Causeway Coast and Glens Borough Council

Internal Audit Report
Invoicing & Debtors

June 2020

MOORE

INTERNAL AUDIT REPORT

Invoices & Debtors

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2019/20. This report summarises the findings arising from a review of

Through our audit we found the following examples of good practice:

- Since the previous audit in this area (in 2016/17) invoicing has been centralised to the Finance Department and is occurring in a timelier manner.
- A debt management policy (including elements of a bad debt management procedure) was documented (although this requires review and update).
- There is a monthly review of debtors and a Debt Management Report is provided to the Corporate Policy & Resource Committee.

The table below summarises the key *possible* risks reviewed, and the number of recommendations made to mitigate these:

***Possible* Risk**	**Number of recommendations & Priority rating**		
	1	**2**	**3**
Income due to CCAG may not be identified on a timely basis and requests for raising invoices may not be completed in a timely manner or authorised by the appropriate person, leading to the loss of income due to error, inappropriate activity or inefficient processing.	-	1	1
Procedures for recovering outstanding debts may not be robust and may be inconsistently applied leading to an increased risk that debts will not be recovered in a timely manner and loss of income to Council.	-	2	1
Bureaucracy and administration of invoice raising may be complex increasing the risk of inefficient use of staff time in raising invoices and recovering debts.	-	-	-
Total recommendations made	**0**	**3**	**2**

Based on our audit testing we are able to provide the following overall level of assurance:

Satisfactory	Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

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Auditor:	Mark Crawford
Distribution:	Audit Committee Chief Executive Chief Finance Officer Director of Corporate Services
	June 2020

Audit progress	Date
Audit commenced	19/02/2020
Draft Report issued to senior management for response	08/06/2020
Responses Received	10/06/2020
Responses Agreed	11/06/2020
Report Issued	11/06/2020

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

1 Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and considered the main risks facing strategic projects and a review the key systems and controls in place to address these. The objective being to ensure that:

- There is an adequate Invoicing and Debtors framework in place
- Processes are operating as expected

2 Background

In Causeway Coast and Glens Borough Council all invoices are raised through finance and guidelines have been issued to all service areas to outline the process. There are a variety of different sources of income across Council where invoices are raised e.g. marinas, caravan parks, rental income, trade waste etc. Debt management is also centrally managed by the finance team.

3 Risks

The risks identified by Internal Audit relating to invoicing and debtors and agreed with management are as follows:

1. Income due to CCAG may not be identified on a timely basis and requests for raising invoices may not be completed in a timely manner or authorised by the appropriate person, leading to the loss of income due to error, inappropriate activity or inefficient processing.
2. Procedures for recovering outstanding debts may not be robust and may be inconsistently applied leading to an increased risk that debts will not be recovered in a timely manner and loss of income to Council.
3. Bureaucracy and administration of invoice raising may be complex increasing the risk of inefficient use of staff time in raising invoices and recovering debts.

4 Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Head of Finance
Financial Accountant
Senior Finance Officer (Accounts Receivable)

5 Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

5.1 Risk 1 – Untimely identification of income and raising of Invoices

ISSUE 1 – Documented Procedures for Raising Invoices
a) Observation- Audit reviewed the documented procedures in place for income and invoicing and the instructions issued to departments/services for accounts receivable. Audit observed that these provide the key steps for raising invoices and accepting payment but that they do not clearly identify everyone/each role responsible for each of the process tasks. The current documented procedure for cash handling includes a list of Council business/service areas who usually receive payments from debtors, however there is no information documented about the frequency and schedule for specific types of invoices for debtors to be raised. Audit also noted that these finances related documented procedures, have no review schedule to ensure they are regularly reviewed and updated.
b) Implication- In the absence of comprehensive documented procedures there is an increased risk of untimely raising of invoices or inconsistencies and/or inefficiencies in the process. These risks increase if key staff are unexpectedly absent and someone must take over the role and there is no documented procedure to guide them. In the absence of regular review and update of documented procedures there are lost opportunities to identify ways to improve the process or identify ways to resolve ongoing process issues.
c) Priority Rating- 2

d)	**Recommendation**- Finance should create comprehensive documented procedures explaining the process of, and the roles and responsibilities, within invoicing and debtors (consider the use of screen shots for explaining system use and the inclusion of any templates used e.g. Daily Receipts Sheet. Management should ensure they are regularly reviewed and updated.
e)	**Management Response- We aim to draw up a more detailed list of procedures for processing of invoices, to include roles, responsibilities and a schedule for the raising of certain recurring invoices. However it should be noted that a number of invoices are raised on an ad hoc basis, predicting the timing and frequency of such requests is not possible.**
f)	**Responsible Officer & Implementation Date- Senior Finance Officer – Accounts Receivable, Sept 20**

