

Audit Committee 28 November 2012

Internal Audit Report – Income Collection and Debtors

Executive summary and recommendations

Introduction

Mazars has undertaken a review of the arrangements for income collection and debtor management in accordance with the internal audit plan agreed by the Committee in March 2012. Mazars has also reviewed the action taken on the recommendations made in their report in 2011/12 on discrepancies between the NetRegulate registration system and the Sage finance system.

The report is attached as an appendix to this paper.

Decision

The Committee is asked to discuss and approve the report

Background information

At its meeting in March 2012 the Committee approved the Internal Audit Plan for 2012/13

Resource implications

None

Financial implications

None

Appendices

Internal Audit Report –Income Collection and Debtors.

Date of paper

16 November 2012



Internal Audit Report

**Income Collection & Debtors
(02.12/13)**

September 2012

FINAL REPORT

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Appendix 1 – Definitions of Assurance Levels and Recommendations

AUDIT CONTROL SCHEDULE:

Client contacts:	Tim Moore: Interim Finance Director Charlotte Milner: Head of Financial Accounting	Internal Audit Team:	Peter Cudlip: Partner Graeme Clarke: Director James Sherrett: Senior Auditor
Finish on Site \ Exit Meeting:	24 August 2012	Management responses received:	24 September 2012
Draft report issued:	7 September 2012	Final report issued:	24 September 2012

In the event of any questions arising from this report please contact Graeme Clarke, Director, Mazars LLP graeme.clarke@mazars.co.uk

Status of our reports

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1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2012/13, we have undertaken a review of the Health and Care Professions Council's (HCPC) arrangements for income collection and debtor management. This audit formed part of our rolling annual coverage of the HCPC's core financial systems and will support the financial management objectives of the HCPC and the Statement of Internal Control within the Annual Report and Financial Statements.
- 1.2 In 2011/12, Mazars Forensic & Investigation Service (FIS) undertook work in relation to financial discrepancies between the NetRegulate registration system and the deferred income recorded in the Sage finance system. This audit considered progress made by HCPC in implementing recommendations arising from this work.
- 1.3 We are grateful to the Finance Director, Head of Financial Accounting and other members of staff for their assistance during the course of the audit.
- 1.4 This report is confidential and for the use of the Audit Committee and senior management of the HCPC. The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

2. BACKGROUND

- 2.1 Registration, renewal, re-admission and scrutiny fee levels were set in the Privy Council Order Health and Care Professions Council (Registration and Fees) Rules 2003 (incorporating repeals and amendments made up to 1st August 2012).
- 2.2 Scrutiny, registration and re-admission fees are charged and collected on application for registration. Renewal fees are collected in advance and are recognised as deferred income within HCPC's Financial Statements until they become recognised as income of the period. Renewal cycles last for two years with the commencement of cycles staggered throughout the year for different professions. Registrants are charged on the anniversary of the renewal cycle for their profession. Graduates of HCPC approved courses who apply for registration within two years of graduating, are given a discounted fee of 50% of the full registration fee for the first two years of their registration.
- 2.3 Previously HCPC has received approximately £17million income annually from registration fees. This is anticipated to increase significantly following the takeover of responsibilities from the General Social Care Council (GSCC) as all social workers in England will need to be registered with HCPC. Fee income comprises of 'one-off' payments, such as UK and International scrutiny fees, re-admission fees, 'grand-parenting' fees for new professions joining the register, and 'repeat' payments for renewal of registration.
- 2.4 Approximately 80% of fees are paid by registrants using direct debit with the remainder being paid through credit /debit cards, cheques, postal orders and bank drafts. Payment by direct debit is encouraged by offering an incentive in that payments are scheduled for four equal payments every six months whereas all other payment methods require payment to be made in full upfront.
- 2.5 HCPC uses a bespoke software solution, NetRegulate, to record details of all registrants including the financial history and transactions on registrants' accounts. Historic differences between these systems were written-off as part of the finalisation of the Financial Statements for 2011/12. NetRegulate and the deferred

income balances in the Sage finance system are now reconciled each month to ensure the accuracy and consistency of the registration and financial records.

- 2.6 The management accounts and financial report for the financial year to the end of May 2012 show total fee income of £2.875m which was slightly ahead of the budgeted income receivable of £2.870m.

