

## Audit Committee 13 March 2012

### Deferred income – Reconciliation of Figures

#### Executive summary and recommendations

##### **Introduction**

At their meeting on 29 September 2011, the Audit Committee agreed that Mazars should undertake investigation work relating to the reconciliation of figures on deferred income.

Mazars' findings were considered by the Finance and Resources Committee on 26 January 2012. The Committee agreed that Mazars and the Executive should carry out the further work identified in the presentation, as follows:

- once the monthly difference movements were reduced to an acceptable level, investigate and identify the reason for the historic differences;
- process all banking before the month end, to ensure issues relating to cut-off dates did not arise;
- continue to perform monthly reconciliations to monitor the movement in the differences between NetRegulate and Sage; and
- instruct Digital Steps to fix transfer errors in the software.

##### **Decision**

The Committee is asked to discuss the findings.

##### **Background information**

Although work was originally planned by completion for December 2011, an extension of the time was allowed, due to ongoing dialogue with Mazars.

##### **Resource implications**

Staff time - completing last working day transactions  
- running corrections report and posting adjustment

##### **Financial implications**

Costs from Mazars for investigation work

##### **Appendices**

Finance and Resources Committee paper, 26 January 2012

##### **Date of paper**

1 March 2012.

Finance and Resources Committee 26 January 2012

Deferred Income – Reconciliation of Figures

Executive summary and recommendations

**Decision**

The Committee is asked to review the presentation to Mazars and discuss any further work required.

**Background information**

In their meeting on 29 September the Audit Committee agreed for Mazars to undertake investigation work relating to the reconciliation of figures on deferred income. A copy of the original brief is attached as appendix one.

So far Mazars have reviewed the months from June to December 2011. Their findings are provided as a bound copy from Mazars, which are a copy of their power point presentation.

**Summary of findings**

Following the details investigation work by Mazars, two main causes of the differences between the two systems have been identified.

- 1) 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.  
Solution – Finance team to work with Registration team to ensure that items posted on last working day of month in NetRegulate is also processed on the same day.
- 2) 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.  
Solution – 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.

**Resource implications**

- Staff time - completing last working day transactions
- running corrections report and posting adjustment

**Financial implications**

Costs from Mazars for investigation work to get to this stage

**Appendices**

Appendix One – Briefing document to Mazars

Appendix Two – Bound copy from Mazars - Presentation of findings

**Date of paper**

25 January 2012.

## **Mazars Briefing Document September 2011**

### **1. Introduction**

- 1.1. The Audit Committee agreed at their meeting on 8th September that the Executive should commission Mazars to investigate the causes of the differences between the Registration and the Accounting System reports.

### **2. Background**

- 2.1. Following on from the work done by the National Audit Office (NAO) on the annual accounts for the financial year ending 31 March 2011 there was an unidentified difference of approximately £169k between the deferred income value recorded in the accounting system and the registration system reports.  
Further analysis by the Executive has identified the sum of £105k in relation to an adjustment made to the Chiropodists deferred income for the Financial Year 2005/6.  
The revised difference for the financial year ending 31 March 2011 is now £64k.
- 2.2. It is expected that a number of the other professions on HPC's register which have deferred income differences may also relate to previous financial accounting periods.
- 2.3. The reports that have been run after the 2011 year end have shown that the difference between the two reports has not remained constant. This would indicate that there are on-going differences which need to be investigated.
- 2.4. Following the Audit Committee meeting on 8 September, Mazars was requested to provide technical support with forensic accounting to investigate the differences.

### **3. Scope of work**

- 3.1. The following areas of work have been requested of Mazars forensic accounting team:
  - Investigate and report on the causes of on-going differences between the Registration and the Accounting System reports.
  - Advise on changes required to existing report specifications.
  - Investigate and report on the causes for historical differences by profession and recommend the accounting adjustment required to resolve the issue.

### **4. Approach to be taken**

- 4.1. The Mazars forensic accounting team are typically called in to investigate cases of fraud within an organisation. Although this is not the case for HPC the approach to be used is similar.
- 4.2. The first area of investigation will be to look at the on-going differences between the reports to find the causes of the differences.

