



Internal Audit Assurance & Consultancy
Final Internal Audit Report
Stevenage Borough Council
Sundry Debtors 2007- 08

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Date Final Report Issued: 29th May 2008

1. Introduction

An audit of Sundry Debtors has been carried out as part of the 2007/08 Audit Plan. Detailed testing has been carried out on the systems of control and the management of risk within this area.

2. Findings and Recommendations

The detailed findings and recommendations are set out in the report attached as Appendix A to this memo. The Management Action Plan as completed by the officers responsible is attached as Appendix B.

3. Conclusions

We identified that key systems of control are in place and complied with. However, we identified some control weaknesses and 13 recommendations have been made to improve and to minimise the residual risks to achieving service objectives. They relate to the following areas Aged Debtors of old debts pre Integra system (2004), Access review and authorised input, and instalment arrangements.

Therefore, based on our audit findings, Internal Audit has assigned **Substantial Assurance**¹ to the systems and procedures which underpin Sundry Debtors.

¹ See Appendix C for definition of Assurance Levels

Sundry Debtors Audit 2007/8

1. AREAS COVERED DURING THE AUDIT

1.1 The key areas of **possible** risk identified at the planning stage of the audit were as follows:

- a) The aims and objectives of the service have not been formally determined and regularly reviewed to ensure they accurately reflect the aims of the service.
- b) If not documented, procedures may be applied inconsistently and mistakes could readily occur
- c) Inadequate staff cover, in the absence of key staff
- d) Debtors accounts and invoices are not promptly & accurately raised for all the monies due to the Council;
- e) The cancellation of debtors accounts have not been formally authorised;
- f) Refunds are made without appropriate authorisation;
- g) The correct charges are not levied on the sundry debtor and periodical income accounts raised, and / or the VAT component of the charges is not correctly determined;
- h) A formal time-scaled recovery scheme is not in place, to ensure that all the monies due to the Council are collected;
- i) Procedures and processes are not in place to authorise write-offs;
- j) Debts being written-off, before all the viable recovery options have been exhausted
- k) Debtors cease trading and are unable to repay debts to the Authority.
- l) Appropriate formal reconciliations are not performed to ensure that all the payments received against debtors accounts are credited to the relevant accounts and accurately accounted for on the Nominal Ledger.

1.2 The methodology stated in the terms of reference document was used to establish and test the controls that management have in place for mitigating or reducing the above risks to an acceptable level.

2. OVERALL AUDIT OPINION

Based on our audit findings, Internal Audit has assigned **substantial assurance** to the systems and procedures which underpin Sundry Debtors.

3. PREVIOUS RECOMMENDATIONS – 2006/07

- 3.1 The previous audit report 2006/07 made nine recommendations, out of which six have been fully implemented, one partially implemented and two remained unimplemented.
- 3.2 **Previously, we recommended that** the Sundry Debtors Guidance Notes for Managers and Users is reviewed and updated to include current policy, operations and procedures. **This has been partially implemented, and therefore the recommendation is reiterated.**
- 3.3 **Previously, we recommended that** all future contracts are amended to show the correct invoicing terms and conditions as proposed by the Finance and Admin Manager [Environmental Operational Services]. **This has not been implemented, and therefore the recommendation is reiterated.**
- 3.4 **Previously, we recommended that** consideration should be given to updating the system to allow payments to be made by direct debit. **This has not been implemented, and therefore the recommendation is reiterated.**

4. CURRENT RECOMMENDATIONS

4.1 Invoices Promptly Raised

- 4.1.1 Three out of 24 invoices sampled were not promptly raised. The exceptions relate to historical issues with tenancy recharge billing, tracing issues with vehicle removal, and a Tenancy Deposit with a one year gap between the tenancy agreement and the invoice raised. The departmental manager confirmed a change of process with the advent of SHL; reconciliation has been completed that identified those accounts which had not been chased. Corporate Admin now administer these debts and Management are confident with the improved controls. A recommendation has therefore not been raised.

4.2 Supporting Document

- 4.2.1 Invoices produced by the Depot's automated systems currently contain the words "Invoice **Authorised** by" which is inappropriate and requires change.
- 4.2.2 There were 3 items out of 24 sampled that related to the Cavendish Road Depot where Debtors Invoice Requests had not been signed by the officer who entered the invoice on to Integra.
- 4.2.3 We recommend that** the Debtor Invoice Request form should be amended by changing the words "Invoice **Authorised** by" to "Invoice **Raised** by". IN addition the officers at the Depot must ensure that all debtors invoice requests raised are signed by the officers originating and raising the invoice on Integra.

