



Item: 8

Monitoring and Audit Committee: 26 September 2024

Internal Audit – Sundry Debtors

Report by Chief Internal Auditor

1. Overview

- 1.1. The internal audit plan 2023/24 included a review of Sundry Debtors, this audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The Council recovers debt for a variety of services including Council Tax, Non-Domestic Rates, Housing Rents and Sundry Debts. This audit focused predominantly on sundry debtors.
- 1.3. The sundry debtors' system is the mechanism in place for the collection and recording of sums of money due to the Council which are not accounted for by the specialist revenues systems used for Council Tax, Non-Domestic Rates and Housing Rents.
- 1.4. The objective of this audit was to review the procedures and controls within the sundry debtors' system, ensuring the Council effectively manages the recovery of money owed for goods and services provided.
- 1.5. The audit provides Substantial assurance that processes and controls relating to Sundry Debtors are well controlled and managed.
- 1.6. The internal audit report, attached as Appendix 1 to this report, includes 5 low priority recommendations regarding the Corporate Debt Policy, parking fines, debt recovery costs, debts on hold and supporting information. There are no medium or high priority recommendations made as a result of this audit.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the processes and controls around Sundry Debtors, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

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Implications of Report

- 1. Financial:** None directly related to the recommendations in this report.
- 2. Legal:** None directly related to the recommendations in this report.
- 3. Corporate Governance:** In terms of the Scheme of Administration, consideration of Internal Audit findings and recommendations and to review actions taken on recommendations made, is a referred function of the Monitoring and Audit Committee.
- 4. Human Resources:** None directly related to the recommendations in this report.
- 5. Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit reporting.
- 6. Island Communities Impact:** An Island Communities Impact Assessment is not required in respect of Internal Audit reporting.
- 7. Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our Economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
- 8. Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
- 9. Environmental and Climate Risk:** None directly related to the recommendations in this report.
- 10. Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
- 11. Procurement:** None directly related to the recommendations in this report.
- 12. Health and Safety:** None directly related to the recommendations in this report.
- 13. Property and Assets:** None directly related to the recommendations in this report.
- 14. Information Technology:** None directly related to the recommendations in this report.

15. Cost of Living: None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2023/24

Appendix

Appendix1: Internal Audit Report – Sundry Debtors



Internal Audit

Audit Report

Sundry Debtors

Draft issue date: 29 Aug 2024

Final issue date: 4 September 2024

| | |
|---------------------------|---|
| Distribution list: | Corporate Director for Enterprise & Sustainable Regeneration |
| | Corporate Director for Neighbourhood Services and Infrastructure |
| | Head of Finance |
| | Service Manager (Payments) |
| | Operational Support Manager (NS&I) |

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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The objective of this audit was to review the procedures and controls within the sundry debtors' system, ensuring the Council effectively manages the recovery of money owed for goods and services provided.

Several areas of good practice were identified during the audit including:

- Records relating to Debtors are securely held, well maintained and easily accessible.
- Invoices are in line with pricing policies and are clear in terms of services and goods provided as well as the payment terms.
- Credit notes and amendments are raised timeously and processed correctly.
- There are processes in place to monitor overdue accounts, recover outstanding debts and reports are reviewed to identify potential bad debts.
- Procedures around reconciliations of payments against debts are robust.
- Unidentified payments are well managed and allocated to the correct account timeously.
- Regular reporting to Services and Senior Management informs and enables effective cash flow monitoring.
- Write-off procedures ensure all write-offs are authorised and processed only when all attempts have been made to pursue the debt.
- There are good systems in place to review write-offs.
- Bad debt provision is calculated making best use of information available from financial systems as well as from other services.

The report includes 5 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Ideagen.

| Total | High | Medium | Low |
|-------|------|--------|-----|
| 5 | 0 | 0 | 5 |

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Council is responsible for collecting debt in an effective and efficient manner, using all methods of recovery at its disposal to maximise income collection and to keep levels of written-off debt to a minimum.

