

# Final Internal Audit Report

## Sundry Debtors

### November 2024

Distribution: Head of Payments, Revenues, Benefits & Debt  
 Corporate Debt Recovery Manager, Payments, Revenues, Benefits & Debt  
 Transactional Finance Manager, Finance Investment and Risk  
 Corporate Debt Recovery Support Manager, Payments, Revenues, Benefits & Debt  
 Head of Finance  
 Heads of Finance (CYPE)  
 Heads of Finance (Housing)  
 Head of Finance (ASCH)  
 Head of Finance (SCRER)  
 Head of Finance (Resources/ACE)  
 Corporate Director, Resources (S151)  
 Director Finance and Deputy S151

| Assurance Level | Issues Identified |   |
|-----------------|-------------------|---|
| Limited         | Priority 1        | 0 |
|                 | Priority 2        | 2 |
|                 | Priority 3        | 5 |

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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**1. Introduction**

- 1.1. The Corporate Debt Recovery Support Team (CDRST) are responsible for both creating new debtors and amending existing debtors on the Oracle Cloud system. Oracle is a cloud-based system that integrates various core business areas of the Council including the accounts receivable function. Requests for new debtors / amendments to existing debtors are primarily received by CDRST via an online 'Smart Form'.
- 1.2. Individual service departments are responsible for raising their own invoices, which are requested either through an online form, spreadsheet or via extracting a report from a different Council system. All invoice requests are received and created by CDRST on the Oracle Cloud system after they have been authorised by appropriate personnel.
- 1.3. Payments made to the Council are administered by the Cash & Control Team through use of the AIM Income Management system. Customers can make payments through various methods including direct bank and telephone payments, physical cash is not received by the Council. Payments relating to sundry debtor receipts are identified by the Fund Code '23' on the income management system and are matched to the relevant invoice on Oracle Cloud.
- 1.4. Typical invoice terms are 30 days for companies and immediate for individuals. The Corporate Debt Recovery Team (CDRT) are responsible for chasing all outstanding sundry debt at the Council.
- 1.5. Accounts Receivable control account reconciliations are undertaken monthly by the Systems Accountant. The Head of Corporate Finance is responsible for the calculation of bad-debt provisions which are carried out yearly following year-end.
- 1.6. As of January 2024, the amount of sundry debt at the Council totalled circa £24m, of which 63.5% related to debts that were 365+ days old. Invoices in dispute at the Council amounted to circa £9m, of which 63% were assigned to caseworkers to actively chase with the remainder awaiting approval.
- 1.7. While this review and testing were performed remotely; all relevant documents required to complete the review were obtained.
- 1.8. The audit was undertaken as part of the agreed Internal Audit Plan for 2023/24. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

**2. Key Issues****Priority 2 Issues**

Data analytics performed on the Councils total sundry debt (amounting to circa £24m) highlighted that 63.5% (£15.24m) of this debt is dated over 365 days old. **(Issue 1)**

Sample testing of three disputes (with original invoices dating back to 2012, 2016 and 2020) highlighted that in two cases disputes had not been subject to timely action as per timelines located within the 'Croydon Sundry Debt Collectors Manual'. **(Issue 2)**

The Priority 3 recommendations are included under item 4 below.

### 3. Actions and Key Findings/Rationale

#### Control Area 5: Debt Recovery Action

| Priority                | Action Proposed by Management  | Detailed Finding/Rationale - Issue 1   |
|-------------------------|--|--|
| 2                       | I have identified that the dispute process is an issue due to resource pressure. I have improved the turnaround time for disputes to 6 weeks, but I am working with team to improve this further. This will take a bit of time to improve to ensure we do not fail in other areas. The Croydon Sundry Debt Collectors Manual will be amended to say that caseworkers should monitor disputes within 4-6 weeks. | <p><b>Expected Control</b></p> <p>All appropriate action to recover overdue income is taken in a timely manner.</p> <p><b>Finding/Issue</b></p> <p>Data analytics performed on the Councils record of total sundry debt (amounting to circa £24m as at 29 January 2024) highlighted that 63.5% of this debt was dated over 365 days old. Further analysis noted that 75% of the debt aged 365+ days was dated between 2019-2022 (total Council record dates back to 2000).</p> <p>While disputed invoices are managed by caseworkers within the Corporate Debt Recovery Team, they are referred to the initial invoice requestor to investigate and make decisions. The 'Croydon Sundry Debt Collectors Manual' (dated May 2022) states that caseworkers should monitor disputes fortnightly both liaising with the debtor and the invoice requestor.</p> <p>Sample testing of three disputes (with original invoices dating back to 2012, 2016 and 2022) found that in two cases the expected timelines (fortnightly) of monitoring were not adhered to, highlighting in both cases that monitoring had fell to six months. Both cases related to disputed invoices dated more than three years ago (2020 and 2012).</p> <p>As advised by the Corporate Debt Recovery Manager, due to ongoing capacity issues, the Council are not currently chasing outstanding debt as per timeframes (fortnightly) stated within the 'Croydon Sundry Debt Collectors Manual'. The Council are redefining</p> |
| Responsible Officer     |  | Deadline   |
| Corporate Debt Recovery |  | 25 December 2024   |