3. SCOPE AND OBJECTIVES OF THE AUDIT

- 3.1 Our audit considered the following risks relating to the area under review:

- Inability to collect from debtors (*Risk Register, Ref 15.6, March 2012*)
- Receipt of fee income as per collection schedule (*Risk Register, Ref 15.8, March 2012*)
- Ineffective debtor management and recovery processes resulting in a loss of income to HCPC; and
- Lack of sufficient, accurate and timely management information for income and debtors leading to poor decision-making.

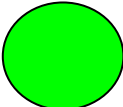
- 3.2 In reviewing the above risks, our audit considered the following areas:

- Policies and procedures covering registrants' fee setting, recording and recovery;
- Charging and recording of registrants' fees;
- Collection of income including the efficiency of collection processes;
- Chasing and recovery of outstanding fees;
- Write-offs including identification and approval;
- Financial and management information/reports to management; and
- Follow-up of recommendations from Mazars Forensic & Investigation Service report on NetRegulate.

- 3.3 The objectives of our audit were to evaluate the adequacy of controls and processes for income collection and debtor management, and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

- 3.4 We are only able to provide an overall assessment on those aspects of the controls and processes for income collection and debtor management that we have tested or reviewed. The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.

4. AUDIT FINDINGS: ONE PAGE SUMMARY

Assurance on effectiveness of internal controls	
	Substantial Assurance

Recommendations summary	
Priority	No. of recommendations
1 (Fundamental)	None
2 (Significant)	None
3 (Housekeeping)	3
Total	3

Risk management
<p>As detailed in 3.1 above, HCPC's Risk Register identifies two specific risks relating to income collection and debtor management.</p> <p>In undertaking our audit, we have confirmed the identified mitigating controls in the Risk Register are in place and working effectively to reduce risk exposure in this area.</p>

Value for money
<p>HCPC encourages registrants to pay their fees by direct debit including through allowing renewal fees to be paid in four instalments every six months rather than the registrants paying through other methods and having to make payment in full upfront. HCPC collects approximately 80% of its registration fees income through direct debit. This is the most efficient payment method and reduces workload for HCPC staff. Production of letters to registrants notifying them of cancelled or rejected payments and requesting payment of fees and letters notifying them of their membership lapsing is automated through NetRegulate.</p> <p>HCPC continues to work with Digital Steps, who provide support for the NetRegulate system, to develop and enhance the system and reporting/batch process tools in order to seek more efficient and less manual methods for processing transactions. This includes seeking a fix for NetRegulate incorrectly applying the readmission fee within the four week window where the readmission fee is not chargeable, which currently requires manual amendments to registrants' records and posting a reversing journal.</p> <p>As part of our review, we did note possible duplication of effort through checks performed by Registrations and Finance on cheque, postal order and cash received.</p>

5. SUMMARY OF FINDINGS

Overall conclusion on effectiveness and application of internal controls

- 5.1 Taking account of the issues identified in paragraphs 5.2 to 5.4 below, in our opinion the control framework for income collection and debtor management, as currently laid down and operated at the time of our review, provides **substantial** assurance that risks material to the achievement of HCPC's objectives are adequately managed and controlled.
- 5.2 In review of the recommendations made as part of Mazars FIS review, the recommendations have been adopted on a monthly basis but further work is required by way of development of NetRegulate which remains on-going at the time of our review. Further detail is provided in Section 7 of our report.

Areas where controls are operating effectively

- 5.3 The following are examples of controls which we have considered are operating effectively at the time of our review:
- Daily reconciliations are produced of transactions on NetRegulate and income received per WorldPay reports for online payments and Semafone payments, cheques, postal orders and cash received;
 - Cheques, postal orders and any cash received are banked on a daily basis;
 - HCPC uses the secure Semafone system which provides a third-party process removing the need for staff to take credit/debit card details over the telephone;
 - The Registrant Debtor Policy sets out the high-level requirements of debt recovery procedure, debt control and debt management;
 - Cancelled and rejected direct debit and cheque payments reports form part of the daily batch processes in NetRegulate and automatically changes the status of registrants whose payment has been cancelled or rejected to 'intermediate lapsing' on the register;
 - Cancellations and rejections are followed-up with registrants in a timely manner, with two auto-generated chasing letters and a final letter notifying the registrant, and, where appropriate, their employer, that they have lapsed from the register and can no longer practice using the professional title; and
 - Monthly reconciliations are performed between the NetRegulate registration system and the deferred income balances in the Sage finance system.

