

# Internal Audit Report

## Key Financial Systems – Debtors

26 January 2024

CS2301

**Overall  
Assessment**

**Reasonable  
Assurance**

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2023/24 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2023. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management’s responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

# Executive Summary

## Overall opinion and summary of findings

Moderate weaknesses were identified in the design and operating effectiveness of the key controls established to ensure the Council effectively manages the recovery of money owed for services provided. We noted the following improvement actions:

- the Council's Corporate Debt Policy does not fully reflect current practices
- not all service areas have current debt recovery procedure documents
- some invoices issued under the debt type Financial Insurance had incorrect VAT calculated and billed
- unmatched bank payments are not being resolved in a timely manner
- debt write-offs are not being reported to committee in a timely manner.

## Areas of good practice

Our review identified:

- invoices sampled were complete, accurate, and raised in a timely manner
- customers are signposted or referred where appropriate to the Council's Advice Shop, which is a service equipped to advise citizens who are suffering financial hardship
- there is adequate record keeping and the 'story' of each invoice can be followed via the debt management system APEX
- the electronic system manages and automates the sending of reminder letters and pre-legal letters to remind customers to settle their outstanding invoices.

## Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Creation of Debtor Invoices			Finding 1 – Corporate Debt Policy	Low Priority
			Finding 2 – Procedure Documents	Medium Priority
			Finding 3 – Debt Type "FI" Invoices	Medium Priority
2. Processing of Payments			Finding 4 – Banking and Payments Exception List	Medium Priority
3. Recovery of Debt			Finding 5 – Recovery Monitoring	Medium Priority
4. Write-offs and Amendments			See <a href="#">Finding 6</a>	N/A
5. Oversight and Scrutiny			Finding 6 – Write-Off Reporting	Low Priority

[See Appendix 1 for Control Assessment and Assurance Definitions](#)

# Background and scope

While an element of the Council's overall spending is supported by means of Scottish Government grant, Council services are also funded through taxes and a range of statutory and non-statutory service charges. Customers, citizens, and businesses within Edinburgh have a responsibility to pay for the services they receive and the charges and rents they are liable for. It is essential that all monies due to the Council are actively pursued.

The Council also recognises that personal debt levels are increasing and there may be circumstances where our customers are suffering hardship and need help and advice. The Council's [Corporate Debt Policy](#) states that the Council is committed to treating people with understanding, dignity and respect and to providing suitable support wherever it is appropriate, for example assisting customers to engage with welfare and debt agencies and access funds that are available to alleviate hardship.

The Council's [Financial Regulations](#) section 4.4.6 sets out the principles and key areas of the control framework which relate to income and the recovery of debt. Section 8 of the [Financial Rules](#) sets out the roles and responsibilities of key officers in relation to income and the recovery of debt. To support both of these documents, a Corporate Debt Policy has been agreed which defines the recovery process, with an aim to strike a balance between the financial needs of the Council and the wellbeing needs of our customers.

## Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established to ensure the Council effectively manages the recovery of money owed for services provided.

Review areas were split over 2023/24 and 2024/25 and were limited to a sample of high value/high volume areas. The following areas were covered in 2023/24:

- Accommodation Charges – income due from care home accommodation charges
- Multi-story Billing – maintenance fees due from high rise flat tenants
- Supporting People – income due relating to community alarms.

The following areas will be covered in an audit scheduled for 2024/25:

- Education Miscellaneous
- Commercial Rents.

## Risks

- Financial and Budget Management
- Service Delivery
- Regulatory and Legislative Compliance
- Reputational Risk
- Fraud and Serious Organised Crime.

## Limitations of Scope

The following areas were excluded from scope:

- Council Tax – covered by an audit issued in August 2022
- Non-Domestic Rates – covered by an audit issued in August 2022
- Parking Charges – covered by an audit issued in April 2022
- Overpaid Council Salaries and Wages – covered by an audit issued in June 2021.

## Reporting Date

Testing was undertaken between 1 April 2022 and 31 March 2023.

Our audit work concluded on 1 November 2023, and our findings and opinion are based on the conclusion of our work as at that date.

# Findings and Management Action Plan

## Finding 1 – Corporate Debt Policy

Finding Rating	Low Priority
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The Council's [Corporate Debt Policy](#) sets out the Council's approach to debt collection. The policy aims to strike a fair balance between the financial needs of the Council and the wellbeing of customers, recognising that failure to recover debts impacts on the Council's ability to provide key services.

The policy is reviewed annually by the Corporate Debt Team to confirm that it reflects current practices, aids effective debt recovery, and is fair for customers. Following this review, a summary of the proposed changes and confirmation that it remains fit for purpose is reported to the Policy and Sustainability Committee for noting.