ISSUE 2 – Credit Notes	
a)	**Observation-** Audit notes that the cash handling procedures provided to all Council facilities who receive cash income or raise invoices state that staff must check if any payment received relates to an invoice and if it does they should note the invoice number or account reference if available, or the name and address of the debtor. This must be recorded as a debtor book payment (DBP) to ensure finance staff can allocate to the correct customer account on the debtors' ledger. However when Audit reviewed the reasons for credit notes being issued we were advised that one of the main reasons for credit notes being required is to deal with errors arising when Finance has not been informed by a service area that an invoice has already been paid and the invoice remains outstanding on the system.
b)	**Implication-** Raising credit notes due to errors, where a debtor has already paid, is an inefficient use of staff time and increases the risk of creating tensions with users of Council facilities.
c)	**Priority Rating**- 3
d)	**Recommendation**- Staff should be reminded that requests for raising invoices should only be made after ensuring, not only that the service had not been previously invoiced for, but also, that payment has not already been received. This instruction should be included in the documented procedures on creating invoices (as part of the checks by staff requesting invoices).
e)	**Management Response- We will include a section in the documented procedures to remind staff who request invoices to ensure payment has not already been received. This is a recurring issue, we rely on those staff who receipt monies to ensure they are recording payments correctly. We have**

	constantly reminded managers/ staff in other departments to ensure processes are being followed correctly. Further documentation will be sent to the relevant staff, reminding them of the correct procedures.
f)	**Responsible Officer & Implementation Date- Senior Finance officer – Accounts Receivable – July 20**

5.2 Risk 2 – Inadequate debt recovery

ISSUE 3 – Debt Management Policy	
a)	**Observation-** Finance has a Debt Management Policy which took effect in 2015. This policy was made available on the Council's intranet and Audit was advised this was circulated in 2015 to all relevant staff, however audit has no evidence of the circulation. The Debt Management Policy provides accountability and responsibilities for the Mayor and Elected Councillors, Chief Executive, and the Chief Finance Officer. It includes implementation arrangements stating that credit controller (finance/accounts receivable) should monitor on a continual basis the debtors listing produced from the system and highlight any debts that are unpaid at the end of period which was set out in T&Cs (usually 30 days). It then provides a procedure for the recovery of debt. It covers bad debt and the procedure for then writing off bad debt. The policy states that all debts following consultation and agreement with the relevant Director/ Senior Manager may only be written off when approved by the Corporate, Policy & Resources Committee and subsequently ratified by the Council. Roles and responsibilities of the finance team are documented within the bad debt management policy and it states that if legal action is required for the recovery of bad debt that it should be carried out in consultation with the service department. The current bad debt management policy states that it will be reviewed every 3 years or whenever changes occur which will affect this policy the policy has not been reviewed since 2015. Audit notes in the "Debt Management Report" created each month by Finance for the Corporate Policy & Resources Committee that the Chief Finance Officer is required to report to Council any debts under £1,000, which the Chief Finance Officer has the authority to write-off, and to seek Council approval in order to write off any debts in excess of £1,000. This requirement is not noted in the Debt Management Policy.

b) Implication-
If policies and procedures are not reviewed and updated periodically there is a risk that documented procedures do not reflect actual practice or that procedures for recovering outstanding debts may be inconsistently applied or that opportunities to improve the process are overlooked leading to an increased risk of inefficiencies in the process, or that that debts will not be recovered in a timely manner.

c) Priority Rating- 2

d) Recommendation-
Finance should review and update the Policy for Bad Debt Management

e) Management Response- Chief Finance Officer is responsible for reviewing and updating the Debt Management Policy.

f) Responsible Officer & Implementation Date- Chief Finance Officer

ISSUE 4 – Process for Follow-up of Outstanding Debts

a) Observation-
The procedure for recovery of debt contained in the current version of the Debt Management Policy (2015) is as follows:

- The Finance Department will contact debtors by telephone where the amount owed justifies the time involved.
- 1 month after issue of invoice; Statement issued to the Debtor detailing the outstanding debt.
- 1 month after statement: Final Notice Issued to the Debtor requesting payment and giving notice that legal action will be taken to recover debt and that service will be withdrawn, unless the debt is settled within 7 days, without further notification.
- Legal action commenced and consultation with service department regarding withdrawal of service.

