Appendix D3 (CFO/012/10)

The City of Liverpool

INTERNAL AUDIT

MFRS – INCOME AND DEBTORS

FINAL REPORT

STATUS
Whilst this audit report is directed primarily to the recipients named in the report, audit reports are subject to the provisions of the Freedom of Information Act and, as such, may be required to be made publicly available upon request. *Before responding to any request to make this report publicly available, or otherwise making it publicly available, you should consult the Lead Audit Manager named in the report.* *Similarly, this audit report, or extracts from it, should not be included in, or appended to, any committee report, nor should it be quoted as a background paper to any committee report without firstly consulting the Lead Audit Manager.*

SUBJECT:	MFRS – Income/Debtors
AUDIT MANAGER:	Melanie Dexter, Philip Wragg
AUDITOR:	Berni Molyneux, Elisabeth Harris
DATE:	3 December 2009
DISTRIBUTION:	Ian Cummins, Mike Rea

AUDIT OPINION *

The overall opinion was :

Adequate

The control environment and systems are operating effectively to ensure that the majority of relevant risks are managed.

RECOMMENDATIONS SUMMARY

Priority	Category	Number in this report
★★★	Essential/Strategic	0
★★	High	1
★	Medium	6

For an explanation of audit opinion and recommendation grading please see the Appendix to this report. N.B. recommendations will be followed up.

EXECUTIVE SUMMARY

An audit of the Income and Debtors process has been completed as part of the agreed plan of audit work for 2009/10 for Merseyside Fire and Rescue Service (MF&RS).

The main objective of the audit was to ascertain whether the key controls and defined timescales are being adhered to for the collection of, accounting for and receipting of income.

The internal audit identified a system that is operating effectively to ensure that the majority of relevant risks are managed. However, a number of areas for improvement were noted, including;

- Debt pursuance procedures, especially in relation to deadlines, need to be made more detailed. In particular, distinction between 'working days' and 'days' would aid clarity.
- The independent authorisation process for the write off of debts valued over £5,000 needs to be made clear and adhered to.
- Some Sales Invoice Request Forms are not being processed on a timely basis.

The detailed findings and recommendations arising from the audit are shown in the table below.

Findings and Recommendations

No	Findings	Implications	Recommendation	Priority	Response & by Whom	Implementation Date
1	The debt pursuance procedures are not sufficiently detailed and should be updated. In particular, reminder letter text should be amended to use 'working days' instead of 'days.	Debts will not be effectively pursued if the formal debt procedure is not comprehensive and clear.	Debt pursuance procedures with clear deadlines (distinguishing between 'working days' and 'days') should be produced and adhered to.	★★	Ian Cummins All deadlines outlined in the mentation sent out to debtors s is common practice, in dar days to assist clarity of payment must be made. In terms of the service performance targets for dealing with requests and preparing and sending out the documentation then this is, as staff work a working week, in working days. This ensures clarity over when work should be completed. No action to be taken	N/A
2	The present debt pursuance procedure is not fully adhered to in that reminder letters are not always sent out within the documented timescales.	Debts will not be effectively pursued if the formal debt pursuance procedure is not adhered to.	Debt pursuance procedures should be clarified and timescales adhered to - with appropriate reminder letters being sent to customers within the days stated in the Financial Regulations.	★	Ian Cummins Currently 89% of reminder letters are sent out within the 3 working day target, and 100% within +1 working day. The service is looking to automate the process from February 2010 and this should see 100% performance target achievement.	February 2010

3	Debt pursuance procedures are not properly being adhered to as aged debts are not always referred to Litigation within the specified timescales.	Debts will not be effectively pursued if the formal debt procedure is not adhered to.	All invoices still outstanding after 50 days should be referred to Litigation as stated in the Financial Regulations.	★	Ian Cummins Some debtor accounts are disputed and put on hold pending consideration of the dispute. It can take weeks to resolve the dispute and therefore the 50 day rule may be suspended to reflect the dispute period. Any disputed accounts are monitored to ensure progress is being made to resolve the matter and recovery action if required is then taken. By pro-actively managing the accounts in this way it can avoid future significant legal cost s and ultimately speed up debt recovery. All accounts NOT referred to legal after 50 days are noted and monitored regularly ensuring effective pursuance. Net of the “disputed period” accounts will be referred to legal within the 50 day target.	See comment