Areas for further improvement

- 5.4 We identified certain areas where there is scope for further improvement in the control environment. The matters arising have been discussed with management, to whom we have made a number of recommendations. The recommendations have been, or are being, addressed as detailed in the management action plan (Section 6 below) and Follow up of Mazars FIS Recommendations (Section 7 below).

6. ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> Currently, all payments received by cheque, postal order and cash are initially processed on NetRegulate by Registration Advisors and then all information is transferred to Finance – Transactions team for checking and processing the following day. The same cheque/postal order is reviewed and checked twice (once in Registrations when it is input to NetRegulate, and once in Finance as part of the daily banking). It is not clear that the checking of each cheque/postal order in Finance, which may take a considerable amount of time, adds much value in addition to the original check performed by Registrations.</p> <p>The checking of cheques and postal orders is not the main role of Registration Advisors who primarily deal with processing application forms and advising registrants and applicants on matters relating to their registration. Therefore a ‘cashier’ role specifically dealing with cheques, postal orders and credit/debit card payments and not dealing with other parts of the Registration process may be more efficient and less likely to produce errors. Such a role would reduce or remove the need for additional checks in Finance – Transactions and would also speed up the processing, such that transactions processed on NetRegulate by Registrations would not have to wait until the following day to be checked and processed in Finance – Transactions, but could be banked the same day – thereby reducing problems around cut-off at the end of each month.</p> <p><i>Risk:</i> Duplication of effort resulting in inefficient use of resources.</p>	<p>Consideration should be given to reviewing the processes for checking and banking of income received by cheque, postal order and credit/debit card to ensure that the most efficient process is in place. For example, the current checking performed by Registrations and Finance and the potential for a ‘Cashier’ role.</p>	3	<p>We agree that the way this process is currently handled is not the most efficient and consideration will be given to ways of eliminating the duplication of tasks.</p>	<p>October 2012</p> <p>Director of Finance/Head of Registration</p>

7. FOLLOW UP OF NETREGULATE INVESTIGATION FINDINGS

NetRegulate Investigation							
Ref	Original Issue and Recommendation	Status	Comments / Implication	Recommendation	Priority	Management Response	Timescale / Responsibility
7.1	<p><i>Issue:</i> Timing difference at month end date – On the last working day of the month, transactions are posted by the Registration team on NetRegulate which are not processed by the Finance team until the following day.</p> <p><i>Recommendation:</i> Finance team to work with Registration team to ensure that items posted on last working day of month in NetRegulate are also processed on the same day</p>	In Progress	Currently, this has been resolved by members of the Finance – Transactions team staying late at month-end to ensure transactions are processed the same day.	HCPC should seek a solution which does not involve staff staying late at month-end in order to ensure transactions are processed without any timing differences arising.	3	NetRegulate process changes are being developed by DSL to enable us to produce a monthly report to show exactly what is being processed at month end.	Head of Financial Accounting/ DSL

NetRegulate Investigation							
Ref	Original Issue and Recommendation	Status	Comments / Implication	Recommendation	Priority	Management Response	Timescale / Responsibility
7.2	<p><i>Issue:</i> Correction Adjustments - where a registrant's record is updated using a correction adjustment, the treatment of the way the record is accounted for differs depending on the reason. A main cause of difference has been identified as re-admission reverse charges which are not shown on the transfer report.</p> <p><i>Recommendation:</i> As a temporary work around going forward, Finance team to obtain a DBA Visualizer (based on an SQL query) report from NetRegulate at month end and manually adjust any mis-postings in Sage. A NetRegulate change request will be created to amend NetRegulate to automatically take account of these transactions as a permanent solution. This will form part of the NetRegulate change request process.</p>	In Progress	<p>Reports are currently obtained from NetRegulate at month-end and manual adjustments are made to correct readmission charges on individual registrants' records which have been incorrectly applied and a reversing journal is posted.</p> <p>A project is currently underway to address the issue of NetRegulate incorrectly applying the readmission fee within the four week window where the readmission fee is not chargeable.</p>	As planned, a solution involving updating the NetRegulate system to automatically take account of these transactions should be implemented.	3	As part of the automated readmission project, reversal readmission charges will no longer be posted. This change will remove this issue.	December 2012 Project team

Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, HCPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, HCPC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.