



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Draft Internal Audit Report
Debtors Key Control Testing
Date: July 2023

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Background and Context

Key control testing is undertaken on finance systems and processes to enable the Head of Internal Audit to form an opinion on the Council's financial control environment and to support External Audit's control evaluation. Key control testing has included sundry debtors.

The Council's Sundry Debtors team comprises a part time Sundry Debtors Officer who reports into the Income Recovery Team Leader. Whilst some service areas set up new customers, raise their own sales invoices and take action to pursue debts*, the majority of sundry debtors processes are undertaken by the Sundry Debtors Team. The Team's responsibilities include setting up new customers, raising sales invoices and credit notes, debt collection and recovery, checking cash postings and writing off bad debts.

£4.7m of sales invoices were raised between April 2022 and February 2023. As at the end of January 2023, aged sundry debts totalled £462K. The prompt and full collection of monies owed is vital to ensure the Council has the necessary cash flow to achieve its objectives.

** following the issue of reminder letters by the Sundry Debtors team*

Scope

The purpose of this review was to provide independent assurance that the processes and controls in place for raising, collecting and recovering sundry debts are appropriate and robust. The review covered the following control objectives:

- Up to date, approved policies and procedures are in place which set out the Council's expectations around raising and recovering debts.
- New debtors and amendments to customer details are correctly processed and authorised.
- Invoices are promptly and accurately raised and approved.
- Refunds / Credit notes are only issued following appropriate authorisation, with reasons documented.
- Separation of duties exist between invoicing and income collection.
- Debt recovery action is pursued promptly and fully.
- Write offs are fully supported and authorised as per the Financial Regulations.
- Debt levels are regularly monitored and managed effectively.

The review excluded the following control objective due to the information not being received:

- System access is restricted to authorised users

Executive Summary



Low Assurance

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore, the risk of the activity not achieving its objectives is high.

Risk	Rating (R-A-G)	Findings	
		High	Medium
Ineffective procedures or non-compliance with procedures hinder the Council's ability to collect debts in a timely and appropriate manner	High	1	0
Errors are not detected leading to incorrect or untimely collections.	High	2	2
Accounting records are inaccurate, resulting in ineffective decision making and lost income.	High	0	0
Outstanding debt is too high impacting financial performance, bad debts and cashflow.	High	2	1
Fraudulent activity is not detected, resulting in financial loss and reputational damage	High	1	0
TOTAL		6	3

Key Messages



Our assurance review identified several key areas where improvements are necessary to provide a robust control environment for managing sundry debts. Significant improvements are required around oversight and monitoring, reporting arrangements, compliance with Financial Regulations, adherence to policy and roles and responsibilities.

The 'low' assurance opinion reflects the significance and number of findings identified across sundry debtor processes, including gaps within the control framework for managing the key risks. In particular:

Policies

There is no internal policy or protocol for the management of sundry debts, which sets out the expected standards of service and defines the responsibilities of the debt raising services and the Sundry Debtors Team. The Council's external Fair Collection and Debt Recovery Policy is dated August 2021 and is currently under review.

Respective responsibilities and expected standards should be clearly documented to support the control framework for the management of sundry debts. This should ensure that there are no gaps in responsibilities and that a fair, lawful and consistent approach is applied to debt management.

Segregation of Duties

Segregation of duties is a key principle of internal control but is severely limited within the finance system in many of the key sundry debtor processes due to the small size of the Sundry Debtors team and limitations of the system. Transactions such as raising invoices, credit notes and write offs are undertaken in the debtors system by one officer without the intervention of another, exposing the Council to the risk of fraud and error. This risk is increased due to the limited monitoring controls. A

Key Messages



process should be developed for the reporting and monitoring of key risk areas identified throughout this report.

A new finance system is due to be implemented in April 2024. This should provide significant control improvements through system-embedded segregation of duties and removal of manual processes.

Credit Notes

There is an overall lack of transparency and oversight around credit notes raised. £826K of credit notes were raised between April 2022 and February 2023, representing 17.4% of invoiced amounts. There is no formal approval process for credit notes, nor any independent checking, close monitoring or analysis for accuracy, legitimacy or compliance with the Financial Regulations. Credit notes effectively represent lost income to the Council. Greater controls around the approval and monitoring of credit notes should reduce the risk of financial loss and improve transparency of the actual debt and write off position of the Council.

Collection and Recovery of Overdue Debts

No further action is routinely taken to collect or recover outstanding debts following the issue of reminder letters by the Sundry Debtors team. As at the end of January 2023, the total value of aged debt was £462K. With the exception of those service areas who pursue their overdue debts, reliance is placed on the Sundry Debtors Officer for the collection and recovery of debts. However, the Officer does not have the capacity to go through and chase up the outstanding debts, including the disputed invoices. Greater clarity and focus should be provided around debt collection and recovery responsibilities to reduce the risk of aged debt becoming irrecoverable.

Key Messages



Bad Debt Write Offs – Approvals

The approvals of the 2022/2023 debt write offs tested* were not always consistent with the Council's Financial Regulations. No approved debts for write off between £50-£2000 were countersigned by an Assistant Director, as stipulated in the Financial Regulations. The Financial Regulations are a key element of the Council's governance framework and so it is important that approval processes are aligned so that adequate authorisation is obtained for write offs and the risk of fraud or error is reduced.

** Our testing covered completed write offs as well as a sample of approved (but not yet processed) write offs*

Bad Debts Write Offs – Processing

The process for bad debts write offs has not been working effectively with £2.99 of bad debts written off since April 2022. As at January 2023, £317K of outstanding debt (67% of the total debt) was more than 90 days old. There is no reporting or monitoring of bad debt write offs for accuracy, legitimacy or correct authorisation. Old outstanding debts should be reviewed and those identified for write off should be processed in a timely manner. This is to ensure that the write off position is accurately reflected in the accounts and the debtors balance is not overstated. Introducing robust recovery processes will support the reduction in bad debt write offs.

