

# Debtors

## City of York Council

### Internal Audit Report 2018/19

Business Unit: Customer and Corporate Services Directorate  
Responsible Officer: Director, Customer & Corporate Services  
Service Manager: Head of Customer, Resident and Exchequer Services  
Date Issued: 07/08/2019  
Status: Final  
Reference: 10190/009

	P1	P2	P3
Actions	0	0	4
Overall Audit Opinion	Substantial Assurance		

# Summary and Overall Conclusions

## Introduction

The Debtors team sits within the Directorate of Customer and Corporate Services, and is responsible for:

- issuing invoices to customers for services provided by the council;
- taking recovery action to ensure invoices are paid;
- ensuring payments received are correctly recorded in the debtors system on Authority Financials.

In 2018/19 there were approximately 45k invoices issued, with a total value of £86.1m and a collection rate of 98.3%.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensured that:

- Systems comply with the council's financial regulations, relevant legislation, and other appropriate guidance;
- Accounts are raised promptly and accurately to notify customers of any amounts due;
- Appropriate action, including write off of debts, is undertaken to recover debts where invoices are not paid within specified timescales;
- Performance is monitored and effectively managed.

The crediting of income to customer accounts and council tax collection were not considered in this audit because they are covered in detail in other audits.

## Key Findings

Overall, a sound control environment was found to be in place, with a number of controls in operation to ensure invoices are raised to customers in a timely manner and appropriate recovery action is taken when necessary. The Financial Regulations and Corporate Debt Policy together provide a comprehensive framework that was found to be broadly complied with. Although some sections of the Corporate Debt Recovery Policy had not been updated in line with recent legislative changes, these do not impact on the overall functioning of the system and the content remains largely applicable to the current procedures in place.

Performance of the debtors system is monitored through a series of detailed monthly and annual reports of overdue invoices and payments received, including the value of write-offs. Through these reports, the performance of the system can be tracked on a monthly basis for most recovery routes. These reports do not relate to specific aged debtor accounts though; instead these accounts are addressed informally when they are identified. There is also no formalised procedure in place to monitor whether an invoice has been raised without a narrative confirming

the service delivered and the delivery date. Without the inclusion of a narrative within an invoice, it is challenging to confirm that accounts are always raised promptly. Best practice across the council is to raise invoices as soon as the service is delivered, though this is not directly specified in the Debt Recovery Policy or other guidance available to staff.

A sample of invoices with a fully completed narrative found that the majority of invoices raised by the services were not raised within fourteen days. By issuing invoices within 14 days of the supply of goods and services, an actual tax point can be created for the date of issue allowing increased budgetary control for the council and ensuring the supplier receives the invoice in a timely manner. The Customer Finance Team responsible for managing the debtors system raised the majority of their invoices and credit notes within five working days, though they are only responsible for a small proportion of the invoices raised by the council.

By asking the services to submit a new supplier request form, the Customer Finance Team is able to ensure accounts are raised accurately and duplicate debtor accounts are not created. This audit found no duplicate debtor accounts; though a small number of possible duplicate invoices were identified, indicating the invoice authorisers within each service are not always consistently reviewing the invoices raised. Once an invoice is raised though, a number of other controls are in place to ensure all invoices raised are received; including the independent reconciliation of invoices printed each day against those raised.

Although there is no monitoring policy for credit notes, all credit notes sampled as part of the audit recorded valid reasons for being raised and could be seen to be accurately offset against subsequent invoices, a time and cost effective way of managing the credit. An action was raised in the 2017/18 audit report relating to the retention of authorised applications for credit notes and during the current audit, for all cases sampled; it was possible to confirm all credit note applications were available and appropriately authorised. As such, a high degree of assurance may be given to the processing of credit notes.

Testing for this audit found that all debts sampled followed the expected recovery route, with appropriate action taken in a timely manner prior to either being repaid or proposed for write off. Despite a lack of written guidelines available to staff, where deviations from the expected recovery stages and timescales were identified, reasonable explanation was recorded on the debtor's case notes. All of the written off debts sampled were signed off by the appropriate authorising officer and records were kept confirming the reason for the write off.

