



Internal Audit Report  
All Services  
Income debtors/Integra Sales Ledger No.11-03  
May 2012

Final Report

Chief Executive's Service  
Finance Division  
Perth & Kinross Council  
2 High Street  
Perth, PH1 5PH

## Internal Audit Report

### Background and Introduction

This audit was carried out as part of the approved audit plan for 2011/2012.

Setting charges, invoicing and debt recovery procedures are governed by Financial Regulations Section 9. The Sales Ledger system (Integra) is a key financial system of the Council and is used to invoice customers for payment for goods and services supplied. It is one of the 4 modules that comprise the Integra Financial Management System and was upgraded in 2010.

Whilst individual Services raise invoices, the invoices are printed and issued by Chief Executive's Service's Systems team with debt recovery being undertaken by the Chief Executive Service's Sales Ledger team. Debt write-off is in the remit of the Strategic Policy and Resources Committee.

The audit comprised interviews, observation and testing. The Integra Sales Ledger system was interrogated and documents regarding authorisation and those used in the debt recovery process were examined. Transactions testing was carried out in all Services. The processing of income from Estates Management Commercial Rent, which is invoiced through Integra Sales Ledger, was excluded from this audit and may be covered by a future audit.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Senior Exchequer Manager and his staff, and Finance teams in all Services during this audit.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. 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: To ensure that the Council has adequate procedures and effective controls in place for the raising of sales ledger invoices.
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Auditor's Comments:
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The Council has up to date written procedures including a comprehensive Integra Sales Ledger User Manual. However Sales Ledger Management Guidelines have not yet been issued.
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Integra Sales Ledger system is tried and tested in the Council, and has many automated controls. Training is mandatory before access to the system is granted. There is satisfactory separation of duties. Debtors are set up on the system and are allocated a unique ID number. Each invoice has a computer generated unique sequential number. The increased use of allocated product codes has increased
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## Internal Audit Report

efficiency and lessened the risk of misposting. Testing showed that invoices were generally raised promptly and accurately, checked for VAT and posted correctly to General Ledger.

However in one business area it was found that billing was subject to delay, in some cases for over a year.

Strength of Internal Controls:

Moderately strong

**Control Objective:** To ensure that the Council has adequate controls in place to identify and pursue outstanding debt appropriately.

**Auditor's Comments:**

A debt recovery procedure is established which specifies the type of action to be taken and timescale for such action. Recovery involves the use of reminders, legal letters, Sheriffs Officers and Court actions. Reminders and Final Notices are produced automatically by the Sales Ledger system and sent out centrally. The Sales Ledger team are responsible for Debt Recovery procedures until they are passed back to Services for consideration for write-off.

There is a function in the system to put an invoice on "hold "(suspend recovery). Control around this function has been strengthened as a result of previous audit work. Testing revealed that the new control was operating effectively.

It was observed that there was a lack of written procedures within Services relating to debt recovery and write off. There was little or no co-ordinated review and monitoring of outstanding debt and no regular reporting to Senior Management teams.

The recommendations of the Working Group, which was established following the increase in Bad Debt provision for 2010/11 annual accounts will, when fully implemented, improve the efficiency of the Sales Ledger system and aid the recovery of debt.

Strength of Internal Controls:

Moderate

**Control Objective:** To ensure that adequate system controls are in place to ensure the integrity of the system

**Auditor's Comments:**

The access, identity management and back up corporate controls for major systems including Integra have been reviewed by Audit Scotland and were therefore excluded from the scope of this audit. This review has not therefore duplicated testing in this area.

The controls relating to Sales Ledger system have been assessed during this audit.

## Internal Audit Report

The Disaster Recovery Plan has been reviewed in this context and is satisfactory. There is a strong password policy in operation. The Authorised Signatory database and procedures have been reviewed and tested and are satisfactory.	
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Strength of Internal Controls:	Strong
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### 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.

### Feedback

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

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Irons, Depute Chief Executive

J Walker, Depute Director (Housing, Community Care & Finance)

S MacKenzie, Acting Head of Finance

S Walker, Acting Head of Finance

L Cameron, Head of Housing & Strategic Commissioning

E Sturgeon, Chief Exchequer Officer

## Internal Audit Report

F Crofts, Business & Resources Manager, The Environment Service

G Boland, Service Manager (Contracts, Facilities & Financial Management),  
Education & Children's Services

C Crawford, Business & Resources Manager, Housing & Community Care

J Beverley, Housing Repairs & Improvements Service Manager

M Cowdery, Senior Exchequer Manager (Incomes)

P Dickson, Complaints & Governance Officer

M Kay, Senior Committee Officer

External Audit

### Authorisation

The auditor for this assignment was J Cameron. The supervising auditor was D Farquhar.

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 31 May 2012



## Internal Audit Report

### Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Lack of Sales Ledger Management Guidelines	Low
2	Late Billing	Medium
3	Working Group Recommendations	Medium
4	Lack of Written Procedures within Services – Debt Recovery	Medium
5	Non billing – Housing Voids repairs	Low





Appendix 2: Action Plan

**Action Point 1 - Lack of Sales Ledger Management Guidelines**

The need for central Sales Ledger Management Guidelines to provide a sound basis of management control for the billing, collection and recovery of Sales Ledger income was recognised by a previous audit report. These 'best practice' guidelines should provide a link between the Financial Regulations and the Integra Sales Ledger Users Manual, which describes the screens to be used and the information to be input when raising a Sales Ledger invoice. The Action Point response to the audit report promised publication and issue in December 2008. This is still in draft and has not been issued.

