

FROM: Audit and Risk Manager
TO: Head of Finance
C.C. Chief Executive
Exchequer Manager
Finance Administration
Manager
Senior Finance Administration
Officer

SUBJECT: Sundry Debtors
DATE: 5 March 2013

1 Introduction

- 1.1 In accordance with the Audit Plan for 2012/13, 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. This topic was last audited in November 2009.
- 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 debtors system is one module of the TOTAL financial management system.
- 2.2 In 2012/13 to date over 14,700 invoices have been raised with a total value of around £7,000,000. Invoices are raised for non-cash income and collection of sundry periodic rent, service charges etc.

3 Scope and Objectives of the Audit

- 3.1 An extensive examination has been undertaken using the CIPFA systems-based control evaluation models. This entailed completion of Internal Control Questionnaires (ICQs) and testing of controls in accordance with evaluation programmes. Detailed testing was performed to confirm that controls identified have operated, with documentary evidence being obtained where possible, although some reliance has had to be placed on discussions with relevant staff, including the Senior Finance Administration Officer.
- 3.2 The objectives that have been considered as part of this audit include:
- Sufficient policies and procedural documentation are in place to enable staff to undertake their roles.
 - Detailed invoices are accurately raised where payment could not be received in advance of the provision of the goods or service.

- Invoices in respect of periodic income are accurately raised in a timely manner.
- Invoices are only cancelled upon receipt of appropriate requests from the originating department.
- Payments received in respect of debtor invoices are accurately credited against the correct account.
- Appropriate debt recovery processes are undertaken in respect of unpaid invoices.
- Debts are only written off after all reasonable debt recovery processes have been exhausted, with appropriate authorisation being received prior to the debt being written off.
- Debt collection statistics are monitored and are reported as appropriate.

3.3 The CIPFA Matrices for Debtors were used. The expected controls under these matrices are categorised into the following areas:

- (1) General (covering policies, roles and responsibilities)
- (2) Raising invoices
- (3) Amendments to invoices
- (4) Payments
- (5) Debt recovery
- (6) Write-offs
- (7) Monitoring and reporting
- (8) Security of data (see below)

3.4 Some specific tests were not performed as they were either considered not relevant to the operations at the council or are covered under separate audits (e.g. data security is covered under a specific IT audit of the TOTAL financial management system).

4 Findings

4.1 Policies, Roles & Responsibilities

- 4.1.1 The prime documents detailing the roles, responsibilities and key policies for the sundry debtors function were found in the Code of Financial Practice and the Responsibilities & Practices document. Underneath these documents sits a Sundry Debtors manual. All of these documents have been recently reviewed and updated.
- 4.1.2 A corporate debt recovery policy is also in place. However, the review of this policy is known to be well overdue. This task has been assigned to the Benefits & Fraud Manager, although the Head of Finance confirmed that it is still not complete. This was raised in the previous audit of Sundry Debtors and other audits as well and the recommendation is, therefore, repeated in the action plan for this audit.

Risk

Users may disregard or may be misled by out-of-date guidance, with the effectiveness of income collection being impaired by inconsistent practices.

Recommendation

The corporate Debt Recovery Policy should be reviewed, updated and publicised to all relevant staff.

4.2 Raising Invoices

- 4.2.1 Testing was undertaken on a sample of invoices to ascertain whether it was possible for the service to have collected payment in advance and that the invoices were raised on a timely basis following the provision of the service.
- 4.2.2 In the majority of cases, the nature of the service / goods provided did not lend themselves to receiving payment in advance. Also, in two other cases, the invoice was either raised as a way of trying to get payment in advance or the payment had already been received. Four other cases related to a specific function that is audited separately and this will be further reviewed when the area is next audited.
- 4.2.3 One invoice was insufficiently detailed to enable Audit to establish whether the payment could have been obtained in advance, and it was similarly not clear whether the other case could have received advance payment, although the Senior Finance Administration Officer (SFAO) suggested that this probably could have been undertaken.
- 4.2.4 Under half of the sampled invoices were found to have been raised in a timely manner. Three cases were identified where there were significant gaps between service provision and the raising of the invoice. In the remaining cases, the date of service provision was not stated on the invoice, so it was not possible to ascertain whether the invoice had been raised on a timely basis. The levels of detail on invoices has also been raised in the past.

Risk

Officer time is wasted dealing with queries relating to inadequately detailed and late invoices.

Recommendation

Staff who raise debts should be reminded of the need to include sufficient levels of detail on the invoices, including the date of service provision where possible, and to ensure that they raise the invoices in a timely manner.

- 4.2.5 There has not been a formal lower limit set with regards to the raising of invoices for small amounts. However, testing was undertaken to ascertain how many low value invoices were being raised.
- 4.2.6 A stratification was performed on the value of invoices raised during the current financial year which identified 14 'normal' invoices and 118 periodic invoices that had been raised for a value of below £10.
- 4.2.7 The vast majority of these periodic invoices (102) related to monthly or quarterly maintenance charges to specific individuals. With these records ignored, the remaining 29 relevant invoices do not give cause for concern regarding the time being taken to raise low value invoices.
- 4.2.8 The SFAO advised that, as part of the weekly in place, a check of unprinted invoices is performed. He advised that the relevant department would be contacted prior to issuing the invoices to check whether there was any specific reason for the delay in issuing. Internal Audit observed the SFAO checking the system and no unprinted invoices were found.
- 4.2.9 Testing was undertaken on a sample of active periodic income templates and checks were performed to ensure that invoices had been raised as appropriate and that recovery action had been taken where payments due had not been received.
- 4.2.10 This test proved satisfactory, although it was noted that some invoices appear to be being paid late, as the timing does not coincide with the Direct Debit schedules that are in place.

