

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Head of Finance
C.C. Chief Executive
Deputy Chief Executive (AJ)
Exchequer Manager
Finance Admin Manager
Portfolio Holder (Cllr Richard Hales)

SUBJECT: Sundry Debtors
DATE: 28 November 2019

1 **Introduction**

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 **Background**

- 2.1 The Financial Services Team (FST) carry out Sundry Debtor transactions using the 'Total' system, raising invoices for the Council to receive income that is due.
- 2.2 The average monthly value of debtor invoices processed by the FST using the Total system is £866k.

3 **Scope and Objectives of the Audit**

- 3.1 The audit was undertaken to test the management and financial controls in place using the CIPFA systems-based control evaluation models. Testing was performed to confirm that controls identified are effective, with documentary evidence being obtained where possible, although staff observation was undertaken to confirm some of the procedures and tasks carried out.
- 3.2 In terms of scope, the audit covered the following areas:
- General
 - Raising invoices
 - Amendments to invoices
 - Payments
 - Debt recovery

- Write-offs
- Monitoring and reporting
- Security of data

3.3 Some specific tests were not performed as they were considered either not relevant to the operations of the Council or are covered under separate audits. For the purpose of the audit, invoices used for sampling were from April 1st until September 13th 2019.

4 Findings

There were no recommendations from the previous report.

4.1 General

4.1.1 The roles, responsibilities and policies for the sundry debtor function are contained within the Code of Financial Practice and Code of Procurement Practice.

4.1.2 There is a Sundry Debtors Manual which has been developed by the Financial Services Team (FST). This documents the processes and controls involved in the debtor transaction cycle. The manual is currently under periodic review to ensure content remains up-to-date. The auditor was able to view the copy under review which was considered to be a useful instructional guide for the tasks involved.

4.1.3 Access to the Total system is only provided after completion of a training session with the FST followed by completion of a new user access request authorised by the relevant service manager.

4.1.4 The user access levels for Total is checked with SMT on an annual basis to ensure the levels are correct and appropriate.

4.2 Raising Invoices

4.2.1 The sundry debtor system is responsible for two types of invoices: one-off invoices; and periodic invoices. For the period reviewed in this audit there were 625 one-off invoices and 4373 periodic invoices issued. This averages at around 900 invoices processed in a month.

4.2.2 Testing was undertaken on a sample of 20 recently raised one-off invoices. This showed that the majority were issued after the service or goods had been provided. This contravenes the Code of Financial Practice which states that payment should be sought in advance.

4.2.3 The FST highlighted that they advise that invoices should be raised before services are provided through various methods including: 'Big Buttons' on the Intranet, which are used to circulate reminders to staff; information published on the FST Debtors page, stating that "Income should be received in advance of the provision of the service in all cases unless there is good reason as to why this may not be appropriate"; and provision of information to staff when completing training on raising invoices.

Risk

There may be a risk of non-payment, additional costs incurred (reminders and recovery) and reduced cash flow due to invoices being issued after a service has been provided.

Recommendation

Except in exceptional cases, which should be agreed by the Head of Finance, invoices should be issued before services have been provided.

Where invoices are not issued in advance, the circumstances should be recorded and kept under review by the relevant Head of Service and Head of Finance.

Where there is no pre-agreed reason for the delay, the relevant Head of Service should provide authorisation explaining the reason for the delay when submitting the documentation for the raising of the invoice.

- 4.2.4 The invoice amounts are dependent on the service usage and there is no lower limit when billing debtors. In the time period reviewed there was a total of 27 invoices raised for under £10, low amounts are challenged by the FST as to why an invoice is being raised and whether or not there is a more cost effective method of obtaining payment. The smaller invoices are mainly to cover the costs of TV Licenses or service charges in shared housing.
- 4.2.5 Once the invoice details have been entered into Total, a unique invoice number is generated and allocated to the entry to enable it to be 'tracked'. If the customer is new to the Council, prior to an invoice being raised, a new debtor request is made by the service area via intranet form or in the case of new lifeline/licence/BID/lease the details are taken from the form/email also submitted by the service area, the customer is then allocated a unique customer number.
- 4.2.6 Total automatically populates various fields of data onto a standard template when producing the invoice for printing or sending via email. This includes the Council's contact details, VAT number and a point of contact should it be needed. The goods or services provided are clearly printed on the invoice and the 'how to pay' information is easy to find.
- 4.2.7 Invoices provide a clear payment due by date, they do not provide any information regarding the event of non-payment. However, when needed reminders are produced. The first reminder letter advises the customer to pay to avoid recovery action. The final reminder advises that costs incurred from referring to a debt collection agency will be charged to the customer.
- 4.2.8 Most invoices are raised by the services completing an online form on the Intranet which automatically fills relevant cells on Total. For periodic invoices however, some services email the FST directly with the information to enable the invoices to be raised [e.g. Lifeline, Licensing, Estate Management (for leases and rents) and Insurance. Two areas are able to set up their own invoices, the Crematorium and Enterprise team, although the FST set up instalment plans for the Enterprise team (for costs relating to the Althorpe Enterprise Hub)].

