

## **Hywel Dda University Health Board**

### **Core Financial Systems – Accounts Receivable**

### **Final Internal Audit Report**

**October 2020**

**Private and Confidential**

**NHS Wales Shared Services Partnership**

**Audit and Assurance Services**



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Audit and Assurance Services conform with all Public Sector Internal Audit Standards as validated through the external quality assessment undertaken by the Institute of Internal Auditors.

### **ACKNOWLEDGEMENT**

NHS Wales Audit & Assurance Services would like to acknowledge the time and co-operation given by management and staff during the course of this review.

### **Disclaimer notice - Please note:**

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## **1. Introduction and Background**

The review of the management of the Accounts Receivable function was completed in line with the Hywel Dda University Health Board Internal Audit Plan for 2020/21. The relevant lead Executive Director for this review was the Director of Finance.

## **2. Scope and Objectives**

The overall objective of the review was to provide assurance that all income due to the Health Board is properly identified, collected and accounted for under management control, in order to provide assurance to the Audit & Risk Assurance Committee that risks material to the achievement of the system's objectives are managed appropriately.

The purpose of the review was to establish if the Health Board has appropriate processes in place for the recording and accounting of income, and that timely information is received by management.

The areas that the review sought to provide assurance on were:

- An agreed policy or procedures are in place for the receipt of income;
- The Accounts Receivable function operates within a secure environment with restricted access to information;
- Debtors control accounts are kept up-to-date, reconciled and independently reviewed at an appropriate level;
- The control of debtor balances is managed and fully reported on; and
- Financial performance reporting of income is regularly submitted to an appropriate committee of the Health Board.

## **3. Associated Risks**

The potential risk considered in the review were as follows:

- Lack of an agreed financial procedure document;
- Poor security arrangements resulting in unauthorised access to the income control systems;
- Debtors balances are not adequately controlled; and
- Lack of regular financial reporting of income performance to the Health Board via an appropriate committee.


## **OPINION AND KEY FINDINGS**

### **4. Overall Assurance Opinion**

We are required to provide an opinion as to the adequacy and effectiveness of the system of internal control under review. The opinion is based on the work performed as set out in the scope and objectives within this report. An overall assurance rating is provided describing the effectiveness of the system of internal control in place to manage the identified risks associated with the objectives covered in this review.

The overall level of assurance that can be assigned to a review is dependent on the severity of the findings as applied against the specific review objectives and should therefore be considered in that context.

The level of assurance given as to the effectiveness of the system of internal control in place to manage the risks associated with Accounts Receivable is **Reasonable** assurance.

<b>RATING</b>	<b>INDICATOR</b>	<b>DEFINITION</b>
<b>Reasonable Assurance</b>		The Board can take <b>reasonable assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with <b>low to moderate impact on residual risk</b> exposure until resolved.





Overall, the controls in place to manage the risks associated with the systems and processes tested within the review were of a reasonable standard. We concluded that there was a current financial procedure in place for income and cash collections and systems were in place.

We also noted clear segregation of duties amongst Accounts Receivable function staff, the accurate completion and retention of monthly reconciliations, and the regular reporting of financial performance report to the Audit & Risk Assurance Committee.

Four medium priority findings were identified in regard of the prompt reviewing of monthly reconciliations, updating of the Oracle Business Suite financial procedure, the timely issuing of write-off reminder letters, and the referring of aged debts to the CCI debt collection agency in line with the timescales set out in the financial procedures.

## 5. Assurance Summary

The summary of assurance given against the individual objectives is described in the table below:

		Assurance Summary*			
Audit Objective					
<b>1</b>	An agreed policy or procedures are in place for the receipt of income				✓
<b>2</b>	The Accounts Receivable function operates within a secure environment with restricted access to information			✓	
<b>3</b>	Debtors control accounts are kept up-to-date, reconciled and independently reviewed at an appropriate level			✓	
<b>4</b>	The control of debtor balances is managed and fully reported on			✓	
<b>5</b>	Financial performance reporting of income is regularly submitted to an appropriate committee of the Health Board				✓

\* The above ratings are not necessarily given equal weighting when generating the audit opinion.

### Design of Systems/Controls

The findings from the review have highlighted **one** issue that is classified as a weakness in the system control/design for Accounts Receivable. This is identified in the Management Action Plan as (O).

### Operation of System/Controls

The findings from the review have highlighted **three** issues that are classified as weaknesses in the operation of the designed system/control for Accounts Receivable. These are identified in the Management Action Plan as (O).

## 6. Summary of Audit Findings

The key findings are reported in the Management Action Plan at Appendix A.

The periods of testing reviewed during this audit occurred during the Covid pandemic. Whilst we acknowledge the impact the pandemic had on the Finance Department's usual processes and ensuring key identified objectives were completed, compliance testing was undertaken in line with established policies and procedures.