Customer Masterdata

There is no clear ownership or oversight of the customer masterdata, nor any robust controls in place to ensure its integrity such as the independent approval, checking or monitoring of new customers or amendments. Complete and accurate customer records are essential to the timely billing and collection of income and as such ownership should be assigned and monitoring processes implemented.

Key Messages



Approval of New Customer Set Ups and New Sales Invoice Requests

Inconsistencies were identified around the approval of new customer set ups and sales invoice requests. Not all sales invoice requests (Authority to Request forms) were independently approved prior to processing, some approval signatories were typed in excel or were not recognised. Having appropriate independent authorisation is important in ensuring the accuracy of the customer masterdata and sales invoices.

Refunds

The bank details used in the processing of refunds are not confirmed with the customer immediately prior to processing, increasing the risk of the bank details used being incorrect or illegitimate. In addition, there is no system reporting and monitoring of refunds processed or investigation of customer balances in credit. A process should be established to monitor refunds paid and customer balances in credit to ensure that the refunds are legitimate and authorised, to identify any billing errors and to prevent the risk of fraud.

The following action plan seeks to strengthen the arrangements around sundry debtor processes and support the Council in managing its key risks.

We would like to thank all the staff involved in the audit for their time and support.

Executive Summary

Areas of Good Practice



- Sales invoices tested were promptly raised, in accordance with corporate payment terms and agreed to supporting documentation.
- Credit notes tested agreed to supporting documentation and were in accordance with the Council's Financial Regulations.
- Segregation of duties exists between the posting of income to the debtors system and invoicing.

Managing your risks



Good risk management, including maintaining risk registers, helps you to identify, understand and reduce the chance of risks having a negative impact on achievement of your objectives.

Consideration should be given to including these high risks within the service risk register and reviewing the impact of these on the fraud risk register.

We recommend that further assurance is sought on the wider issues identified within this report to identify and address the control gaps, for example:

- Finance system capabilities
- Segregation of duties
- Compliance with the Financial Regulations

Management Response



Debt Management Policy

- Recommendation 1.1:
 - There are procedure notes which are used by the Income Recovery Team Leader and Sundry Debt Officer. The procedure notes detail the daily/weekly/monthly tasks, along with the Sundry Debt Officer having their own procedure notes for more detailed and system activity.
 - There is a clear process which is followed by the person requesting the action (service area), person authorising (service area) and person undertaking the action (Sundry Debtor Officer)
 - There are limitations within the current system which results in manual processes. The introduction of Unit4 in April 2024 will remove these, with automation of each stage of process being issued to the relevant officer. This process will be within Unit4, removing the need for manual documentation being completed.
 - There is a low risk for need for policy when setting up a new customer and requesting the issuing of an invoice.
- Recommendation 1.2: The Fair Collection and Debt Recovery policy is currently under review, and forms part of the audit action for the Head of Service (Revenues, Benefits and Customer Service), with a deadline of 31 March 2024. **The policy is currently fit for purpose, and it is therefore unreasonable to include this as part of the rating when the deadline for the review has not yet passed.**
- **Action needed:**
 - **Minimal action needed:** A document to be produced to clearly show responsibilities; each service area, requester, authoriser, and authorisation limits. This will be produced in conjunction with the preparation for the introduction of Unit 4 in April 2024 as part of the project.
- **RAG Rating:**

Management Response

Management Response



- The current rating of HIGH is not accepted for the reasons as stated above **and is not recognised as a high risk**
- The rating of LOW would be acceptable, due to the limitations of the current system and minimal actions needed

Segregation of duties

- There is a clear segregation of duties with up to 2 officers from service areas requesting / authorising the activity and the action being undertaken by the Sundry Debt Officer
- Recommendation 2.1
 - The Sundry Debt Officer will not undertake an action without instruction / approval from the service area.
 - ATR (Authority To Request) is required for new customer set up / changes.
 - Invoices are raised once the ATR is received.
 - Credit Notes are issued on instruction of cancellation of an invoice.
 - Re-allocate cash between customer accounts would only occur where a debtor has informed us that they have paid on the wrong account.
 - Write Offs – a new procedure has recently been introduced to include all write offs on a spreadsheet – detailing all debtor information, value, reason for write off, with clear separation for requester, authoriser and person undertaking the write off within the system.
 - **The finance team allocated the cash accordingly, therefore, involving a third officer within the process, this extending the segregation of duties.**
- Recommendation 2.2:
 - Monitoring responsibilities are in place as part of service area monthly budget monitoring meetings between budget holders and accountant
- Recommendation 2.3:

Management Response

Management Response



- Reporting such as new customers set up, invoices issued, credit notes issued and write offs actioned is available and can be for any period required i.e. within each month for budget monitoring. **This will require budget holder to consider the variances within budget lines and review these are required.**
- The audit has not identified any fraud or error; therefore the current process demonstrates there is adequate segregation of duties
- **Action needed:**
 - **Minimal action needed:**
 - **Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit**
 - to Monthly reports to be included as additional information for budget monitoring meetings to show the number and value of customers set up, invoices & credit notes raised and write offs actioned
 - The introduction of Unit4 in April 2024 will show clear segregation of duties as part of the automated approval process for each stage
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above
 - The rating of **MEDIUM** would be acceptable, due to the minimal action needed

Credit notes

- Recommendation 3.1:
 - There is an approval process for credit notes – with the service area requesting the credit note to be raised, this being authorised and issued to the Sundry Debt Officer to action. A credit note will not be raised without introduction to do so.

