



# Internal Audit & Corporate Fraud Services

## DEBTORS 2016-17

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### DISTRIBUTION

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**FINAL**

## 1.0 EXECUTIVE SUMMARY

### 1.1.1 Introduction

Internal Audit & Corporate Fraud Services acts in accordance with the Accounts and Audit Regulations (2015), Public Sector Internal Audit Standards and Local Government Application Note (2013). This audit has been prepared in accordance with our Audit Charter.

As part of the Audit Plan covering the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017 approved by the Audit & Governance Committee on 1<sup>st</sup> March 2016, we have undertaken an audit of the systems of internal control in place over Debtors.

This report sets out our findings. No recommendations have been raised as testing identified no areas of weakness and / or non-compliance with existing controls.

### 1.1.2 Audit Scope & Objectives

The primary focus of the audit was to review the extent to which the assessed risks are being managed. In addition, the audit reviewed compliance with the Councils' own agreed policies and procedures.

In planning this audit, a risk assessment has been undertaken, with the following considered to represent the potential key risks relating to Debtors which could impact on the Council's ability to deliver relevant Council Priorities and service objectives:

#### Invoicing\*

- Failure to ensure adequate checks are in place may result in the opportunity for fraudulent activity to occur and remain undetected.

#### Reconciliations

- Failure to reconcile income due to amounts received may result in misappropriation and financial loss to the Council.
- Transactions may be incorrectly posted resulting in misstatement of entries in the main financial system.

#### Bad Debts\*

- Failure to ensure bad debts are appropriately written off may result in financial loss.

\* We have adopted a cyclical approach to key control testing. The controls associated with the risks marked with an \* above were understood and evaluated, but only validated this financial year if the control had changed.

The objective of the audit was to ascertain the extent to which the identified risks have been managed and to evaluate whether effective controls to mitigate the risks have been established, and have been operating effectively throughout the period under review.

Key controls within the Councils' fundamental systems are reviewed on an annual basis

with the External Auditor taking note of the work undertaken. I

IT key controls in relation to the Sundry Debtors system are undertaken within the Agresso IT Key Controls audit, performed by the Principal IT Auditor.

## 1.2 ASSURANCE STATEMENT

### 1.2.1 Overall Assurance Level\*\*

| Good | Adequate | Limited | Unsatisfactory |
|------|----------|---------|----------------|
| ✓    |          |         |                |

\*\* For definitions see Appendix A

### 1.2.2 Positive Audit Comments

We would like to draw management attention to key controls in operation over Debtors 2016-17 processes and procedures that were operating effectively and efficiently:

- Receipt of income is agreed to the amount banked.
- Reconciliations are reviewed by a second officer.

### 1.2.3 Audit Report Follow-up

A follow-up review was undertaken to ensure that recommendations agreed in the previous audit report RM017 Debtors 2015-16 had been implemented. It was found that the one recommendation raised had been implemented.

### 1.2.4 Control Issues

This review has not identified any control areas where we consider that key improvements to current processes and procedures are needed or where there is the potential risk of fraud and corruption.

### 1.2.5 Adequacy of Individual Control Areas

| Control Area                                 | Adequacy assessment ** | Number of recommendations raised |          |       |
|--|------------------------|----------------------------------|----------|-------|
|  |                        | High**                           | Medium** | Low** |
| Accuracy and completeness of invoices raised | Not Applicable*        | 0                                | 0        | 0     |
| Bad Debts                                    | Not Applicable*        | 0                                | 0        | 0     |
| Reconciliations                              | Good                   | 0                                | 0        | 0     |
| Total recommendations raised                 | 0                      | 0                                | 0        | 0     |

\* As processes and controls had not changed since the 2015-16 audit, no testing was undertaken on these control areas.

\*\* For definitions see Appendix A

### **1.3 ACKNOWLEDGEMENTS**

We would like to thank management and staff for their co-operation during the course of this audit.

## APPENDIX A

### 2.0 OVERALL ASSURANCE LEVEL

#### Control Adequacy Assessments

We have four categories by which we classify our overall level of assurance of the processes examined and, also, the adequacy of the individual key control areas. They are defined as follows:

|                       |   |
|-----------------------|---|
| <b>Good</b>           | All controls are being applied consistently and effectively. This means that all the control areas in the audit are being properly managed and the associated risks are being mitigated.                  |
| <b>Adequate</b>       | Controls exist but there is some inconsistency in their application. This means that a few of the risks in the audit may need attention.  |
| <b>Limited</b>        | Some controls do not exist. This means that a reasonable number of the risks in the audit need attention.   |
| <b>Unsatisfactory</b> | A significant number of controls do not exist and/or there are major omissions in the application of controls. This means that a significant number of risks in the audit are not being properly managed. |

### 3.0 RECOMMENDATION PRIORITIES

We have three categories by which we classify our recommendations. They are defined as follows:

|               |  |
|---------------|--|
| <b>High</b>   | A top priority due to the absence of or non-compliance with a fundamental control process, creating the risk that significant error or malpractice could go undetected. These recommendations should normally be implemented within 1 to 3 months.   |
| <b>Medium</b> | An important issue, which is needed to bring the internal control system up to an adequate standard or eliminate a serious level of non-compliance with an existing control process. These recommendations should normally be implemented within 1 to 6 months.                                    |
| <b>Low</b>    | An issue, which, if addressed, would contribute towards raising the standard of internal control to a level higher than adequate or help to reduce a less serious level of non-compliance with an existing control process. These recommendations should normally be implemented within 12 months. |