

REDACTED



**FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT**

REVIEW OF DEBTORS

Issued to: Claudine Douglas Brown, Assistant Director of Exchequer Services
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Reviewed by: Head of Audit and Assurance

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REVIEW OF DEBTORS

INTRODUCTION

1. This report sets out the results of our audit of debtors. The audit was carried out as part of the work specified in the 2020-21 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The audit looked to review the arrangements in place for oversight and control over debtor activity which impact on the reliability of records, integrity of information and compliance with relevant regulations.
3. Debtor processes are contracted out by the Council to a third party, the Council's exchequer contractor. A Client Team for the Council oversee and monitor this arrangement. The audit has examined the operational controls in place to manage the day-to-day processing of debtors (some of which are enacted by the Council's exchequer contractor and some by the Council directly).
4. The Oracle system is used to raise and document all debtor invoices. Debtor details are then automatically integrated into the Aspien (ASH) system overnight. Within ASH are individual workflows that are triggered as soon as it receives information. These automatic workflows act as a checklist for staff to help ensure all steps are completed.
5. We would like to thank everyone contacted during this review for their help and co-operation.

AUDIT SCOPE

6. The original scope of the audit was outlined in the Terms of Reference issued in February 2020.
7. The controls in place to mitigate the impact of the key risk areas were examined. Controls relating to corporate and departmental risks were also examined where applicable. The audit included a review of relevant documentation, interviews with key officers and testing of related procedures and processes.
8. The following were considered to be the key risks inherent to the debtors' process:
 - Invoices may not be raised in a timely manner, leading to delays in collecting monies due.
 - Invoice amounts do not match sales order amounts, leading to financial inaccuracies.

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- Invoices raised to the wrong customer, resulting in confusion and/or reputational damage.
 - Income is misappropriated.
 - Receipt of money remains unallocated (so true position is not reflected in all debtor accounts).
 - Debt is not adequately pursued leading to loss of income.
 - Policies are not followed leading to rising aged debtors.
 - Debtors are not aware that their debt is overdue, leading to untimely payment and/or loss of income.
 - Items remain unreconciled. Potential income loss due to reconciliation not being completed in a timely manner.
 - Management is unaware of write-offs and is unaware of debtor position (hindering decision making). There are inappropriate policies and procedures in place to guide staff and support meeting legislative requirements.
9. The fieldwork for this audit was completed whilst government measures were in place in response to the coronavirus pandemic (Covid-19). The fieldwork for this audit has been completed and the agreed scope fully covered. Whilst we had to complete this audit remotely, we have been able to obtain relevant documentation and/or review evidence via screen sharing functionality to enable us to complete the work. Fieldwork was consciously deferred from the 2019-20 Internal Audit Plan on account of the Covid-19 impact.

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AUDIT OPINION

10. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Reasonable Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	3	0

SUMMARY OF FINDINGS

11. Controls noted to be in place and working effectively, based on the audit testing conducted, included:

- A sample of 15 invoices was tested from January to June 2020 (from a total population of 2,163 debtor invoices). We confirmed that all of the invoices sampled had been raised accurately per the supporting invoice request. The income code on the invoice request matched the income code on Oracle in all 15 cases. It was also demonstrated that, in the event an incorrect income code is entered, the system generates an automatic error message to prevent inaccuracies.
- On a monthly basis, a 5% sample of invoices and credit notes raised are checked to source documents for accuracy and timeliness (i.e. date of request vs date of invoice) by the Operations Manager at the Council's exchequer contractor. Compliance regarding accuracy and timeliness was consistently above the target of 95% each month (identified through examination of the Income & Recovery Monthly Monitor reports received during the period January to June 2020).

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- A sample of 15 debts from the June 2020 outstanding debts report were randomly selected for testing. For each of these cases, a segregation of duty in raising debts and debt recovery action was in place, with appropriate debt recovery actions subsequently taken in line with the Debt Recovery Policy and Procedure. Aged debtor reports from January to June 2020 were confirmed to also have been generated by the Operations Manager at the Council's exchequer contractor on a monthly basis and sent via e-mail to the Assistant Director, Exchequer Services at the Council for monitoring purposes.
- Authorisation to write-off debts must be provided by the Director of Finance / Assistant Director, Exchequer Services for any amount in the following cases (bankruptcy, liquidation, debtor untraceable, court decisions, debt statute barred or debtor has no funds in their estate).
- It was confirmed that refund reconciliations were produced by the Council's exchequer contractor monthly and reviewed by a second member of staff (the responsibility for conducting reconciliations also rotates across the team to aid transparency). Evidence was obtained for the three months (April, May and June 2020). Debtor control account reconciliations were also undertaken on a monthly basis, completed by the Council's Principal Accountancy Assistant and reviewed by the Head of Financial Systems by e-mail. It was demonstrated that any variances had been highlighted, explained and followed-up.

12. We would however like to bring to management attention the following issues:

- Following a request, the auditor was not provided with the details of officers with access to view and amend the Oracle and ASH systems. It was therefore not possible to evidence and confirm appropriateness of access.
- A sample of 15 write-off batches was sample tested to check for appropriateness. There was one instance (value of £978.55, customer number 960850354) where the supporting write-off pack could not be located. Therefore, justification for the processed write-off could not be verified.
- There is a central spreadsheet managed by the Council's exchequer contractor that monitors write-offs and their status. Examination of the spreadsheet confirmed there to be 40 cases where the write-off is pending to be signed off by the Director of Finance / Assistant Director, Exchequer Services. Out of the 40 cases, 20 cases were sent over to the Council in 2019.

