Internal Audit Report
Corporate
Sales Ledger Assignment No.16-03
October 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

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)

On 27th March 2013, the Council's Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

Sales ledger records credit sales transactions across the Council, where payment has not been made in advance or at the point of sale. Whilst responsibility for raising sales ledger invoices lies with Services, the systems and processes for control and pursuit of sales ledger income are established and maintained by the Exchequer section in Corporate and Democratic Services' Finance Division.

Scope and Limitations

The audit involved review of procedures, interviews with Sales Ledger and Financial Systems teams in corporate finance and finance staff within all Services and interrogation of the accounting system, Integra.

The audit did not include commercial or housing rent or planning income and departmental processes ensure no duplication with Audits 16-07 Assessment and Charging and 16-01 Debt Recovery and Write-off.

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 identifies and properly, and timeously, records all sales ledger transactions

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Audit Comments: There is a good foundation to the control environment in respect of high level controls, documented in the Financial Regulations. Testing confirmed that sales ledger invoices are raised for credit sales in accordance with Financial Regulations, with minor exceptions.

Services raise invoices as appropriate for a wide range of services and to recover costs, in accordance with the Regulations, Schemes of Charges and procedures.

Systems and processes employed by the Sales Ledger and Financial Systems teams ensure that all invoices detail services and prices and allocate income to appropriate ledger codes. Invoices state that the charge is payable at the point of

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issue and further information regarding the range of payment methods is included with the invoice and in the accompanying narrative. This information is also available on the Council's website. Over 75% of debts raised are recovered within the first sixty days.

The Exchequer section is working with Housing to reduce the incidence and impact of late billing by Housing Repairs and Improvements for mixed tenure housing, where improvement works have been carried out.

The authorised signatory process does not include the delegated authority to place invoices on hold, when under query.

Credit Notes were found to have been raised to reduce outstanding debts for Housing & Community Care's Contributions Policy customers following consideration by the Discretion Panel rather than the amounts being properly written off in accordance with the Regulations.

Each Service presents their proposed Scheme of Charges to their themed committee for approval; however there is no mechanism to ensure that the charges agreed by Council are made available on the Pay For It page on the Council's website. At the time of testing all Schemes of Charges on the page were for 2015/16.

Strength of Internal Controls:	Moderately Strong

Control Objective: To ensure that the Council identifies and pursues outstanding sales ledger debt appropriately
Audit Comments: The Council identifies and pursues outstanding sales ledger debt appropriately as evidenced below.

The accounting system (Integra) automatically generates reports which identify accounts for which payment is overdue. The system processes initiate and progress recovery actions. The Sales Ledger team proactively pursue debts to optimise recovery. Recovery actions are appropriately recorded on the system by Sales Ledger team.

Strength of Internal Controls:	Strong

Control Objective: To ensure that adequate system controls are in place to ensure the integrity of the system
Audit Comments: Access to the sales ledger module of the accounting system is controlled through a clear authorisation process and user access is reviewed annually by Financial Systems team and line management.

The Integra permission level of "Data Entry" allows both the raising of invoices and credit notes. Currently there is no check to confirm that those with "data entry" access are also authorised to raise credit notes in accordance with the Authorised Signature process. Instances were noted where officers raising credit notes did so

without that authority, although authorised under the Integra login process. Testing identified instances where credit notes were raised by the officer responsible for the creation of the original invoice. To improve controls over this area an electronic form to ensure proper authority for credit notes is currently being piloted by the Exchequer Section and Housing and Community Care.	
Strength of Internal Controls:	Moderate

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 Sales Ledger and Financial Systems teams in Finance, finance officers and the Financial Controllers during this audit.