Priority ★★★ Essential/Strategic ★★ High ★ Medium

No	Findings	Implications	Recommendation	Priority	Response & by Whom	Implementation Date
4	Sales Invoice Request Forms (SIRF's) are not always raised within 15 days of the goods or services being provided to the customer. Four out of the sample of ten had not been forwarded for processing within the agreed timescale.	Invoices not raised on a timely basis could result in a delay in income being received.	Cost Centre Managers should be reminded to ensure that all Sales Invoice Request Forms are raised as soon as possible after the goods have been provided.	★	Ian Cummins When the service being delivered covers a long period, for example 1 year, the service bill on an interim basis, monthly?, and based on the monthly closedown actuals recorded in the general ledger. This is done within 15 working days of the information being available but may appear on to be "technically" + 15days. Finance will continue to monitor "late" SIRF requests and take action to remind cost centre managers of the required performance.	Ongoing
5	Invoices are not always raised within 2 working days of receiving the sales invoice request form (SIRF).	Invoices not raised on a timely basis could result in a delay in income being received.	Invoices should be raised where possible within two days of receiving the SIRF.	★	Ian Cummins 98% of invoices are raised within the target, and 100% within + 1 working day.	

6	Although Financial Regulations state the procedures for the collection and receipting of income should be separated, the officers involved in the income and debtors process are not complying completely with these procedures.	Fraudulent activity could take place.	Officers involved in the cash collection process should be reminded that they must adhere to the Financial Regulations with regards to receipting, banking and reconciling income.	★	Ian Cummins With effect from January 2010 the Exchequer function will take over the raising of SIRF / Debtor accounts from the Accounting section. The collection & receipting of income will remain with the Accounting team.	January 2010
7	Financial Regulations do not state that write off's where the 'net' figure is over £5,000 are to be approved and authorised by the Strategy and Resource Committee.	Accounts could be written off without the proper authorisation.	It should be incorporated within the Financial Regulations that write-offs of over £5,000 net, should be authorised by the Strategy and Resource Committee.	★	Ian Cummins Financial regulations will be amended to refer to the £5,000 net (excl. VAT). Reference for approval will remain as the “Authority” as the Authority can then delegate powers to the committees at the AGM.	June 2010

OVERALL AUDIT OPINION levels explained

This audit report contains an opinion on the overall level of assurance that can be given on the internal control environment / systems. It will be one of four levels:

LEVEL	**Explanation**	**Guidance**
Substantial	*There is a sound system of control and governance in place to achieve the system objectives, controls are being consistently applied and the relevant risks to the service are well managed.*	No recommendations have been made, or 1 star recommendations made that cumulatively do not warrant 'adequate status'.
Adequate	*The control environment / systems are operating effectively to ensure that the majority of relevant risks are managed. Slight improvements need to be made in order to provide substantial assurance that all of the objectives of the system are met.*	A 2 star recommendation made, or A large number of 1 star recommendations that cumulatively could meet the criteria for a 2 star recommendation.
Limited	*Weaknesses and / or non-compliance with procedures are placing system objectives at risk. Heads of Business Units should consider whether they should refer to this assessment in their annual assurance statement on internal controls together with any actions agreed and / or taken to improve the system.*	Improvements could be made to a number of areas within the control environment so that the relevant risks are managed more effectively, or A 3-star recommendation made, or Several 2-star recommendations that cumulatively could meet the criteria for a high priority action.
Little/None	*There are control weaknesses and / or non-compliance with basic controls that are so significant the relevant risks are not being managed at all. The system is open to significant error or abuse. In light of this assessment, Heads of Business Units should review their risk register and refer to this assessment in their annual assurance statement on internal controls together with any actions agreed and / or taken to improve the system.*	More than one 3-star recommendation made.

AUDITOR GUIDANCE ON RECOMMENDATION RATING – Explanation

Essential / Strategic (3 star)	**High (2 star)**	**Medium (1 star)**
Absence or failure of fundamental (i.e. no recovery action on arrears, no bank reconciliation, failure to clear significant reconciling items appropriately, no Treasury Management Strategy) where there is no compensating control	A weakness in fundamental control (i.e. not carried out on time, not authorised) Absence or failure of key controls i.e. orders not authorised, no review of bank reconciliation	General weakening of the control environment
Failure or absence of a control which would probably result in a direct risk of serious injury to staff, customers or third parties	Failure or absence of a control which would possibly result in a direct risk of serious injury to staff, customers or third parties	Failure or absence of a control which would possibly result in an indirect risk of serious injury Localised failure of a control which would possibly result in a direct risk of serious injury to staff, customers or third parties
Any illegal operation Any failure to comply with regulatory requirements	Widespread non-compliance with policy	Localised non-compliance with policy
	Absence of procedure notes Absence of clear organisation policy	Procedure notes not updated
Any national reputation impact	Any local reputation impact	
		Other actions which will improve operational efficiency