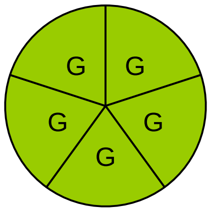
Internal Audit

Income and Receivables

April 2017

Report Assessment



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Introduction

The Standing Financial Instructions set out the overall governance framework for accounts receivable and credit control, including the recording and collecting of all monies due. The governance framework is detailed within the Financial Operating Procedure: Accounts Receivable and Credit Control.

As at 31 March 2016, trade and other receivables amounted to £26.1 million, with £2.1 million of that total being more than 12 months old. During the year to March 2016, Accounts Receivable issued 16,490 invoices totalling £286.9 million.

Scope

The audit reviewed review the key controls over cash management, including the management and operation of bank accounts and petty cash.

Acknowledgements

We would like to thank all staff consulted during this review, for their assistance and cooperation.

Executive Summary

Conclusion

Generally a robust framework of control is in place for raising invoices, and the receipt and accounting for income. Amounts owed are regularly reviewed and debt recovery procedures are functioning adequately. Debts are written-off only after appropriate approval has been received. However, our review identified areas where the current Financial Operating Procedures contain inaccurate information and require updating. We also noted that the KPI data reported records no comparison against target.

Summary of Findings

The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 1.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	The Board has prepared detailed procedures that comply with the Board's Standing Financial Instructions.	Green	-	-	1	-
2	Debtors are set up appropriately and all income generating activities are identified and accurately recorded and subsequently invoiced on a timely basis.	Green	-	-	1	-
3	Procedures are followed in ensuring that all invoices are paid and the income is correctly identified, accounted for and reflected in the financial ledger.	Green	-	-	-	-
4	The extent of debt is minimised and there is prompt follow-up of overdue accounts, with appropriate authorisation over debt write-offs.	Green	-	-	-	-
5	Income and receivables data is regularly reported to the Finance & Resources Committee.	Green	-	-	1	-

Control Objective Ratings

Action Ratings	Definition
Red	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
Amber	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
Green	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)

Main findings

The Financial Operating Procedures: Accounts Receivable & Credit Control meet the key requirements of the Standing Financial Instructions and set out a reasonable framework for collecting income and managing debts.

The Accounts Receivable Team is informed about income falling due through Debtors Request Forms completed by budget holders. Accounts Receivable raise invoices and are responsible for closely monitoring outstanding debts. The Financial Operating Procedures set out parameters for issuing reminder letters and statements to debtors. Outstanding debts that exceed a certain number of days are referred to collection agencies, unless repayment plans have been agreed.

The Accounts Receivable Team reviews and approves Debtors Request Forms prior to setting up new customers within the eFinancials system. However, credit-rating checks are not done on new customers as such checks would be impractical and, therefore, Finance has decided to bear this risk.

Debts that are written-off follow the procedure within the Financial Operating Procedures. If below £20,000, the writing off of debts is authorised by the Deputy Director of Finance. If above £20,000, proposed write-offs are referred to the Audit Committee before authorisation is sought from the Scottish Government.

We identified 3 important issues during this review:

- The current Financial Operating Procedures do not reflect actual procedures, with some of the content around the issue of reminder letters and KPI reporting either no longer relevant or requiring update.
- Invoices produced by cashiering staff and under the authorisation of Accounts Receivable are not being raised promptly following receipt of the Debtors Request Form.
- Key Performance Indicator information is being recorded each month, however this not being compared against targets.

Further details of these points are set out in the Management Action Plan.

Management Action Plan

Control objective 1: The Board has prepared detailed procedures that comply with the Board's Standing Financial Instructions

1.1 Current operating procedures do not reflect current practice	Important

Observation and Risk:

The Financial Operating Procedures: Accounts Receivable & Credit Control set out the framework for managing income and debts. The Procedures are not available to non-Finance staff but key documents, including the Debtors Request Forms, are on the Finance Online Intranet pages.

The current Procedures were approved in November 2015, and are not yet due for review, but we noted some areas of inconsistency with practice, including the parameters for issuing reminder letters to debtors and KPI information provided. For example, for those accounts that receive reminders, the Financial Operating Procedures state the following:

- Reminder letter one - 21 days from invoice date
- Reminder letter two - 45 days from invoice date
- Reminder letter three - 75 days from invoice date

However, the actual procedure followed and documented elsewhere records that Accounts Receivable staff use the parameters of 30, 45 and 60 days respectively. This procedure also records the schedule for courtesy calls to the debtors, which is not specified within the Operating Procedures.

Unless policies and procedures are reviewed regularly and updated where necessary, there is a risk that documented procedures are misleading and do not give an accurate record of the Accounts Receivable and credit control functions.

Recommendation:

Finance management should review the Financial Operating Procedures: Accounts Receivable & Credit Control and, where necessary, update the procedures to reflect current practice within Accounts Receivable.

Management Response:

The current procedures are due for review in November 2017. At this time they will be updated to reflect the current practices. Normally the procedures would only be updated midway through the review period if there was a fundamental change although this is not a material change the procedure will be updated to reflect the team's working procedure..

Management Action:

Review current procedures and update to reflect current practices

Responsibility: Financial Controller	**Target date:** May 2017

Control objective 2: Debtors are set up appropriately and all income generating activities are identified and accurately recorded and subsequently invoiced on a timely basis.	
2.1 Invoices raised by departments out with Accounts Receivable are not done so promptly	**Important**

Observation and Risk:

Finance is informed about income falling due through Debtors Request Forms (DRFs) completed by budget holders. When forms are received, the Accounts Receivable Team reviews them to decide whether new customers require to be set up within eFinancials. Accounts Receivable will then raise an invoice. Accounts Receivable staff will in general raise invoices within 3-5 working days following receipt of the DRF, although this can occasionally be 2-3 days longer when staff are on annual leave.