Our review of the current policy, [last reviewed and approved by Policy and Sustainability Committee in November 2022](#), highlighted a number of areas which were not reflective of current practices. These included:

- the recovery timescales were out of date
- the approach to monitoring of recovery for both service areas and the central Corporate Debt Management Team was not being followed (see [Finding 5](#))

- a decision to stop charging interest on instalment plans over 3 months long was taken in November 2022 by service management, but the policy had not been updated.

Management have advised that the Corporate Debt Policy was updated in September 2023, and was due for approval by the Policy and Sustainability Committee in November 2023.

### Risks

- **Legal and Regulatory Non-Compliance** – changes to legislation may not be captured and implemented if policies are outdated or not comprehensive
- **Service Delivery** – outdated policies and procedures may be unclear, or inconsistent with the needs of the organisation, resulting in inefficiency and increased operational costs.

## Recommendations and Management Action Plan: Corporate Debt Policy

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
1.1	The Corporate Debt Policy should be reviewed to ensure that it continues to reflect current practices, aids effective debt recovery, and is fair for customers. This should include, but not be limited to, the areas identified in the finding above.	1) The updated Corporate Debt Policy was approved by Policy and Sustainability Committee in January 2024. The update details appropriate roles; with the customer	Executive Director of Corporate Services	Debt Recovery Manager / Customer Manager Transactions	31/03/2024

	<p>In particular, the policy should be updated to more clearly state the respective debt monitoring and reporting roles of both the Corporate Debt Management team and the individual service areas.</p> <p>Once updated, the Corporate Debt Policy should be provided to all relevant service areas.</p>	<p>debt team responsible for high level debt monitoring and confirmation that service areas are responsible for regular monitoring of their appropriate debt to assist prompt collection. The interest instalment change was a report timing issue as the previous report was approved on 1/11/22 and the procedural change was made on 11/11/22. This change was included in the next available policy assurance update in January 2024.</p> <p>2) Following Committee approval in January 2024 the policy will be issued to relevant service areas.</p>			31/03/2024
1.2	<p>The debt monitoring measures outlined in the Corporate Debt Policy should be reviewed to ensure they are aligned with industry and technical best practice. Measures should monitor the level of debt, debt profile, age profile, recovery performance, and any other metrics deemed important to key processes.</p>	<p>The Corporate Debt Policy will continue to be reviewed on an annual basis to ensure that monitoring measures are appropriate, including level of debt, debt profile, age profile, etc.</p>	Executive Director of Corporate Services	Debt Recovery Manager / Customer Manager Transactions	31/12//2024

## Finding 2 – Procedure Documents

Finding Rating	Medium Priority
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Policies and procedures are the foundation of an effective internal control environment. Procedures can be used to capture and maintain best practice, and to provide consistency, especially where there may be a change in officers.

During our review, in August 2023, the Council implemented a new debt management system called APEX to replace the previous system Pro IV/PPSL. As a result of the introduction of the new system, processes and procedures have changed and are anticipated to continue to change in the short to medium term.

We reviewed the procedure documents relating to the debt recovery process, both from the services tasked with raising invoices, and the teams who drive the recovery process. Our review highlighted that:

- 2 out of the 4 services sampled who are tasked with identifying debt and raising invoices had no procedure documents in place. In addition, the Banking and Payments team did not have procedures. It should be noted that once invoices have been raised on APEX the process is standard for all debt types

- only 1 of the 18 systems and procedure guidance documents within service areas we reviewed had a change / version control section, and therefore there was no record of previous changes or evidence of recent review available. Management have advised that service areas are still attending training on the new system, and procedure documents will be revised following that.

### Risks

- **Service Delivery** – lack of understanding of controls, processes, and procedures, leading to inconsistent practices across teams, services, and directorates; insufficient succession and contingency planning; a lack of training and guidance for new starts; and insufficient oversight of processes and procedures.

## Recommendations and Management Action Plan: Procedure Documents

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
2.1	All services involved in the debt management process should prepare / review their procedure documents to ensure they are reflective of current processes.  Procedure documents should cover all aspects of the debt management process.	Place: Recommendation accepted.  CEJS: Recommendation accepted.  Corporate Services: Recommendation accepted.	Executive Director – Place  Executive Director – CEJS  Executive Director -	Operations Manager, Place  Operations Manager, CEJS  Operations Manager,	31/12/2024 (Place)  31/12/2024 (CEJS)  31/12/2024 (Corporate Services)