- 4.3. To ensure that the dataset is not too large it is proposed that one profession is chosen as a pilot to identify the causes of the difference. Once the first profession has been fully investigated and the cause of any anomalies have been found, this will be replicated over the remaining professions to see if any differences still exist. If there is a remaining anomaly then another profession will be chosen and the process above will be replicated until all the on-going differences can be fully explained.
- 4.4. For the historical differences, a pragmatic approach will be taken and if the work undertaken in 4.3 above does not account for specific historical differences then a review will be undertaken of the remaining balance, if it is material.

## **5. Limitation of available HPC resources**

- 5.1. To carry out the review Mazars will need to have access to current HPC IT systems and particularly Sage and NetRegulate. This will require some time from the HPC IT department to facilitate various requests from Mazars.
- 5.2. The Registration System is maintained by Digital Steps Ltd. (DSL) who also makes any changes to the programming that HPC requires.
- 5.3. For Mazars to understand how the current reports gather data they may need to discuss details with DSL staff. This will need careful planning to ensure that current projects that DSL are working on for HPC are not put at risk of being delayed.
- 5.4. It is likely that Mazars will need to work closely with the Finance department to understand how the existing reports are used.

## **6. Timescales**

- 6.1. Mazars have been asked to conclude their work by 23rd of December 2011.

## **7. Costs**

- 7.1. The initial investigation will keep costs to a minimum but also ensure that the outputs are of use to HPC.
- 7.2. Mazars are intending spend a few days working on the investigation of a sample dataset on one profession to see if this can be applied to the other professions to explain the differences. Mazars will provide a cost estimate before the commencement of any work.
- 7.3. Once the initial work has been completed the Executive will meet with Mazars to discuss the options available and resulting costs.
- 7.4. DSL will also be requested to provide an estimate for the work they will undertake connected with resolving the issue.

## **8. Expected Outcomes**

- 8.1. Mazars to identify the causes of the on-going differences between the Registration and the Accounting System reports.
- 8.2. This will form the basis of any changes that are required to the specifications of the reports that DSL will need to make to ensure that the reports are in balance going forward.
- 8.3. DSL will need to make the changes to the appropriate reports.

- 8.4. Identification of the causes and accounting adjustments required to ensure that the historical differences between Registration and Accounting System reports are brought back into balance.
- 8.5. Implement the appropriate account adjustments for both the historical and the on-going differences.

DRAFT



Presentation to



# NetRegulate

Investigation

# NetRegulate Investigation

**The investigation relates to financial discrepancies between NetRegulate reporting database ('NetRegulate') and the deferred income recorded in Sage financial reporting system ('Sage').**



# Our Instructions

- ▶ **To gain an understanding of how NetRegulate operates and interacts with Sage**
- ▶ **To investigate a sample of individual members records within NetRegulate**
- ▶ **To verify that NetRegulate is transferring the correct deferred income and income data to Sage**
- ▶ **To verify that deferred income and income is being correctly transferred to and accounted for within Sage**
- ▶ **To identify & eliminate errors**
- ▶ **To work with HPC & Digital Steps to ensure errors do not recur**

# Work Performed

## Investigated a single profession

- ▼ Reviewed every registered members record in NetRegulate for PO's
- ▼ Reconciled July & August transactions in NetRegulate against transfer reports
- ▼ Identified cut off issues
- ▼ Repeated process for OR's

## Investigated readmission reversals

- ▼ We were advised that an issue existed with PYL readmissions in July as the movement in the difference was £(15,399)
- ▼ Identified two PYL's with readmissions
- ▼ Reviewed transactions in NetRegulate against transfer reports
- ▼ Able to confirm that the reversal of readmissions are not in Sage

## Investigated all corrections (COR's)

- ▼ Requested a report to identify all corrections applied to each profession
- ▼ Reviewed non readmission reversal corrections against transfer reports for July & August
- ▼ Identified three issues, however were unable to identify any specific trends