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|   |  |  |
|---|--|--|
| Manager,<br>Payments,<br>Revenues,<br>Benefits & Debt |  | <p>such timelines to suitably reflect current working practices in accordance with current staff workloads.</p> <p><b>Risk</b></p> <p>Where disputed invoices are not investigated or resolved in a timely manner, there is a risk of delay in collection of income due or an increased risk that the debt may require a write off which could lead to financial loss for the Council.</p> |
|---|--|--|

**Control Area 3: Raising of Invoices**

| Priority   | Action Proposed by Management  | Detailed Finding/Rationale - Issue 2   |
|--|--|--|
| 2  | After reviewing the list provided by Internal Audit, the helpdesk have removed access. | <p><b>Expected Control</b></p> <p>Invoices are accurately, validly, and timely raised and recorded in the account in respect of fees and charges for goods / services delivered, following appropriate segregation of duties.</p> <p><b>Issue/Finding</b></p> <p>Online invoice requests must be approved through a workflow within Oracle Cloud prior to the Corporate Debt Recovery Support Team physically raising these within the system. Staff within the Council possess the user access to either request an invoice or approve them, but not both. Responsibility for assigning user access sits with the 'MyResources' Helpdesk Team.</p> <p>Data analytics performed on Council records of invoice requestors and invoice approvers (taken from two separate lists accurate as of 25 January 2024) highlighted that a total of 19 staff possessed the user access to both request and approve an invoice (total of 236 requestors and 192 approvers).</p> <p>As informed by the Corporate Debt Recovery Support Manager, their understanding is that it is not possible for a user to have both invoice requestor role and department approver role. It is the responsibility of the helpdesk to set up the roles for users. Further, the Corporate Debt Recovery team check that the requestor and department approver are different people at point of final approval and would reject if the same name appeared as both. The team are not aware of any invoices being rejected for this reason.</p> <p><b>Risk</b></p> |
| Responsible Officer                                |  | Deadline   |
| Corporate Debt Recovery Support Manager, Payments, |  | Completed  |

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|                              |  |  |
|------------------------------|--|--|
| Revenues,<br>Benefits & Debt |  | Lack of segregation of duties when raising invoices potentially leading to illegitimate invoices being raised. |
|------------------------------|--|--|

#### 4. Priority 3 Issues

| Agreed action   | Findings   |
|---|--|
| <p><b><u>Control Area 1: Organisational, Management and Legislative Requirements</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>The process for approving via the smart form was reviewed in June 2023 and May 2024.</p> <p>All CDRST processes are reviewed annually but evidence of the review had not been added to the documents. Evidence of any reviews will be added going forward.</p> <p><b><u>Responsible Officer:</u></b> Corporate Debt Recovery Support Manager, Payments, Revenues, Benefits &amp; Debt</p> <p><b><u>Deadline:</u></b> Complete</p> | <p><b>Expected Control</b></p> <p>Policies and procedural guidance are regularly reviewed to reflect current working practice and are clearly communicated to all relevant staff.</p> <p><b>Issue/Finding</b></p> <p>Policies and standard operating procedures in relation to accounts receivable functions are located on the Council intranet. Such documents are either reviewed when new starters join the team or are subject to annual review, to ensure they adequately reflect current working practices.</p> <p>Sample testing of three guidance documents highlighted in two cases ('AR Smart Form Request Manual' and 'Croydon Sundry Debt Collectors Manual') had not been evidenced as reviewed within the previous 12 months.</p> <p><b>Risk</b></p> <p>Where key policies are not reviewed and, where appropriate, updated periodically, there is a risk that staff and service users may follow outdated guidance or remain unsure if the guidance is still relevant.</p> |
| <p><b><u>Control Area 2: Amendments to Standing Data</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>The sample no 1000305625 was actioned by a staff member who is no longer employed by LBC.</p>   | <p><b>Expected Control</b></p> <p>Additions to debtor standing data are accurately and validly processed in a timely manner.</p> <p><b>Issue/Finding</b></p>   |