### **OBJECTIVE 1: An agreed policy or procedures are in place for the receipt of income.**

An approved *Income and Cash Collection Financial Procedure (052 – FP02/01)* document is in place to provide information and guidance on the processes to follow when dealing with all aspects of credit control and debt recovery, including cash handling within the Health Board, and is available to all employees on the organisation's intranet site.

#### **No matters arising.**

### **OBJECTIVE 2: The Accounts Receivable function operates within a secure environment with restricted access to information.**

A review of the areas of responsibilities within the Accounts Receivable function confirmed adequate segregation of duties was being maintained.

An Oracle User System Access report was ascertained for the Accounts Receivable function. A random sample of 10 users were chosen from the report and reviewed to ensure the access level for each user was appropriate. Of the sample of 10 users, two users did not require an assigned module for their positions. On identification to Accounts Receivable staff, the access for the two users was reviewed and immediately withdrawn.

Whilst we can confirm that an *Oracle Business Suite – System Access & Ledger Security Financial Procedure (FP11/084)* is in place and highlights the requirements of obtaining access to the system, the responsibility for the removal of individuals' access, which lies with the line manager, is not explicitly referenced in the document.

#### **See Finding 1 at Appendix A.**

**OBJECTIVE 3: Debtors control accounts are kept up-to-date, reconciled and independently reviewed at an appropriate level.**

A review was undertaken of the main Accounts Receivable monthly reconciliation exercise. All reconciliations undertaken during this financial year (2020/21) for the period months 1-5 were reviewed to ensure they had been completed and reviewed by appropriate individuals in a timely manner as outlined in the *Income and Cash Collection Financial Procedure*.

Concluding testing, we identified two periods where reconciliations had not been promptly reviewed, with P02 reviewed the following month and P04 reviewed after the month-end deadline.

PERIOD	RECONCILIATION COMPLETION DATE	RECONCILIATION REVIEWED DATE
P02	11/06/20	20/07/20
P04	07/08/20	28/08/20

A one month period (P05) was selected and the reconciliation re-perform to ensure the accuracy of the reported figures. Concluding our walkthrough, we can confirm that the reported figures accurately reconciled to the general ledger.

All completed monthly reconciliation documents are held securely in a restricted access folder. The folder is only accessible to a designated group of individuals.

**See Finding 2 in Appendix A.**

**OBJECTIVE 4: The control of debtor balances is managed and fully reported on.**

The introduction of the new monthly combined aged debt report /bad debt provision and pivot has enabled this process to be undertaken quicker, complimenting the condensed monthly reporting framework. It was noted that the bad debt provision is limited to circulation within the finance function.

Testing was undertaken on a sample of 15 outstanding debts to ensure documented detail supports the correct action for the age and status of the debt. Of the 15 aged debts tested, all had been issued with a reminder letter in line within the timescales set out in the *Income and Cash Collection Financial Procedure*, with the exception of one item. However, this was due to a dispute on the invoice.

The previous internal audit report (H DUHB-1819-16) identified a high priority finding in regard of timely referrals to the CCI debt collection service. During this audit, of the 10 aged debtors sampled that had been passed over to CCI, we



identified six sample items that were not passed to CCI in line with the procedures set out in the *Income and Cash Collection Financial Procedure*.

Testing identified that for a sample of five debts that were written off, the time lapse between the due date of the invoice and the 1<sup>st</sup> reminder letter was outside of the parameters set out in the *Income and Cash Collection Financial Procedure* for two debts.

Invoice No.	Invoice Date	Due Date	1 <sup>st</sup> Reminder Letter	2 <sup>nd</sup> Reminder Letter
4061584	19/03/2020	02/04/2020	03/06/2020	08/07/2020
4060912	13/02/2020	27/02/2020	03/06/2020	08/07/2020

**See Findings 3 & 4 in Appendix A.**

**OBJECTIVE 5: Financial performance reporting of income is regularly submitted to an appropriate committee of the Health Board.**

We can confirm that regular financial assurance reports produced by the Director of Finance were being submitted to the Audit & Risk Assurance Committee during 2020. A review of the financial assurance report confirmed that key information was recorded under the header of 'Compliance with Income to Cash' that included a detailed breakdown of aged and high value receivables.

The report also identifies collections performance and provides previous month/quarter statistical data to highlight the increasing or decreasing trend in performance. Other topics such as overpayment of salaries are also included in the report.

**No matters arising.**

## 7. Summary of Recommendations

The audit findings and recommendations are detailed in Appendix A together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below.