## Extended Testing

- ▼ Obtained reconciliations for July to December
- ▼ Applied issues identified
- ▼ Investigated overdrawn balances and confirmed not an issue
- ▼ Updated the reconciliations for the errors identified

# Our Findings

## ▶ Cut Off issues

- ▶ **Cash cut off issues** – receipts from non direct debit members recorded in NetRegulate on the last day of the month were not included on the transfer reports until the following month
- ▶ **Charges cut off issues** – likewise, scrutiny fees charged following a cash receipt from a non direct debit member on the last day of the month were not included on the transfer reports until the following month

## ▶ Corrections (COR's)

- ▶ **Readmission reversals** – corrections processed in NetRegulate to reverse a readmission charge incorrectly applied were not transferred to Sage
- ▶ **Non Readmission reversals** – within the remaining corrections, we identified a further two issues for transactions with a 'Null' description:
  - ▶ Corrections included on the transfer reports the wrong way round
  - ▶ Corrections not included on the transfer reports

**These appear to be isolated and we have been unable to identify any specific reason for the error**

# Our Findings – pre investigation

	Differences						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
AS	23,618	23,371	23,189	21,961	23,060	23,098	23,136
BS	22,544	22,117	22,220	17,542	20,464	15,233	23,061
CH	6,483	6,597	7,745	6,420	7,665	7,332	7,294
CS	(5,519)	(5,976)	(6,288)	(6,514)	(5,399)	(6,656)	(6,451)
DT	9,160	9,991	9,847	7,332	9,990	10,372	10,677
HAD	(79)	(445)	(612)	(103)	(903)	(903)	(865)
ODP	6,948	6,359	6,067	8,112	5,983	6,264	6,677
OR	(6,632)	(6,480)	(6,480)	(6,308)	(6,731)	(6,926)	(6,926)
OT	26,234	25,192	23,251	6,406	12,579	26,231	18,440
PA	(21,782)	(20,859)	(22,510)	(15,381)	(21,152)	(23,129)	(23,093)
PH	46,860	47,207	48,040	32,276	47,134	47,354	47,519
PO	(22,875)	(22,875)	(22,877)	(23,628)	(22,875)	(23,335)	(23,335)
PYL	(795)	(16,194)	(17,702)	(18,138)	(18,541)	(18,047)	(18,355)
RA	19,360	19,873	20,306	17,934	20,566	20,382	20,112
SL	(27,175)	(30,899)	(29,953)	(33,136)	(26,241)	(30,670)	(31,283)
<b>Total</b>	<b>76,349.64</b>	<b>56,979.14</b>	<b>54,241.91</b>	<b>14,773.76</b>	<b>45,599</b>	<b>46,600</b>	<b>46,608</b>
	- 19,371	-	2,737	- 39,468	30,825	1,001	9

	Movement							Total
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
AS		(247)	(182)	(1,228)	1,099	38	38	(235)
BS		(427)	103	(4,678)	2,922	(5,231)	7,828	944
CH		114	1,148	(1,325)	1,245	(333)	(38)	697
CS		(457)	(312)	(226)	1,115	(1,257)	205	(475)
DT		831	(144)	(2,515)	2,658	382	305	687
HAD		(366)	(167)	509	(800)	0	38	(420)
ODP		(589)	(292)	2,045	(2,129)	281	414	318
OR		152	0	172	(423)	(195)	0	(446)
OT		(1,042)	(1,941)	(16,845)	6,173	13,652	(7,791)	(6,752)
PA		923	(1,651)	7,129	(5,771)	(1,977)	36	(2,234)
PH		347	833	(15,765)	14,859	220	165	312
PO		0	(2)	(751)	753	(460)	0	(460)
PYL		(15,399)	(1,508)	(436)	(403)	494	(308)	(2,161)
RA		513	433	(2,372)	2,632	(184)	(270)	239
SL		(3,724)	946	(3,183)	6,895	(4,429)	(613)	(384)
<b>Total</b>		<b>(19,371)</b>	<b>(2,737)</b>	<b>(39,468)</b>	<b>30,825</b>	<b>1,001</b>	<b>9</b>	<b>(10,371)</b>

