

**Internal Audit Report  
Executive Summary****CONFIDENTIAL**

**To: Head of Finance, Gedling Borough Council**  
**Subject: Debtors**  
**Report reference: GBC 42**  
**Date: March 2006**

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**1 Introduction**

- 1.1 The attached report sets out the findings and recommendations arising from a recent review of the debtors system. Because this system is due to be transferred to Rushcliffe BC in April 2006, the audit was restricted to confirming that Debtors have been accounted for completely and accurately throughout 2005/06 up to the time of audit.
- 1.2 The audit did not duplicate the audit work carried out in other departments but we have taken note of the findings relating to the control over debtors. Consequently, testing was restricted to the Incomes Section.

**2 Objectives and scope of the audit**

- 2.1 The objectives of the audit were the following:
- To document the systems and evaluate the controls in operation to ascertain their adequacy and effectiveness;
  - To sample test transactions for compliance with documented procedures and controls.
- 2.2 The following control objectives were examined within the scope of the audit:
- Invoices are raised promptly and accurately following the delivery of goods or services which have not been paid for in advance.
  - Collection of amounts owing and due is properly monitored with appropriate action taken to deal with overdue debtors, non-payment and write-offs.
  - Data processing and security arrangements ensure the completeness, validity and accuracy of management information.

**3 Main Findings**

- 3.1 The responsibility for the raising and control of sundry debtor accounts is clearly assigned and payments are only accepted in arrears in appropriate circumstances.
- 3.2 An effective process is in place for monitoring and chasing overdue debts. This involves the use of monitoring reports and reminder letters as well as the use of debt collectors and tracing agents. Procedures are also in place to ensure that debts are written off only after all other processes have been followed.
- 3.3 The data processing and security arrangements in place ensure that only authorised staff have access to the IT systems. Controls over the validity and accuracy of management

information are good and the back-up arrangements for Gedling Borough Council IT systems are satisfactory.

#### **4 Audit opinion**

- 4.1 In our opinion, most of the arrangements for financial management are working effectively. Consequently we are satisfied that the controls over debtors have been operating correctly throughout 2005/06 to date. Where we have identified control weaknesses, we have made recommendations to bring the financial controls up to the standards required by Financial Regulations.

**Audit conducted by:  
Diane Ryder - Auditor**

**Audit supervised by:  
Roger Smith - Assistant Audit Manager**

**J K Nash CPFA  
Assistant Treasurer**

| <b>Control objective 1: Invoices are raised promptly and accurately following the delivery of goods or services which have not been paid for in advance.</b> |  |                             |  |
|--|--|-----------------------------|--|
| <b>Risk: Loss of income for the Authority together with additional costs for collecting outstanding income.</b>  |  |                             |  |
| <b>Expected control</b>  | <b>Audit findings</b>  | <b>Expected control met</b> | <b>Audit recommendation and management response, officer responsible and date for implementation</b> |
| 1.1 Responsibility for the raising and control of debtor accounts is clearly assigned.   | The Housing and Environmental Planning Departments both have procedure notes for the raising of debtor invoices. The Incomes Office where the debts are managed also has procedure notes.<br><br>For the Senior Clerical Assistant who manages the debtors system there is a specific job description. | <b>YES</b>                  |  |
| 1.2 Debtor invoices are always issued where goods and services have not been paid for in advance.  | A sample of twenty invoices was randomly selected and checked from the invoice run on January 18 <sup>th</sup> to ascertain the reasons for the payments not be made in advance. All invoices checked were for services which are normally provided on credit – therefore this check was satisfactory. | <b>YES</b>                  |  |

**Control objective 1:** Invoices are raised promptly and accurately following the delivery of goods or services which have not been paid for in advance.

**Risk:** Loss of income for the Authority together with additional costs for collecting outstanding income.

| Expected control   | Audit findings   | Expected control met | Audit recommendation and management response, officer responsible and date for implementation   |
|--|--|----------------------|---|
| <p>1.3 An up-to-date record of bad and doubtful debtors is maintained and circulated to prevent further credit being extended whilst overdue debts remain.</p> | <p>A list of all bad and doubtful debts is not circulated on a regular basis to the Departments. However at the month end, a list is sent to each department showing their own debtors to check and monitor. After discussion with the Senior Clerical Assistant – Debtors, it was evident that only the Leisure Department contacts the Incomes Section with updates. The November memo was checked as part of the testing to ensure that the accounts had been updated with the new information. This testing proved to be satisfactory.</p> <p>During testing we noted that some organisations had more than one account number allocated to them. This could mask the true extent of indebtedness as poor payment may be spread over several accounts.</p> | <p>NO</p>            | <p><b>i) An up-to-date list of all outstanding bad debts should be circulated to all Departments to prevent further credit being given to poor payers. (Medium Risk)</b></p> <p><b><u>Response of the Head of Finance</u></b></p> <p><i>The recommendation as detailed has data protection issues. It is suggested that the central debtors team undertakes this exercise and notifies the departments as necessary.</i></p> <p><b><u>Officer Responsible for Implementation</u></b><br/>Revenues Manager</p> <p><b><u>Date for Implementation</u></b><br/>June 2006</p> <p><b>ii) A check should be carried out to ensure that there are no duplicate account numbers for debtors. (Medium Risk)</b></p> <p><b><u>Response of the Head of Finance</u></b></p> <p><i>Agreed, However process will change due to transfer to Rushcliffe.</i></p> <p><b><u>Officer Responsible for Implementation</u></b><br/>Revenues Manager</p> <p><b><u>Date for Implementation</u></b><br/>June 2006</p> |

