



FINAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

Issued to: Peter Turner, Director of Finance
Claudine Douglas Brown, Assistant Director of Exchequer Services

Cc: David Hogan, Head of Internal Audit

Prepared by: Internal Auditor (Mazars LLP on behalf of LBB)

Date of Issue: 23rd January 2019

Report No.: CEX/09/2018/AU

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

INTRODUCTION

1. This report sets out the results of our systems based audit of the Debtors Income for 2018-19. The audit was carried out in quarter 2 of 2018-19 as part of the programmed work specified in the 2018-19 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 2nd July 2018.
4. A Client Team for the Authority liaise with the Exchequer contractor who are contracted to undertake debtor procedures on behalf of the Authority.
5. A new Corporate Debt reporting system was introduced in the first quarter of 2018. This replaces a number of procedures previously carried out on the financial management system.

AUDIT SCOPE

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

AUDIT OPINION

7. Overall, the conclusion of this audit was that Substantial Assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

MANAGEMENT SUMMARY

8. Controls noted to be in place and working well, based on the sample testing conducted, included:
- The Exchequer contractor has policies and procedures in place, which were accessible to members of their team.
 - A sample of 20 invoices was tested from a total population of 23,134 invoices. It was confirmed that all of the sampled invoices had been raised within five days of the request.
 - A sample of 10 credit notes was selected from a credit memo report, covering the period March 2018 until June 2018. There were a total of 395 credit notes raised in this period. The reasoning for each of the credit notes sampled was confirmed to be attached to the Corporate Debt reporting system and all the credit notes sampled had been raised in a timely manner.
 - A sample of 10 debts from a total of 23,134 debts was tested. For each of these, a segregation of duty in raising debts and debt recovery action was in place, with appropriate debt recovery actions taken following the debt recovery policy and procedure. All the sampled debts were actioned in a timely manner.
 - Examination of a sample of five write offs, one each from separate write-off packs, confirmed that write-offs were submitted to the Authority with the amount and the reasoning behind the write-off available in each case.
 - Debtors' control account reconciliations and refund reconciliations were produced monthly and reviewed by a second officer.
 - Unapplied and unidentified receipts are reviewed daily, investigated and cleared.

However, we would like to bring to management attention the following issues:

- One of the sample of 20 outstanding invoices tested was identified where incorrect information (debtor) had been included in the invoice, (reference number 701068700).
- The new Corporate Debt reporting system has inaccuracies when producing reports. Although the Financial Systems Team has been made aware of the issue, this has not yet been resolved.
- A sample of five write-off batches was sampled, with one invoice from each batch being verified for timely authorisation. There was one instance, invoice number 70078190 where the write-off had not yet been authorised at the time of the audit (a delay of five months).
- Each month, the Exchequer contractor produces a monitoring report for the Authority. The June 2018 report incorrectly reported the unidentified receipt balance as £1,572.68 instead of the correct figure of £1,245.76.
- A sample of 10 payment plans was tested. For invoice reference 12569086, a break in payment plan had been identified and no action had been taken by the Authority during the period 25th June 2018 to 2nd November 2018.

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

SIGNIFICANT FINDINGS (PRIORITY 1)

9. There were no priority one recommendations raised as part of this audit.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

10. 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

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

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

DETAILED FINDINGS

APPENDIX A

No.	Findings	Risk	Recommendation
1.	<p><u>Invoices Raised</u></p> <p>Invoice requests are submitted to the Exchequer contractor team, who then subsequently raise the invoices.</p> <p>A report of outstanding invoices for the period April 2018 until the date of the audit (November 2018) was obtained. There were 23,134 invoices in the report.</p> <p>A sample of 20 invoices was tested. One of the invoices sampled was identified to have been raised incorrectly. This was for invoice number 701068700 for £288. The invoice included the incorrect recipient. The invoice was subsequently returned and a new invoice was raised and sent.</p>	<p>Where invoices are raised with incorrect details, there is a risk that there is a delay in recovering the funds due to the Authority.</p>	<p>All invoices should be raised in accordance to the invoice request to avoid errors.</p> <p>(Priority 2)</p>
2.	<p><u>Reports from the Corporate Debt reporting System</u></p> <p>A new Corporate Debt reporting system was introduced to the Exchequer contractor team, which replaces some of the processes previously undertaken on the financial management system.</p> <p>It was noted from discussions with the Operations Manager for the Exchequer contractor and the Assistant Director of Exchequer Services (AD) that the Corporate Debt reporting system produces inaccurate workflow reports. It was explained that each quarter the AD is required to take information to committee in relation to outstanding debts being actioned, however the reports produced</p>	<p>Where the Corporate Debt reporting system produces inaccurate reports, there is a risk that the Local Authority undertakes unnecessary work trying to correct the issue and produce a meaningful report.</p>	<p>The Corporate Debt reporting system reporting function should be remedied as soon as possible.</p> <p>(Priority 2)</p>