Management Action Plan

The guidelines will be issued.

Importance:	Low
Responsible Officer:	M Cowdery, Senior Exchequer Manager(Incomes)
Lead Service:	Chief Executive
Date for Completion (Month / Year):	June 2012
Required Evidence of Completion:	Issued Guidelines

Auditor's Comments

Satisfactory

**Action Point 2 - Late Billing**

Testing in The Environment Service revealed very late billing of invoices in Planning and Regeneration relating to Private Development Inspection Fees. E.g. work carried out in April 2010 was not billed until Aug 2011; work carried out in 2007 was not billed until 2010. The problem began at the end of financial year 2008/09 when the software used to identify such charges ceased to be used as there was no longer support from the software supplier. Charges have been calculated manually since then. The Service states that the system is currently under review with a view to using a new computerised system in the near future.

As a result of the backlog, some fee income has been lost, (e.g. due to liquidations). Fee income is used to cover the costs of 2 technicians employed by the Council to carry out the inspections. Whilst the backlog existed, there is a risk that further fee income would be lost by companies going into liquidation or by ceasing trading. There is also a reputational risk to the Council due to the extremely late issuance of invoices.

**Management Action Plan**

A new procedure for quarterly billing was put in place in March 2012. This is supported by time recording in Excel used to generate Private Development Inspection Fees to customers.

Importance:	Medium
Responsible Officer:	F Crofts, Business & Resources Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Existence of procedures. No backlog of invoices to be issued. Consideration of a pay in advance procedure.

**Auditor's Comments**

Satisfactory

### Action Point 3 - Working Group Recommendations

Following a sharp increase in the Bad Debt Provision in the 2010/11 annual accounts, a Working Group was set up by the Financial Controllers Group to consider "Sales Ledger Invoicing and Bad Debt Provisions." The working group conducted an investigation and met with all Services. Several recommendations were arrived at from this process. The recommendations were:

- i) Quarterly meetings with the Sales ledger team and the Services to aid understanding of debt at different stages in recovery process
- ii) An exercise to review all Accounts on Hold within the system
- iii) reporting to Service Management Teams on debt outstanding, reasons for Accounts on Hold etc.
- iv) an increased range of meaningful reports from Integra Sales Ledger

The recommendations were reported back to Financial Controllers. During the audit it was noted that the meetings between the Sales Ledger team and Services had commenced and the Systems team had made available a suite of 5 new reports relating to debtor control. However reporting has not yet commenced to Service Management Teams

#### Management Action Plan

Reporting on outstanding debt will be included on the agenda of Service Management Teams on a quarterly basis.

Importance:	Medium
Responsible Officer:	S Walker, Chief Accountant Financial Controllers
Lead Service:	Chief Executive's
Date for Completion (Month / Year):	July 2012
Required Evidence of Completion:	Inclusion of item on Service Management Team agendas

#### Auditor's Comments

Satisfactory

#### **Action Point 4 - Written procedures within Services - Debt Recovery and Write-off**

After the corporate Debt Recovery procedures set in motion by the Integra system are exhausted and outstanding debt still exists, the debt is returned to Services to consider for further chasing or write –off recommendation. During the audit it was noted that there were no written procedures in Services for debt control / recovery or write-off. Actual processes varied between both between Services and also within Services (e.g. there are different processes in place for debt recovery and write-off between Housing and Community Care)

The Working Group referred to in Action Point 3 met with Finance staff from the three front–line services and several key improvement recommendations have arisen from the work of the Group. As part of this, Services have agreed to initiate procedures and record them in a permanent form.

#### **Management Action Plan**

A Working group will be established with multi-Service representation to look at producing a consistent approach and a set of formal procedures across all services for debt recovery and identification of proposed debt write-off.

Importance:	Medium
Responsible Officer:	S Walker, Acting Chief Accountant (as Chair of Financial Controllers Group)
Lead Service:	All
Date for Completion (Month / Year):	December 2012
Required Evidence of Completion:	Written procedures

#### **Auditor's Comments**

Satisfactory

### Action Point 5 - Non Billing -Housing Voids repairs

Paragraph 9.1.4 of the Financial Regulations require that the current approved charges must be imposed in every case.

Interviews with staff in Housing & Community Care Housing revealed that work carried out on Voids repairs would only be invoiced where supported by photographs of the damage taken by Surveyors. Occasions were noted during the audit where invoices were not raised as there was no photographic evidence to support the requirement for works to be carried out. The Service states that surveyors have in the past been reminded of the requirement to produce photographic evidence.

#### Management Action Plan

Property Inspectors have been reminded again of the instruction to obtain photographic evidence in every case

Importance:	Low
Responsible Officer:	J Beverley, Housing Repairs & Improvements Service Manager
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Re-issuance of operational guidance to surveyors emphasizing the need to provide photographic evidence

#### Auditor's Comments

Satisfactory