	Each procedure document should include a change /version control section and be subject to routine review and approval by an appropriate officer to ensure they remain complete and accurate.		Corporate Services	Corporate Services	
2.2	Once services have prepared and reviewed their procedure documents, a check should be performed to confirm that all debt types have appropriate procedure documents in place that are aligned with the Corporate Debt Policy.	Place: Recommendation accepted. CEJS: Recommendation accepted. Corporate Services: Recommendation accepted.			31/12/2024 (Place) 31/12/2024 (CEJS) 31/12/2024 (Corporate Services)

## Finding 3 – Debt Type “FI” Invoices

Finding  
Rating

Medium  
Priority

In September 2022, a VAT calculation error was identified by Finance which has affected invoices issued under the debt type Financial Insurance (“FI”). This is in relation to insurance premiums charged for the commercial portfolio of properties. Management have advised that work has been ongoing since the error was identified to establish the full extent of the error and the impact on Council income and the impacted tenants.

Following a change of personnel within the Insurance team, it was identified by Finance that due to a misinterpretation of the VAT rules, a small number of customers were billed VAT in error, while a small number of others had not been billed VAT when they should have been. HMRC do not require to be advised as the error is significantly lower than the reporting threshold.

Once the error was detected by Finance, a full review of the impact of this was instigated by the Insurance team. All FI debt invoicing and recovery was placed on hold until the issue was resolved. External consultants were accessed to understand the correct process and work has been ongoing to assess the impact. As at January 2024, management have advised that 20 of the approximately 400 affected customers have undercharges of over £100, but the vast majority are less than £50.

The Insurance team are working to agree and progress any amendments to invoices and / or raise invoices. The Insurance team have stated that explanatory letters will be sent to all impacted tenants prior to the end of the financial year 2023/24, and that the process within the Insurance team for annual invoicing has been updated accordingly to prevent this situation occurring in the future.

### Risks

- **Financial and Budget Management** – failure to issue invoices accurately and in a timely manner could result in debts being irrecoverable
- **Reputational Risk** – failure to correct errors in a timely manner could result in reputational damage
- **Regulatory and Legislative Compliance** – invoices raised may not be compliant with relevant tax law.

## Recommendations and Management Action Plan: Debt Type “FI” Invoices

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
3.1	A decision should be taken about how the Council wants to treat the affected invoices depending on their age and nature. Appropriate action should be taken and tracked to ensure affected invoices are corrected in a timely manner.	Recommendation accepted: process to rectify this issue will begin prior to year end.	Executive Director - Corporate Services	Insurance Manager / Assistant Insurance Manager	30/06/2024

3.2	A lessons learned exercise should be undertaken to confirm the controls in place accurately calculate and bill VAT going forward, and to ensure that any issues are shared across the Council to prevent similar issues from occurring elsewhere.	Recommendation accepted: all written procedures will be reviewed and updated prior to next billing period.			31/03/2024
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Finding Rating	Medium Priority
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## Finding 4 – Banking and Payments Exception List

Income received into Council bank accounts which cannot be matched to debtor accounts (due to incorrect references provided by customers on bank transfers), are added to a weekly exception list spreadsheet which is circulated by the Transactions team to all relevant teams and departments. The service areas are then required to review the list and identify any transactions which might relate to their area, and then investigate and correct them. Customer Management have advised that there is limited engagement from services on this process until the time that the year-end accounts are being prepared, and the task has become urgent.

Review of the exceptions list as at 6 September 2023 identified a total of 1,106 transactions totalling £9.4m, of which:

- 837 transactions were less than 90 days old, totalling £8.75m
- 194 transactions were 3-6 months old, totalling £0.85m
- 75 transactions were over 6 months old, totalling £0.10m
- the 10 highest value transactions totalled £5.66m (60% of the total value).

While it is noted that accepting bank transfers as a payment method presents this inherent risk, further targeting of higher risk / value transactions by the Transactions team could improve engagement from services and reduce the value and volume of transactions on the exception list. The management of reviewing service payment issues primarily rests with individual service areas.

### Risks

- **Service Delivery** – failure to match payments to debtor accounts in a timely manner increases the risk of complaints from customers and inefficiencies in the debt recovery process.

## Recommendations and Management Action Plan: Banking and Payments Exception List

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
4.1	The email circulated weekly with the exception list should include a summary of targeted higher risk / value transactions, to facilitate timely engagement from services. For example, this could include the top transactions by volume, value, or age.	Introduce enhanced template detailing key metrics for exceptions. Circulated weekly and will target higher value transactions.	Executive Director of Corporate Services	Transactions Team Manager (Banking and Payment Services)	01/06/2024
4.2	The process for managing and reviewing the exceptions list should be reviewed to tackle the lack of engagement from services. This should include the development of clear timescales for	1) Review exceptions process. 2) Develop response timescales	Executive Director of Corporate Services	Transactions Team Manager (Banking and	01/06/2024 01/06/2024 01/09/2024

	services to respond and an escalation process where officers don't receive engagement.	3) Design Escalation process to reflect existing models e.g. payment cards.		Payment Services)	
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## Finding 5 – Recovery Monitoring

Finding Rating	Medium Priority
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Effective oversight of the debt recovery process is essential to help ensure that debts are recovered in a timely manner. The Council's Corporate Debt Policy states a requirement for regular monitoring of the effectiveness of debt recovery, and outlines relevant performance measures, for example aged debtor days and profile, debt invoices outstanding, and recovery costs compared to amounts recovered.