4.3 Internal Checks of Invoices

4.3.1 Invoices are returned to the Debt Controllers for checking before despatch. The Debtor Request Form does not include a box for the Debt Controller to evidence that they checked the debtor invoice for accuracy. Internal Audit were informed that there have been instances where incorrect debtor invoices have been despatched.

4.3.2 We recommend that the Debtor Request form is updated to include a box that can be signed off to evidence that the Debt Controller has checked the accuracy of the debtor invoice before despatch.

4.4 Cancellations / Access to Sundry Debtors' System

4.4.1 Debtors cannot be deleted from the system once created however they can be closed by the System Operator. Debts can be reduced to zero by means of a credit note, which is authorised by an independent senior officer. All cancellations examined were satisfactory. However, access and levels were inappropriately set in two cases and one of these related to a leaver which still remain on the system. This indicated that access and levels may not be regularly reviewed. These anomalies were corrected with immediate effect.

4.4.2 We recommend that all access and level of access (including SHL Staff) to the debtors system is reviewed on a six monthly basis.

4.5 Guidance Notes and Financial Regulations

4.5.1 There is a discrepancy in the limit below which sundry debtors accounts will not be raised. The Sundry Debtors guidance notes state a limit of £10, however paragraphs 19.9 and 19.13 in the Financial Regulations state a limit of £50.

4.5.2 We recommend that the discrepancy in the limit below which sundry debtors accounts will not be raised within the Sundry Debtors guidance notes and the Financial Regulations (para. 19.9 and 19.13) be resolved and the relevant document amended.

4.6 Management Information

4.6.1 The Aged Debtor reports are produced by Debt Controller and not by service area and there is no management information relating to the average number days teams take to collect debt.

4.6.2 We recommend that a formal review of management information reports for debtors is undertaken. Training should be given where appropriate.

4.7 Recovery Process

4.7.1 Standardised and up to date recovery procedures are in place and available to staff. However, the chasing of debts after reminder letters is discretionary and on an adhoc basis.

4.7.2 There are also problems with tracing people who are in debt to the Council. The benefits team have suggested that there are software packages available that could enhance recovery and reduce write offs.

4.7.3 We recommend that sample quality checks are undertaken to ensure compliance against debt recovery procedures.

4.7.4 We recommend that consideration is given to enhancing the debt recovery team's ability to trace individuals who owe the Council monies. There are software packages that enable this; however a cost benefit analysis should be undertaken before any procurement is started.

4.8 Pre-Integra Aged Debtors

4.8.1 There are outstanding debtors brought forward from the old system to Integra [October 2004] which have not yet been collected. These debtors are least four years old.

4.8.2 We recommend that the outstanding debtors brought forward from the old system to Integra in October 2004 are identified and pursued where appropriate or written off.

4.9 Reconciliation

4.9.1 Reconciliations are appropriately and regularly undertaken, however the reconciliation of unallocated Cash prepared by the System Controller showed 100 outstanding items as at February 2008. This was considerably reduced to 31 items with action being taken by the systems controller. Therefore no recommendation made in this respect.

4.9.2 SHL invoices are not shown on SBC's Aged Debtors Report but reported separately for SHL.

4.9.3 The Aged debtor report contains details of input and transactions processed by users set up to use the system and includes details for an unauthorised officer (SV). This arose as a result of officers being able to input into other users' areas, on the system.

4.9.4 We recommend that consideration be given, as to whether new SHL invoices should be included on the Aged Debtor Report.

4.9.5 We recommend that the Aged Debtor report should be investigated, cleared and the function deleted for unauthorised users stated on the report. Also action should be taken to restrict users from being able to input into other users' (set up) areas on the system.

MANAGEMENT ACTION PLAN Sundry Debtors 2007/08						
Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
3.2	Previously, we recommended that the Sundry Debtors Guidance Notes for Managers and Users is reviewed and updated to include current policy, operations and procedures. This has been partially implemented, and therefore the recommendation is reiterated.	M	Agreed	Team Leader Debt Management	Sundry Debtors guidance notes are work-in-progress.	first quarter of 2008/09
3.3	Previously, we recommended that all future contracts are amended to show the correct invoicing terms and conditions as proposed by the Finance and Admin Manager [Environmental Operational Services. This has not been implemented, and therefore the recommendation is reiterated.	M	Agreed	Head of Environmental Services	The Officer Manager for Environmental Operational Services is to confirm current practices with the Contracts Manager.	Immediate

