

**FINAL INTERNAL AUDIT REPORT**  
**RESOURCES DEPARTMENT**

**REVIEW OF DEBTORS-INCOME AUDIT FOR 2013-14**

**Issued to:** Peter Turner, Finance Director  
John Nightingale, Head of Revenues and Benefits  
Neil Graham, Finance Systems Manager  
Claudine Douglas Brown, Exchequer Manager

**Prepared by:** Principal Auditor

**Date of Issue:** 01 April 2014

**Report No.:** RD/005/01/2013

## REVIEW OF DEBTORS-INCOME AUDIT FOR 2013-14

### INTRODUCTION

1. This report sets out the results of our systems based audit of Debtors-Income Audit. The audit was carried out in quarter Q3 as part of the programmed work specified in the 2013-14 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 1/11/13. The period covered by this report is from 1/10/12 to 31/10/13.
4. As at 31/3/13 there was an outstanding debt figure of £6.422 million, including debts over a year old totalling £2.4 million.

### AUDIT SCOPE

5. The scope of the audit is detailed in the Terms of Reference.

### AUDIT OPINION

6. Overall, the conclusion of this audit was that limited assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

### MANAGEMENT SUMMARY

7. Controls were in place and working well in the areas of an effective Service Level Agreement for Sundry Debtors and Mortgages being in place and monthly performance monitoring against the contract.

## REVIEW OF DEBTORS-INCOME AUDIT FOR 2013-14

8. The aged debtors summary account was reconciled to the general ledger control account in November 2013 however there was a difference of £19,507.27 which is being investigated by an accountancy assistant. There was no evidence that these reconciliations are being checked by another officer for accuracy.
9. Write offs in excess of £5000 and any unrecoverable utility service debts are reported to Executive and Resources Policy Development and Scrutiny Committee, with nil reported in 2012/13.
10. Audit sampling confirmed that invoices are prepared to the correct cost code and subjective, for the correct amount, to the correct supplier and raised in a timely manner, however one cancellation invoice tested highlighted that the original invoice was raised for respite care for the sum of £138,864.00 instead of £1,388.64 which was due to be paid
11. 1 out of 4 authorised write offs did not have the supporting documentation stored on Oracle
12. Audit reviewed a sample of 25 debts over 1 year old and in excess of 5,000.00 and another sample of 25 debts on hold and in excess of £5,000.00 to clarify that debt recover procedures are adopted, however audit identified a series of issues
  - Departments are not always pro-active to ensure disputes are resolved in a timely manner
  - Sometimes the contractor does not contact the debtor promptly to recover debts.
  - Occasionally the contractor does not forward cases to the bailiff or the debt collector when required
  - The contractor does not consistently handle cases returned from the bailiff correctly
  - County court claims are sometimes prepared inaccurately
  - Occasionally invoices remain on hold for long time period without any action being taken.
  - Write-off are not always processed promptly or remain unresolved
  - Supporting documentation for write-offs is not always held for reference
13. Audit is aware that the contractor holds a master list of all debts marked for write-off and is evaluating each invoice case. At present supporting documents are being gathered to progress each write-offs, if applicable.

## REVIEW OF DEBTORS-INCOME AUDIT FOR 2013-14

14. The previous recommendations made by audit in relation to the recovery of debts, shown in the report finalised on the 20/02/13 were followed up as part of this review. Audit previously reported at 30/1/13 the total outstanding debts over a year old was £2,373,347. Whereas at 31/12/13 the total outstanding debt over a year old was £2,470,292 , however as detailed below there is a substantial amount of debts still to be processed for write-off.

### SIGNIFICANT FINDINGS (PRIORITY 1)

15. None.

### DETAILED FINDINGS / MANAGEMENT ACTION PLAN

16. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

### ACKNOWLEDGEMENT

17. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
Re-Rec 1	<p>Audit reviewed a sample of 25 debts over 1 year old and in excess of 5,000.00 and another sample of 25 debts on hold and in excess of £5,000.00 to clarify that debt recover procedures are adopted, however audit identified</p> <p>Invoice 70020332 [dated 16/4/09] £42,486.51 – A court claim judgement was made 29/9/09. Contracting staff recognised that the claim had been prepared for the incorrect address and needed to be re-submitted to court however no further action has been taken</p> <p>Invoice 70043543 [dated 9/1/12] £36,483.18 – Invoice has been in dispute since 7/12/12 and awaiting a decision from department</p> <p>Invoice 70036246 [dated 30/3/11] £11,180.97 – Invoice was in dispute from 7/1/13 and only taken off hold on 2/12/13 following intervention from audit when it was established that information was not being forwarded by the debtor as requested</p>	<p>Ineffective monitoring of non payments / debts owed to the Authority may result in non collection</p> <p>Staff may not be adhering to the correct processes and procedures</p>	<p><b>Ensure the contractor prepares detailed procedure notes for all debtor processes to ensure debts are collected in a timely manner, including the managing of invoices in dispute, cancellations, write offs, authorisation signatories and segregation of duties between members of staff, plus the management of storage of all invoicing and debt recovery records.</b></p> <p><b>[Priority 2]</b></p>