The Council recovers debt for a variety of services including Council Tax, Non-Domestic Rates, Housing Rents and Sundry Debts. This audit will focus predominantly on sundry debtors.

The sundry debtors' system is the mechanism in place for the collection and recording of sums of money due to the Council which are not accounted for by the specialist revenues systems used for Council Tax, Non-Domestic Rates and Housing Rents (for example harbour charges, burial fees, parking fines, waste collection and so on).

Each of the debts 'belongs' to the relevant Service and responsibility for debt management is that of Budget Holders, Service Managers and Heads of Services across all Services. The Debtors Team within the Finance function undertake debt recovery on behalf of the Services, and effective liaison between the Debtors Team and the Services is key to ensuring effective and efficient debt management.

There may be circumstances where customers experience financial difficulty and are unable to make the required payments. The Council's website provides information regarding help and support on these matters.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Scope

The scope of this audit included reviewing the following:

- Invoices are raised promptly and accurately in accordance with policy and procedures.
- There are procedures and processes in place to correctly credit income to customer accounts.
- Credit notes and cancellations are raised and processed correctly in accordance with policy and procedures.
- Outstanding debt is monitored and appropriate action is taken to recover outstanding debt.
- Write-offs are suitably controlled with supporting evidence and that the bad debt provision is reviewed on a regular basis.
- There is regular and accurate reconciliation of feeder systems to Integra.
- There is clear segregation of duties in place relating to the identification of debt, receipt of income, reconciliations and write-off of debts.
- Suitable controls are in place to protect information and data from unauthorised access.

Our audit work focussed on the period from 1 April 2023 to 31 March 2024.

Audit Findings

1.0 Policies and Procedures

- 1.1 The current Financial Regulations were approved on 2 July 2024. Section 15 deals with Income Collection including Debt Recovery and Write-Offs. Issuing of invoices for the supply of goods and services is covered by Section 15.2 of the Financial Regulations. Responsibility for identifying sources of income within a Service, calculating the income due and ensuring that invoices are raised promptly for amounts due lies with the Chief Executive and the Corporate Directors. The ability to add customer accounts, raise sales invoices and raise credit notes within the Integra financial system has been granted to Operational Support staff within the Services. Procedures and guidance on this process is available.
- 1.2 Section 15.4 of the Financial Regulations covers debt recovery and write-offs. The responsibility for the steps undertaken for debt recovery sits with the Payments team within Finance. Section 15.4.1 requires that all methods of recovery must be exhausted before authorisation is given by the Head of Finance to write off debts. There are specific debt recovery procedures and documentation in place to support debt recovery, which set out the timescales for this. A summary of the steps taken in recovering debt is available to the public on the Orkney Islands Council (OIC) website.
- 1.3 Invoicing and debt recovery procedures were reviewed and were found to be comprehensive and in line with the Financial Regulations. However, at the time of the audit, a number of procedure documents were found to be over 5 years old, and the Debt Recovery Write-Off Policy was 9 years old. An exercise has subsequently been undertaken to bring the procedure documents up to date. In addition, a Corporate Debt Policy is under development at present which will include debt recovery and write off and is intended to replace the Debt Recovery Write-Off Policy.
- 1.4 It is recommended that the Corporate Debt Policy is finalised and put in place at the earliest practicable opportunity.

Recommendation 1

2.0 Invoices and Credit Notes

- 2.1 Where payment in advance for a service is not possible, invoices are raised to request payment from a customer for goods or services received. Invoices are issued in a standard format, which includes the payment terms. Suitable information is recorded within each feeder system which together with the Council Charges Register, allows the appropriate amount to be calculated and invoiced.
- 2.2 Audit tests for accuracy were undertaken for a total of 44 invoices issued by 8 Service Areas:
 - Marine Services.
 - Willowtree Nursery.
 - Burial fees.
 - Cursiter Quarry.
 - OHAC care home charges.
 - Housing rent arrears.
 - Parking fines.