However, although debt recovery KPIs are being reported internally within the debt recovery team, the KPIs do not align with the requirements stated within the Corporate Debt Policy. Management have advised that the revised Corporate Debt Policy, which is going to the Policy and Sustainability Committee for approval in January 2024, will reflect the current arrangements.

In addition, the Corporate Debt Policy does not provide sufficient detail on debt management monitoring responsibilities, specifically with regard to what the Corporate Debt Management Team is responsible for and what individual service areas are responsible for. See [Finding 1](#).

### Risks

- **Financial and Budget** - reduced income due to a lack of monitoring of the measures put in place to monitor and recover the levels of debt across the Council
- **Service Delivery** - limited accountability for the recovery of invoices raised by individual service areas due to unclear roles and responsibilities in the monitoring and recovery process.

## Recommendations and Management Action Plan: Recovery Monitoring

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
5.1	<p>Once the respective debt recovery monitoring roles and responsibilities of the Corporate Debt Management Team and individual service areas have been agreed (see <a href="#">Finding 1</a>):</p> <ul style="list-style-type: none"> <li>• in consultation with an appropriate oversight Committee, reporting arrangements should be agreed and performance reported on a regular basis.</li> </ul>	<p>1) KPIs assessed as part of annual service review to ensure fit for purpose. Data reported on a monthly basis to Customer Manager, including all CDP measures. Appropriate collection and write off values are reported to Committee on an annual basis.</p> <p>2) Preventing service debt is the responsibility of the relevant</p>	Executive Director of Corporate Services	<p>1) Debt Recovery Manager / Customer Manager Transactions</p> <p>2) Customer Manager Transactions /</p>	<p>01/09/2024</p> <p>01/09/2024</p>

	<ul style="list-style-type: none"> <li>• relevant officers should then perform regular checking of the effectiveness of debt recovery work and relevant processes</li> <li>• all the agreed performance measures stated in the Corporate Debt Policy should be monitored on a regular basis.</li> </ul>	<p>function, and service managers have been trained in relevant MI production. To assist this practice the Customer Debt Team will arrange quarterly review sessions with services with high value debt activity. Session will be supported by relevant MI.</p>		<p>Head of Customer Services</p>	
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## Finding 6 – Write-Off Reporting

Finding  
Rating

Low Priority

The Corporate Debt Policy sets out the acceptable reasons for writing off debt, for example debts being unenforceable, uneconomic to pursue, or the act of pursuing would cause undue financial hardship. The Council seeks to minimise the cost of write-offs by taking all appropriate action to recover what is due.

The Corporate Debt Policy states that a summary of write-offs should be reported to committee on an annual basis for review and scrutiny. Our review identified that £5.2m of [debt was written off in 2020/21](#) and this was reported to Committee 309 days after the year end, while £4.5m of [debt was written off in 2021/22](#) and this was reported to Finance and Resources Committee 446 days after the year end. In addition, we note that the 2022/23 write-off report has not yet been presented to committee.

### Risks

- **Governance and Oversight** – failure to present information to Committee for scrutiny on a timely basis could result in less effective oversight and decision making.

## Recommendations and Management Action Plan: Write-Off Reporting

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
6.1	The timeliness of annual debt write-off reports should be agreed by Committee and reflected in the Corporate Debt Policy. Going forward, reports should be presented to committee in a timely manner.	Consistent with the last decade of reporting the Annual Debt report will be reported to Committee by Q4 of the following financial year. Reporting is subject to Committee reporting constraints (as occurred in 2023).	Executive Director of Corporate Services	Debt Recovery Manager / Customer Manager Transactions	31/04/2024

## Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	N/A	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
<b>Substantial Assurance</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Ratings	
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
<b>Low Priority</b>	An issue that results in a small impact to the achievement of objectives in the area audited.
<b>Medium Priority</b>	An issue that results in a moderate impact to the achievement of objectives in the area audited.
<b>High Priority</b>	An issue that results in a severe impact to the achievement of objectives in the area audited.
<b>Critical Priority</b>	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.