Management Response

Management Response



- The independent checking of the credit note is part of the process, with at least 2 officers from 2 different service areas involved. For credit notes over £50k, these are checked by the Income Recovery Team Leader or in their absence, the Head of Service.
- Recommendation 3.2:
 - Credit note reports are available in E-Fin for all budget holders to access
 - Monitoring responsibilities are in place as part of service area monthly budget monitoring meetings between budget holders and accountant
 - Reporting such as new customers set up, invoices issued, credit notes issued and write offs actioned is available and can be for any period required i.e. within each month for budget monitoring
- Recommendation 3.3
 - The Sundry debt Officer has changed during 2022/23 and as a result, there have been improvements to previous processes – one of these being that all documentation is scanned in and saved to a central location – therefore action 3.3 is not required
- Analysis of the 206 credit notes totalling £826k has been undertaken with the following findings:
 - Of the 206 credit notes, 11 accounts for £748k (of the £826k) which is 91% with the remaining 195 having an average value of £403 per credit note.
 - Analysis of the higher value credit notes shows that most were raised to cancel an invoice and for the invoice to be re-raised.
 - As a result of this analysis, there is a low risk that credit notes are being raised where they should not be or are of high value.
- **Action needed:**
 - **Minimal action needed:**
 - Spreadsheet to be completed by the Sundry Debt Officer providing reason for credit note being raised, service area and requesting officer; identification of trends / patterns within a material threshold limit

Management Response

Management Response



- Monthly reports to be included as additional information to the budget holder to show number and value of credit notes raised
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above
 - The rating of **MEDIUM** would be acceptable, due to the minimal action needed and the outcome of the analysis undertaken

Debt Collection and Recovery

- Recommendation 4.1
 - This has been addressed in other areas of this audit
- Recommendation 4.2
 - Officers involved in this process do have the correct skills and appropriate access
 - Further action is taken to collect or recover outstanding debts.
 - There is a contract in place to refer these debts to an external agency – who issue a further letter for recovery
 - The action the external agency undertake is limited due to the level of service SKDC have procured
 - Aged debt reports are available in E-Fin for all budget holders to access
 - Monitoring responsibilities are in place as part of service area monthly budget monitoring meetings between budget holders and accountant
- **Action needed:**
 - **Medium action needed:**
 - The Head of Service will be reviewing the level of service provided by the external agency and will consider any changes to improve collection of aged debts

Management Response

Management Response



- The Sundry Debt Officer will provide details of aged debt to the originating service area; relevant action to be taken by the service area
- **Minimal action needed:** Additional information could be provided in the form of monthly reports to the budget holder to show number and value of aged debts
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above
 - The rating of MEDIUM would be acceptable, due to the actions needed

Write Off Approvals

- Recommendation 5.1:
 - A new procedure has recently been introduced to include all write offs on a spreadsheet – detailing all debtor information, value, reason for write off, with clear separation for requester, authoriser and person undertaking the write off within the system
 - There were only 3 write offs in 2022/23 due to the issues as stated above
 - One for £2.60
 - One for £0.34
 - One for £0.05
 - There were no write offs between £50 to £2,000 undertaken in 2022/23 so the findings of the audit are inaccurate stating “ No debt write offs between £50-£2000 were countersigned by an Assistant Director, as stipulated in the Financial Regulations”
- Recommendation 5.2:
 - The Sundry Debt Team have long been advised that an electronic signature is needed on the document.

Management Response

Management Response



- The Sundry debt Officer has changed during 2022/23 and as a result, there have been improvements to previous processes – one of these being that all documentation is scanned in and saved to a central location – therefore action 6.2 is not required
- Recommendation 5.3:
 - As the testing covered “sample of approved (but not yet processed)” these should not be included within the audit, as they have yet to be approved
- Recommendation 5.4:
 - Write off reports are available in E-Fin for all budget holders to access
 - It is expected that monitoring would be undertaken as part of monthly budget monitoring meetings between budget holders and accountant
- **Action needed:**
 - **Minimal action needed:** Despite only 3 write-offs for 2022/23, a document will be produced to clearly show responsibilities; each service area, requester, authoriser, and authorisation limits. This will be produced in conjunction with the preparation for the introduction of Unit 4 in April 2024 as part of the project. **There will also be a reference tab linked to the financial regulations showing authorisers and their limits for each service area.**
 - **Minimal action needed:** Additional information could be provided in the form of monthly reports to the budget holder to show number and value of write offs
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above
 - The rating of MEDIUM would be acceptable, due to the actions needed

Processing of Write Offs

- Recommendation 6.1:
 - An explanation was provided during the audit with regards to write offs
 - Since an upgrade, the write off facility is not functioning as needed (it did as part of testing)

Management Response

Management Response



- This has been raised with the DBA and is being looked into, therefore no investigation is needed. Once the functionality is in place, the approved write offs will be processed
- Recommendation 6.2
 - There is an approval process for actioning of write offs – with the service area requesting the write off, this being authorised and issued to the sundry debtor officer to action
 - The independent checking of the write off is part of the process, with at least 2 officers involved.
- Recommendation 6.3:
 - A review of the outstanding debts will be undertaken as priority once the write off functionality is available – as it is not currently, this is not a priority
- Recommendation 6.4:
 - Write off reports are available in E-Fin for all budget holders to access
 - It is expected that monitoring would be undertaken as part of monthly budget monitoring meetings between budget holders and accountant
 - Bad debt provision is considered as part of the year end process; reviewing age of debt and value
- **Action needed:**
 - **Minimal action needed:**
 - Additional information could be provided in the form of monthly reports to the budget holder to show number and value of write offs
 - **Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit**
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above

Management Response

Management Response



- The rating of MEDIUM would be acceptable, due to the action needed and whilst it is out of our control, it is accepted a function of the system is not currently working correctly