4.2.9 Although the invoice amount and allocation code are provided by the service area, the FST check that the code supplied is a valid cost code on Total to ensure accuracy. When periodic invoices are created or sundry debtor invoices are raised with instalment plans at the outset, the debtors bank details are checked via the Intranet account/sort code modulus check to confirm that the details provided are valid and a further check of Total is also carried out to ensure that the debtor isn't already on the system. As sundry debtor invoices are raised on a daily basis there is very little delay in processing them.

4.3 **Amendments to Invoices**

4.3.1 Invoices are not amended; instead, they are cancelled and reissued with the correct information included. Where applicable, credits are applied to the account.

4.3.2 A sample of 28 cancelled invoices was examined to ensure that the cancellation was appropriate. Testing confirmed that notes were on the system in all cases, but only fourteen had supporting documents attached using the notepad function.

4.3.3 Most of the cancellations without documents attached were for Lifeline customers. These documents are stored on the network in a secure folder due to GDPR regulations. The other undocumented cancellations were due to human error, where an incorrect figure had been entered for the cost or quantity or the wrong customer number was used. In all cases the cancellations were authorised by the appropriate FST Supervisor or Manager.

4.4 **Payments**

4.4.1 There is a daily checklist in place that allocates the workload to a specified staff member to ensure that all tasks are completed, jobs are rotated amongst the team and knowledge levels are maintained. This encourages separation of duties, preventing the same FST member being able to authorise every stage of an individual invoice. Other controls in place include authorisation by a Supervisor or Manager.

4.4.2 Payment methods are clearly detailed on each invoice as part of the standard template. Payments are accepted via direct debit, BACS, online, over the phone, at 'PayPoint' locations and the Post Office.

4.4.3 Payments received are automatically identified and allocated to the correct ledger code providing the correct invoice number has been quoted. Payments that are not automatically identified go into a suspense account on Paris (the banking system) and are manually identified from here and transferred to the correct ledger code. Total is then updated to confirm that the payment has been received.

4.4.4 As customers do not always input the invoice number correctly (or at all), various checks are undertaken to ensure the payment is appropriately allocated against the correct invoice. The checks are carried out daily by the FST searching against amount; payment date; customer name; reference number and invoice number.

4.4.5 Paris uploads daily at 10.05am so checks are carried out after this time and repeated in the afternoon. Some payments are received in bulk where the customer has more than one bill to pay. Remittances are typically sent to Treasury who will separate and allocate to the relevant invoices. If not, the FST may receive the remittance or confirmation from the debtor of the payment/split from which they can do the allocation instead of Treasury

4.5 **Debt Recovery**

4.5.1 Total automatically generates reminder letters if payments have not been received. These are issued at pre-set timescales (five to seven days and ten to fourteen days) unless the account has been placed on hold. Once generated, the FST are responsible for either emailing the reminders to the customer or printing and posting them.

4.5.2 Once two reminders have been issued, the FST attempt to contact the customer by phone. If recovery fails at this point, a decision is made whether to refer the debtor to a debt enforcement agency or, if the debtor is a regular good payer and this is a one-off exception another final reminder may be issued (this should be a fairly rare occurrence).

4.5.3 The Council uses a debt enforcement agency followed by a solicitor if the legal route is to be progressed and the status of the debt collection progress is monitored on a daily basis by the FST. The first attempt at debt collection is carried out by Bristow and Suitor who provide a sundry debt recovery process free of charge as an 'added value' service on top of their contract for providing debt collection services for the Councils revenues debts.

4.5.4 If they are unable to recover the debt it is passed back to the Council where it can be either written off or referred to the solicitors (currently Spratts Endicott). Spratts are able to take legal action when recovering the debt, but there are costs incurred with using them.