| Agreed action  | Findings   |
|--|--|
| <p>The team are aware that all contact details have to be input into Oracle and monthly quality checks shows that this is being done.</p> <p><b>Responsible Officer:</b> Corporate Debt Recovery Support Manager, Payments, Revenues, Benefits &amp; Debt</p> <p><b>Deadline:</b> Complete</p>   | <p>New debtor requests are received via an online 'Smart Form', where Corporate Debt Recovery Support staff are then tasked to physically create the new debtor on the Oracle Cloud system.</p> <p>Sample testing of 10 new debtor creations found that in one case (Reference No. 1000305625) the email address and contact number were located on the new debtor request but were not found on the Oracle Cloud system.</p> <p><b>Risk</b></p> <p>Details for new debtors are not accurately added to the system, which can potentially cause difficulty for the Council to chase monies due.</p> <p>The Council are unable to verify whether requests for amendments to existing records are legitimate as contact details are not accurately recorded for Debtors.</p> |
| <p><b><u>Control Area 2: Amendments to Standing Data</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>The system not registering a change to an account became known in January 2024. A change was made to the work process, the new process was explained in a team meeting and followed up in the team meeting minutes. The volume of changes to accounts has increased significantly demonstrating that the team are actively flipping the PO field so all accounts that are updated are now recognised as updated.</p> | <p><b>Expected Control</b></p> <p>Changes to existing debtors are accurately and validly processed in a timely manner.</p> <p><b>Issue/Finding</b></p> <p>Requests for amendments to existing debtors are received via an online 'Smart Form', where Corporate Debt Recovery Support staff are then tasked to physically make the change on the Oracle Cloud system.</p> <p>Sample testing of ten amendments to existing debtors (between January 2023 and December 2023) found that in one case (Reference No. 1000305577) the Oracle system did not register that an amendment had</p>   |

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| Agreed action   | Findings  |
|---|---|
| <p>The process has also been updated to reflect the need to reverse the PO field.</p> <p><b>Responsible Officer:</b> Corporate Debt Recovery Support Manager, Payments, Revenues, Benefits &amp; Debt</p> <p><b>Deadline:</b> Complete</p>  | <p>been made, and simply displayed the debtor as already having the updated change since creation, thus not providing an accurate audit trail.</p> <p>This issue was identified by the Corporate Debt Recovery Support Manager in January 2024. They implemented a new working practice to rectify this issue whereby the 'PO' field on the debtors account is reversed when making an amendment. Where an amendment is made and the 'PO' field is not reversed, the system does not recognise and record a change being made. However, review of the 'AR Billing User Manual' which provides guidance to CDRST staff to amend debtors on the Oracle Cloud system, does not include reference to the new working practice outlined above.</p> <p><b>Risk</b></p> <p>Changes to existing debtors are not accurately recorded on the system leaving Council records of Debtors inaccurate; thus causing potential difficulty for the Council to contact Debtors regarding invoicing / chasing outstanding debt.</p> |
| <p><b><u>Control Area 2: Amendments to Standing Data</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>We disagree with this expected control as this is not part of Croydon's Sundry debt process. Technically it is not possible in the current system to issue invoices via email. There is no overarching legislation or regulations that specify invoices should be issued via email. The current</p> | <p><b>Expected Control</b></p> <p>Invoices are issued to the debtor by email promptly after being raised.</p> <p><b>Issue/Finding</b></p> <p>Through a review of the timeliness and accuracy of invoices, it was identified that invoices were not defaulted to being emailed to the debtor. Where an invoice is required to be emailed, this needs to be specifically requested.</p> <p>The Head of Revenues and Benefits explained that the functionality to email an invoice by default does not currently exist in Oracle (the finance system),</p>   |