(exc Jul)   Largely eliminated

Total

The table below is the original summary of the monthly movement on the difference between NetRegulate and Sage with audit adjustments removed. Once updated for the issues we have indentified all movements highlighted in green have largely been eliminated

# Further Testing

Investigated September transactions for BS's	Banking report	Investigated September transactions for PYL's
<ul style="list-style-type: none"><li>▼ Obtained a report from NetRegulate for all BS September transactions</li><li>▼ Reviewed transactions against transfer reports</li><li>▼ Identified a DD cut off issue in relation to 18 records</li><li>▼ Identified a number of scrutiny fees not on the transfer reports</li></ul>	<ul style="list-style-type: none"><li>▼ Reviewed banking report used to apply cut off errors across all professions for non DD members</li><li>▼ Identified transactions in September dated October</li><li>▼ Updated reconciliation</li><li>▼ Reviewed transactions for all months against transfer reports, a small number of other isolated errors were identified.</li></ul>	<ul style="list-style-type: none"><li>▼ Obtained a report from NetRegulate for all PYL September transactions</li><li>▼ Reviewed transactions against transfer reports – no issues identified</li><li>▼ Reconciled value of transactions against Sage transaction report – difference identified in balance brought forward</li></ul>

# Our findings – post investigation

Differences	Jun	Jul	Aug	Sep	Oct	Nov	Dec
AS	23,618	23,675	23,569	22,265	23,554	23,478	23,440
BS	22,544	22,992	23,437	22,616	26,327	25,002	25,276
CH	6,483	6,863	8,144	6,611	7,856	7,752	7,676
CS	(5,519)	(4,607)	(4,947)	(6,095)	(5,094)	(4,924)	(4,986)
DT	9,160	10,296	10,266	8,286	10,372	10,945	10,945
HAD	(79)	277	392	658	316	149	164
ODP	6,948	6,789	7,032	9,184	7,245	7,490	8,593
OR	(6,632)	(6,176)	(6,328)	(6,270)	(6,271)	(6,199)	(6,199)
OT	26,234	26,985	28,941	17,025	28,234	29,623	29,208
PA	(21,782)	(16,606)	(19,436)	(14,678)	(17,707)	(17,332)	(17,805)
PH	46,860	50,402	49,864	34,120	49,420	49,685	49,618
PO	(22,875)	(22,609)	(22,573)	(23,172)	(22,875)	(22,875)	(22,875)
PYL	(795)	(859)	(34)	(200)	158	616	312
RA	19,360	21,291	20,735	19,080	21,751	22,255	21,490
SL	(27,175)	(24,111)	(26,115)	(31,092)	(25,602)	(25,378)	(26,408)
	<u>76,349.64</u>	<u>94,602.14</u>	<u>92,945.91</u>	<u>58,336.76</u>	<u>97,684</u>	<u>100,287</u>	<u>98,449</u>
		18,253 -	1,656 -	34,609	39,347	2,603 -	1,837

Movement	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
AS		57	(106)	(1,304)	1,289	(76)	(38)	(235)
BS		449	445	(821)	3,711	(1,325)	274	2,284
CH		380	1,281	(1,533)	1,245	(104)	(76)	813
CS		912	(340)	(1,148)	1,001	170	(62)	(379)
DT		1,136	(30)	(1,980)	2,086	573	0	650
HAD		356	115	266	(342)	(167)	15	(113)
ODP		(159)	243	2,152	(1,939)	245	1,104	1,804
OR		456	(152)	58	(1)	72	0	(23)
OT		751	1,956	(11,916)	11,209	1,389	(415)	2,223
PA		5,176	(2,830)	4,758	(3,029)	375	(473)	(1,199)
PH		3,542	(538)	(15,745)	15,301	265	(67)	(784)
PO		266	36	(599)	297	0	0	(266)
PYL		(64)	825	(166)	358	458	(304)	1,171
RA		1,931	(556)	(1,655)	2,671	504	(765)	199
SL		3,064	(2,004)	(4,977)	5,490	224	(1,030)	(2,297)
		<u>18,253</u>	<u>(1,656)</u>	<u>(34,609)</u>	<u>39,347</u>	<u>2,603</u>	<u>(1,837)</u>	<u>3,847</u>

(exc Jul)      Renewal date  
     Total Cut-off issue ?