It has been agreed between Accounts Receivable and the Cashiering Team Leader that cashiering staff can assist in the raising of invoices when they are not busy. From a sample of 23 invoices raised this financial year, one had been raised by staff at the Cashiers office at PAEP. However the invoice was dated more than 4 weeks following the date of the DRF.

Unless invoices are raised as soon as possible following receipt of the DRF, unnecessary delays can occur in recovering income.

Recommendation:

Where certain activities have been delegated to staff and departments out with Accounts Receivable, staff should ensure that the department's timescales and performance requirements are followed.

Management Response:

The activity that is delegated to the Cashiering staff is for low value amounts which would not be a material correction.

Management Action:

Staff outwith main Accounts Receivable team have been reminded of necessity to adhere to departmental timescales

Responsibility: Financial Controller	**Target date:** April 2017

Control Objective 3: Procedures are followed in ensuring that all invoices are paid and the income is correctly identified, accounted for and reflected in the ledger.
We found no significant weaknesses in relation to this control objective. The Financial Operating Procedures provide adequate guidance on the accounting for income. Only the Accounts Receivable team has access to the accounts receivable section of eFinancials, and only the team can enter or amend customer details and post transactions against individual debtors. When DRFs are entered into eFinancials, they are matched to batch headers to confirm that all invoices have been raised. Income received in response to invoices is entered into a clearing account by Treasury or Cashiers. The Accounts Receivable team matches money received with remittance advices and invoices, before matching income against invoices on eFinancials. At month-end, the clearing account is reconciled and any unmatched items investigated.

Control Objective 4: The extent of debt is minimised and there is prompt follow up of overdue accounts, with appropriate authorisation over debt write-offs.
We found no significant weakness in relation to this control objective. The Financial Operating Procedures set out parameters for issuing reminder letters and statements to debtors. Outstanding debts are monitored through regular review and update of an All Outstanding Debtors spreadsheet by the Credit control Team, which includes the Head of Financial Control, Financial Controller, Credit Controllers and the Accounts Receivable Team Leader When establishing new customers, the Accounts Receivable team sets up debt recovery criteria as laid out in the Financial Operating Procedures and detailed further in the departmental reminder letters procedure, where separate criteria are in place for different customer categories (for example other NHS Boards, employees and private patients). The timescale for referring debts to collection agencies varies depending on the category of debtor and their invoice payment terms. Referral's can be made after 45, 60 or 75 days. Bad debts are provided for as outlines in the Financial Operating procedures. The bad debt provision calculation has been accepted by the external auditors. Debts that are written off follow the procedure within the Financial Operating Procedures. If below £20,000, the writing off of debts is authorised by the Financial Controller and Deputy Director of Finance. If above £20,000, proposed write-offs are referred to the Audit & Risk Committee before authorisation is sought from the Scottish Government. During April 2016 to November 2017 debt to the value of £208,780 was written off, with approximately £120,767 comprising of amounts below the £20k threshold.

Control Objective 5: Income and receivables data is regularly reported to the Finance & Resources Committee	
5.1 KPIs recorded in the Financial Operating Procedures are not being reported.	**Important**

Observation and Risk:

The Financial Operating Procedures record the reporting responsibilities of the Financial Controller and Accounts Receivable Team Leader. According to the Procedures, they are required each month to prepare write-off papers and supporting documentation, and present this to the Deputy Director of Finance. The procedures also state that Key Performance Indicators have been agreed and are produced monthly and presented to the Head of Financial Services. There is no mention within the Financial Operating Procedures of reporting to the Finance & Resources Committee, with enquiries confirming that no such reporting takes place, with no requirement to do so.

The Financial Operating Procedures lists 6 separate KPIs that are compared at each month end, including:

- Number of active customers split between NHS and Others;
- Number of payments processed each month; and
- Number of invoices raised per month and split between NHS and Others.

However this information is not being produced each month and sent to the Head of Financial Services for information and review. Instead the Accounts Receivable Team Leader updates a KPI spreadsheet at the end of each month, recording the total debt owed to NHS Lothian and length of time it has been outstanding (0-30 days, 30-60 days etc). This information is also split across that owed by Scottish Health Boards and other debtors.

Also, there is no analysis within the KPIs spreadsheet to compare debt against targets for the year.

Without clarity and agreement over the information that has to be compiled and reported, there is a risk that the Financial Operating Procedures are misleading on what information is available, or that the performance of the Accounts Receivable department is reasonable. Also, without targets included within the KPI spreadsheet, it cannot be confirmed that the amount of debt is reasonable and in line with that provided for in the Boards accounts.

Recommendation:

Management should review the current process for identifying, recording and reporting KPIs. Performance targets should be centred on the activities of the accounts receivable function and allow for review of departmental performance.

Management Response:

KPIs should be appropriate, meaningful, measureable, realistic and timely. Many commercially driven KPIs are not meaningful or obtainable within the health sector

environment and the National Order to Cash Focus Group did not identify any standard KPIs that should be used. All current KPIs are included in the monthly department KPIs which are discussed and reviewed by the Senior Finance Team. **Management Action:** Identify additional appropriate, measurable and realistic KPIs to be included in the department's monthly list.	
Responsibility: Financial Controller	**Target date:** November 2017

Appendix 1 - Definition of Ratings

Management Action Ratings

Action Ratings	Definition
Critical	The issue has a material effect upon the wider organisation – 60 points
Significant	The issue is material for the subject under review – 20 points
Important	The issue is relevant for the subject under review – 10 points
Minor	This issue is a housekeeping point for the subject under review – 5 points

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