4.3 Amendments to Invoices

- 4.3.1 Invoices are not actually amended. Instead any incorrect invoices will be cancelled and a new invoice will be raised in its place. All cancellations are performed by finance staff.
- 4.3.2 Testing was undertaken to ensure that invoices were only being cancelled upon receipt of appropriate information from the department that had raised the invoice and that evidence of this 'approval' was being retained as appropriate.
- 4.3.3 In the majority of cases, appropriate detail was either recorded on TOTAL to support the cancellation, or separate documents were held. However, a couple of cases were identified where either the level of information recorded was not sufficient (e.g. notes types up with no evidence as to where the information had come from or whether the originating department had approved the cancellation) or, in one case, where nothing was recorded at all to support the cancellation.

Risk
Invoices are cancelled incorrectly.

Recommendation
Staff should be reminded to provide appropriate details to support the cancellation of the invoices, including appropriate evidence of who had provided the approval / submitted the request for this to be undertaken.

4.4 Payments

- 4.4.1 The invoices issued give details of the various methods of payment available to the debtor. Whichever method is chosen, there is appropriate segregation of duties in place between the receipt of the payment and the processing of the invoices.
- 4.4.2 Whichever method is chosen, the payments will all be processed via the PARIS income management system, which is subject to separate audits. The PARIS system will allocate the payments against the relevant invoices, assuming that the payment has quoted the correct reference number, as stated on the invoices.
- 4.4.3 Where the relevant invoice number has not been quoted, the payment will be placed into the PARIS suspense account. A review of the PARIS suspense account highlighted three cases that appeared to relate to sundry debtor invoices. However in two cases the amount had already been paid against the corresponding invoice numbers. The other reference related to an invoice from 2009 and was for a different customer, so this was probably not relevant. All other similar reference numbers identified on the suspense account did not have corresponding invoice numbers of TOTAL.
- 4.4.4 There is also a suspense account within TOTAL. This is cleared on a daily basis by members of the Finance Support Team. An initial review highlighted one item that had been placed in suspense on the previous day. However, a subsequent follow up later in the day confirmed that it had been cleared as appropriate.

4.5 Debt Recovery

- 4.5.1 As highlighted above, the corporate debt recovery policy is overdue for review. However, the SFAO advised that he will regularly review the 'recovery path' within TOTAL (i.e. the exact timing and detail on the reminder letters sent out to chase debts).
- 4.5.2 A sample of unpaid invoices was chosen from the TOTAL system and testing was undertaken to ensure that appropriate recovery action was being undertaken. This test proved satisfactory, with evidence being maintained on the system to confirm when reminder letters had been issued, whether the case had been referred to recovery agents and when the case was next due to be followed-up on if recovery action had been suppressed.

4.6 Write-Offs

- 4.6.1 A debt should only be written off after all appropriate methods of recovery have been exhausted. Depending on the value of the debt to be written off,

there should also be approval from the relevant department before formal authorisation is received from the Exchequer Manager.

- 4.6.2 Testing was undertaken on a sample of write-offs performed to ensure that these processes had been followed. This confirmed that appropriate recovery action had been undertaken and the 'irrecoverable debt forms' had been appropriately authorised. However, as with the invoice cancellation testing above, a number of cases were identified where there was insufficient evidence maintained on the system to confirm that approval had been received from the originating department. The recommendation raised at 4.3.3 is, therefore, also relevant to write-offs.

4.7 Monitoring & Reporting

- 4.7.1 There are no debt collection rate targets set, as the general process of target setting has been abandoned by the council.
- 4.7.2 The SFAO advised that he has not been asked to report on debt collection performance, although reports are available within the TOTAL system and on Ripplestone. He advised that these reports had been set up at his request and that he runs them periodically to ensure that there are no long outstanding debts that he is not aware of.
- 4.7.3 He also advised that, whilst benchmarking had been performed in the past via participation in relevant CIPFA exercises, this is no longer undertaken.

Risk

Management are not aware of the performance of the debt recovery processes that are in place.

Recommendation

Whilst no formal debt collection targets are set, reports should be provided to management regarding debt collection performance so that they can assure themselves that processes in place are appropriate and that they are aware of any potential issues arising.

(NB similar collection rate performance is monitored for Council Tax and Non-Domestic rates, so it is considered relevant to monitor sundry debt collection performance as well).

5 Summary & Conclusion

- 5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for Sundry Debtors are appropriate and are working effectively.
- 5.2 Minor issues were identified relating to the long overdue review of the corporate debt recovery policy, the level of detail being recorded on some invoices, the recording of appropriate evidence in respect of invoices being cancelled and written off and the formal monitoring of debt recovery performance by management.

6 Management Action

- 6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) for management attention.

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