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

DETAILED FINDINGS

APPENDIX A

No.	Findings	Risk	Recommendation
	<p>by the Corporate Debt reporting system are incorrect and the Exchequer contractor team are required to manually go through the reports produced and officers' workflows to produce the correct figures. This can take between 7 to 14 days to complete. The Financial Systems Team has been made aware of the issue and is in discussion with the Corporate Debt reporting system manufacturer to try and correct the problem.</p> <p>The Financial Systems Team have not confirmed what action is to be undertaken next.</p>		
3.	<p><u>Authorising Write-Offs</u></p> <p>The Exchequer contractor produces write-off packs for invoices under and over the value of £5,000. These are provided to the Authority to be authorised, before being written-off.</p> <p>A sample of five write-off packs was selected, with one invoice from each pack being verified for timely authorisation. Invoice number 70078190, with a value of £139, was submitted by the Exchequer contractor to the Authority on 30 May 2017, however at the time of the audit the write-off had still not been authorised.</p>	<p>Where write-offs are not being authorised in a timely manner, there is a risk that debt is overstated.</p>	<p>Write-offs should be authorised in a timely manner.</p> <p>(Priority 2)</p>
4.	<p><u>Monthly Summary Reporting</u></p> <p>The Exchequer contractor produces monthly summary reports to the Authority reporting on performance and figures.</p>	<p>The reported information provided by the Exchequer</p>	<p>Reporting should be reviewed by a second officer to</p>

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

DETAILED FINDINGS

APPENDIX A

No.	Findings	Risk	Recommendation
	<p>Five summary reports provided by the Exchequer contractor to the Authority were examined. It was identified that the June 2018 summary report identified that the unidentified account balance was £1,572.68. However, the actual figure should have been £1,245.76 for June 2018 as per the reconciliation of the unidentified account balance for June 2018.</p>	<p>contractor to the Authority should represent accurate information to allow informed decisions to be made.</p>	<p>ascertain and verify accuracy. (Priority 2)</p>
<p>5.</p>	<p><u>Succession Planning</u></p> <p>A report on all payments arrangements can be produced from the Corporate Debt reporting system, which replaces the old Code 8 from the financial management system. A report was run on the Corporate Debt reporting system covering June 2018. A sample of 10 payment arrangements was tested.</p> <p>It was identified that for Corporate Debt reporting system invoice number 12569086 (for a debt of £1,197.59 which was raised 9th May 2018), a payment arrangement had been agreed. From the period 25th June 2018, when a 'A break in payment letter' was sent, until the 2nd November 2018 at the time of the audit no further action had been taken to chase the debt and ensure that the payment arrangement was being adhered to.</p> <p>Discussion with the Exchequer Contract Team Leader identified that the officer who had been assigned this case had left and their associated work load had not been appropriately delegated to another member of the team.</p>	<p>Where breaks in payment arrangements are not chased, there is a greater risk that the debt will not be paid and will become irrecoverable.</p>	<p>The cases assigned to the officer who left the Council should be reviewed to ensure that these have all been assigned to another member of staff. (Priority 2).</p>

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

APPENDIX B

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1.	All invoices should be raised in accordance to the invoice request to avoid errors.	2	Agreed. The Income Team have been reminded of the importance of raising invoices accurately and double-checking the details to avoid errors.	Exchequer Contractor Operations Manager	On-going
2.	The Corporate Debt reporting system reporting function should be remedied as soon as possible.	2	<p>The FIS team generate the report monthly and send to the Exchequer contractor. There is no risk as the report produced is accurate.</p> <p>Currently the system provider is trying to resolve the issue with the report to allow the Exchequer contractor to run the report independently from within the system.</p> <p>The timescale of 31/03/19 is dependent on the system provider resolving the issue.</p>	Head of Financial Systems	31/03/19

REVIEW OF DEBTORS INCOME AUDIT FOR 2018-19

APPENDIX B

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
3.	Write-offs should be authorised in a timely manner.	2	<p>Agreed. The Contract Monitoring Officer is responsible for monitoring outstanding write offs and following them up either with the Exchequer contractor or with LBB officers who are responsible for authorisation.</p> <p>A further review will be completed and where required a duplicate write off pack will be prepared so that authorisation can be obtained.</p>	Contract Monitoring Officer	28/02/19
4.	Reporting should be reviewed by a second officer to ascertain and verify accuracy.	2	The Exchequer contractor will ensure that information reported to the Council is thoroughly checked to ensure its accuracy.	Exchequer Contractor Senior Operations Manager	On-going
5.	The cases assigned to the officer who left the Council should be reviewed to ensure that these have all been assigned to another member of staff.	2	The Exchequer contractor has confirmed that the broken payment arrangement on invoice 12569086 has been followed up and all of the invoices that were assigned to the leaver have been reassigned to other officers.	Exchequer Contractor Operations Manager	Completed

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.