

Report to Audit Committee

**Agenda
Item:**

A.5

Meeting Date: 8 July 2021
 Portfolio: Finance, Governance and Resources
 Key Decision: Not applicable
 Within Policy and
 Budget Framework YES
 Public / Private Public

Title: Internal Audit Report – Debtors
 Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
 Report Number: RD25/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2020/21 and considers the main financial system review of Debtors.

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

| | |
|------------------|-----------------------|
| Audit Committee: | 8 July 2021 |
| Scrutiny Panel: | Not applicable |
| Council: | Not applicable |

1. BACKGROUND INFORMATION

- 1.1 A main financial system audit of Debtors was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2020/21. The audit (**Appendix A**) provides substantial assurances and includes 3 medium-graded recommendations.

2. RISKS

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. CONSULTATION

- 3.1 Not applicable

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is asked to

- i) receive the final audit report as outlined in paragraph 1.1;

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

| | | |
|-------------------------|---|------------------|
| Contact Officer: | Michael Roper | Ext: 7280 |
| Appendixes | Internal Audit Report – Debtors – Appendix A | |

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Legal – In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement.

Finance – Contained within the report

Equality – None

Information Governance – None

Audit of Debtors

Draft Report Issued: 10 June 2021
Director Draft Issued: 18 June 2021
Final Report Issued: 21 June 2021



Audit Report Distribution

| | |
|-------------------------|--|
| Client Lead: | Finance Officer (Systems, Controls & Development) Debtors Administrator |
| Chief Officer: | Corporate Director Finance & Resources Chief Executive |
| Others: | Financial Services Manager Principal Accountant Information Governance Manager |
| Audit Committee: | The Audit Committee, which is due to be held on 08 th July 2021 will receive a copy of this report. |

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Debtors. This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th June 2020.
- 1.2 Since the last Debtors Audit was carried out in 2017/2018, a change in the team management and responsibility of line management of Debtors services has taken place. The Debtors Administrator post has moved from the Service Support Team to the Finance System Controls & Developments Team who support and provide the debt recovery function. The Debtors function is provided by the Accountancy Team within the Finance and Resources Directorate.
- 1.3 Individual departments raise debtor accounts and invoices and the Debtors Administrator checks for errors or omissions issues and monitors debt collection. The objectives of the Debtors process is to ensure invoices are raised promptly, accounts are managed and recovery action taken where necessary.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Audit Scope was agreed with management prior to the commencement of this audit review, the Client Lead for this review was the Finance Officer (Systems, Controls & Development). The agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
 - Invoices aren't raised on a timely, accurate and complete basis resulting in delays in receiving, or loss of income.
 - Reputational damage as a result of inaccurate information being issued (inaccurate invoices, unnecessary reminders etc).
 - Failure to secure income due to failure to adhere to recovery procedures.
 - Loss of recoverable income due to inappropriately adhering to write-off procedures or accountancy issues due to failure to write off unrecoverable debt.
 - Inefficient use of resources due to continuing to provide non-statutory services to individuals or organisations with history of non-payment of invoices.
 - Lack of system security leading to fines and reputational damage (access to both paper and electronic records).

- Loss or breach of information / fines and sanctions / reputational damage due to failure to securely process, retain, share and dispose of records and information.
- Failure to achieve business objectives due to insufficient governance.

- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.
- 2.5 It is worth noting that during 2020, due the global pandemic, most Officers carried out their duties remotely and some audit testing was limited as no physical paper records being available for inspection.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).
- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Debtors Main Audit provide **Substantial assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. Audit recommendations arising from this audit review are summarised below:

| Control Objective | High | Medium |
|---|------|----------|
| 1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1 or N/A) | - | |
| 2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2 or N/A) | | 3 |
| 3. Information - reliability and integrity of financial and operational information (see section 5.3 or N/A) | | - |
| 4. Security - safeguarding of assets (see section 5.4 or N/A) | - | |
| 5. Value – effectiveness and efficiency of operations and programmes (see section 5.5 or N/A) | - | - |
| Total Number of Recommendations | | 3 |

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.3 **Findings Summary (good practice / areas for improvement):**

Good controls are in place to support the overall governance of Debtors and roles and responsibilities are appropriately assigned. Recommendations have been included in this report to help streamline and ensure that the Debtors function is fit for purpose looking forward in an everchanging electronic environment.

An Annual review and sign-off by Team Leader would provide assurance that no significant changes have taken place within the Service area, which will avoid annual rewriting of procedures which do not change much in the established environment.

Management should encourage regular review of the current processes and where efficiencies can be achieved from streamlined approaches, these should be actioned.