Customer Masterdata

- Recommendations 7.1 and 7.2:
 - Are repeated within the remaining 9 areas of this audit and so will not be picked up for action here
 - As advised earlier in this response, there is segregation of duties with at least 2 officers from 2 different service areas undertaking each step within the customer process
 - Reporting and monitoring is available for new customers and amendments
 - The audit finding clearly states there were no concerns with customer set ups “Although all new customer set ups tested agreed to supporting documentation, complete and accurate customer records are essential to the timely billing and collection of income and in maintaining strong customer relationships”
 - Within the functionality of the current system, we are unable to make a customer account inactive. If an account is closed, it is removed completely from Cedar
- Recommendation 7.3:
 - A data cleanse will take place as part of the preparation to move across to Unit4 from April 2024
- **Action needed:**
 - **Minimal action needed:** Perform a data cleanse of the debtors ledger to ensure removal of unnecessary or duplicate accounts.
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above, and due to the fact 7.1 and 7.2 are repeated elsewhere within the action plan

Management Response

Management Response



- The rating of LOW would be acceptable, due to the minimal action needed

Approval for New Customer Set Ups and New Sales Invoice Requests

- Recommendation 8.1:
 - As advised earlier in this response, there is segregation of duties with at least 2 officers from 2 different service areas undertaking each step within the customer set up process
 - A customer would not be set up by the Sundry Debt Officer without the completion of the ATR (Authority To Request) form the service area
- Recommendation 8.2:
 - The Sundry Debt Team have long been advised that an electronic signature is needed on the document.
 - The Sundry debt Officer has changed during 2022/23 and as a result, there have been improvements to previous processes – one of these being that all documentation is scanned in and saved to a central location – therefore action 6.2 is not required
- Recommendation 8.3:
 - It is agreed that the ATR needs to include the name and job title of the officer
- **Action needed:**
 - **Minimal action needed:**
 - Name and job title of officers to also be included on the ATR
 - **Clear line of authorisation to show officer/team leader, team leader/manager, manager/head of service etc**
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above
 - The rating of **MEDIUM** would be acceptable, due to the minimal action needed

Refunds

- Recommendation 9.1:

Management Response

Management Response




- Where the customer has paid by direct debit, the bank details do not need to be confirmed, as the refund is returned to the same bank account they made payment from
- Where we do not hold bank details, the customer will be contacted by the **Sundry Debt Officer**, and the bank details provided by the customer are used for the refund
- Recommendation 9.2:
 - A refund is derived from the request of a credit note being issued and as advised earlier in this response, there is segregation of duties with at least 2 officers from 2 different service areas undertaking each step
- **Action needed:**
 - **Minimal action needed:**
 - **Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit**
- **RAG Rating:**
 - The current rating of HIGH is not accepted for the reasons as stated above
 - The rating of LOW would be acceptable, as no actions are needed, and the audit did not identify any fraud and error

Performance monitoring

- Recommendation 10.1:
 - There was a typing error when the office put the figure from the report into the performance s/sheet.
 - The performance spreadsheet is reviewed but this was not picked up
 - The performance data is not formally used, and is used for Income Recovery Service area monitoring
- **Action needed:**

Management Response

- 
- **Minimal action needed:** Income Recovery Team leader to investigate whether information and can automatically populated into the performance dashboard. If this is not achievable, both the Income Recovery Team Leader and Sundry Debt Officer will review the information in the dashboard
 - **RAG Rating:**
 - The current rating of MEDIUM is not accepted for the reasons as stated above
 - The rating of LOW would be acceptable, as the impact of this action is low

Action Plan

1.	Risk Description	Current Rating	Target Rating
	Ineffective procedures or non-compliance with procedures hinder the Council's ability to collect debts in a timely and appropriate manner	High	Low
Findings			
<p>Debt Management Policy</p> <p>There is no internal policy or protocol for the management of sundry debts, which sets out the expected standards of service and defines the responsibilities of the debt raising services and the Sundry Debtors Team. The Council's external Fair Collection and Debt Recovery Policy is dated August 2021 and is currently under review. Both of these documents, together with the Financial Regulations, provide a control framework for the collection of sundry debts.</p> <p>A stipulation of the Council's Financial Regulations is to develop and maintain a Corporate Debt Management Policy and up to date procedural guidance for the collection of income due to the Council.</p> <p>Whilst procedure notes are in place within the Sundry Debtors team, it is important that respective responsibilities and expected standards are clearly documented and understood by all officers involved in the processing and management of sundry debts. This is to ensure that there are no gaps in responsibilities, that a fair, lawful and consistent approach is applied to debt management and to reduce risk exposure.</p>			
Implications			
<p>Inaccurate billing, untimely or non-recovery of amounts owed, leading to financial loss to the Council.</p> <p>Non-compliance with laws and regulations, leading to reputational damage.</p>			
Recommendations			
1.1 Develop and agree an internal Debt Management Policy / Protocol. Issue to all officers involved within sundry debtors processes.			High

Action Plan

1.2 Complete the review of the Fair Collection and Debt Recovery Policy and issue following Member approval.		
1.3 Review supporting procedures to ensure consistent with policy requirements.		
Agreed Action	Responsibility	Implementation date
A document to be produced to clearly show responsibilities; each service area, requester, authoriser, and authorisation limits.	Income Recovery Team Leader & Sundry Debt Officer Service area input	19 June 2023