4.5.5 In some cases debts may need to be placed on hold. This could be because a customer has moved from the billing address and their whereabouts are unknown or the invoice has been queried. FST make decisions whether to put the debt on hold or not, sometimes the service area will ask for a debt to be put on hold if they have had a query from the debtor. Where appropriate the FST will liaise with and update the service area. Where an invoice is on hold, reminder letters are not automatically produced by Total. The debt still remains on the system with the FST staff members becoming responsible for updating the status of the debt manually.

4.5.6 At the time of testing there were seventeen invoices on hold. Upon review, it was confirmed that notes and supporting documents were attached to the invoice using the notepad system in all cases. Supporting documents included a valid reason and correspondence regarding the debt being on hold from the service area that had requested the initial invoice.

4.6 **Write-offs**

4.6.1 Where recovery methods have been exhausted and appropriate authorisation from the service has been received, the debt can be written off. The write-off

is documented with the information saved to the customer's file using the notepad function. The only exception is with Lifeline cases where the documentation is stored in a secure folder on the network.

- 4.6.2 For a write-off to be processed on Total a write-off authorisation form has to be completed (for amounts above £1) and signed by a finance Supervisor or Manager with the correct financial limit. To physically complete the write-off on Total, a Supervisor or Manager has to authorise the transaction. The higher the value of the write-off, the more senior the staff member.
- 4.6.3 FST staff review each case individually and use the Sundry Debtors Manual as a guide to ensure adequate authorisation has been received and the case is documented as appropriate.
- 4.6.4 A sample of twenty write-offs was selected for testing. In all sampled cases it was confirmed that the customers had received reminder letters and manual contact had been made or attempted. Six of the cases had been referred to debt collectors.
- 4.6.5 Some of the cases had full write-offs authorised, others had a partial write-off issued. Where a full or partial repayment had been received after the write off had been authorised, the customer file had been updated accordingly.

4.7 **Monitoring and Reporting**

- 4.7.1 There are no set targets for debt collection although the FST aim to receive payment for all invoices. The FST raise and follow up invoices on behalf of the service areas who ultimately decide whether to pursue debts or write them off.
- 4.7.2 The FST follow a daily checklist which allows them to monitor the progress of the tasks completed, payments received and the debts outstanding.
- 4.7.3 The only debt reports produced are for BID (debts that the FST manage but don't own) and a monthly aged debt report. The Finance Admin Manager reports the number of invoices processed and the amount of aged debt to the Head of Finance on a monthly basis.
- 4.7.4 The monthly aged debt report shows a snapshot of the debt owed at the time of its production. The figures can help to identify any trends or peaks. The Finance Admin Manager also uses the report to ensure that the correct debt recovery process is being adhered to by the FST, that proactive action is being taken where appropriate and to address potential write-offs with the service area who requested the invoice to be raised.

4.8 **Security of Data**

- 4.8.1 At present there is not an up-to-date formal document retention policy in place. This is something that the Exchequer Manager is aware of and is in the process of producing one. FST are currently keeping documents for six years plus current.
- 4.8.2 The Council has purchased computer software that removes documents from ICT systems after a set amount of time. It is currently going through testing

to ensure it only deletes the set files based on GDPR and document retention requirements. Once testing has been successful it will be rolled out for use on Total.

4.8.3 There is very little held in the form of paper documents. Most documents are scanned and saved to the relevant account on Total or in a secure folder on the network. The paper documents that contain sensitive information are kept in a folder in a locked drawer with plans in place to add this information to the FST's electronic calendar and then dispose of the hard copy folder.

4.8.4 The only other paper documents held are BID backing paperwork which is sent out with invoices and contains no personal or sensitive information. The BID backing paperwork is clearly labelled and stored in boxes on a bookcase within the FST area.

5 **Summary & Conclusion**

5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls that are currently in place in respect of Sundry Debtors are appropriate and are working effectively.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 There was one issue identified during the course of the audit relating to invoices being issued after services have been provided.

6 **Management Action**

6.1 The recommendation arising above is reported in the attached action plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Sundry Debtors – November 2019

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.3	<p>Except in exceptional cases, which should be agreed by the Head of Finance, invoices should be issued before services have been provided. Where invoices are not issued in advance, the circumstances should be recorded and kept under review by the relevant Head of Service and Head of Finance.</p> <p>Where there is no pre-agreed reason for the delay, the relevant Head of Service should provide authorisation explaining the reason for the delay when submitting the documentation for the raising of the invoice.</p>	There may be a risk of non-payment, additional costs incurred (reminders and recovery) and reduced cash flow due to invoices being issued after a service has been provided.	Low	Head of Finance	A meeting is going to be held to decide how the recommendations will be actioned.	End of December 2019

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.