The table below shows the updated monthly movement on the difference between NetRegulate and Sage for the issues we have indentified and corrected. All highlighted movements are possible further issues.

# Adjustments required to date

The table below shows the difference after the corrections identified have been applied. The net difference has increased from £46,608 (page 6) to £98,449 however, the monthly difference is now much more consistent month on month (page 8) implying the £46,608 is the majority of the unidentified difference from April to June not yet investigated and the historic difference.

Dec Sage Bal	Corrections - COR's only						Revised Bal	Diff at Dec	Historic Diff & Apr - Jun (Q1)	Total COR's Jul - Dec	Total
	Jul	Aug	Sept	Oct	Nov	Dec					
(30,387)	(304)	0	0	0	0	0	(30,691)	23,440	23,136	304	23,440
(278,917)	(457)	(532)	0	(230)	(575)	(421)	(281,132)	25,276	23,061	2,215	25,276
(377,929)	0	0	(115)	0	(267)	0	(378,311)	7,676	7,294	382	7,676
(40,991)	(115)	0	0	0	(1,350)	0	(42,456)	(4,986)	(6,451)	1,465	(4,986)
(229,464)	(115)	0	(115)	0	0	(38)	(229,732)	10,945	10,677	268	10,945
(24,139)	(608)	(115)	0	(306)	0	0	(25,168)	164	(865)	1,029	164
(25,123)	(460)	(230)	(230)	0	(230)	(766)	(27,039)	8,593	6,677	1,916	8,593
(47,281)	0	0	0	(460)	(267)	0	(48,008)	(6,199)	(6,926)	727	(6,199)
(413,533)	(539)	(115)	(536)	(458)	(117)	(9,003)	(424,301)	29,208	18,440	10,768	29,208
(643,127)	0	(76)	(76)	(2,875)	(2,070)	(191)	(648,415)	(17,805)	(23,093)	5,288	(17,805)
(108,894)	(1,142)	(230)	(115)	(115)	(273)	(224)	(110,993)	49,618	47,519	2,099	49,618
6,458	0	0	0	0	(460)	0	5,998	(22,875)	(23,335)	460	(22,875)
(440,957)	(15,755)	(1,495)	(460)	(115)	(230)	(612)	(459,624)	312	(18,355)	18,667	312
(958,175)	(345)	0	(573)	(115)	(345)	0	(959,553)	21,490	20,112	1,378	21,490
(137,430)	0	0	(106)	(115)	(4,195)	(459)	(142,305)	(26,408)	(31,283)	4,875	(26,408)
<b>(3,749,889)</b>	<b>(19,840)</b>	<b>(2,793)</b>	<b>(2,326)</b>	<b>(4,789)</b>	<b>(10,379)</b>	<b>(11,714)</b>	<b>(3,801,730)</b>	<b>98,449</b>	<b>46,608</b>	<b>51,841</b>	<b>98,449</b>

# Possible further issues

- ▶ **Errors at renewal date – we note that a positive movement in the difference occurs at each renewal date which may indicate charges not being transferred to Sage.**
- ▶ **There appears to be an unidentified cut off issue between September and October - this could be caused by a DD cut off issue similar to that identified within BS's for September.**



# Recommendations

- ▶ Investigate the possible further issues already identified
- ▶ Investigate April to June 2011
- ▶ Once the monthly difference movements are reduced to an acceptable level investigate and identify the reason for the historic differences
- ▶ Change processing dates to ensure cut off issues do not arise
- ▶ Continue to perform monthly reconciliations to monitor the movement in the differences between NetRegulate and Sage
- ▶ Instruct Digital Steps to fix transfer errors in the software