Audit was advised that there is no documented Bad Debt Management procedure outside of what is contained in the Debt Management Policy (2015).

Audit reviewed the Aged Debt Report which is used to track debts and record actions to recover debt. This Aged Debt Report is reviewed in detail monthly. There was evidence of follow-up letters being issued; debtors being contacted directly, and debts being pursued through the small claims court and through other legal means (EJO). As at end February 2020 circa 5% of debt outstanding for more than 90 days was being pursued through the SC court, EJO or being considered for write off. The largest single debt (accounting for 73%) of debt outstanding for more than 90 days had been advised “to pay in full” after they originally disputed the debt. Around 20% of the debt outstanding for more than 90 days was either being paid by monthly instalments or being actively pursued via phones calls to the debtors. A small amount (2%) was deemed to be unenforceable (due to liquidation of company).

Audit also tested a sample of 5 debts (from the aged debt report January 2020). It was noted that Statements were issued in a timely manner (up to 6 days after month end). It was noted that in one case legal action took 4 months to initiate.

Audit also notes that a sequence of monthly letters is being issued (usually up to 3 letters) before legal action is taken. Follow-up of debtors is taking place but is not in line with the current Bad Debt Policy (e.g. legal action is not initiated if the debt is not settled within 7 days of the final notice, which is issued after 2 months).

Audit was advised that Finance inform service areas of those users with outstanding debt. The service area can then block usage of facilities by these debtors.

b) Implication-
If the process for recovery of outstanding debts is not fully documented and not in line with the current Debt Management Policy there is a risk that it may be inconsistently applied leading to an increased risk that debts will not be recovered in a timely manner. In the absence of documented procedures (which should be regularly reviewed and updated) there is also a lost opportunity to identify ways to improve the process or identify ways to resolve ongoing process issues.

c) Priority Rating- 3

d) Recommendation-
Finance should document the actual Debt Management procedure, including how regularly service areas receive debtors lists, the format of standard follow-up letters, the timeline for each step in the process and also detailing at what stage (and under what conditions) a debtor can be blocked from using a Council service. The Debt Management Policy should be updated to reflect an agreed and approved debt management process.

A more formal recording of when service areas are informed that a debtor should be blocked from using a Council service should be retained on the aged debtor list (perhaps inserting a column on the excel spreadsheet). A record should also be retained (on the aged debtor list excel sheet) of when the block is lifted.

e) Management Response- A standard format for reminder letters is already in place. A record is also kept of each letter sent to each customer. If a debtor is to be blocked from using Council Facilities, we will retain a record of such action on the aged debt list (and also the date of lifting suspension).

f) Responsible Officer & Implementation Date- Financial Accountant review and update policy – Sept 20

ISSUE 5 – Debt Management Report

a) Observation-

Audit reviewed the Debt Management Reports provided to the Corporate Policy & Resources (CP&R) Committee in January 2020 and February 2020 and compared the information to the aged debtor listing and records of attempts to recover debts.

The report contains a section containing total debt figures for the month being reported and also the previous month. These totals are presented under the following headings:

- current,
- 60 days,
- 90 days,
- Over 90 days.

The report also contains further sections providing detail on

- Debts outstanding for more than 90 days, and
- Debts for writing off

These contain several lists of groups of debts e.g. debts >£10 and outstanding for more than 90 days: debts write-off under £1,000 etc. Audit notes that there are no totals for these lists.

Testing by audit revealed that due to the way debts are analysed and presented that they can be included in the total for 90 days grouping even when they are more than 90 days o/s. Audit testing revealed 1 invoice o/s for 120 days before being reported as part of the "more than 90 days" list in the February report to CP&R committee. This invoice was not in the "more than 90 days" list in the January report to CP&R committee (even though it was outstanding for 93 days at that point).