2.	Risk Description	Current Rating	Target Rating
	Fraudulent activity is not detected, resulting in financial loss and reputational damage	High	Low
Findings			
<p>Segregation of Duties within the Finance System</p> <p>Segregation of duties is severely limited in many of the key sundry debtor processes within the finance system due to the small size of the Sundry Debtors team and limitations with the system. Segregation of duties is a fundamental principle of financial control which reduces the risk of fraud or error. However, the Sundry Debtors Officer undertakes the following duties within the debtors system without the intervention or approval of another officer:</p> <ul style="list-style-type: none"> • Set up new customers and change the details of existing customer data, including bank details where debts are paid via direct debit. • Raise invoices and credit notes • Re-allocate cash between customer accounts* • Write off debts <p>Whilst new customer set ups, the generation of sales invoices and debt write offs require independent approval, these approvals are manually provided (e.g., via email) prior to being actioned in the debtors system. Without any independent checks or approvals in the debtors system, it is possible for (note: this is not exhaustive):</p> <ul style="list-style-type: none"> • Customer account details to be incorrect or fictitious • Sales invoices and credit notes to contain errors • Illegitimate credit notes to be raised (e.g., to write off debts or cancel off debts of friends / family) • Cash received from one customer to be re-allocated against the debts of friends / family (cash skimming) • Debts to be written off unnecessarily or illegitimately 			

Action Plan

Without adequate segregation of duties within the finance system, the risk of error and fraud is heightened by the limited monitoring controls. Monthly budget monitoring meetings between the budget holders and Finance could identify material errors within sales invoices, credit notes and write offs. However, there is no close monitoring of these areas by the Sundry Debtors team, as the responsibility for this has not been clarified and due to their limited access to reporting (business objects). It should be noted that these risks are not limited solely to the Sundry Debtors Officer but also to other officers within service areas who have access to the debtors system. These service areas can also set up new customers and raise sales invoices in the system without the intervention of another officer.

We found no errors or evidence of illegitimate activity within the customer set ups, sales invoices, credit notes or write offs within our sample tested.

* The Sundry Debtors Officer cannot post cash to the debtors system; this is undertaken by the Finance team.

Implications

Fraud and error can lead to financial loss to the Council and delays in the receipt of income.

Recommendations

2.1. Assign monitoring responsibilities.

2.3. Establish a reporting process so that the offices responsible have access to the relevant reports for regular monitoring purposes. See findings 3, 5, 6, 7 and 9 for further discussion.

High

Agreed Action

Responsibility

Implementation date

Monthly reports to be included as additional information for budget monitoring meetings to show the number and value of customers set up, invoices & credit notes raised and write offs actioned

Service Area Budget Holder

1 August 2023

Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit

Income Recovery Team leader

1 August 2023

3.	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to incorrect or untimely collections.	High	Low
Findings			
<p>Credit Notes</p> <p>Control improvements are required to enhance the transparency and oversight of credit notes raised. The Council's Financial Procedure Rules state that credit notes should only be used to correct a factual inaccuracy or administrative error in the calculation or billing of the original debt. Between April 22 and February 23, 206 credits notes had been raised with a total net value of £826K, representing 17.4% of invoiced amounts during the period*. Our review found that:</p> <ul style="list-style-type: none"> • There is no formal process for the approval of credit notes. Credit note requests are raised but not routinely independently approved by the debt raising area prior to being actioned by the Sundry Debtors Officer. It should be noted that Senior Managers were aware of all credit notes tested over £50K. • There are no independent checks for accuracy on credit notes once raised due to the limited segregation of duties in the process (see finding 2). Credit notes are not issued to the customer or requesting officer once raised. • There is no close reporting or monitoring of credit notes raised to ensure that they are legitimate, the Financial Regulations are being followed and that the number / value of credit notes raised appears reasonable. • There was no audit trail to support one credit note tested (£920), as it had not been filed. We could not therefore confirm the legitimacy of this credit note. All other credit notes tested were deemed to be justified and legitimate. <p><i>* For comparison, this figure was 4% at two other district Councils.</i></p>			
Implications			
<p>Credit notes effectively represent lost income to the Council and therefore if inaccurate, unauthorised, improperly used or not monitored, this increases the risk of financial loss to the Council.</p>			

Recommendations		
<p>3.1 Develop and embed a process for the independent approval of credit notes by the service area.</p> <p>3.2 Develop and embed a process for the regular monitoring and reporting of credit notes. This process could include:</p> <ul style="list-style-type: none"> - spot checks of a sample of credit notes to confirm their accuracy and legitimacy. - analysis of reasons for credit notes and income streams where invoicing errors most commonly occur. - periodic reporting of credit notes to Service Managers and the Chief Finance Officer or their Deputy. <p>(See also finding 2).</p> <ul style="list-style-type: none"> - benchmarking against other district councils. <p>3.3 Ensure all credit note requests and approvals are centrally filed to support credit notes raised.</p>		High
Agreed Action	Responsibility	
Monthly reports to be included as additional information to the budget holder to show number and value of credit notes raised	Service Area Budget Holder	1 August 2023
Spreadsheet to be completed by the Sundry Debt Officer providing reason for credit note being raised, service area and requesting officer; identification of trends / patterns within a material threshold limit	Sundry Debt Officer	1 August 2023

4.	Risk Description	Current Rating	Target Rating
	Outstanding debt is too high impacting financial performance, bad debts and cashflow.	High	Low
Findings			
<p>Debt Collection and Recovery</p> <p>With the exception of those service areas which pursue their debts, no further action is routinely taken to collect or recover outstanding debts following the issue of three reminder letters by the Sundry Debtors team. As at the end of January 2023, the total value of aged debt was £462K. Although there is an expectation that the service areas which raise their own invoices take action themselves to collect debts after the reminders have been issued, the responsibility and policy for the collection and recovery of debts after the reminder process has not been formally documented (see finding 1). Not all service areas raise their own sales invoices, have access to the debtors system or have reporting on outstanding debts to be able to undertake timely action. They are therefore reliant upon the Sundry Debtors team for the collection and recovery of their debts. However, we were informed that the Sundry Debtors Officer does not have the capacity to go through the outstanding debts, including the disputed invoices*, and chase up these debts, unless specifically requested by the service areas.</p> <p>In addition, the Sundry Debtors team issued monthly reports to the Service Managers on their outstanding debts. However, these are no longer issued due to a lack of access to the reporting.</p> <p>The debtors system cannot produce weekly 'Action Notices' reports due to technical issues. These reports are internal memos of individual outstanding debts whereby action is required to collect debts following the issue of reminder letters. These reports were sent to the Trade Waste team on a weekly basis before they stopped working. It should be noted that the Trade Waste team does collect its own overdue debts and is transitioning to billing in advance of its services being delivered.</p> <p><i>* As at March 23, £109K of invoices were in dispute. Note this total includes invoices that are with or have been returned from the debt recovery agency, those where the debtor has promised to pay and those proposed for write off. The Disputed invoices report shows that most invoices have been in dispute for more than 200 days, with some more than 1000 days, and includes two debts dating back to 2010.</i></p>			
Implications			

