Sundry Debtors

City of York Council

Internal Audit Report 2020/21

Business Unit: Corporate Services
Responsible Officer: Assistant Director, Customer Services and Digital
Service Manager: Head of Customer, Resident & Exchequer Services
Date Issued: 20 August 2021
Status: Final
Reference: 10190/011

	P1	P2	P3
Actions	**0**	**1**	**0**
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

The Debtors team is part of 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.

As at 31 March 2020, the CYC balance sheet held £5.2m attributable to long term debtors, and £49.4m attributable to short term debtors.

Objectives and Scope of the Audit

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

- Invoices are raised promptly, accurately, and include sufficient detail.
- There are procedures and processes in place to correctly credit income to customer accounts.
- Outstanding debt is adequately monitored and appropriate action is taken to recover outstanding debt in line with the council's debt recovery policy.
- Procedures for writing off unrecoverable debt are robust.

Council tax and NNDR collection was not covered by this audit, as it was covered in detail in another audit.

Key Findings

The audit found that invoices are raised promptly and accurately, with pro forma invoices subject to checking from the Customer Accounts Team and standard format invoices subject to system controls which ensure the correct authority is obtained, separation of duties is maintained and appropriate charge codes are used. A detailed management reporting process is also in place within the Customer Finance Team to identify and correct any errors in the raising of invoices, and to identify any duplicate invoices.

An automated process for the allocation of payments to the correct debtors invoice is in operation and a daily process is in place to ensure that unallocated funds are reviewed and matched appropriately. For funds not allocated, a debtor suspense account exists. Payments are allocated temporarily to this account to allow for the necessary investigations to take place to determine which invoice the payment relates to. The audit found that reasonable attempts are made to trace unallocated funds and they are generally assigned to the correct account in an appropriate timeframe.

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To raise a credit note, a pro forma must be completed by officers and submitted to Customer Accounts for review before being uploaded to the system. The form should be authorised by the staff member's manager, although this is not a policy requirement and staff members may authorise their own forms. The audit reviewed a sample of credit notes raised in the audit year and found that seven out of 10 credit notes in the sample were self-authorised. One of the self-authorised credit notes was for a large value of approximately £58,000. While a reasonable explanation was given for the raising of the credit note, it would be prudent to dual-authorise any credit on account for a high value such as this.

The Financial Regulations and Corporate Debt Policy have been regularly reviewed and kept up to date to ensure their relevance to current practices as well as continued compliance with the latest legislation. Debtor transactions tested were found to follow the recovery stages as outlined in the procedure notes. A formal reporting procedure is in place for the monitoring of outstanding debts by Customer Accounts, and this is set out in a reporting schedule. Monitoring reports showed outstanding debts changing status at key intervals, in line with the recovery process.

Sample testing found that legitimate reasons for proposing outstanding debts for write-off had been given, and that the debts actually written off matched those approved for write-off, with one exception where a discrepancy was identified between the signed write-off approval form and the de minimis report (that confirms all sundry debts that have been written off on the ledger). Following further review and discussion with the relevant officers, it was confirmed that the discrepancy related to an unusually high value of school transactions that had been included for write-off. These transactions had been approved by school governors but were included in the council's run of write-offs in order to obtain the correct approvals required by the financial regulations and to provide a suitable audit trail.

It was also noted that the approval decision for write-offs had been delegated from the Chief Finance Officer to the Head of Customer and Exchequer services in all periods reviewed. This delegation of authority is permitted under the Financial Regulations but it must be clearly recorded in a scheme of delegation in order to fully comply with requirements.

Overall Conclusions

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Formal record of delegated authority for write-off

Issue/Control Weakness	Risk
The scheme of delegation does not clearly show that authority to approve the write-off of unrecoverable debts has been delegated by the Chief Finance Officer to an appropriate person and recorded clearly, as mandated by the Financial Regulations.	Write-off of outstanding debts is not approved appropriately, in accordance with the Financial Regulations.

Findings

The appropriate person, as mandated by the Financial Regulations, should approve write-offs. The Financial Regulations set out that the Chief Finance Officer holds authority to write-off outstanding debts but can delegate this authority to an appropriate officer. Where this authority has been delegated, this should be clearly recorded in a scheme of delegation to ensure clarity in the process and to clearly demonstrate authority for approval.

While we are satisfied that authority for write-offs has been appropriately delegated to the Head of Customer and Exchequer Services, (an arrangement that has been in place for a number of years and for which we have email evidence of approval from the former Chief Finance Officer), the current means of recording how authority has been delegated does not explicitly capture the authority for approving write-off of unrecoverable debts. The scheme of delegation (which has been approved by the current Chief Finance Officer, as required by the Financial Regulations) shows that the delegation of authority for taking recovery action has been delegated as outlined above. However, it does not directly address the approval for writing off unrecoverable debts.

Agreed Action 1.1

The scheme of delegation will be updated to explicitly document the delegation of authority for approving the write-off of unrecoverable debts.	**Priority**	2
	Responsible Officer	Chief Finance Officer
	Timescale	31st October 2021

Annex 1

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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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