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 Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

J Symon, Head of Finance;

E Sturgeon, Chief Exchequer Officer;

N Copland, Business and Resource Manager;

J. Cockburn Finance and Governance Manager,

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F Crofts, Finance and Resources Manager;

C. Robertson, Central Services Manager;

J Beverley, Service Manager, Housing;

L Law, Financial Systems Team Leader

S Welsh, Finance and Governance Team Leader;

F Low, Business and Resources Team Leader

S Walker, Chief Accountant

G Taylor, Head of Democratic Services

K McNamara, Head of Community Planning, Strategic Commissioning and Organisational Development

L Simpson, Head of Legal and Governance Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was A Gallacher. The supervising auditor was M Morrison

This report is authorised for issue:

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Jacqueline Clark
Chief Internal Auditor
Date: 31 October 2016

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Prompt raising of invoices	Low
2	Schemes of Charges Webpage	Low
3	HCC Discretion Panel- Credit Notes	Medium
4	Late Billing – Housing Repairs	Medium
5	Delegated Authority for Accounts "on hold"	Low
6	Credit Note Authority	Medium
7	Reasons for Raising Credit Notes	Low

Appendix 2: Action Plan

Action Point 1 - Prompt Raising of Invoices

Whilst the Financial Regulations state that Directors should raise invoices promptly, there is no corresponding guidance to instruct officers of this requirement.

The Sales Ledger User Manual provides instruction for the raising and processing of sales ledger transactions, but again provides no instruction as to the timescales for raising sales ledger invoices or the importance of raising timely invoices to reduce the chances of late or non payment.

Operational Financial Regulations would also benefit from some review to implement this requirement of the Financial Regulations.

Management Action Plan

a) The Sales Ledger User Manual will include an instruction relating to the timely raising of invoices and will direct users to their Service's Operational Financial Regulations.

b) -e) Operational Financial Regulations will determine the Service requirements to ensure that invoices are issued on a timely basis.

Importance:	Low
Responsible Officer:	a) E. Sturgeon, Chief Exchequer Officer b) S. Welsh, Finance and Governance Team Leader, TES c) N Copland, Business and Resources Manager, HCC d) J Cockburn, Finance and Governance, Manager, ECS e) C Robertson, Central Services Manager, CADS
Lead Service:	a) Corporate and Democratic Services b) The Environment Service c) Housing and Community Care d) Education and Children's Services e) Corporate and Democratic Services
Date for Completion (Month / Year):	a) December 2016 b) –e) April 2017

Required Evidence of Completion:	a) Sales Ledger User Manual
	b) -e) Operational Financial Regulations

Auditor's Comments

Satisfactory

Action Point 2 - Schemes of Charges Webpage

At the time of audit testing (August 2016), all Schemes of Charges on the Council's website's "Pay For It" page were for the financial year 2015-16.

Schemes of Charges are presented to the relevant themed committee around January each year. Proposed charges are subject to final approval as part of the budget setting process each February.

There is currently, no mechanism to ensure that all final approved Schemes of Charges are available for public view, on this website page.

Management Action Plan

The Financial Systems Team will ensure that the Council's Pay For It page holds the details of current Schemes of Charges.

Importance:	Low
Responsible Officers:	L Law, Financial Systems Team Leader
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	November 2016
Required Evidence of Completion:	pkc.gov.uk "Pay For It" webpage

Auditor's Comments

Satisfactory

Action Point 3 - Discretion Panel

Community Care's Discretion Panel's role as part of the Council's Contribution Policy includes deciding on reducing or waiving invoiced charges, where people feel that they would suffer financial hardship as a result of the implementation of the Policy (Report 13/113 refers).

The Panel "Process" document also includes the consideration of cases where the client does not agree with the interpretation of the guidelines and requests a review.

Testing found that reductions and cancelation of charges as a result of Discretion Panel decisions were implemented by raising credit notes. As the invoices were raised correctly, credit notes should not be raised, and should be written off.

In addition where errors were made regarding the information provided to the client, credit notes were also raised. These too should be subject to write-off, and the correct approvals sought, if the debt is unrecoverable.

Management Action Plan

a) In discussion with the Chief Exchequer Officer it was agreed that a separate write-off code will be introduced to capture any part of Community Care debts which are considered to cause financial hardship by the Discretion Panel.

b) The Discretion Panel's decisions will be implemented in accordance with Council Financial Regulations.