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| Agreed action   | Findings   |
|---|--|
| <p>process to print and post invoices is tightly controlled and reconciled each day.</p> <p>As part of the Oracle Improvement Programme, we are speaking with Mastek around the art of the possible of sending invoices via email. The Oracle Improvement Programme is scheduled to run for approximately 18 months.</p> <p><b>Responsible Officer:</b> Corporate Debt Recovery Support Manager, Payments, Revenues, Benefits &amp; Debt</p> <p><b>Deadline:</b> March 2026</p> | <p>but the Finance department are looking into implementing it as part of the Oracle Improvement Programme.</p> <p><b>Risk</b></p> <p>There is an additional cost in posting invoices and a delay in debtors becoming aware of debts.</p>  |
| <p><b>Control Area 6: Provision for Bad Debts</b></p> <p><b>Action proposed by management:</b></p> <p>Chief Accountant will conduct a secondary review.</p> <p><b>Responsible Officer:</b> Chief Accountant</p> <p><b>Deadline:</b> January 2025</p>  | <p><b>Expected Control</b></p> <p>Monthly Accounts Receivable (AR) control account reconciliations are produced and subject to secondary review, to enable accurate provisions for bad debt to be attributed in a timely manner.</p> <p><b>Issue/Finding</b></p> <p>The Systems Accountant is responsible for conducting AR control account reconciliations monthly to ensure non-balancing items are investigated and corrected accordingly.</p> <p>Whilst examination of records confirmed that a monthly AR reconciliation had been completed each month between April 2023 and January 2024, our review of the ten reconciliations highlighted that none had been subject to a secondary review, despite the reconciliation sheet possessing version</p> |

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| Agreed action | Findings   |
|---------------|--|
|               | <p>control illustrating both the staff completing (System Accountant) and reviewing (Head of Corporate Finance) of the reconciliation.</p> <p><b>Risk</b></p> <p>Missing transactions are not identified due to insufficient scrutiny of feeder system inaccuracies.</p> |

# AUDIT TERMS OF REFERENCE

## Sundry Debtors

### 1. INTRODUCTION

- 1.1 Customers make payments to the Council for a variety of purposes and services received. These payments are administered by the Accounts Receivable Team, separate to the Corporate Debt Recovery Team. The exceptions are Council Tax, Business Rates and Housing Rents, which are administered by other teams in the Council.
- 1.2 Individual service departments are responsible for raising their own invoices using One Oracle and My Resource systems.
- 1.3 The Payments, Revenues, Benefits, Income and Debt Team are responsible for a number of functions including the administration of claims for Housing Benefit and Council Tax Support and the collection of council tax, business rates and providing sundry debt reports to the Finance Team. The Revenue Budget Summary of 2023/24 has stated the original budget of 'Contribution to Provision for Doubtful Debts' at £1,000,000.
- 1.4 This audit was part of the agreed Internal Audit Plan for 2023/24.

### 2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective was to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit for each control / process being considered:
  - Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

### 3. SCOPE

- 3.1 This audit will examine the Council's arrangements in relation to Sundry Debtors. The specific scope included the following areas and recommendations:





| Control Areas/Risks                                     | Issues Raised        |                        |                     |
|---|----------------------|------------------------|---------------------|
|   | Priority 1<br>(High) | Priority 2<br>(Medium) | Priority 3<br>(Low) |
| Organisational, Management and Legislative Requirements | 0                    | 0                      | 1                   |

| Control Areas/Risks         | Issues Raised        |                        |                     |
|-----------------------------|----------------------|------------------------|---------------------|
|                             | Priority 1<br>(High) | Priority 2<br>(Medium) | Priority 3<br>(Low) |
| Amendments to Standing Data | 0                    | 0                      | 3                   |
| Raising of Invoices         | 0                    | 1                      | 0                   |
| Cash Receipts               | 0                    | 0                      | 0                   |
| Debt Recovery Action        | 0                    | 1                      | 0                   |
| Provision for Bad Debts     | 0                    | 0                      | 1                   |
| <b>Total</b>                | <b>0</b>             | <b>2</b>               | <b>5</b>            |

## Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

|   |                       |  |
|---|-----------------------|--|
|    | Full Assurance        | There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.  |
|    | Substantial Assurance | While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk. |
|    | Limited Assurance     | There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,   |
|  | No Assurance          | Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.   |

Priorities assigned to identified issues are based on the following criteria:

|                                |   |
|--------------------------------|---|
| <b>Priority 1<br/>(High)</b>   | Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.  |
| <b>Priority 2<br/>(Medium)</b> | Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.  |
| <b>Priority 3<br/>(Low)</b>    | Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area. |

## **Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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