Outstanding debt becomes irrecoverable over time, leading to a build-up of bad debt and financial loss to the Council.		
Recommendations		
4.1 Debt collection and recovery responsibilities and protocols are clarified and documented within the internal Debt Management Policy / Protocol (see finding 1).		High
4.2 Ensure that those responsible for collecting and recovering debts have the capacity, appropriate system access permissions and reporting to facilitate effective action. This includes providing reporting on outstanding debts to the Service Managers and following up on the fix of Action Notices reporting.		
Agreed Action	Responsibility	Implementation date
Review the level of service provided by the external agency and will consider any changes to improve collection of aged debts	Head of Service	Immediate
Additional information could be provided in the form of monthly reports to the budget holder to show number and value of aged debts	Service Area Budget Holder	1 August 2023
The Sundry Debt Officer will provide details of aged debt to the originating service area; relevant action to be taken by the service area	Sundry Debt Officer	1 August 2023

5.	Risk Description	Current Rating	Target Rating
	Outstanding debt is too high impacting financial performance, bad debts and cashflow.	High	Low
Findings			
<p>Write Off Approvals</p> <p>The approvals of bad debt write offs were not always consistent with the Council’s Financial Regulations. The Financial Regulations require debts up to £50 to be approved by the Head of Service (HoS) or equivalent, and those between £50-£2,000 to be approved by the HoS and countersigned by an Assistant Director (AD). Our testing* found that:</p> <ul style="list-style-type: none"> • Debts for write off up to £50 were approved by a Manager, but not always the HoS and no debts for write off between £50-£2000 were countersigned by an AD. It should be noted that these debts had been approved but were awaiting write off once the system issue (see finding 5) was resolved. • The approvals process for the write off of debts within the Revenues and Benefits team is not aligned with the Financial Regulations. Debts for write off up to £50 within this team were approved by the Income Recovery Team Leader and those between £50-£2,000 were approved by the Head of Revenues, Benefits and Customer Service. This is consistent with the write off delegations for council tax and non-domestic rates as agreed with the Chief Finance Officer and communicated by the Head of Revenues, Benefits and Customer Service in August 2022. • For some write offs the approvals held were in the form of typed or electronic signatures, which could be illegitimately or erroneously edited, and that the justification for the write off was not clear. <p>It is important that the approval processes and Financial Regulations align to ensure that adequate authorisation is obtained for write offs and that there is transparency around the approvals process.</p> <p>* Our testing covered completed write offs as well as a sample of approved (but not yet processed) write offs.</p>			
Implications			

Financial Regulations are a key element of the Council's governance framework and so it is important that they remain up to date to ensure approved processes are followed and to mitigate the risk of fraud and error.

The use / misuse of typed or electronic signatories and absence of clear justification for the write offs increases the risk of unauthorised / inadequately authorised or unnecessary write-offs. This can ultimately lead to financial loss to the Council.

Recommendations

5.1 The write off delegations currently being followed and the Council's Financial Regulations are reviewed and updated as necessary to ensure aligned and consistently followed for sundry debt write offs.

5.2 Obtain and centrally file email or handwritten evidence of approval. Electronic or typed signatures should not be accepted. Email approvals could be saved within the write off request forms.

5.3 Ensure all write offs are properly justified to ensure approval decisions are fully informed.

5.4 See recommendation 6.4.

High

Agreed Action	Responsibility	Implementation date
A document will be produced to clearly show responsibilities; each service area, requester, authoriser, and authorisation limits. This will be produced in conjunction with the preparation for the introduction of Unit 4 in April 2024 as part of the project.	Income Recovery Team Leader & Sundry Debt Officer Service area input	Immediate
Reference tab linked to the financial regulations showing authorisers and their limits for each service area		Immediate
Additional information could be provided in the form of monthly reports to the budget holder to show number and value of write offs	Service Area Budget Holder	1 August 2023

6.	Risk Description	Current Rating	Target Rating
	Outstanding debt is too high impacting financial performance, bad debts and cashflow.	High	Low
Findings			
<p>Processing of Write Offs</p> <p>The write off process has not been working effectively, with the total value of write offs completed since April 2022 being £2.99*. As at the end of January 2023, £317K of outstanding debt, representing 67% of the total debt, was more than 90 days old. The main reasons for this are:</p> <ul style="list-style-type: none"> • Write offs could not physically be processed due to technical issues with the debtors system. £10K of write offs had been approved and were awaiting write off in the system. The Systems Administrator has been informed of these issues. • The Sundry Debtors Officer has not had the opportunity to review the outstanding debts for write off, due to time constraints. The debts that have been identified for write off this financial year were those that had been identified by their predecessor. • The prerequisite approvals for write off have not been received for £36K of debt, although these have been sought since July 2022. <p>In addition, there is no system reporting or monitoring of the number and value of debts written off by the Sundry Debtors team to ensure legitimate, accurate and appropriately authorised. This is due to not having access to the reporting.</p> <p><i>* taken from write off request forms held by the Sundry Debtors Team.</i></p>			
Implications			
<p>The accounts may not reflect the true level of bad debt write offs and the debtors balance may be overstated due to the build up of bad debts. There may be missed opportunities to claim back the VAT on bad debts*.</p> <p><i>* VAT on bad debts can be reclaimed once the debt is over six months old (from the latter of the payment due date or time of supply) and is less than four years and six months old. To be able to do this the VAT must have been paid and the debt written off in the accounts.</i></p>			