MANAGEMENT ACTION PLAN
Sundry Debtors 2007/08

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
3.4	Previously, we recommended that consideration should be given to updating the system to allow payments to be made by direct debit. This has not been implemented, and therefore the recommendation is reiterated.	M	Agreed	Team Leader Debt Management	The Systems Accountant is to liaise with the Team Leader – Debt Management to investigate this and determine what is possible.	end of the first quarter of 2008/09
4.2 .3	We recommend that the Debtor Invoice Request form should be amended by changing the words “Invoice Authorised by” to “Invoice Raised by”. IN addition the officers at the Depot must ensure that all debtors invoice requests raised are signed by the officers originating and raising the invoice on Integra.	M	Agreed	Team Leader Debt Management	TLDM to liaise with IT and hope to implement 1 st Qtr. 08/09 In progress 26.03.08 IT have been asked to action this. Will check when reports run at month End	1 st Qtr. 08/09
4.3.2	We recommend that the Debtor Request form is updated to include a box that can be signed off to evidence that the Debt Controller has checked the accuracy of the debtor invoice before despatch.	L	Agreed	Team Leader Debt Management		1 st Qtr. 08/09

MANAGEMENT ACTION PLAN
Sundry Debtors 2007/08

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.4.2	We recommend that all access and level of access (including SHL Staff) to the debtors system is reviewed on a six monthly basis.	H	Agreed	Systems Accountant [SA]	SA to liaise with TLDM	1 st Qtr. 08/09
4.5.2	We recommend that the discrepancy in the limit below which sundry debtors accounts will not be raised within the Sundry Debtors guidance notes and the Financial Regulations (para. 19.9 and 19.13) be resolved and the relevant document amended.	M	Agreed	TLDM		1 st Qtr. 08/09
4.6.2	We recommend that a formal review of management information reports for debtors is undertaken. Training should be given where appropriate.	M	Agreed	TLDM & SA	SA suggests that training, commences in June and resultant reports will depend upon individuals ability. Training to commence by end of June 2008	31/12/08

MANAGEMENT ACTION PLAN
Sundry Debtors 2007/08

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.7.3	We recommend that sample quality checks are undertaken to ensure compliance against debt recovery procedures.	M	Agreed	TLDM		1 st Qtr. 08/09
4.7.4	We recommend that consideration is given to enhancing the debt recovery team's ability to trace individuals who owe the Council monies. There are software packages that enable this; however a cost benefit analysis should be undertaken before any procurement is started.	L	Agreed	TLDM		1 st Qtr. 08/09
4.8.2	We recommend that the outstanding debtors brought forward from the old system to Integra in October 2004 are identified and pursued where appropriate or written off.	H	Agreed	TLDM		1 st Qtr. 08/09
4.9.4	We recommend that consideration be given, as to whether new SHL invoices should be included on the Aged Debtor Report.	M	Agreed	TLDM & SHL	TLDM & SHL to liaise	1 st Qtr 08/09

MANAGEMENT ACTION PLAN
Sundry Debtors 2007/08

Appendix/ Para	Recommendation	Significance L Low M Med H High	Agreed/ Not agreed	Officer Responsible	Officer Comments	Implement'n date
4.9.5	We recommend that the Aged Debtor report should be investigated, cleared and the function deleted for unauthorised users stated on the report. Also action should be taken to restrict users from being able to input into other users' (set up) areas on the system.	H	Agreed	TLDM & SA	In progress	March 2008

ASSURANCE, PRIORITY AND RISK DEFINITIONS**Assurance Levels**

Assurance Level	General Definitions
Full	<p>Evaluation opinion: there is sound system of control designed to achieve the system objectives; and</p> <p>Testing opinion: the controls are being consistently applied.</p> <p>Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.</p>
Substantial	<p>Evaluation opinion: basically a sound system but there are weaknesses which put some of the control objectives at risk, and/or;</p> <p>Testing opinion: there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p> <p>Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.</p>
Limited	<p>Evaluation opinion: weakness in the system of controls are such as to put the system objectives at risk, and/or;</p> <p>Testing opinion: the level of non-compliance puts the system objectives at risk.</p> <p>Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.</p>
No	<p>Evaluation opinion: control is generally weak leaving the system open to significant error or abuse, and/or;</p> <p>Testing opinion: significant non-compliance with basic controls leaves the system open to error or abuse.</p> <p>No Assurance will be attributed to a system where in the auditor's judgement they can place no reliance of the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error.</p>