- Waste Management Services.

- 2.3 One minor error relating to the calculation of days of storage was identified as part of the audit testing, and an appropriate credit note issued. No further inaccuracies in identifying the income due to the Council were identified.
- 2.4 Further audit testing was undertaken to explore whether invoices were raised promptly as required by Financial Regulations (1.1 above). Most of the services tested issued invoices in good time, however there were some delays in the case of parking fines, detailed below.
- 2.5 Once the time limits set out on the parking fine have expired, 42 days after the issue of the fine, vehicle owner details are retrieved from the National Anti-Fraud Network Online service. These details are then used to raise and send out invoices. The timing of the issuing of the invoice is therefore partially dependent on the time taken to receive a response containing the owner details, although this is usually a few weeks at most.
- 2.6 Our audit work identified that of the 8 unpaid parking fine invoices tested, 4 were issued over 6 months after the issue of the fine itself. Although a minority of delays can be explained through customer disputes over parking tickets, the main explanation given for the cause of the delay involved resource constraints related to staff availability.
- 2.7 A system of monitoring should be implemented for unpaid parking fines that will flag any that are over three months old as a prompt to initiate debt recovery.

Recommendation

- 2.8 Credit notes and amendments are not specifically mentioned in the Financial Regulations but it is good practice that they are raised timeously and suitably authorised. Audit testing in this area confirmed that intended controls in respect of the authorisation of credit notes are working satisfactorily and that over 95% of the credit notes tested were raised promptly or had a valid underlying reason behind the delay.

No recommendation

3.0 Debt Recovery

- 3.1 There are procedural documents to support debt recovery and the process of issuing reminders. Reminders are automatically issued after 30 days (First Reminder), 60 days (Second Reminder) and 90 days (Final Reminder) unless there is a hold placed on the debt outstanding. Periodic statements are also sent to debtors generally quarterly with exceptions in place at the customer's request where they are sent on a more frequent basis. This is currently a manual process although this is moving to an automatic process of monthly statements to businesses which will further support debt recovery.
- 3.2 Reports are issued monthly for all Sales Ledger Contact Codes which highlight individual customer debts and their age, together with the status. Officers within the Payments team seek responses from Services as to the appropriate action to be taken in respect of certain debts, but we were informed that these responses are not always forthcoming. Where appropriate, meetings are held with the Services to discuss specific bad debts. Pursuit of certain debts, such as UHI Orkney course charges and care home charges, is initially managed by the relevant services themselves, as they have more ongoing contact with the debtors, this is in conjunction with the reminders and statement process. On occasion, and where appropriate, further supplies have been denied until outstanding bills are paid.

This approach keeps the Services aware of any payment issues with their customers, and aims to minimise the possibility of further debt being incurred but unpaid.

- 3.3 Where an amount remains outstanding following the final notice, a referral is made to the Sheriff Officers who will endeavour to collect the debt payment on behalf of the Council. The timeline set out in the procedure has an expectation of this happening within 120 days of the issue of the invoice. If successful in obtaining payment, the Sheriff Officers charge a 10% or 5% fee depending on the amount recovered. If the Sheriff Officers are unsuccessful after pursuing payment for a further 120 days, the debt will return to the Council.
- 3.4 From a sample of 10 cases referred to the Sheriff Officers, 7 were subsequently paid, which would support the conclusion that referrals are effective in recovering debt. However, the majority of referrals are not being made within the expected timescale as set out in procedural guidance. Further audit testing identified that of the 240 invoices flagged within Integra as having been referred to Sheriff Officers more than 75% were referred later than 200 days after the issuing of the invoice. We understand that the hold placed on referrals during the COVID-19 pandemic has contributed to some delays, and that it has been a significant undertaking for the Sales Invoice team to catch-up with this. We would therefore expect that this position would improve going forward.
- 3.5 The process to refer cases to the Sheriff Officers requires manual input and this is another factor exacerbating delays in referral. A recent review of business systems processes for the Service, identified that automating this procedure would help to ensure that referrals are made consistently and timeously. However, given the wide variety of debts under consideration, and the complexity of coordinating with the relevant Services in managing these debts, we were informed that a 'one size fits all' automation process would not be practicable across the full range of debts.
- 3.6 Within the sample tested, cases were identified of customer accounts repeatedly being referred to the Sheriff Officers, where there were new invoices raised, before paying the debt in full, costing the Council 10% of the invoice amount each time. It is possible that these businesses are using the payment of invoices to the Council to manage their cash flow, which results in reduced amounts recovered by the Council.
- 3.7 It is recommended that consideration should be given to a change in the payment terms to include a 10% uplift in charges in cases where the referral of a business to the Sheriff Officers is necessary, in order to cover Council costs incurred in recovering the debt.

