

# INTERNAL AUDIT REPORT

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

**SUBJECT:** Sundry Debtors  
**DATE:** 1 July 2015

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## 1 Introduction

- 1.1 In accordance with the Audit Plan for 2015/16, an examination of the above subject area has been completed and this report presents the findings and conclusions for information and action where applicable. This topic was last audited in February 2013.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated where appropriate, in the below report. My thanks are extended to all concerned for the help and cooperation received during the audit.

## 2 Background

- 2.1 The 'TOTAL' system is used to process sundry debtors transactions with invoices being raised in order for the council to receive the income that it is due.
- 2.2 At the date of audit, the monthly average value of debtor invoices processed by the TOTAL system totals £1.6m.

## 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 verbal discussions with relevant staff.
- 3.2 The expected controls for the matrices relating to Debtors are categorised into the following main headings:
- (1) General
  - (2) Raising invoices
  - (3) Amendments to invoices
  - (4) Payments
  - (5) Debt recovery

- (6) Write-offs
  - (7) Monitoring and reporting
  - (8) Security of data.
- 3.3 Some specific tests were not performed as they were either considered not relevant to the operations of the council or are covered under separate audits. Specifically, the security of data section was not covered, as separate audits of ICT applications are performed.

## **4 Findings**

### **4.1 General**

- 4.1.1 The corporate source of the roles, responsibilities and policies for the sundry debtors function are contained in the updated Code of Financial Practice and Code of Procurement Practice.
- 4.1.2 The Financial Services Team (FST) have developed a sundry debtor instruction manual, which documents the processes and controls for the complete debtor transaction cycle. The contents of the manual were reviewed and were considered by Internal Audit to be a useful guide for all aspects of the debtor transaction cycle.
- 4.1.3 Access to TOTAL is provided upon completion of a user access form. This needs to be authorised by the relevant service manager before being passed to the FST for processing.
- 4.1.4 The form also highlights that users will only be given access to the system after training has been undertaken. There is no formal training package in place for the debtors aspects of TOTAL, so training needs would be assessed by the FST and coaching would be provided as required. Video demos are also available on the system that can be referred to by any users of the system.

### **4.2 Raising of Invoices**

- 4.2.1 Testing was undertaken on a sample of invoices raised to ensure that they contained an appropriate level of detail, such as the actual value of the services provided and contact details. This test proved satisfactory.
- 4.2.2 During the testing, it was noted that the supporting documentation for the Lifeline invoices was held on the Finance I drive, outside of TOTAL. This process was found to be in compliance with the procedure detailed in the sundry debtors manual.

### **4.3 Amendments to Invoices**

- 4.3.1 Where amendments are required to the invoices raised, credit notes will be issued.
- 4.3.2 Testing undertaken on a sample of credit notes confirmed that appropriate supporting documentation was held and they had been

raised in a timely manner in line with instructions from the relevant department. They had also been authorised, as appropriate, by a member of staff from that department.

#### **4.4 Payments**

- 4.4.1 The invoices issued give details of the various methods of payment available to the debtor. Whichever payment method is chosen, there is appropriate segregation of duties in place between the receipt of payment and the processing of debtor invoices.
- 4.4.2 Debtor payments are all processed via the PARIS income management system, which is subject to separate audits. The PARIS system will allocate debtor payments against the relevant invoices, assuming that the payment has quoted the correct eight digit invoice number.
- 4.4.3 Where payments received on PARIS cannot be matched, they are placed into a suspense account. Upon review, it was confirmed that the PARIS suspense account is reviewed on a daily basis in order to identify where the monies should be allocated. At the time of review it was confirmed that none of the payments in the PARIS suspense account related to sundry debtor payments.
- 4.4.4 There is also a suspense account within TOTAL. The suspense account is cleared on a daily basis by members of the FST. Testing confirmed that the recent amounts posted to the TOTAL suspense account had been subsequently allocated to the correct debtor account.

#### **4.5 Debt Recovery**

- 4.5.1 Generation of the debt recovery reminder letters, relating to unpaid invoices, forms part of the daily tasks completed by the FST.
- 4.5.2 Testing was undertaken to ensure that debt recovery letters were being sent as appropriate and follow-up action was being undertaken where relevant, involving service departments, the FST, and debt recovery agents where required. The testing confirmed that appropriate recovery action had been taken, in compliance with the sundry debtor manual.
- 4.5.3 There are a small number of occasions when the decision is taken to suppress the automated recovery controls and replace them with manual controls.
- 4.5.4 Testing was undertaken on a sample of suppressions to ensure that this was a justified course of action. Supporting documentation reviewed confirmed this to be the case in all sampled instances.

#### **4.6 Write-Offs**

- 4.6.1 Sundry debtor write-offs occur where outstanding debts are judged to be irrecoverable. Testing was undertaken on a sample of write-offs to ensure that they were supported by appropriate evidence to show that

the debt could not be recovered and that the write-offs had been authorised by the appropriate service manager and the Finance Administration Manager.

- 4.6.2 It was noted that the documentation held to support the write-offs is a combination of internal and independent evidence. Whilst this was considered by Internal Audit to be acceptable, it is advised that independent evidence should be obtained wherever possible.

#### **4.7 Monitoring & Reporting**

- 4.7.1 It was confirmed that outstanding aged debtor reports are being run on a monthly basis as appropriate.
- 4.7.2 The Finance Administration Manager reviews these reports each month, along with notes made on the TOTAL debtor notepad, with the objective of considering if additional follow-up action is required in relation to any of the debtor arrears detailed.
- 4.7.3 It was confirmed that the May 2015 month-end report had been reviewed as appropriate. As a result of this review, a total of two debts had been referred to the relevant departments for them to resolve.
- 4.7.4 In one case, a debt of £1,094 had been outstanding for more than six months. The case had been referred back to the relevant department as the debtor had raised queries about their invoice. It was noted that a timely follow-up date has been set for the FST to review the actions taken by the service department.
- 4.7.5 The other case related to the highest value invoice on the report (£1.077m relating to a section 106 agreement) which had been outstanding for more than one month. This has been referred to the Major Sites Monitoring Officer so that he can work with the debtor in order to resolve the collection of this debt.
- 4.7.6 An annual process is in place to stratify the outstanding sundry debt balances as at 31 March in order to identify any debts for which a bad debt provision needs to be made.

#### **4.8 Follow-Up of Previous Audit Recommendations**

- 4.8.1 The previous Internal Audit report, dated 20 February 2013, included four recommendations. Three of these were considered to be low risk and the other was rated as medium.
- 4.8.2 Testing and enquiries confirmed that the three low risk recommendations have been implemented.
- 4.8.3 The other recommendation related to the review of the corporate debt recovery policy. The feasibility of having one, overarching, policy had been reviewed by the Finance Administration Manager. Due to the different processes that exist within the council for dealing with the various types of debts in the different departments, it was established

that it was not relevant to have one single policy. This had been agreed in conjunction with the Head of Finance and it had also been accepted by the Deputy Chief Executive (AJ) who had queried whether progress had been made against this 'Forward Plan' item.

## **5 Summary and 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 As a result of our findings, no recommendations were thought to be warranted.

Richard Barr  
Audit and Risk Manager