Importance:	Medium
Responsible Officer:	a) E Sturgeon, Chief Exchequer Officer b) F Low, Business and Resources Team Leader
Lead Service:	a) Corporate and Democratic Services b) Housing and Community Care
Date for Completion (Month / Year):	a) December 2016 b) January 2017
Required Evidence of Completion:	a) Write off codes b) Discretion Panel minutes

Auditor's Comments

Satisfactory

Action Point 4 - Late Billing – Housing Repairs

The level of late billing to private owners for improvement works to housing in mixed tenure properties is under consideration by officers from the Finance Division and the Housing Repairs and Improvements Service, within Housing and Community Care. There are now improvement actions in place to provide owners with a number of alternative payment options for capital works following the Council receiving interim and final accounts from contractors.

Management Action Plan

a) The wording of letters to be sent to liable owners, at the time rechargeable capital works are notified, is to be agreed between the Housing Repairs and Improvement Service and the Finance Division. This will ensure evidence of liability is obtained and provide information on ways to reduce debt.

b) Procedures for Housing Repairs and Improvements in relation to raising invoices in respect of rechargeable capital works will be updated to reflect these changes in working practices.

Importance:	Medium
Responsible Officer:	a) E Sturgeon, Chief Exchequer Officer b) J Beverley, Senior Service Manager, Housing
Lead Service:	a) Corporate and Democratic Services b) Housing and Community Care
Date for Completion (Month / Year):	a) December 2016 b) February 2017
Required Evidence of Completion:	a) Revised wording on letter templates b) Revised Procedures

Auditor's Comments

Satisfactory

Action Point 5 - Delegated Authority for Accounts "on hold"

Where invoices are under query, accounts are put "on hold" to prevent recovery action until the queries have been investigated.

A limited number of senior finance officers within each Service have the authority to request that an account is placed on hold and the list of those named officers is held by the Sales Ledger Team. Procedures ensure that only requests in writing will be accepted by the Sales Ledger Team. There is, however no evidence of the delegated authority to place sales ledger accounts on hold, or that the list is subject to regular review, as there is for Authorised Signatories.

Management Action Plan

The Finance Systems Team Leader will seek authority from Financial Controllers that the list held is relevant for their Service. The list will be reviewed on an annual basis.

Importance:	Low
Responsible Officer:	L Law, Financial Systems Team Leader
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	Dec 2016
Required Evidence of Completion:	List of officers authorised to place accounts on hold

Auditor's Comments

Satisfactory

Action Point 6 - Credit Note Authority

The accounting system has a permission level "Data Entry" which permits officers to raise invoices. This permission level also enables these officers to issue credit notes. However, these officers do not always have sufficient authority to raise Credit Notes under the delegated Authorised Signatory process. There is no check to ensure that those with Data Entry login permissions have sufficient authority to raise a Credit Note under the Authorised signatory process.

An Audit Scotland Report on the Main Financial Systems (Report 16/316 refers) found officers raising credit notes without sufficient authorisation, as did this audit. The agreed action has resulted in an e-form being piloted from 30 September 2016. The anticipated form would ensure that only officers with sufficient delegated authority will be able to authorise credit notes.

Review of the implementation of this action would ensure the enhancement of control.

Management Action Plan

The e-form for Credit Notes has been developed and is currently being piloted with one of the Services. It is anticipated that the form will be fully developed and implemented by March 2017.

Importance:	Medium
Responsible Officer:	E Sturgeon, Chief Exchequer Officer
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	March 2017
Required Evidence of Completion:	Evidence of implementation of e-form

Auditor's Comments

Satisfactory

Action Point 7 - Reasons for Raising Credit Notes

In accordance with the Financial Regulations, a credit note may only be raised when an invoice is incorrect. When raising a Credit Note the officer will be asked to provide a "reason" for the credit. The drop down menu includes reasons such as "Invoice cancelled" "Invoice amended" and "Advised by Sales Ledger Team". However, the Sales Ledger User Manual states that the "Narrative" field should be skipped.

The available explanations do not indicate the way in which the invoice was incorrect e.g. incorrect debtor, incorrect price, incorrect address, incorrect product, incorrect VAT.

Management Action Plan

The credit note e-form currently being piloted, as discussed in Action Point 6 includes explanations for the raising of the credit notes identifying the error in the original invoice. The effective implementation of these controls will ensure that the reason for raising the credit note is held on the system.

Importance:	Low
Responsible Officer:	L Law, Financial Systems Team Leader
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	January 2017
Required Evidence of Completion:	As Action Point 6

Auditor's Comments

Satisfactory