**Priority 1**  
**Required to address major weaknesses and should be implemented as soon as possible**

**Priority 2**  
**Required to address issues which do not represent good practice**

**Priority 3**  
**Identification of suggested areas for improvement**

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>Invoice 70036062 [dated 23/3/11] £10,019.67 – Legal action requested 30/5/12 and sent to department for further investigation however no further action has taken place to date</p> <p>Invoice 51500807 [dated 5/5/09] £9,685.00 – Invoice investigated during last audit and no further action has taken place to date</p> <p>Invoice 52111579 [dated 23/7/13] £14,040.12                      Invoice 52110975 [dated 29/4/13] £14,040.12                      Invoice 52110233 [dated 19/10/12] £21,464.40 all with the same debtor – After intervention from audit the department sent the debtor an e-mail on 18/11/13 to clarify recovery arrangements</p> <p>Invoice 70037087 [dated 10/5/11] £5,000.00 – Invoice has been on hold since 10/5/11 and no further action has been taken place to date</p> <p>Invoice 70042566 [dated 28/11/11] £14,858.02 – Debtor has not been chased by the contractor for payment of funds since 15/1/12</p>		<p><b>Debts should be managed correctly and recovered promptly.</b></p> <ul style="list-style-type: none"> <li>• <b>Departments should be pro-active to ensure disputes are resolved in a timely manner and invoices in dispute for a long period of time should be escalated to senior management for meaningful action</b></li> <li>• <b>The contractor should contact the debtor promptly to recover debts</b></li> <li>• <b>Cases should be forwarded to the bailiff or the debt collector when required</b></li> <li>• <b>Cases returned from the bailiff should be</b></li> </ul>

**Priority 1**  
 Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
 Required to address issues which do not represent good practice

**Priority 3**  
 Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>Invoice 70027620 [dated 17/3/10] £6,117.47 – Case was returned by the bailiff as no contact 28/12/11 however no further action has taken place to date</p> <p>Invoice 70044365 [dated 14/2/12] £12,523.50 – On 25/6/12 department instructed the contractor that a hold was to be removed however the case was not forwarded to the bailiff as expected</p> <p>Invoice 70029029 [dated 17/5/10] £5,041.20 – On 28/2/12 the case was to be transferred to the debt collector however this was not the case</p> <p>1 out of 4 authorised write offs did not have the supporting documentation stored on Oracle or Carestore</p> <p>Adjust 93006168 31/2/13 for £231.96</p>		<p>handled correctly</p> <ul style="list-style-type: none"> <li>• County court claims should be prepared accurately</li> <li>• Invoices on hold should be dealt with to ensure a prompt resolution is achieved</li> <li>• Supporting documentation for write-offs should be held for reference</li> </ul> <p>[Priority 2*]</p>
2	<p>Audit sample testing also identified the following issues in relation to write-offs</p> <p>Invoice 60105934 [dated 4/2/08] £20,545.56 – Invoice was marked on Oracle for write off 21/9/11 and this still remains the</p>	Financial accounting be not be accurate	<p>Ensure write-offs or debts uneconomical to pursue are processed promptly</p> <p>[Priority 2*]</p>

**Priority 1**  
 Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
 Required to address issues which do not represent good practice

**Priority 3**  
 Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>case                      Invoice 70022229 [dated 31/7/09] £20,480.88 - Invoice was marked on Oracle for write off 1/9/09 and this still remains the case</p> <p>Invoice 60101426 [dated 30/8/06] £16,570.95 - Invoice was marked on Oracle for write off 23/9/11 and this still remains the case. In addition audit noted that a property was sold 4 months prior to the raising of this invoice and funds were not collected</p> <p>Invoice 60018602 [dated 20/2/06] £8,471.40 - Invoice was marked on Oracle for write off 1/9/09 and this still remains the case</p> <p>Invoice 53001310 [dated 3/7/09] £5,368.00 - Invoice was marked on Oracle for write off 22/7/10 and sent 8/9/11 to a department manager who has now left the authority therefore the write off remains outstanding</p> <p>Invoice 60107090 [dated 16/6/08] £25,300.18 - Invoice was marked on Oracle for write off 27/12/12 and this still remains the case</p>		

**Priority 1**  
 Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
 Required to address issues which do not represent good practice

**Priority 3**  
 Identification of suggested areas for improvement



DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>Invoice 70051131 [dated 18/10/12] £33,896.50 - Invoice was marked on Oracle for write off 30/5/13 and this still remains the case</p> <p>Invoice 70029891 [dated 6/7/10] £24,368.97 - The school paid the contractor direct in October 2009, even though property division had also paid the contractors bill. Monies cannot be recovered from the contractors as these have now gone into liquidation therefore the debt is to be written-off</p> <p>Audit is aware that the contractor holds a master list of all debts marked for write-off and is evaluating each case. Supporting documents are being gathered to progress the write-offs if applicable</p>		

