

Internal Audit Report



Internal Audit Report
All Services
Sales Ledger
18-16
March 2019 (Report No.19/98)

Final Report

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This assignment forms part of the Internal Audit plan for 2018/19, presented to Audit Committee on 27th June 2018. Audit testing was carried out in November 2018 to January 2019.

The Council’s Sales Ledger function records all sales transactions across the Council, with the exception of Housing Revenue Account rental income, car parking, Council Tax, non-domestic rates, and housing benefit overpayments, where payment has not been made in advance or at the point of sale. Whilst responsibility for raising sales invoices lies with the Services, the systems and processes for control of sales ledger income are established and maintained by Corporate and Democratic Services’ Finance Division. Executive Directors and the Chief Operating Officer are responsible for the prompt and accurate raising of invoices.

Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with officers in the corporate Financial Systems team and finance officers in all the Services who raised invoices and credit notes in the Integra Sales Ledger system.

Control Objectives and Opinions

A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

| |
|--|
| Control Objective 1: To ensure that the Council identifies and properly and timeously records all Sales Ledger transactions. |
| Audit Comments: There are adequate controls to ensure that the Council identifies and properly and timeously records all Sales Ledger transactions. There are Sales Ledger Management Guidelines and a Sales Ledger Manual for Integra, both of which were updated in 2018. These are on ERIC and therefore accessible to officers. Services issue sales invoices as appropriate for a wide range of services and to recover costs, in accordance with the Council’s financial regulations, scheme of charges and procedures. Testing confirmed that invoices detail the service and |

Internal Audit Report

value and includes supporting documentation which is appropriately authorised.

Raising of a Credit Note is controlled via an Integra eForm. There is a box for 'Who Raised [invoice]' that should be populated using a drop-down list. This box was not completed for the 21 Credit Notes tested. This box should be populated with the name so that the authoriser can earmark a different officer from the one who entered the invoice in line with the Guidelines. The financial systems team have monthly automated reports sent to each service to highlight where an invoice has been raised and a credit note by the same person.

The Sales Ledger Management Guidelines state that any Officer raising a Credit Note should not have raised the original Invoice. There may be benefit in updating the guidelines to state that the person authorising the Credit Note should not be the person raising the Invoice or requesting the Credit Note.

Testing of 37 Sales Invoices covering all 3 services showed 6 that had not been raised timeously.

At the time of audit it was recognised by the Housing Repairs team management that there was a backlog of invoices to be raised and the situation was being addressed. New procedures had recently been drawn up.

Testing confirmed that there is segregation between the officer who puts the collection of debt on hold from the officer who raised the invoice.

There is segregation between the officer who deactivates customers from the officer who raises the invoices.

| | |
|--------------------------------|--------|
| Strength of Internal Controls: | Strong |
|--------------------------------|--------|

Control Objective 2: To ensure that the Council identifies and pursues outstanding debt appropriately.

Audit Comments: There are adequate controls in place to ensure that the Council identifies and pursues outstanding debt appropriately.

The accounting system (Integra) automatically generates reports which identify accounts for which payment is overdue. A final notice is automatically generated when a debt is unpaid for 28 days after the invoice date and a Legal Letter if the debt remains unpaid after an additional 14 days.

Uncollected debt with the Sheriff Officers and debt collectors are considered by the Sales Ledger team monthly and decisions made on any follow-up action to be taken or debt marked for consideration for write-off. It should be noted that whilst debt is written off for accountancy purposes whenever possible that debt will continue to be pursued.

| | |
|--------------------------------|--------|
| Strength of Internal Controls: | Strong |
|--------------------------------|--------|

Internal Audit Report

| | |
|--|--------|
| Control Objective 3: To ensure that adequate system controls are in place to ensure the integrity of the system. | |
| Audit Comments: There are adequate controls in place to ensure the integrity of the Sales Ledger system. Access rights to the Sales Ledger system is controlled using an Integra login eForm, including authorisation. Receipts are reconciled to the Sales Ledger daily and the Sales Ledger is reconciled to the General Ledger daily. | |
| Strength of Internal Controls: | Strong |

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Financial Systems and Sales Ledger teams, and Services finance officers during this audit.

Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

Internal Audit Report

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive and Chief Operating Officer

S Devlin, Executive Director, Education and Children's Services

B Renton, Executive Director, Housing and Environment

S Mackenzie, Head of Finance

S Walker, Chief Accountant

C Robertson, Central Services Manager, Corporate and Democratic Services

A Taylor, Head of IT and Revenues

G Boland, Senior Business & Resources Manager, Education & Children's Services

J Cockburn, Finance and Resources Manager, Education and Children's Services

F Crofts, Finance and Resources Manager, Housing and Environment

S Welsh, Finance and Governance Team Leader, Housing and Environment

F Low, Business and Resources Team Leader, Housing and Environment

L Robinson, Team Leader Housing Repairs

L Law, Financial Systems Team Leader

L Simpson, Head of Legal & Governance

Committee Services

External Audit

Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was M Morrison.

This report is authorised for issue:

J Clark

Chief Internal Auditor

Date: 12 March 2019

Appendix 1: Summary of Action Points

| No. | Action Point | Risk/Importance |
|-----|---|-----------------|
| 1. | 'Who raised [invoice]' box on the eForm | Low |
| 2. | Sales Ledger Management Guidelines | Low |
| 3. | Sales Invoices | Medium |

Appendix 2: Action Plan

Action Point 1 - 'Who raised [invoice]' box on the eForm

There was evidence from testing that the 'Who raised [invoice]' box on the eForm to raise a Credit Note is not being completed. Completion of this box assists the authoriser in allocating a different officer from the one who entered the Invoice to the one who entered the Credit Note in the Sales Ledger system in compliance with the corporate Sales Ledger Management Guideline.

Without this box being completed the same officer who entered the invoice may also enter the Credit Note. The financial systems team have monthly automated reports sent to each service to highlight where an invoice has been raised and a credit note by the same person.

Officers should be reminded to complete the 'Who raised [invoice]' box on the eForm.

Management Action Plan

Financial Systems Team will remind officers to complete the 'Who raised [invoice]' box on the eForm in compliance with Guidelines.

| | |
|-------------------------------------|--------------------------------------|
| Risk/Importance: | Low |
| Responsible Officer: | L Law, Financial Systems Team Leader |
| Lead Service: | Corporate & Democratic Services |
| Date for Completion (Month / Year): | March 2019 |
| Required Evidence of Completion: | Extract from updated Guidelines |

Auditor's Comments

Satisfactory

Action Point 2 - Sales Ledger Management Guidelines

Whilst the procedures state that the person raising the Credit Note should not be the person who raised the Invoice, there may be benefit in updating the Guidelines to explicitly state that the person authorising the Credit Note should not be the person raising the Invoice or requesting the Credit Note.

Management Action Plan

Financial Systems Team Leader will update the Guidelines to explicitly state that the person authorising the Credit Note should not be the person raising the Invoice or requesting the Credit Note.

| | |
|-------------------------------------|--------------------------------------|
| Risk/Importance: | Low |
| Responsible Officer: | L Law, Financial Systems Team Leader |
| Lead Service: | Corporate & Democratic Services |
| Date for Completion (Month / Year): | April 2019 |
| Required Evidence of Completion: | Extract from updated Guidelines |

Auditor's Comments

Satisfactory

Action Point 3 - Sales Invoices

Testing of a sample of sales invoices confirmed that there were a number not being raised in a timely manner which is contrary to Council guidelines.

At the time of audit it was recognised by the Housing Repairs Team management that there was a backlog of invoices to be raised and that they were addressing the situation. New procedures had recently been put in place.

There is therefore a risk that the council is not receiving income in a timely manner.

Management Action Plan

- a) Invoicing for housing repairs will be brought up to date as soon as possible.
- b) Services will issue reminders to relevant staff that invoices require to be raised in a timely manner in accordance with guidelines.

| | |
|-------------------------------------|--|
| Risk/Importance: | Medium |
| Responsible Officers: | a) & b) L Robinson, Team Leader, Housing Repairs c) F Low, Business & Resources Team Leader |
| Lead Service: | a) & b) Housing & Environment c) Corporate & Democratic Services |
| Date for Completion (Month / Year): | a) Completed b) & c) March 2019 |
| Required Evidence of Completion: | Evidence of reminders being issued. |

Auditor's Comments

Satisfactory