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AUDIT COMMITTEE REPORT

Subject: Internal Audit Assignment – Income Collection & Credit Control	**Purpose:** **For Approval** ☒ **For Discussion** ☐ **For Information** ☐
Prepared by: Hazel Robertson, Vice Principal – Finance and Corporate Services	**Date:** 11 May 2020

Purpose: To present the findings of the Income Collection & Credit Control audit.

Linked to Strategic Goal 3: Provide a high quality College experience.

Executive Summary:

The attached report details the work carried out by the College's internal audit service in reviewing the income collection and credit control arrangements in place. The report confirms a strong overall conclusion with one medium and three low level recommendations made. Seven areas of good practice were also highlighted.

Recommendation: Committee consider the findings of the report and approve the auditor's findings.

Previous Committee Approvals: n/a

For publication ☒	**For publication with redactions** ☐	**Not for publication** ☐

Wylie+Bisset
Chartered Accountants, Business & Tax Advisers

Borders College

Internal Audit 2019-20

Income Collection and Credit Control
March 2020

Overall Conclusion
Strong

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for the Borders College*'s individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.*

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

1 EXECUTIVE SUMMARY

Overview

Purpose of review

The purpose of this review was to ensure that the arrangements in respect of income and credit control are appropriate and are operating effectively and efficiently. This review sought to provide assurance to the Board, via the Audit Committee, that the College's financial controls are adequate.

This review was agreed as part of the 2019-2020 Internal Audit Plan.

Scope of review

Our objectives for this review were to ensure:

- Income is recorded in accordance with applicable accounting standards and the College's financial procedures.
- Credit notes are only issued where there is a genuine reason for the sales invoice to be cancelled.
- Appropriate security arrangements are in place to ensure that any cash held within the College's premises is secure.
- Income is collected from debtors in an efficient manner.
- Refunds are only provided where there is a genuine need to reimburse a customer.
- The College's debtors are accurately stated.
- Debtor balances are collected efficiently as they fall due.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

1 EXECUTIVE SUMMARY

Limitation of scope

There was no limitation of scope.

Background

The College's Finance Team are responsible for the recording and processing of income. The Team is managed by the Finance Business Partner who is supported by the Finance Officer and the Finance Assistant. The College use the finance system, Sun Accounts, to record and process all income within the College. The College are currently looking into updating their current version of SUN Accounts to SUN v Spindle.

The College's main source of income is from the Scottish Funding Council (SFC). The Vice Principal: Finance & Corporate Services is responsible for submitting the monthly cash flow drawn down and forecast to the SFC. This is based on a review of the bank reconciliation and actual cash flow undertaken by the Finance Officer and reviewed by the Finance Business Partner. The monthly return details the grants received, grant forecast and budget v actual for the month and the year to date. All other income, such as commercial income or non-SFC funded course fees, are processed through Invoice Request Forms (IRFs), Unit-e or cash income.

All IRFs must be authorised by the Department Manager prior to being processed by the Finance Assistant or by the Finance Officer. IRFs are authorised by the relevant officer in the College and are processed immediately when they arrive by the Finance Team throughout the month. Invoices are prepared and processed from the Unite Student Management System and are reviewed and processed by the Finance Assistant. All cash income is processed by the Finance Assistant or the Finance Officer.

Credit control within the College is monitored by the Finance Assistant and Finance Officer. This involves the Finance Assistant and Finance Officer creating and reviewing an aged debtors report for the appropriate steps to be taken such as the issue of reminder letters. Reminder letters are generated automatically off the SUN Accounts system and issued via post to the relevant individual. Aged debtors' reports are reviewed and signed by the Finance Business Partner monthly then shredded (see Section 3 for further detail). The Finance Officer notified us that the new version of SUN Accounts may have the capacity to directly email letters to individuals and that this will be fully investigated once SUN is updated.

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Work Undertaken

Our work for this review included the following:

- Reviewing the management of the SFC cash flow returns and the drawdown of funds.
- Undertaking sample testing of 10 invoice request forms to ensure the invoices were appropriately reviewed and authorised prior to processing.
- Undertaking sample testing of 10 debtors over 30 days to ensure the Colleges debt recovery procedures were being followed.
- Undertaking sample testing of 20 credit notes and 10 refunds issued to ensure they were appropriately reviewed and authorised prior to issue and processing.
- Reviewing commercial income to ensure it is processed in line with College procedures and is being maximised to the benefit of the College.
- Undertaking a walkthrough of grant income and non-grant income to ensure that all income is being processed in line with College procedures.
- Undertaking transaction testing of 5 SFC grant income transactions, 5 non-grant income transactions and 7 cash income transactions (includes 3 transactions from the Access Café; 3 transactions from the restaurant and 1 transaction from the Salon) to ensure all income is accurately recorded within the accounting system.
- Reviewing and testing the processes for handling and processing cash income.

