



West Midlands Combined Authority

Internal Audit Report: Key Financial Systems – Accounts Receivable 2023-24

Report Date: 29th February 2024

Report Distribution: Louise Cowen, Head of Financial Management
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Manager
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1. Executive summary

Introduction and Background

- 1.1 A review of the WMCA’s accounts receivable system was carried out by Internal Audit as part of the annual Internal Audit Plan 2023/24 approved by ARAC. The objective of the review was to seek assurance regarding the effectiveness of the Accounts Receivable function within WMCA.
- 1.2 All the WMCA’s key financial systems are considered to have a potential effect on the annual accounts. Therefore, this audit review is undertaken on an annual basis. The controls tested as part of this review are deemed as core controls.
- 1.3 The last review of Accounts Receivable was completed in January 2023. The opinion was Substantial Assurance.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	To seek assurance that adequate controls are in place for the Accounts Receivable function and are operated in accordance with the Combined Authority’s Financial Regulations and Contract Procedure Rules.
System Risks:	<p>The following system risks were identified:</p> <ul style="list-style-type: none"> • Debtor invoices and credit notes are not processed accurately, completely and only once. • If a periodic reconciliation between AR and the GL is not undertaken on a regular basis there is a risk that mistakes and errors will not be detected. • Review of aged debts and processing of write-offs are not managed in accordance with Financial Regulations. • Adequate procedures are not in place for setting up new and amending customer details.
Scope	The review will include sales invoices and credit notes raised between April 2023 to December 2023 along with a review of outstanding sales invoices from previous years as part of the aged debtor process.
Limitation of Scope	Sales invoices and credit notes raised during April to December 2023.

Overall conclusion

Our conclusion is that the framework is adequate, and compliance is adequate. Our overall conclusion based on Internal Audit Standard Assurance Matrix, is that the system is “Adequate”. This means our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	Satisfactory	Substantial
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.	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.	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.	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.

Key issues identified.

We rate each issue identified in section 2 below, based on the following:

Red Action is imperative to ensure that the objectives for the area under review are met	Amber Action is required to avoid exposure to significant risks in achieving objectives	Green Action is advised to enhance risk control or operational efficiency
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We have identified 5 Amber issues (See section 2 below) where improvements could be made, arising from the following issues:

- No references to the value of debts that had been charged to the provision or the remaining balance on the debt provision in the monthly Financial Control information pack.
- Lack of procedures/work instructions for the work undertaken by the AR Officer and AR/AP Manager.
- Lack of periodic reporting of Aged Debt provision balance.
- No policy in place that details the option for the recovery of outstanding debts whether that is via the Authority’s Legal Service team or a third party recovery agency as a source of an additional means of collecting outstanding debts.
- No regular reporting of cumulative outstanding debts with the same customer.
- Inconsistent information held on WMCA Constitution and Financial Regulations.

- 4 old historic sales invoices totalling £8,813.90 require investigation as regards their validity.

Examples of good practice identified.

During our work, we identified the following examples of good practice within the system and in the management of risk, achieved through the effective design and application of controls:

- Use of Workflow within the Business World application ensured that there was an adequate separation of duties and that the correct authorisations were in place as per approval limits.
- Sample testing identified that invoices had only been raised once and had been suitably authorised by a budget manager.
- Raising of sales invoices and credit notes is timely and in accordance with scheme of delegation.
- Sound procedures were in place for identifying income received.
- Receipts were properly identified and deposited intact.
- Income received was suitably recorded in Business World.
- Monthly reconciliation process in place for AR to GL, with adequate separation of duties for a preparer and reviewer.
- Aged debt report shows cumulative debt position.
- Debt recovery procedures, including delegations for the approval of write-offs had been established in WMCA Constitution.
- Workflow process in place for new Customer requests/ amendments which are work flowed for validation and approval by separate officers.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

2. Findings and recommendations/

Action is required to avoid exposure to significant risks in achieving objectives.
Amber

1. Sales invoices and credit notes

Findings:

- Raising of sales invoices and credit notes is timely and in accordance with scheme of delegation.
- Lack of procedures/work instructions for the work undertaken by the AR Officer and AR/AP Manager.

Implication:

Lack of service resilience and accuracy of process if procedures and work instructions are not in place and not followed consistently and completely.

