

# **SHROPSHIRE COUNCIL AUDIT SERVICES**

## **FINAL INTERNAL AUDIT REPORT**

### **DEBTORS 2017/18**

<b>Assurance Level</b>	<b>Good</b>
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<b>Customer</b>	<b>West Mercia Energy</b>
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<b>Distribution</b>	<b>Nigel Evans, Director</b>
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<b>Auditors</b>	<b>Shelley Taylor</b>
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<b>Fieldwork dates</b>	November 2017
<b>Debrief meeting</b>	N/a
<b>Draft report issued</b>	7 November 2017
<b>Responses received</b>	14 November 2017
<b>Final report issued</b>	14 November 2017

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 Audit Services have undertaken a review of Debtors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

## **Scope of the Audit**

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To undertake testing in respect of the reconciliation and monitoring of the Debtors and Income System and to review progress on the implementation of the recommendations made in the previous audit.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
  - Previous recommendations have been implemented.
  - There are appropriate policies and procedure notes in place for the operation of the system.
  - Billing information is verified before invoicing customers.
  - There are appropriate arrangements in place to ensure prompt payment of invoices.
  - There are appropriate post opening procedures in place for the control of cash and cheques.
  - There are appropriate arrangements in place for the collection of Income by Direct Debit.
  - All income received is reconciled to the bank account.
  - Refunds are actioned in a timely manner with appropriate authorisation.
  - Write-offs are actioned in a timely manner with appropriate authorisation.
  - Income credited to suspense accounts is reviewed and cleared in a timely manner.
  - Management Information in respect of income is timely and adequate.
6. The audit was delivered on time and within budget.

## **Audit Opinion**

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There

are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
3	0	0	3	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	Previous recommendations have been implemented.
✓	There are appropriate policies and procedure notes in place for the operation of the system.
✓	Billing information is verified before invoicing customers.
✓	There are appropriate arrangements in place to ensure prompt payment of invoices.
✓	There are appropriate post opening procedures in place for the control of cash and cheques.
✓	There are appropriate arrangements in place for the collection of Income by Direct Debit.
✓	All income received is reconciled to the bank account.
✓	Refunds are actioned in a timely manner with appropriate authorisation.
✓	Write-offs are actioned in a timely manner with appropriate authorisation.
✓	Income credited to suspense accounts is reviewed and cleared in a timely manner.
✓	Management Information in respect of income is timely and adequate.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	4
Recommendations implemented	1
Recommendations partially implemented	2
Recommendations superseded	-
Recommendations not actioned	1

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

### **Audit Approach**

12. The approach adopted for this audit included:
- Review and documentation of the system.
  - Identification of key controls.
  - Follow up of previous recommendations.
  - Tests of controls to confirm their existence and effectiveness.
  - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and/or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski  
Head of Audit

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**ACTION PLAN FOR DEBTORS 2017/18**

<b>Rec Ref.</b>	<b>Rec No.</b>	<b>Recommendation</b>	<b>Rec Rating</b>	<b>Accepted Yes/No/ Partially</b>	<b>Management Response</b>	<b>Lead Officer</b>	<b>Date to be Actioned</b>
3.1	1	Supplier statement reconciliations should be performed on a quarterly basis, and any differences identified should be investigated.  (As previously recommended and agreed in 2016/17).	Requires Attention	Yes	The billing and finance teams are now fully resourced, so the aim is to complete full suppliers statement reconciliations on a quarterly basis.	John Morris	December 2017
4.1	2	The debt recovery process as stated in the Credit Management Policy should be reviewed to ensure that it is operationally effective. If it is decided that the current activity is sufficient the policy should be updated to reflect this. If management feel that following review, the current policy would further improve performance then the current processes should be reviewed to ensure compliance with the policy.  (Updated from recommendation made and agreed in 2016/17).	Requires Attention	Yes	The finance team is now fully resourced, and the level of 60 day debt will be reviewed weekly with necessary action taken.  The Credit Management Policy may require review as the SAGE reporting on outstanding debts does not identify debt at 45 days old but simply by period.	Jo Pugh	Immediately

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
8.1	3	<p>Management should consider the following actions to improve the active monitoring of credit balances.</p> <p>1) Priority is given to credit balances over £1,000.00  2) Writing off small credit balances on dormant accounts where customers have failed to respond to initial contact.  3) Ensuring all dormant or former customers have been contacted at least once.</p> <p>If the process is updated the Credit Policy should be amended to reflect the process.</p> <p>(Updated from recommendation made and agreed in 2016/17).</p>	Requires Attention	Yes	<p>As noted previously, whilst this point is accepted, this is always a lower priority than chasing outstanding debt.</p> <p>All customers receive a monthly statement of account which would detail any credit balances. A summary of all credit balances over 90 days are produced monthly as part of the management accounts process and actively reviewed and followed up where necessary.</p> <p>The finance team is now fully resourced, and the intention is that credit balances be reviewed quarterly with necessary action taken, which is in line with the Credit Management Policy.</p>	Jo Pugh	December 2017