**Priority 1**  
**Required to address major weaknesses and should be implemented as soon as possible**

**Priority 2**  
**Required to address issues which do not represent good practice**

**Priority 3**  
**Identification of suggested areas for improvement**

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
New Rec 1	The aged debtors summary account was reconciled to the general ledger control account in November 2013, however there was a difference of £19,507.27 which arose in October 2013 is being investigated by an accountancy assistant. There was no evidence that these reconciliations are being checked by a senior officer for accuracy.	The authorities accounts may not be accurate or properly	<p><b>Ensure the aged debtors summary account is reconciled to the general ledger control account regularly and balanced to nil, then checked by a senior officer for accuracy</b></p> <p><b>[Priority 2]</b></p>

**Priority 1**  
**Required to address major weaknesses and should be implemented as soon as possible**

**Priority 2**  
**Required to address issues which do not represent good practice**

**Priority 3**  
**Identification of suggested areas for improvement**

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
Re-rec 1	Ensure the contractor prepares detailed procedure notes for all debtor processes to ensure debts are collected in a timely manner, including the managing of invoices in dispute, cancellations, write offs, authorisation signatories and segregation of duties between members of staff, plus the management of storage of all invoicing and debt recovery records.	2*	The restructure of the team into two groups dealing with invoicing/administration and Collection/recovery will provide clearer segregation of duties and increased resilience on collection and recovery. This will also allow Contractor to monitor the debt more effectively and minimise the possibility of process failures.	Contractor/ Exchequer Manager	On-going

**Priority 1**  
Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
Required to address issues which do not represent good practice

**Priority 3**  
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	<p><b>Debts should be managed correctly and recovered promptly.</b></p> <ul style="list-style-type: none"> <li>• <b>Departments should be proactive to ensure disputes are resolved in a timely manner and invoices in dispute for a long period of time should be escalated to senior management for meaningful action</b></li> <li>• <b>The contractor should contact the debtor promptly to recover debts</b></li> <li>• <b>Cases should be forwarded to the bailiff or the debt collector when required</b></li> <li>• <b>Cases returned from the bailiff should be handled correctly</b></li> </ul>	<p><b>2*</b></p>	<p>Agreed. The Contractor recognises that there have been some failures in the processes put in place to ensure that all debts are moved through the recovery cycle promptly. Processes are in place to facilitate the resolution of disputes, escalating where necessary, progressing debts over 61 days old and moving them into further recovery.</p> <p>An action plan based on the findings will be drawn up and monitored.</p>	<p>Contractor/ Exchequer Manager</p>	<p>On-going</p>

**Priority 1**  
Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
Required to address issues which do not represent good practice

**Priority 3**  
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	<ul style="list-style-type: none"> <li>• County court claims should be prepared accurately</li> <li>• Invoices on hold should be dealt with promptly to ensure a prompt resolution is achieved</li> <li>• Supporting documentation for write-offs should be held for reference</li> </ul>				

**Priority 1**  
 Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
 Required to address issues which do not represent good practice

**Priority 3**  
 Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
2	Ensure write-offs or debts uneconomical to pursue are processed promptly	2*	<p>Agreed. A report is being prepared for outstanding write offs over £5k which will be presented to the relevant Portfolio Holders.</p> <p>All non-in year debts are being reviewed any uncollectable debts will be written off. However, write-off is the last resort so on occasions a considerable amount of time can elapse from the raising of the debt to the point of acceptance that it will not be recovered.</p>	<p>Exchequer Manager</p> <p>Contractor/ Exchequer Manager</p>	On-going

**Priority 1**  
Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
Required to address issues which do not represent good practice

**Priority 3**  
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
New Rec 1	Ensure the aged debtors summary account is reconciled to the general ledger control account regularly and balanced to nil, then checked by a senior officer for accuracy	2	The control accounts are already reconciled each month and if there is an unexplained balance it is reported to a line manager. With the situation highlighted in the report the line manager made the decision to leave the balance until the following month to see if the difference cleared – as on some occasions invoices are incorrectly input so that both accounting entries are posted to the revenue account (as opposed to one being allocated to Debtors Control). When the invoice is paid the entry that would have been coded to the Debtors Control A/C is posted to the revenue thereby clearing the balance. Furthermore, meetings are held every quarter to review balances	Finance Systems Manager	On-going

**Priority 1**  
Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
Required to address issues which do not represent good practice

**Priority 3**  
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			on all control accounts. If this isn't considered sufficient control then I will arrange for an e-mail exchange to confirm the situation each month.		

**Priority 1**  
 Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
 Required to address issues which do not represent good practice

**Priority 3**  
 Identification of suggested areas for improvement



## OPINION DEFINITIONS

## APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

### **Assurance Level**

### **Definition**

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.