Recommendation:

- Rec 1 - AR/AP Manager to set out a timetable as to when the procedures/work instructions followed by the AR Team and the AR Manager will be documented. This will seek to ensure that in the absence of key officers that tasks can be completed in a consistent and timely manner and also offers a level of service resilience.

Agreed Actions/Management Comments:

Procedures and work instructions on raising invoices and credit notes and debt recovery are currently being updated and will be stored in the AR procedure file on the Finance shared drive.

Responsible Officer:

William Godden AR/AP Manager

Target Date:

31/03/2024

**Action is required to avoid exposure to significant risks in achieving objectives.
Amber**

2. Adequate procedures are in place with regards to overdue debts and write-offs.**Findings:**

- Legal Services have not been used as an additional means of collecting overdue debts ie those that are at Stage 4 and have been outstanding in excess of 4 months from the date the sales invoice was raised. Debts are assigned a Stage (1 - 4) based on cumulative days outstanding from the date the invoice was raised e.g. Stage 1 is 1 month outstanding.
- Monthly reporting of cumulative overdue debts with the same customer (over £100k) is reported in the Monthly Financial Controls report.
- The content of information relating to Debt Management is inconsistent between the records held on WMCA's Constitution to that contained in the Financial Regulations.

Implication:

- By not considering using an alternative method of collecting outstanding debts limits the Authority's chance of collecting outstanding monies.
- Services continue to be provided to a customer that has overdue debts potentially compounding the risk of non-payment.
- Officers may access information that is not complete and accurate.

Recommendations:

- Rec 2 – A clear Debt Recovery Policy that sets out the Authority's approach for the collection of outstanding debts is developed. The policy should cover the approach to the potential recovery of outstanding debt by the Authority's Legal Services team, subject to availability of resources and/or the use of a third-party external debt collection agency.
- Rec 3 -The content of the monthly KPI and the Monthly Controls Information Report should be revised in order to report upon cumulative debt for the same customer, for various Services within WMCA in order that a corporate view can be taken as to whether to continue to provide goods and services to a customer that has overdue debts or to place

them on “Stop” in order that a corporate request for payment of overdue debts (debts over 4 months) can be made.

- Rec 4 - Confirm and remove the link to the version Financial Regulations held on the intranet site Financial Regulations Constitution 030616 and ensure reference is made to WMCA Constitution.

Agreed Actions/Management Comments:

Rec 2 - Agreed, will develop and implement a Debt Recovery Policy during 2024/25.

Rec 3 - I agree that we need to inform the business if a customer has reached a cumulative debt of over £100K. This is already highlighted on the Monthly Financial Controls Report shared with Finance Senior Leadership but would benefit from wider circulation.

Rec 4 – Agreed will make the necessary amendment.

Responsible Officers:

Rec 2 - Louise Cowen - Head of Financial Management.

Rec 3 - William Godden - AR/AP Manager

Rec 4 - Julia Cleary - Head of Corporate Support and Governance.

Target Date:

In place for 2024/25 financial year.

In place for March 2024 reports

By end of March 2024

Action is required to avoid exposure to significant risks in achieving objectives.
Amber

3. Adequate procedures should be in place for setting up new, amending and reviewing customer accounts.

Finding:

- 4 old historic sales invoices (totalling £8,813.90) which have been carried over require investigation as regards their validity and currency.

Implication:

- Inaccurate recording and reporting of the aged debt position as the current AR Team do not have sufficient knowledge of the individual debts and what recovery action had been undertaken to date.

Recommendation:

Rec 5- Investigate the 4 “old” carried forward debts to confirm their validity as a debt and then in consultation with the originating Service, determine whether further recovery action is viable and cost effective or the individual sales invoices should be put forward for write off.

Agreed Actions/Management Comments:

No information is held on the old system. ECL to be increased from the current level of 40%, commensurate with its aged category, to a 100% full bad debt provision representing the low opportunity for recovery, and the debt to be written off at year end 2023/24.

Responsible Officer:

Rec 5 - William Godden AP/AR Manager

Target Date:

In line with 2024 Year End processes.

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted, or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Stage	Date
Draft issued	13/02/2024
Exit meeting	15/02/2024 with AR Manager
Final issued	
ARAC reporting date	1 st March 2024
ARAC meeting date	11th March 2024