<b>Priority</b>	<b>H</b>	<b>M</b>	<b>L</b>	<b>Total</b>
<b>Number of recommendations</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>4</b>

<p><b>Finding 1 – Oracle Financial Procedure (D)</b></p>	<p><b>Risk</b></p>
<p>Whilst we can confirm that an <i>Oracle Business Suite – System Access &amp; Ledger Security Financial Procedure</i> is in place and highlights the requirements of obtaining access to the system, the responsibility for the removal of individuals’ access, which lies with the line manager, is not explicitly referenced in the document.</p>	<p>Debtors balances are not adequately controlled.</p>
<p><b>Recommendation 1</b></p>	<p><b>Priority level</b></p>
<p><b>Management should update the Oracle Business Suite – System Access &amp; Ledger Security Financial Procedure to ensure the responsibility for the removal of individuals’ access to the Oracle system, which lies with line managers, is explicitly referenced.</b></p>	<p><b>MEDIUM</b></p>
<p><b>Management Response</b></p>	<p><b>Responsible Officer/ Deadline</b></p>
<p>Agreed. We will update the procedure to reflect the recommendation and ensure it is communicated to end users. We have included this in our monthly timetable to review access levels to ensure this finding doesn’t re-occur.</p>	<p>Senior Finance Business Partner (Statutory Reporting) 30<sup>th</sup> November 2020</p>


<b>Finding 2 – Reconciliations Reviews (O)</b>	<b>Risk</b>
A review was undertaken of the main Accounts Receivable monthly reconciliation exercise for the period months 1-5 to ensure they had been completed and reviewed by appropriate individuals in a timely manner. Concluding testing, we identified <b>two</b> periods where reconciliations had not been promptly reviewed.	Debtors balances are not adequately controlled.
<b>Recommendation 2</b>	<b>Priority level</b>
<b>Management to ensure that monthly reconciliations are promptly reviewed to ensure any arising issues are addressed in a timely manner in line with the requirements set out in the Income and Cash Collection Financial Procedure.</b>	<b>MEDIUM</b>
<b>Management Response</b>	<b>Responsible Officer/ Deadline</b>
<p>Agreed. The deadline for creation and approval of reconciliations will be added to the Monthly Financial timetable, and will be in line with the Income and Cash Collection Financial Procedure.</p> <p>The Senior Finance Business Partner (SFBP) is implementing a formal monthly review cycle to have sight of any issues in the debtors' cycle and will formally sign off on a monthly basis.</p>	<p>Senior Finance Business Partner (Statutory Reporting)</p> <p>31<sup>st</sup> October 2020</p>


<p><b>Finding 3 – Reminder Letters (O)</b></p>	<p><b>Risk</b></p>
<p>Testing of a sample of five Debt Write-off’s identified two instances where a time lapse between the invoice date and the 1<sup>st</sup> reminder letter was outside of the parameters set out in the Income and Cash Collection procedure document.</p>	<p>Debtors balances are not adequately controlled.</p>
<p><b>Recommendation 3</b></p>	<p><b>Priority level</b></p>
<p><b>Management to ensure that all reminder letters are promptly issued in line with the timescales set out in Income and Cash Collection Financial Procedure.</b></p>	<p><b>MEDIUM</b></p>
<p><b>Management Response</b></p>	<p><b>Responsible Officer/ Deadline</b></p>
<p>Agreed. The reminder letter deadline will be added to the Monthly Financial timetable, and will be in line with the Income and Cash Collection Financial Procedure.</p> <p>The Senior Finance Business Partner (SFBP) is implementing a formal monthly review cycle to have sight of any issues in the debtors’ cycle and will formally sign off on a monthly basis.</p>	<p>Senior Finance Business Partner (Statutory Reporting)</p> <p>31<sup>st</sup> October 2020</p>


<p><b>Finding 4 – CCI Debt Collection Agency (O)</b></p>	<p><b>Risk</b></p>
<p>The review identified that six of the 10 sample items had not been referred to CCI in line with the recommended guidelines and timescales as set out within the <i>Income and Cash Collection Financial Procedure</i>.</p>	<p>Debtors balances are not adequately controlled.</p>
<p><b>Recommendation 4</b></p>	<p><b>Priority level</b></p>
<p><b>Management to ensure when required aged debts are referred to CCI Debt Collection Service in line with the timescales set out in the Income and Cash Collection Financial Procedure.</b></p>	<p><b>MEDIUM</b></p>
<p><b>Management Response</b></p>	<p><b>Responsible Officer/ Deadline</b></p>
<p>Agreed. CCI escalation will be form part of the monthly timetable and will be incorporated into the formal monthly review cycle of the SFBP.</p>	<p>Senior Finance Business Partner (Statutory Reporting)  31<sup>st</sup> October 2020</p>


## Appendix B - Assurance Opinion and Action Plan Risk Rating

### 2020/21 Audit Assurance Ratings

 **Substantial Assurance** - The Board can take **substantial assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.

 **Reasonable Assurance** - The Board can take **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** exposure until resolved.

 **Limited Assurance** - The Board can take **limited assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.

 **No Assurance** - The Board has **no assurance** arrangements in place to secure governance, risk management and internal control, within those areas under review, which are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved.

### Prioritisation of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows.

Priority Level	Explanation	Management action
<b>High</b>	Poor key control design OR widespread non-compliance with key controls. PLUS Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
<b>Medium</b>	Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective.	Within One Month*
<b>Low</b>	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration.	Within Three Months*

\* Unless a more appropriate timescale is identified/agreed at the assignment.



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