>	<p>Accepted:</p> <p>The Kavanagh's contract has been agreed and is with the Council's legal section for signing.</p>	<p>Timescale:</p> <p>Ongoing.</p> <p>Officer responsible:</p> <p>Property &amp; Estates Manager</p>	<p>Implemented. A contract is now in place and has been reviewed as part of the audit.</p>
<p><b>Recommendation 6</b></p> <p>The Council should determine why leases between the Council and commercial property tenants are not consistently prepared and signed in a timely manner, and should identify any legal implications that this may have for the Council.</p> <p>Priority: Medium</p>	<p>Accepted:</p> <p>Leases should be standard with similar terms and conditions for all units on a site. This has been discussed with the Council's legal section and will only be fully resolved once all tenants have been replaced with new ones, which will be over a long period of time.</p>	<p>Timescale:</p> <p>Ongoing.</p> <p>Officer responsible:</p> <p>Property &amp; Estates Manager</p>	<p>Implemented. As indicated in the original management response, the implementation of this recommendation is an ongoing process.</p>

## Appendix B: Follow up of previous recommendations raised (continued)

Original recommendation	Original management response	Implementation date	Updated position
<p><b>Recommendation 7</b></p> <p>The Council should develop, agree and implement an appropriate timetable of actions to be taken in respect of new commercial property tenancies (including the signing of lease agreements), and should ensure that this timetable is reflected in the contract with its commercial property agents where necessary.</p> <p>Priority: Medium</p>	<p>Accepted:</p> <p>The Council is monitoring commercial property with its agents on a monthly basis, which includes the time taken for completion of leases. This highlights the reasons for any delay enabling issues to be resolved.</p>	<p>Timescale:</p> <p>Ongoing.</p> <p>Officer responsible:</p> <p>Property &amp; Estates Manager</p>	<p>Implemented. Monthly monitoring takes place between the council and its agents to ensure delays and other issues are resolved.</p>
<p><b>Recommendation 8</b></p> <p>The Council should recognise commercial property rent arrears as a debtor in its financial accounts.</p> <p>Priority: Low</p>	<p>Accepted:</p> <p>Problems with unknown amounts and missing data during the financial year lead to uncertainty on amounts, which could inflate the income position. At the year end a prudent approach is taken and every effort is made to ascertain the true position on commercial property rents and service charge as at the 31 March.</p> <p>The arrears information supplied by the commercial property agent will be improved to enable an accurate year end arrears position to be reported.</p>	<p>Timescale:</p> <p>Ongoing.</p> <p>Officer responsible:</p> <p>Financial Accountant</p>	<p>Implemented. The Assistant Management Accountant has been negotiating with Kavanagh's to supply the Council with more detail alongside the invoice. Currently, Kavanagh's do not send details of tenancy changes or current annual rates to finance so that they can reconcile the amounts they receive in each month with what they should be receiving.</p> <p>Kavanagh's have promised to provide this information shortly and the Assistant Management Accountant is monitoring the situation.</p>