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|--|--|-----------------------------|--|
| <b>Risk: Loss of income for the Authority together with additional costs for collecting outstanding income.</b>  |  |                             |  |
| <b>Expected control</b>  | <b>Audit findings</b>  | <b>Expected control met</b> | <b>Audit recommendation and management response, officer responsible and date for implementation</b> |
| 1.4 All debtor invoices are identified uniquely.   | The computer system allocates a unique number as each invoice is raised. The invoice numbers cannot be duplicated. Invoices are printed once a week. The continuity of invoice numbers was confirmed by observation.   | YES                         |  |
| 1.5 Invoices include all appropriate details i.e. the originator and originating Department, nature of the debt, etc. Debtors accounts should state pay-in references and that cheques should only be made payable to the GBC. | The invoices used by Gedling Borough Council are clearly laid out and include all the appropriate information. This includes the debtor references and to whom and where the payments should be made. This was confirmed by checking a sample of eight invoices taken from the weekly run dated 18 <sup>th</sup> January 2006. | YES                         |  |
| 1.6 A master record of all recurring income (eg rents, lease, licences) should be maintained including the due dates, the amounts and details which triggers the automatic production of accounts.                             | The master record for service charges is held in the Incomes Section. Ten accounts were cross checked to this list to ensure that the information held on the excel spread sheet matched that which is held on the debtor system and was correct.  | YES                         |  |

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| 1.7 There should be clearly defined guidelines on the effective use of the debtor system issued to departments along with standardised debtor request forms. | <p>There are no guidelines issued from the Cash Incomes Section regarding the raising of debtor invoices. However, the Planning Department and Housing Department were visited as part of the audit testing and both had procedure notes readily available for this process.</p> <p>A standard form for the raising of the debtor invoices is used by the Departments.</p> | NO                          | <p><b>When the Debtors system is transferred to Rushcliffe BC in April 2006, guidelines for operating the new system should be issued to all Departments to ensure all staff follow the correct procedures. (Medium Risk)</b></p> <p><b><u>Response of the Head of Finance</u></b></p> <p><i>Agreed</i></p> <p><b><u>Officer Responsible for Implementation</u></b></p> <p><i>Revenues Manager</i></p> <p><b><u>Date for Implementation</u></b></p> <p><i>June 2006</i></p> |

| <b>Control objective 2: Collection of amounts due is properly monitored with appropriate action taken to deal with overdue debtors, non-payment and write-offs.</b> |  |                             |  |
|---|--|-----------------------------|--|
| <b>Risk: Loss of income to the Authority together with additional costs for collecting outstanding income.</b>  |  |                             |  |
| <b>Expected control</b>   | <b>Audit findings</b>  | <b>Expected control met</b> | <b>Audit recommendation and management response, officer responsible and date for implementation</b> |
| 2.1 Overdue debtors reports are produced monthly together with a relevant trend analysis.   | Monthly reports are provided and distributed out to the Departments. The October update from the Leisure Section was checked as part of the audit. All changes and updates had been input on the system. | YES                         |  |

**Control objective 2: Collection of amounts due is properly monitored with appropriate action taken to deal with overdue debtors, non-payment and write-offs.**