Recommendations		
<p>6.1 Investigate the technical issues to promptly identify a fix for the debtors system and write off those debts that have been approved. Ensure that the system issues identified within this report are monitored for prompt resolution (see also finding 4).</p> <p>6.2 Obtain the relevant approvals for all debts identified for write off.</p> <p>6.3 Agree an approach to review outstanding debts and identify those for write off. This could include the automatic write off of debts over a certain age or below a given monetary value.</p> <p>6.4 Develop and embed a process for the monitoring and reporting of write offs. This process could include spot checks of a sample of write offs to ensure accurate, justified and appropriately approved. (See findings 2 and 5).</p>	Medium	
Agreed Action	Responsibility	Implementation date
Additional information could be provided in the form of monthly reports to the budget holder to show number and value of write offs	Service Area Budget Holder	1 August 2023
Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit	Income Recovery Team Leader	1 August 2023

7.	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to incorrect or untimely collections.	High	Low
Findings			
<p>Customer Masterdata</p> <p>There is no clear ownership or oversight of the customer masterdata, nor any robust controls in place to ensure its integrity such as the independent approval, checking or monitoring of new customers or amendments. The Sundry Debtors team and some other service areas are able to set up new customers and amend their details in the system. It is important that robust controls are in place around the data and that consistent standards are adhered to in order to ensure its integrity and reduce the risk of fraud. We found that:</p> <ul style="list-style-type: none"> • There are no independent checks on the accuracy of customer data once new customers have been set up or their details amended in the system (see finding 2). Reliance is placed on the checking and approval of new customer set up / sales invoice requests prior to raising in the system (see finding 8). • There is no reporting or monitoring of new customer set ups or amendments to customer data. • Our testing highlighted two customers with duplicate accounts which require cancellation. There is no clear process for making customer accounts inactive. <p>Although all new customer set ups tested agreed to supporting documentation, complete and accurate customer records are essential to the timely billing and collection of income and in maintaining strong customer relationships.</p>			
Implications			
<p>Fraud or errors in the system go undetected, leading to delays in the receipt of income or financial loss.</p> <p>There is a lack of transparency over the true debt position of customers.</p> <p>There may be an increased risk of non-compliance with GDPR regulations due to duplicate customer records held.</p>			
Recommendations			

Action Plan

<p>7.1 Assign and document the ownership of the customer masterdata and the associated responsibilities including data monitoring. For example, the ownership and control of the customer masterdata could be centralised so that customers can only be set up / amended by a restricted number of officers within one team based on approved request from service areas, but invoices continue to be raised by the service areas.</p> <p>7.2 Identify and enable available reporting on new customer set ups and amendments to customer details, so that a monitoring process can be implemented. This could include spot checks on the accuracy / legitimacy of a sample of sets ups / amendments.</p> <p>7.3 Perform a data cleanse of the debtors ledger to ensure removal of unnecessary or duplicate accounts. Resourcing / capacity issues are acknowledged with these recommendations.</p>		<h1>High</h1>
Agreed Action	Responsibility	
Perform a data cleanse of the debtors ledger to ensure removal of unnecessary or duplicate accounts.	Sundry Debt Officer Unit4 Project Team	31 March 2024

8.	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to incorrect or untimely collections.	High	Low
Findings			
<p>Approval of New Customer Set Ups and New Sales Invoice Requests</p> <p>Greater formality and consistency is required around the approval of new customer set ups and sales invoice requests to ensure that the customer or sales invoice data is accurate. These approvals are given prior to processing in the system. New customer set ups and sales invoices are processed by the Sundry Debtors team upon receipt of a completed Authority to Request (ATR) form which is independently approved by a Manager from the debt raising area. We found inconsistencies within the approval of the ATR forms:</p> <ul style="list-style-type: none"> • The ATR forms were raised but not independently approved by the debt raising area in four sales invoices tested. Three of these forms (two of which were for amounts >£100K) were completed by Managers, in which case a countersignatory is not sought. One form submitted by an administration officer was not countersigned. • Three ATR forms contained typed signatures and the approval was not provided in a supporting email trail. • The approval signatories on two ATR forms were not recognised. The ATR form does not require the names of the requestor and approver to be signed and printed. <p>The risk that errors within the customer masterdata and invoices are not identified prior to the issue of the invoices is further increased due to:</p> <ul style="list-style-type: none"> • The details within the ATR forms are not checked to supporting documentation when received from the service areas. This is because reliance is placed on the forms being accurate when received by the Sundry Debtors team. • Sales invoices are not sent to the originator once raised unless specifically requested. • Where customer set ups processed by the service areas, these are not always based upon a direct written instruction or approval of a Manager, but upon the set-up of a customer agreement, issue of a licence or receipt of application for example. 			
Implications			

Action Plan

Errors within the customer masterdata and sales invoices may lead to lost or untimely receipt of income.		
Recommendations		
8.1 Introduce a formal process for the approval of new customer set up / sales invoice requests. This could include establishing limits of authority so that all invoices in excess of a given monetary value require a countersignature.	Medium	
8.2 Typed approval signatures are not accepted without supporting email evidence of the approval.		
8.3 The ATR form requires the requestor and approver to sign and print their name and job title.		
Agreed Action	Responsibility	Implementation date
Name and job title of officers to also be included on the ATR	Sundry Debt Officer	Immediate
Clear line of authorisation to show officer/team leader, team leader/manager, manager/head of service etc	Sundry Debt Officer	Immediate