However any service improvements often require resources to be dedicated and during the Pandemic the Finance staff have been required to focus on more critical tasks.

E-invoicing could deliver potential savings and with a clear project plan and dedicated team these should be a consideration for management to provide a modern and efficient service for customers.

Comment from the Corporate Director Finance & Resources

A welcome audit review providing a substantial assurance rating which gives me confidence in the Debtors function. The need to be more streamlined and to introduce more digital ways of working will ensure the continued efficacy of the service.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1 Responsibility for processing Debtors is clearly defined within the Financial Procedures Rules as part of the Council's Constitution. This is available to all Officers via the Council's website.
- 5.1.2 The Financial Services operational risk register includes a risk regarding the timely recovery of debts. The risk has been reviewed and updated recently in line with the Council's Risk Management Policy.
- 5.1.3 The Authorised signature list is used by officers to ensure that the correct authorisation is obtained and is reviewed and updated accordingly by Team Leader.
- 5.1.4 The previous audit highlighted the need for key performance indicators to be introduced, and these have been actioned and are reported on a quarterly basis to the Corporate Policy & Performance team as part of the corporate reporting cycle.
- 5.1.5 As part of the ongoing service, the analysis of the quarterly key performance indicators would provide evidence of which service areas continue to make alterations and/or cancellations to invoices on a regular basis and could provide some insight into possible training requirements.
- 5.1.6 A detailed structure is in place within the Corporate Financial Services team, representing the current staffing. Relief support is provided for when the Debtors Administrator is absent from work. However, all the key tasks are not always actioned and can result in some backlog being created during busy periods of billing. Management may wish to consider the longer term structure of the debtors function, however it is worth noting that during the Pandemic and remote home working, the service and invoice billing continued without any reported issues.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

- 5.2.1 There are procedures in place to process Debtors, which are updated as required. As the system has not changed significantly no changes have been made to the procedures manual. It was agreed that an annual review of the process would provide greater assurances that no significant changes had occurred in the service and it is advised that an annual review is documented within the procedure.

Recommendation 1 – To implement an Annual Review & Sign-off by Team Leader on Debtors process to provide assurances no significant changes have taken place within the service in the past year

5.2.2 The service has introduced the issue of invoices electronically, partly as a response to the global pandemic (but will also serve to improve efficiency of the service). However, introduction of this service has been ad-hoc and not documented in procedures or fully communicated to relevant service departments.

5.2.3 Implementation of a change in the way Council data is handled also requires a data protection impact assessment to be delivered in consultation with the Information Governance Manager.

Recommendation 2 – A project plan should be devised to set out how the Council intends to develop the roll-out of electronic invoicing across Council Services, including completion of a Data Protection Impact Assessment.

5.2.4 The recovery cycle is established in the Debtors Manual. This is reflected in the controls within the debtors IT system; the reminders and recovery letters are printed automatically at defined intervals.

5.2.5 During the 2020 Covid pandemic Management took a decision with support from Joint Management Team to adopt a lighter touch recovery process for all debt collection and this had an impact on the recovery process not being fully automated.

5.2.6 It is worth noting that the existing well-established recovery process was adaptable and with the experience of the Debtors Team the remote working did not impact this service. The Outstanding Debtors at Year-End were reported in line with previous financial years and no increase in Sundry Debtors was resultant from the lighter touch recovery approach.

5.2.7 There is a clear separation of duties between officers able to raise debts and those responsible for receipt of cash payments.

5.2.8 The Financial Procedure rules delegates responsibility for writing off bad debts to the Corporate Director Finance & Resources. The write-offs are reported quarterly to the Executive and Business and Transformation Scrutiny Panel. Testing concluded that these processes are properly followed.

5.2.9 Paper records were not inspected due to current home working and therefore limited testing could be undertaken. The team have however advised that the remote home working has required more electronic storage and that they envisage less paperwork records being retained going forward and will ensure that this practice is adopted when the office working is reinstated.