## **Overall Conclusions**

The arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

## 1. Review of the Financial Regulations

### Issue/Control Weakness

The Financial Regulations and Corporate Debt Policy are not up-to-date, preventing compliance with good practice.

### Risk

The policy in place may not reflect the current aims and procedures of the council.

### Findings

The Financial Regulations and Corporate Debt Policy provide a comprehensive framework that specifies procedures and responsibilities for the debtors system. However, the Financial Regulations and Corporate Debt Policy have not been reviewed since 2014 and 2016, respectively.

No elements of the Financial Regulations were found to be outdated. Nevertheless, some sections of the Corporate Debt Recovery Policy were not updated with recent legislative developments, including the Data Protection Act 2018. Other sections of the Corporate Debt Recovery Policy made reference to responsibilities within roles that no longer exist within the council.

### Agreed Action 1.1

The Financial Regulations and Corporate Debt Policy will be reviewed and updated as required. A revision cycle will also be developed and included within both policies.

#### Priority

3

#### Responsible Officer

Head of Customer,  
Resident & Exchequer  
Services

#### Timescale

1 October 2019

## 2. Date of Service Delivery

### Issue/Control Weakness

The timeliness of invoices raised is not monitored. Invoices do not always state when services were provided.

### Risk

Invoices are not raised in a timely manner. Invoices without a service date may be challenged by customers.

### Findings

Invoices to customers should contain detailed narratives that clearly identify when the service was delivered to the customer. Most invoices are raised by the individual service teams, though the Customer Finance Team will monitor these invoices and occasionally raise invoices on behalf of departments. None of the current policies within the Customer Finance Team state how quickly an invoice should be raised and sent following service delivery; though best practice is to raise them as soon as possible.

It was not always possible to confirm the date of service delivery for all invoices sampled because the narrative did not always include the service delivery date or a request form was not always available. However, the majority of sampled invoices raised by the services were raised after more than fourteen days, though there were significant variations between services. Of the services reviewed in the sample, Building Services and the Workforce Development Unit took the longest to raise invoices, in some cases up to 49 days. In contrast, the majority of invoices raised by the Customer Finance Team were raised within five working days of a request from the services.

Building Services have carried out a review of invoice timeliness following a departmental restructure and are already addressing this issue through procedural changes and the introduction of a mobile working platform to log jobs and raise invoices more quickly. An action has been agreed below with HR regarding the Workforce Development Unit.

Although there has been a significant improvement from the 2017-18 audit these findings indicate more work needs to be done to ensure services are completing invoices with sufficient detail.

### Agreed Action 2.1

The procedures in place to monitor invoice narratives will be reviewed.

**Priority**

3

**Responsible Officer**

Income Services  
Operations Manager

**Timescale**

1 October 2019

## Agreed Action 2.2

Measures will be taken to assess and address the extent of untimely invoicing within the Workforce Development Unit. A review will be undertaken to identify if invoice can be processed sooner rather than on a monthly basis.

**Priority**

3

**Responsible Officer**

Head of HR

**Timescale**

1 October 2019

### 3. Aged Debtor Monitoring

#### Issue/Control Weakness

There is no procedure in place to ensure that customers that have long term debt are unable to accrue further debt.

#### Risk

Customers that have long term bad debt they are struggling to pay back could accrue further debt. This may make it more unlikely that the debt will be paid.

#### Findings

Monthly and annual reports of overdue invoices showing the overall levels of outstanding debt are produced by the Customer Finance Team. The reports show the overall debt broken down into different recovery routes, but they do not identify specific aged debts or highlight specific users that are in significant long term debt.

Aged debtors are only monitored informally by the Customer Finance Team on an ad-hoc basis when users with significant long term debts are noticed. This increases the risk that service users may accrue further debt to accounts that are already in recovery.

#### Agreed Action 3.1

The Customer Finance Team will review the establishment of a process to identify aged debtors as part of current monitoring procedures. Discussions will be held with relevant service areas to identify existing procedures within each service and the current legislative context.

#### Priority

3

#### Responsible Officer

Income Services  
Operations Manager

#### Timescale

1 October 2019

## Annex 1

# Audit Opinions and Priorities for Actions

### Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

### Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.



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