The report format and content should be improved to provide greater clarity over aged debt reporting to CP&R.

b) Implication-

If reporting of debts is not clear and fully reconciled to the totals in the aged debt list there is a risk that oversight of recovery of outstanding debts may not be robust and may be inconsistently applied leading to an increased risk that debts will not be recovered in a timely manner.

c) Priority Rating- 2

d) Recommendation-

Finance should review the format and content of the Debt Management Report provided to the Corporate Policy & Resources Committee. The analysis of the grouping of debts should be reviewed to ensure it is clear when a debt is outstanding for more than 90 days (consider combining 90 days and over 90 days as one group):

- current,
- 60 days,
- 90 days,

	• Over 90 days. Totals should be included for all lists in the report, in the sections providing detailed breakdowns of over 90 days analysis, and in the sections containing write-off details. To ensure there are no errors in the information presented there should be a reconciliation of all figures presented in this report. The total at the beginning of the Report i.e. over 90 days (currently section 3 of the Debt Management Report) should be reconciled to the totals of the lists in the 90-day analysis and the debts written off section of the report.
e)	**Management Response- The current layout of the debt management report is dictated by the constraints of our finance system, Totalmobile. We hope to be using a new system within the next 12-18 months and it is envisaged that more comprehensive analysis of debt will then be possible. Until the new system is in place a reconciliation of all figures used in the report will be carried out each month.**
f)	**Responsible Officer & Implementation Date- Senior finance officer – Accounts Receivable – reconciliation; immediate and review format; when new software is procured.**

5.3 Risk 3 – Complex bureaucracy

Audit was performing internal audit testing at Leisure Centres during the same period as the Invoicing & Debtors assignment. During fieldwork testing at Leisure Centres Audit learned that invoicing of Leisure clients had increased in frequency from monthly to weekly. There is an increased risk of errors and inefficiencies in raising such invoices on a weekly basis. This has an impact on both Leisure Centre Business Support and Administration staff and also Finance staff.

Audit was advised by Finance that raising of invoices on a weekly basis was introduced because Finance were being put under increasing pressure to provide up to date information for Managers, Directors and heads of service in Leisure. Previous to this Finance were receiving invoice requests almost 2 weeks after the month end, meaning it was up to 6 weeks before invoices were processed on the system. Invoicing weekly ensures the system is much more up to date.

Audit has made a recommendation within the Leisure Centre Cash Handling Report to review this frequency of invoicing.

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance
Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance
Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance
Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Summary of Key Controls Reviewed

Risk	Key Controls
Income due to CCAG may not be identified on a timely basis and requests for raising invoices may not be completed in a timely manner or authorised by the appropriate person, leading to the loss of income due to error, inappropriate activity or inefficient processing.	• Finance have a list of all income streams where invoices are required • There is a clearly documented process in place for the raising of invoices; governing requesting invoices; issuing of invoices, receipt of payments and managing debt • Roles and responsibilities of finance and the operational/facilities staff in raising invoices and receipt of payment is clearly documented • There is clear communication process between the supplying service area and the finance department. • Staff involved in raising invoices have been appropriately trained • Requests for raising invoices are only made after ensuring payment has not already been received • Invoices are raised promptly • Invoices raised are authorised appropriately and checked for accuracy • Invoices clearly set out CCAG's payment terms • The numbers of and reasons for credit notes issued is monitored and lessons learned communicated to facilities/operational staff to reduce recurring errors
Procedures for recovering outstanding debts may not be robust and may be inconsistently applied leading to an increased risk that debts will not be recovered in a timely manner and loss of income to Council.	• CCAG has developed a debt management policy, which has been communicated to relevant staff • The roles and responsibilities of finance staff and operation level/facilities staff is clearly documented in relation to debt management. • There is clear communication between the supplying service area and the finance department. • There are clear and consistent procedures in place for the granting of credit • A centralised aged debtors listing is available (Number and value of debtors) • Outstanding debts are reviewed on a regular basis in line with the debt collection policy • There is evidence of appropriate and timely follow up of outstanding debtors (statements, reminder letters and further action taken) • There is evidence to demonstrate that appropriate conditions for debt write off exist and adequate approval is granted before any write-off. • There are clear, appropriate and stretching targets for the recovery of debt post invoice issue.
Bureaucracy and administration of invoice raising may be complex increasing the risk of inefficient use of staff time in raising invoices and recovering debts.	• CCAG has appropriate and proportionate processes in place to manage invoicing and debtors. • Invoice raising follows a scheduled pattern of dates • CCAG encourages the use of direct debits and other automatic payments in order to keep the quantity of low-value invoicing to a minimum