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DETAILED FINDINGS / MANAGEMENT ACTION PLAN

13. 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, together with management's responses and timescales for implementation. Appendix B details the definition of the audit assurance and priority ratings.

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

1. Access to Debtor Systems	
<p><u>Finding</u></p> <p>Oracle and ASH are used as the core debt and revenue systems, whereby invoices are raised and documented. Evidence was requested, but not provided, to confirm details of authorised individuals who have access to view and amend on these systems. The Auditor was therefore unable to test and verify evidence the continued appropriateness of access.</p> <p><u>Risk</u></p> <p>Where details of individuals with access to debt and revenue systems cannot be confirmed, there is an increased risk that inappropriate access may be granted without identification. This could potentially affect the accuracy and integrity of the data on the systems.</p>	
<p><u>Recommendation</u></p> <p>Management should ensure they can access / produce a report from systems of users able to access.</p> <p>Authorised users recorded as having editing rights on Oracle and ASH users should then be reviewed annually.</p> <p>This should be reviewed by management for continued appropriateness and signed off.</p>	<p><u>Rating</u></p> <div style="border: 1px solid black; background-color: yellow; padding: 2px; display: inline-block;">Priority 2</div>
<p><u>Management response</u></p> <p>A list of ASH and Oracle users has been provided to Internal Audit.</p> <p>Monthly files are received from LBB HR of leavers and their access is removed.</p> <p>An annual review is carried out and access is removed as required. This will be signed off by management.</p>	<p><u>Agreed timescale</u></p> <p>Completed</p>

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<p><u>Accountable manager</u></p> <p>Assistant Director of Exchequer Services</p>	
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2. Justification for write offs

<p><u>Finding</u></p> <p>The Council's exchequer contractor produces write-off packs for invoices which are deemed as irrecoverable. These are provided to the Council to be authorised by the Director of Finance, before being written-off.</p> <p>A sample of 15 write-offs were selected. In one instance tested, customer number 960850354, the write-off pack could not be located as supporting evidence.</p> <p><u>Risk</u></p> <p>Where write-offs do not have the supporting evidence retained on file, there is an increased risk that the write off may have been processed inappropriately and without justification. This could potentially impact on the effectiveness of management decision making (if the true debtor position is not clear).</p>	
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<p><u>Recommendation</u></p> <p>Management should undertake a monthly spot check of 5% of write offs processed to ensure the relevant write-off pack is retained on file. Alternatively, a compensating control could be to undertake an automated data integrity check to highlight where evidence might be missing / fields incomplete, so that appropriate actions can be taken.</p> <p>The results of this check should be reported in the monthly monitoring reports visible to management.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
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<p><u>Management response</u></p> <p>The supporting evidence for the write off on 960850354 was available in the ASH system. This has now been provided to Internal Audit.</p> <p>A 5% check will be carried out and reported in the monthly monitoring report provided by the Council's exchequer contractor.</p> <p><u>Accountable manager</u></p> <p>Assistant Director of Exchequer Services</p>	<p><u>Agreed timescale</u></p> <p>31 October 2020</p>
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3. Timely Processing of Write-Offs

<p><u>Finding</u></p> <p>There is a central Excel spreadsheet managed by the Council's exchequer contractor that keeps track of write-off packs and their status. When a write off is sent to the Council, this spreadsheet is updated. Once the pack comes back to the Council's exchequer contractor, the spreadsheet is updated. The write-off pack is then scanned onto the system as evidence.</p> <p>Examination of the spreadsheet showed there to be 40 cases where the write-off remained pending for sign-off by the Council's Director of Finance / Head of Exchequer Services. Out of these 40 cases, 20 cases were from 2019.</p> <p><u>Risk</u></p> <p>Where write-offs are not processed and debts written off via Oracle in a timely manner, there is an increased risk that the Council's true debtor position is not reflected, potentially hindering management decision making.</p> <p>Reputational damage may arise if it is deemed that debtors are not being treated fairly i.e. if some are written off whilst others continue to be pursued.</p>

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<p><u>Recommendation</u></p> <p>The Council and management from the Council's exchequer contractor agree a target time frame in which write-offs should be approved and processed from the date of request, to ensure any such debt is written off in a timely manner. The Council and the Council's exchequer contractor should then work to this timeframe and enact an escalation process through the monthly contract monitoring controls in the event of non-compliance.</p>	<p><u>Rating</u></p> <p style="text-align: center;">Priority 2</p>
<p><u>Management response</u></p> <p>The spreadsheet is reviewed monthly and outstanding cases are escalated or duplicate paperwork requested for resubmission. The outstanding cases will be completed by the end of October.</p> <p>Write offs are now authorised electronically which ensures there is an audit trail for the write off pack.</p> <p><u>Accountable manager</u></p> <p>Assistant Director of Exchequer Services</p>	<p><u>Agreed timescale</u></p> <p>31 October 2020</p>

OPINION DEFINITIONS

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.