Action Plan

9.	Risk Description	Current Rating	Target Rating
	Errors are not detected leading to incorrect or untimely collections.	High	Low
Findings			
<p>Refunds</p> <p>The bank details in the processing of sundry debtor refunds are not confirmed with the customer by the Sundry Debtors Officer prior to processing. From testing performed, the bank details used were those already on the finance system where the customer paid via direct debit or were provided via email by another SKDC officer. Although all refunds tested had been approved by the Income Recovery Team Leader, there is an increased risk of the bank details used being incorrect or illegitimate due to mistyped details within officer emails, but also due to the weak controls around customer masterdata (see findings 2 and 7).</p> <p>In addition, we identified that there is no system reporting or monitoring of refunds processed or investigation of customer balances in credit. This would help to ensure that the refunds are legitimate and authorised, and to identify billing errors. At the time of testing, 19 refunds totalling £8,362 had been paid during 2022/2023*. 135 customer balances were in credit totalling £19,165.</p> <p><i>* Taken from a refunds log maintained by the Sundry Debts Officer.</i></p>			
Implications			
Inaccurate or illegitimate bank details used in the processing of refunds may result in fraudulent refunds or refunds not being received by their intended beneficiary and ultimately financial loss to the Council.			
Recommendations			
<p>9.1. All bank details used in the processing of refunds to be confirmed by the customer. Customer confirmation of these details to be checked as part of the refund approval process.</p> <p>9.2. Develop an approach to the monitoring of refunds (see finding 2) and investigation of credit balances (e.g., target highest value or accounts that are frequently in credit)</p>			Medium

Action Plan

Agreed Action	Responsibility	Implementation date
Income Recovery Team Leader to review activities; identification of trends / patterns within a material threshold limit	Income Recovery Team Leader	1 August 2023

Advisory Points - Adding Value through Efficiencies

The following items are advisory recommendations / comments arising from the audit, which management may wish to consider implementing to improve efficiency of the system or performance.

Ref	Finding	Advice
AP 01	<p>Performance Data</p> <p>A discrepancy of £60K was noted within the sundry debtor data within the Revenues and Benefits performance dashboard. The ageing profile of outstanding sundry debts is monitored within an excel based dashboard on a monthly basis by the Head of Revenues, Benefits and Customer Service, which is shared with the Chief Finance Officer. It was noted that the total value of debts aged 30 days in Jan 23 in the dashboard was £21,755 compared to £81,755 per the monthly outstanding debts report.</p> <p>It is important that the risks of manual error are adequately mitigated to ensure that management information is accurate and consistent and decisions are fully informed.</p>	<p>Identify whether the opportunity exists to generate performance data directly from the system to reduce the risk of transposition error.</p> <p>Undertake additional checking of performance data in the dashboard for accuracy and consistency, particularly where the data is manually entered.</p>
AP 02	<p>Trade Waste Invoices</p> <p>Approximately 700 trade waste sales invoices are manually raised each month by the Trade Waste Co-Ordinator. Due to system impracticalities, these cannot be set up as recurring invoices within the main debtor ledger (DGE). A quote is being sought from the system host to implement a separate debtor ledger for Trade Waste invoices to reduce the risk of error and reduce process inefficiency.</p>	<p>Obtain a quote and perform a cost benefit analysis of having a separate debtor ledger for Trade Waste invoices.</p>

Advisory Points - Adding Value through Efficiencies

<p>AP 03</p>	<p>Issue of Sales Invoices</p> <p>Sales invoices are issued via post unless specifically requested by the customer to send via email and as such the majority of sales invoices are issued via post. A system enhancement to automatically email out the sales invoices was implemented but was not successful. This issue has been raised but not resolved.</p>	<p>Follow up on the issue with the system provider.</p>
<p>AP 04</p>	<p>System VAT Codes</p> <p>The ATR form does not contain an explanation of the VAT codes in the system. Two invoices were identified during testing whereby the incorrect amounts had been charged as the VAT had been charged exclusive rather than inclusive of VAT. Although these errors were identified by officers prior to the issue of the invoices, the inclusion of the VAT codes within the form may help to ensure that the amounts charged are accurate.</p>	<p>The ATR forms contain a description of the six VAT codes used in the system.</p>

Appendix 1 - Assurance Definitions

High	Substantial
<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore, the risk of the activity not achieving its objectives is high.</p>

Appendix 1 - Assurance Definitions

Risk Ratings	
Current	Reflects the residual risk after assessing the controls in place.
Target	<p>Represents what level risk an organisation may wish to take, or what level of risk is considered acceptable. Where risk ratings are not at target levels, then recommendations will be given within the report to help achieve the expected risk rating.</p> <p>In some areas the target risk rating may not be “Low” and we may be willing to accept a “Medium” target risk rating. These situations could be found where:</p> <ul style="list-style-type: none"> • An organisation wishes to realise potential opportunities and as a result has a higher risk appetite. • The area under review is so inherently risky that we accept that risk mitigation strategies are unable to achieve a “Low” target risk rating.

Action Priority	
High	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies, or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).
Medium	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months)

Appendix 2 – Distribution List

Distribution List



Richard Wyles – Chief Finance Officer

Claire Moses – Head of Revenues, Benefits and Customer Service

Debra Gorely – Income Recovery Team Leader

Tracey Elliott – Governance & Risk Officer

Disclaimer

The matters raised in this report are only those which came to our attention during our internal audit work. Our quality assurance processes ensure that our work is conducted in conformance with the UK Public Sector Internal Audit Standards and that the information contained in this report is as accurate as possible – we do not provide absolute assurance that material errors, fraud or loss do not exist.

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