

Cumbria Shared Internal Audit Service

Internal Audit Report for Cumbria Constabulary



Audit of Debtors

Draft Report Issued: **3rd May 2019**

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Audit Resources

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Audit Report Distribution

For Action:	Alison Hunter - Payroll and Transactional Services Manager
For Information:	Michelle Bellis – Deputy Chief Finance Officer Ann Dobinson – Head of Central Services Stephen Kirkpatrick – Director of Corporate Support Roger Marshall – Joint Chief Finance Officer
Audit Committee	The Joint Audit Committee, which is due to be held on 25 th July will receive the report.

Cumbria Shared Internal Audit Service

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Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

1. Background

- 1.1. This report summarises the findings from the audit of **debtors**. This was a planned audit assignment which was undertaken in accordance with the 2018/19 Audit Plan.
- 1.2. The debtors function is important to the organisation because it ensures a variety of sundry debts owed to the constabulary are received and accounted for within approved timescales. The efficiency, effectiveness and reliability of the debtors function is a key element in ensuring the constabulary's cash flow remains within approved levels.
- 1.3. This review forms part of a three year rolling programme of financial system audits which ensures that all main financial systems are independently reviewed on a cyclical basis.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsors for this review were the Deputy Chief Finance Officer and the Head of Central Services. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Debt control/recovery process (to include Legal Services debt collection)
 - Authorisation of write offs/cancellations

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

- 3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.
- 3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Debtors provide **reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There is **1** audit recommendation arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives (see section 5.1.)	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2.)	-	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	1	-
4. Security - safeguarding of assets (see section 5.4)	-	-	-
5. Value - effectiveness and efficiency of operations and programmes (see section 5.5)	-	-	-
Total Number of Recommendations	-	1	-

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Controls and procedures in respect of debtors and write-offs are included within the OPCC and Constabulary Financial Rules. These are supplemented with Central Services Department procedures which set out the steps to be followed.
- Monthly reconciliations between the Debt Analysis Report and the ledger are undertaken and are independently reviewed by the Payroll and Transactional Services Manager.
- Write offs tested were subject to authorisation by both the Deputy Chief Finance Officer and the Joint Chief Finance Officer in accordance with the Financial Rules.

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- There are no high priority issues to report

4.4.2. *Medium priority issues:*

- Documents relating to the recovery of debts had not been retained.

4.4.3. *Advisory issues:*

- There are no advisory issues to report

Comment from the Director of Corporate Support and Joint Chief Finance Officer

I am pleased that the audit of debtors provided reasonable assurance. The proposed response to the single recommendation in relation to document retention will provide an improved audit trail on actions taken to recover debts. Roger Marshall, Chief Finance Officer.

I echo the comments and observations of the Chief Finance Officer. I am assured that the management of debtors processes is both robust and effective. I am also satisfied that the proposed action regarding retention of documentation will adequately address the single recommendation made. Stephen Kirkpatrick, Director of Corporate Support.

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. **Information** - reliability and integrity of financial and operational information.

● **Medium priority**

Audit finding	Management response
<p>(a) Retention of documents relating to debtor invoices / write-offs.</p> <p>A sample of 10 debtor invoices from the July 2018 Debt Analysis Report (approximately 10%) was selected for audit testing to confirm that the documented debt recovery process had been followed.</p> <p>Testing found that of the 10 debtors invoices selected:</p> <p>7 had since been paid in full.</p> <p>2 remained outstanding at the time of audit testing (these invoices were included within a batch of outstanding invoices with the same supplier with negotiations ongoing).</p> <p>1 invoice had been written off.</p> <p>Internal Audit testing found that the case files for each of the debtor invoices that had been paid had been deleted from the system and as a result evidence of any documents such as reminder letters relating to the debts could not be provided. We are therefore unable to confirm that the defined process has been followed.</p> <p>Audit testing also included write offs. A sample of 5 write offs from the last 3 financial years (approximately 20%) was selected for audit testing to confirm that the documented write off process had been followed. Due to a number of the case files being deleted, we were unable to confirm legal services decisions to write off the debts in our sample.</p> <p>Testing confirmed that all write offs in our sample had been authorised by the Deputy Chief</p>	<p>Agreed management action:</p> <p>The period looked at for the debt collection was prior to a changeover in staff administration. When the new member of staff took over they cleared the folder of any debts that were no longer outstanding resulting in the letters and chase up emails being deleted. Our spreadsheet record includes details of all actions taken in order to chase debts, which is retained for reference.</p> <p>In light of the recommendation a new process will be introduced where documents/correspondence are saved directly onto the Accounts Receivable System attached to the account holder. This will enable us to view and keep an audit trail via the system of all documents or notes relating to the company and debt collection. We also have a company looking to allow us to produce statements from the system to send out, which will streamline the debt collection process.</p>

Finance Officer and the Joint Chief Finance Officer.	The new process and procedures will be in place by 31 August 2019.
<p>Recommendation 1</p> <p>Management should ensure that required information relating to debtors is retained in accordance with defined procedures.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> Debtors and write off procedures are not fully adhered to. 	<p>Responsible manager for implementing: Alison Hunter - Payroll and Transactional Services Manager</p> <p>Date to be implemented: 08/2019</p>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.

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