**Risk: Loss of income to the Authority together with additional costs for collecting outstanding income.**

| Expected control   | Audit findings  | Expected control met | Audit recommendation and management response, officer responsible and date for implementation |
|--|---|----------------------|---|
| 2.2 There are clearly defined and circulated procedures for the recovery of debts, including reminder periods.   | There are defined procedures for the recovery of debts, these are followed by the Senior Clerical Assistant – Debtors. Copies of the procedures were obtained while completing the audit.   | YES                  |   |
| 2.3 Arrangements to pay by instalment should be properly authorised.   | On the whole, it is the responsibility of the Senior Clerical Assistant (Debtors) to make the decision as to whether payments made by instalment may be authorised to clear the debt.   | YES                  |   |
| 2.4 Clear written guidance exists in relation to arrangements to pay by instalments (i.e. maximum period etc).   | A copy of the guidance notes used by the Senior Clerical Assistant – Debtors were obtained and read. This was to ensure they included the procedures to be followed when making arrangements for instalment payments.                                     | YES                  |   |
| 2.5 The procedure and responsibility for the write-off of bad debts is clearly defined.  | The procedure for the writing off of bad debts is defined in Gedling Borough Council's Standing Orders.   | YES                  |   |
| 2.6 Requests for credits, cancellations or write-offs are certified by an authorised employee.   | The requests for credits, cancellations and write-offs are made by the Senior Clerical Assistant – Debtors. These are then passed to the Head of Finance for authorisation. If the amounts are over £5,000 the Chief Executive has to give his authority. | YES                  |   |
| 2.7 The income codes credited originally should be debited by the sums written-off/cancelled, etc.   | The March 2005 write offs for over £1,000 and those between the values of £100 - £300 were checked as they were the most recent ones completed. All of the accounts had been correctly updated.   | YES                  |   |
| 2.8 The amounts written off the computer system should be reconciled independently to the value of the approved write-offs per the authorised write-off schedules. | A reconciliation is carried out of the debtors system after each batch of write-offs. The reconciliations were checked as part of the testing in 2.7 above.   | YES                  |   |

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| 2.9 The VAT element of write-offs is dealt with correctly to ensure it is reclaimed.  | The VAT element is correctly accounted for, this was confirmed by discussion and the checking of completed paper work for the last write-offs made in March 2005.   | YES                         |  |
| 2.10 Accounts in dispute should be clearly identified, monitored and resolved within 3 months.  | Accounts are monitored on a monthly basis, the ideal being to resolve the situation within 3 months.  | YES                         |  |
| 2.11 Accounts where recovery action is suppressed are recorded separately together with details and authorisation for this action and reviewed regularly.           | Any accounts where recovery action is suppressed are recorded separately and passed on to the Legal Section. This was confirmed by observation in both the Incomes Section and the Legal Department.                              | YES                         |  |
| 2.12 The use of external agencies to recover debt is closely monitored.   | Any bad debts below £500 are passed to an external Agency who submit monthly updates, on progress made and any income collected.<br>Any debts over £500 are passed directly to Gedling Borough Council's Internal Legal Services. | YES                         |  |
| 2.13 Reconciliation is carried out between the council's records and income received from the agencies.   | The Agency send an income collection record on a monthly basis to the Income Section. December's records were checked to ensure the accounts had been correctly updated.  | YES                         |  |
| <b>Control objective 3: Data processing and security arrangements ensure the completeness, validity and accuracy of management information.</b>                     |   |                             |  |
| <b>Risk: Uncontrolled access to IT systems could result in unauthorised transactions being processed</b>  |   |                             |  |



| <b>Expected control</b>  | <b>Audit findings</b>  | <b>Expected control met</b> | <b>Audit recommendation and management response, officer responsible and date for implementation</b> |
|--|--|-----------------------------|--|
| 3.1 System access controls ensure that only authorised employees have access to the debtors system and relevant sub-processes. | The computer system is password protected. Every officer has an individual log-in and password. The system forces password changes on a monthly basis. The level of access to the debtors system is authorised by the Revenues Manager, which is then assigned to the user's login.      | YES                         |  |
| 3.2 Stocks of blank invoices and credit notes are held securely.   | Blank invoices and credit notes are held within the Incomes Section. Access is gained via swipe cards and key pads, this was confirmed by observation.   | YES                         |  |
| 3.3 Missing invoices and credit notes are identified regularly and investigated.   | Invoices and Credit notes are not pre-numbered, the computer system automatically generates each individual number as the invoices are raised.   | YES                         |  |
| 3.4 Regular reconciliations between the debtors system and FMS are undertaken satisfactorily.                                  | Reconciliations are carried out between the debtors system and FMS on a monthly basis. The December reconciliation was checked as part of the audit. It was also confirmed that the reconciliations had been completed monthly throughout the financial year from April 2005.            | YES                         |  |
| 3.5 Back up copies of files are taken immediately after each update run and stored securely – preferably off-site.             | <p>The computer system is backed up every day Monday to Friday at 3.00 am. The back up tapes are taken off site on Mondays and Fridays and held in a secure location.</p> <p>Three weeks of weekly backups and 12 month-end tapes are held.</p> <p>This was confirmed by discussion.</p> | YES                         |  |

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|--|--|-----------------------------|--|
| 3.6 There should be a disaster recovery plan for the system. | It was confirmed by discussion the Gedling Borough Council computer system has a disaster recovery plan. This was confirmed by discussion with the staff in the IT Department. | YES                         |  |