Recommendation 3 – A thorough review should be undertaken of the paper files retained by the Debtors Team and ensure more electronic storage is adopted

5.3 Information – reliability and integrity of financial and operational information

- 5.3.1** Invoices are raised appropriately and detailed information is provided to the debtor. The invoices clearly show the payment due date. Appropriate information is provided to ensure debtors are aware of how to pay bills and the information required to ensure that the payment is matched correctly.
- 5.3.2** The recovery procedures for Debtors sets out the responsibility for Service Managers to monitor the number of invoices raised within 14 days of the service provided.
- 5.3.3** IT controls prevent employees from creating and printing invoices and then deleting them from the system.
- 5.3.4** The Write-offs are authorised by the Corporate Director Finance & Resources and are then actioned within the Debtors system. A reconciliation is undertaken to ensure that the reported figures agree. A further reconciliation is undertaken within Finance to ensure the authorised write-offs agree with the actual figures in the general ledger. VAT is correctly accounted for with regards to write-offs the proposed information separated the net amount from the VAT.
- 5.3.5** The operational tasks for Debtors are all clearly defined and these tasks are all carried out in a professional and accurate way. However, some streamlining of these processes should be considered within this service, as detailed excel spreadsheets and reconciliations are required to provide assurances which could be obtained directly from a modern, automated application.
- 5.3.6** The current Debtors Service is fit for purpose, however some opportunities do exist to streamline and improve the processes. Management should encourage these streamlined processes and potential efficiencies to be considered and appropriate resources allocated to deliver these improvements to the service.

5.4 Security – Safeguarding of Assets

- 5.4.1** The IT System has appropriate controls in place and there are varying access permissions levels dependant on the role of the employee and the functional need. The list of users is current, a list of leavers and new starters is sent to the system administrator monthly and is actioned promptly. Testing of these controls did not identify any issues with the current process.
- 5.4.2** The existing financial software currently operational at the City Council is Civica (server based). Back-up and support for the Financial management system is carried out as part of the main Council IT support and automated back-up recovery process.
- 5.4.3** However, any requests for Live to Test environment database copies would only be actioned upon request from the client / service department to IT and need to be scheduled and planned into existing workloads. These database copies would provide a safe environment for updates and any new process to be tested before making the changes to the Live environment. The last recorded Live to Test copy was actioned by IT in 2018.
- 5.4.4** As the Debtors service continues to evolve, it is advised that more regular testing to back-up system copies are maintained and utilised to ensure that full functionality of any new processes are reviewed and signed-off in a Test Environment before being full implemented into the Service. Ongoing reviews and service improvements should be encouraged at all times, however due to the recent Pandemic and remote home working, plans for any service enhancements had been put on hold.

5.5 Value – effectiveness and efficiency of operations and programmes

- 5.5.1** There are clear procedures for sending debts to the outside collection agency for recovery after internal processes have been exhausted. As explained in 5.2.4 above this process was not tested as part of the Main Debtors Audit due to a lighter touch approach on Debt Recovery during the review period.
- 5.5.2** Bad Debts are written off against a central code. If there is a technical accounting reason why the bad debt cannot be written off, such as Section 106 agreement, then the invoice will need to be cancelled and not written off. The Corporate Director of Finance & Resources would consider any implications when reviewing the proposed write-off list.

Appendix A – Management Action Plan

| Summary of Recommendations and agreed actions | | | | | |
|--|----------|---|--|----------------------------|---------------------|
| Recommendations | Priority | Risk Exposure | Agreed Action | Responsible Manager | Implementation Date |
| Recommendation 1 – To implement an Annual Review & Sign-off by Team Leader on Debtors process to provide assurances no significant changes have taken place within the service in the past year | M | Inaccurate/inefficient/in appropriate debt recovery due to failure to adhere to agreed process | Set up a reminder to review and sign off current procedure manual annually (as documented per 5.2.1). | Financial Services Manager | 30 June 2021 |
| Recommendation 2 – A project plan should be devised to set out how the Council intends to develop the roll-out of electronic invoicing across Council Services, including completion of a Data Protection Impact Assessment. | M | Inefficient recovery of debt Reputational damage to council through continual late or inaccurate invoicing | Include within the ledger development planning, in liaison with ICT. | Financial Services Manager | 31 March 2022 |
| Recommendation 3 – A thorough review should be undertaken of the paper files retained by the Debtors Team and ensure more electronic storage is adopted | M | Breach of data protection legislation, resulting in fines and sanctions | More use of e-records since March 2020 has taken place. Paper records will be dealt with following the return to office working. | Financial Services Manager | 31 March 2022 |

Appendix B - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

| | Definition: | Rating Reason |
|---------------------|--|--|
| Substantial | There is a sound system of internal control designed to achieve the system objectives and this minimises risk. | <p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p> |
| Reasonable | There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure. | <p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p> |
| Partial | The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk. | <p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p> |
| Limited/None | Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk. | <p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p> |

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

| | Definition: |
|---------------|--|
| High | Significant risk exposure identified arising from a fundamental weakness in the system of internal control |
| Medium | Some risk exposure identified from a weakness in the system of internal control |

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).