Recommendation 3

- 3.8 As noted above, there are exceptions to the automatic timescale process for some Services, e.g., those associated with Orkney Health and Social Care Partnership (OHASCP). In addition, there are circumstances where it is necessary to place the debt recovery process on hold. Items on hold that have not been issued reminders as per the procedural guidance, generally have a rationale recorded to support this. However the length of time for which a hold is placed on both debt recovery, and occasionally on invoicing for goods supplied, is a concern in some cases.
- 3.9 It is recommended that meetings are held with Services every 6 months to review debts subject to a hold, and confirm that the hold is still appropriate. The outcome of these meetings should be recorded on the Integra file.

Recommendation 4

4.0 Supporting Information on Financial System

- 4.1 Observation during the course of audit testing has shown that diary notes and attachments are used on customer accounts and individual invoices to support the debt recovery process, highlighting rationale behind query codes and providing updates on the status of amounts outstanding.
- 4.2 Where there are customers who have several invoices outstanding on their account, the diary notes are not always specific about which debt is being referred to. There were some examples of the invoice number being used as a reference which is helpful in determining the stage of the debt recovery process for a particular debt.
- 4.3 In addition, audit testing on adjustments to invoices highlighted that for debit adjustments, supporting information on the basis for the adjustment was not being captured within the notes or attached as supporting documents. Accordingly, there is currently a lack of audit trail in respect of these adjustments.
- 4.4 It is recommended that sufficient information is captured in the notes and supporting documents added to the Integra account to allow comments on actions to be tied to the relevant debt, and to provide details of the rationale for adjustments.

Recommendation 5

5.0 Debt Write-Off and Bad Debt Provision

- 5.1 Section 15.4 of the Financial Regulations covers the write-off procedures and require that '*all methods of recovery*' are exhausted before a debt can be written-off. We found that attempts to pursue debt are detailed within the write-off recommendation reports, together with the use of diary notes and attachments in Integra noted at 4.1 above.
- 5.2 In addition, section 15.4 places the authority to write off debts with the Head of Finance. Audit testing in this area on 20 debts written-off, showed that for two debts there was no signature to evidence the authorisation of the write-off. These debts were part of a larger exercise to write-off debts of a local business which had gone into administration, and the other debts within this exercise were all correctly signed off. This appears to be an isolated failure in process in specific circumstances.
- 5.3 Audit testing indicated that where debts are written off, the required adjustment to the debtor balance and the relevant revenue code were made as soon as possible, and that a VAT reclaim had been made where appropriate.
- 5.4 The bad debt provision reflected in the year end accounts was historically calculated based on the age of the debt, but prior to the period under review was amended to a percentage provision based on the status of the debt as shown by the Query Code shown in the relevant Integra file. For debts in respect of OHASCP Services or UHI Orkney, further information is requested from the Service to ensure that the provision calculated is as accurate as possible.
- 5.5 Controls around bad debt provisions and debt write-off are generally working satisfactorily.

