

Completed Internal Audit Activity during the period April – June 2017

BACS Direct Debit Report

Service Area: Council Wide

Audit Activity: Banks Automated Clearing System (BACS)

Background

BACS is an electronic system used in the United Kingdom for making payments directly from one bank account to another. There are two types of bank-to-bank payments: Direct Debits and Direct Credits.

Direct Debits are typically used for taking regular or recurring payments such as household bills and Direct Credits are typically used for making regular payments such as salaries, supplier payments, etc. These payments normally take three working days to clear through the system before they become available in the beneficiary's bank account.

Approximately 65k Direct Debit transactions with a total value of £12m and 11k Direct Credit transactions totalling £15m were processed during the three months to March 2017.

In December 2016, an issue occurred that resulted in the Council Tax and National Non-Domestic Rates Direct (NNDR) Debits that were due to be collected on 28th of the month and the 1st of the following month being incorrectly collected earlier than the agreed due date from residents and business customers. An investigation into the cause of the issue was performed by the Revenue and Benefits Manager and a report produced, in conjunction with the Strategic Head (Customer Services), on 24th January 2017, which included an improvement plan detailing six actions to prevent such an issue occurring in the future.

Scope

The audit was undertaken to provide assurance that:

- The agreed improvement / action plan for Direct Debits had been fully implemented where appropriate and that the new arrangements are being complied with; and
- The arrangements for Direct Credit processing are effective and ensure payments are correctly processed and transmitted on / by the due date.

A review of the Direct Credit Elections process was not undertaken due to the

current work pressures in this Service area.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key findings

Six actions were raised in the Direct Debits improvement / action plan to improve the control environment and mitigate against the risk of incorrect processing. The results of the Internal Audit review highlighted that:

Action 1: The Direct Debit procedure guidance notes have not been fully documented and process clearly defined. This includes a separation of tasks where one person will undertake the processing within Civica and a second person checks and sign off the final file within Experian. To be shared and adapted by each other service transmitting BACS files.

Proposed completion date: Completed.

Finding: Direct Debit procedure guidance notes have been fully documented and the process clearly defined, although Internal Audit has recommended further enhancements to emphasise the key elements of the process and make clear officer responsibilities.

Action 2: There will be additional training undertaken for all staff with the responsibility for processing Direct Debits. This will include additional revenue staff being trained for contingency.

Proposed completion date: 31st January 2017, completed in Revenue.

Finding: Additional training has been provided to all appropriate staff by Finance and nominated Service area officers.

Action 3: Internal protocols and robust controls are implemented, including having user group meetings.

Proposed completion date: 31st January 2017.

Finding: There is appropriate separation of duties (system enforced or manual observance) between creating the Direct Debit file in the source system and upload and transmission of the file to the BACS system.

A review by Internal Audit of completed Request for Direct Debit Transmission

schedules for the period January to March 2017 highlighted that the schedules for housing rent, Council Tax and NNDR Direct Debits did not provide for authorisation to process the files and The Pulse Direct Debit files were not correctly authorised in accordance with Financial Regulations.

The Accountancy Manager, who is also the acting Section 151 Officer, is currently in the process of reviewing a proposed list of Direct Debit authorisers from Revenue and Benefits, Tenant Services and The Pulse to ensure compliance with Financial Regulations and to improve the control environment.

The 'long stop' control check to confirm the processing date, total number and value of transactions for the Direct Debit file in the BACS system is either not being performed, performed promptly or there is a lack of documentary evidence of the control check.

A Direct Debit user group, which meets quarterly, was set-up in February 2017 to manage and discuss the actions and any issues.

Action 4: A Business Continuity Plan is developed to include all stakeholders (including the banks procedures / requirements) to ensure that the relevant staff are available should such an incident occur in the future, particularly over high risk collection periods such as bank holidays and summer holidays.

Proposed completion date: 10th February 2017.

Finding: A Business Continuity Plan has not, as at 17th May 2017, been developed and formally documented to effectively manage for a similar Direct Debit incident if it occurs in the future.

Action 5: An Internal Audit review is undertaken during 2017-18 to provide the relevant assurances that the Improvement Plan has been addressed and implemented.

Proposed completion date: 31st May 2017.

Finding: The Internal Audit review to provide assurance that the improvement plan has been addressed and implemented was completed by 31st May 2017. The outcomes of the review will be presented to the Audit and Standards Committee on the 4th July 2017.

Action 6: Automate the Direct Debit process to try and remove some of the human element of key data entry, to include initial feasibility review of project and cost.

Proposed completion date: 28th February 2017.

Finding: Finance has determined that the costs of automating the Direct Debit process will outweigh the benefits and therefore the action is not being progressed.

Additional Findings

During the review Internal Audit established that there is currently only one operational BACSTEL unit, which enables the secure transmission of Direct Debit and Direct Credit files from the Experian Payment Gateway system to the BACS system. A second BACSTEL unit is currently located at The Pulse, but it has not yet been configured by ICT or Experian (requests have been made from Finance to ICT). Therefore the Council is currently exposed to the risk that Direct Debit and Credit files may not be transmitted if a serious issue were to affect the one operational unit.

Internal Audit tests on a random sample of 20 Direct Credit files confirmed that the files were correctly authorised, checked and processed. However, as with the Direct Debit files there was a lack of documentary evidence to confirm appropriate checks had been undertaken to confirm that the Direct Credit files accepted by the BACS system were correct.

Conclusions

Progress has been made on implementing the actions emanating from the improvement / action plan, although one of the actions has been superseded (automation of the Direct Debit process) and one action (business continuity arrangements) still remains outstanding.

To avoid a similar incident that occurred over the 2016 Christmas shut down period, strict adherence to separation of duties between the creation of these transaction files from the source system, authorisation and the upload and transmission to the BACS system must be strictly complied with. In addition, the officer authorising the Direct Debit file and separately the officer performing the upload and transmission function are fully aware of their responsibilities and they correctly perform the appropriate checks.

For the period of the audit review (January to April 2017) Internal Audit was able to confirm that there was separation of duties and the Direct Debit files were correctly processed.

The back-up arrangements for the BACSTEL unit did not form part of the improvement / action plan, but it is important that the identified issue is promptly addressed or the risk formally accepted.

Management Actions

Internal Audit has raised one high and two medium priority recommendations that are aimed at further enhancing the current process and controls and ensuring that outstanding business continuity arrangements are promptly addressed; these have been accepted in full.