No recommendation.

6.0 Feeder Systems, Segregation of Duties and Access Security.

- 6.1 Historically sales transactions were recorded in a number of different feeder systems and the information uploaded to the Integra financial system by interfaces. During the period of review, Operational Support Officers in Services have been able to raise sales invoices in Integra directly, and this has been the predominant method of raising invoices. Audit testing showed that invoice details accurately reflected source information within the various feeder systems, and that information could be readily retrieved from feeder systems.
- 6.2 Our audit testing confirmed that there is segregation of duties across recording of debts, issuing of invoices, receipt of income, reconciliations and write-off of debt.
- 6.3 Audit testing of access to the Sales Ledger in Integra confirmed that access is restricted to Officers who need to raise sales invoices only. Reconciliations and analysis in respect of the Sales Ledger is restricted to the Sales Invoice staff and the Team Manager (Payments).
- 6.4 Controls in respect of feeder systems, segregation of duties and access security are operating satisfactorily.

No Recommendation

Action Plan

| Recommendation | Priority | Management Comments | Responsible Officer | Agreed Completion Date |
|--|----------|--|--|------------------------|
| 1 It is recommended that the Corporate Debt Policy is finalised and put in place at the earliest practicable opportunity. | Low | Agreed, work is underway to draft the Policy. | Head of Finance | 31 March 2025 |
| 2 A system of monitoring should be implemented for unpaid parking fines that will flag any that are over three months old as a prompt to initiate debt recovery. | Low | It has been agreed that on a Monday each week the Administrative Assistant goes into the Excess Charge Access database and runs the necessary reports to see what needs to be done with regards chasing unpaid parking fines. | Team Manager Operational Support, NS&I | With immediate effect |
| 3 It is recommended that consideration should be given to a change in the payment terms to include a 10% uplift in charges in cases where a business referral to the Sheriff Officers is necessary, in order to cover Council costs incurred in recovering the debt. | Low | This shall be considered, in terms of whether there is a technical solution to apply the charge and whether the charge can legally be applied to each type of debt. We are also considering whether further action can be taken within OIC to pursue debt prior to referral to Sheriff Officers in order to obtain payment and avoid the Sheriff Officer charge. | Head of Finance | 31 March 2025 |
| 4 It is recommended that meetings are held with Services every 6 months to review debts subject to a hold, and confirm that the hold is still appropriate. | Low | Where a debt is placed on hold, the Payments Team follow this up on a regular basis. Six monthly meetings would provide an opportunity to discuss the debts | Service Manager - Payments | 31 March 2025 |

| Recommendation | Priority | Management Comments | Responsible Officer | Agreed Completion Date |
|---|----------|--|----------------------------|------------------------|
| The outcome of these meetings should be recorded on the Integra file. | | <p>on hold where a satisfactory response hasn't been received.</p> <p>The Corporate Debt Policy shall also cover procedures around debts placed on hold.</p> | | |
| 5 It is recommended that sufficient information is captured in the notes and supporting documents added to the Integra account to allow comments on actions to be tied to the relevant debt, and to provide details of the rationale for adjustments. | Low | Agreed, invoice references will be detailed against notes and further information attached within Integra to provide detail for adjustments. | Service Manager - Payments | With immediate effect. |

Key to Opinion and Priorities

Audit Opinion

| Opinion | Definition |
|-----------------------|---|
| Substantial | The framework of governance, risk management and control were found to be comprehensive and effective. |
| Adequate | Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control. |
| Limited | There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective. |
| Unsatisfactory | There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail. |

Recommendations

| Priority | Definition | Action Required |
|---------------|--|---|
| High | Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk. | Remedial action must be taken urgently and within an agreed timescale. |
| Medium | Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk. | Remedial action should be taken at the earliest opportunity and within an agreed timescale. |
| Low | Scope for improvement in governance, risk management and control. | Remedial action should be prioritised and undertaken within an agreed timescale. |