1 EXECUTIVE SUMMARY

- Reviewing the arrangements in place for storing cash within the College and reviewing if the cash balances held overnight did not exceed the Colleges insurance limits. Test a sample of overnight cash held at the College to ensure that this is within their limits.

- Reviewing the monthly bank reconciliations for November 2019 to February 2020 to ensure that this is completed appropriately.

1 EXECUTIVE SUMMARY

Conclusion

Overall conclusion

Overall Conclusion: Strong
We can provide a strong level of assurance over the arrangements in place for income collection & credit control at the College. We can confirm that income collection and credit control is being processed effectively. However, we have raised 1 medium and 3 low recommendations for improvement. Please see section 3 for further information.

Summary of recommendations

Grading of recommendations

	High	Medium	Low	Total
Income Collection and Credit Control	0	1	3	4

As can be seen from the above table there were no recommendations made which we have given a grading of high.

Areas of good practice

The following is a list of areas where the College is operating effectively and following good practice.	
1.	The College's has a robust Financial Procedures Manual that details the procedures to be followed regarding credit control and bad debt write off. As such, the Finance Officer is responsible for printing and reviewing the monthly aged debtor report and the Finance Assistant is responsible for generating and distributing the reminder letters chasing up the payment. Once the College deems a debt to be irrecoverable, a write off is then proposed to the Audit Committee annually for approval where required. We do note that the College are currently in the process of updating their Finance Procedures Manual.
2.	The College has robust controls and checks in place where the Finance Officer reviews the College's bank statements against SUN Accounts on a weekly basis and generates a bank reconciliation on a monthly basis. We reviewed 4 monthly bank reconciliations completed for November 2019, December 2019, January 2020 and February 2020, and can confirm that there was no variance between the figure stated on the finance system and the bank statement.
3.	Following our sample testing of refunds issued by the College, we can confirm that all had been processed in line with the College's internal procedures and appropriately authorised prior to processing.
4.	Following our sample testing of the College's Debtors and Credit Control Procedures detailed within the Financial Procedures Manual, we can confirm that the College has strong controls in place that are being adhered to by the Finance Team.

1 EXECUTIVE SUMMARY

The following is a list of areas where the College is operating effectively and following good practice.	
5.	Our sample testing of cash held overnight within the College's safes found that all cash held was within the safes insured limit. We can also confirm that the safes are held in secure rooms and keys are locked in a code secure safe overnight. These codes are changed on a monthly basis and are only known by members of the Finance Team.
6.	Following our walkthrough and transaction testing of grant income, we can conclude that grant income is processed correctly and in line with procedures.
7.	Following our walkthrough and transaction testing of the Colleges income streams, we can confirm that income is being processed consistently and in line with procedures.

2 BENCHMARKING

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Income Collection and Credit Control

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	1	2	3
Number of recommendations at Borders College	0	1	3	4

From the table above it can be seen that the College has a higher number of recommendations compared to those colleges it has been benchmarked against.

3 DETAILED RECOMMENDATIONS

Reminder Letters and Statements			
Ref.	Finding and Risk	Grade	Recommendation
1.	The College physically send out all statements and reminders to debtors via post and believe this is the best way to ensure a response from the debtor. Monthly, the Finance Assistant will print the aged debtors report and detail what reminder letter should be issued. During our review, we found that the College do not keep any documentation, aside from the notes taken on the aged debtor/creditor reports that are saved on the system and in hard copy, regarding the statement or reminder letters sent to debtors. There is the risk that there is an incomplete audit trail of statements and reminder letters issued to debtors.	**Medium**	We recommend that prior to sending the reminder letter/statement that the Finance Team scan the documents on to the system. We also recommend that the aged debtor report is reviewed and signed by the Finance Business Partner is also scanned on to the system prior to shredding.
Management response			Responsibility and implementation date
The recommendation that the Finance Team scan documents and save reminder letters/statements under Finance folder to evidence that we contacted the customer and the debt has been chased, is an additional step, which is time consuming and only provides proof that the documents have been scanned not sent. The current process of the Finance Officer and Finance Administrator establishing aged debtors to contact at the month end, noting this on the report (which is retained not shredded) provides suitable scrutiny. The only measure of improvement is for the Finance Officer and Finance Administrator to each sign and date the report. We will implement this additional step immediately.			*Responsible Officer:* Finance Business Partner *Implementation Date:* Going forward, to sign monthly aged debtors report. This will be implemented immediately.

3 DETAILED RECOMMENDATIONS

Invoice Filling			
Ref.	Finding and Risk	Grade	Recommendation
2.	The College keep all authorised invoices in hard copy format in folders. During our sample testing of Invoice Request Forms and credits notes, we found that 1 out of the 10 forms did not have an authorised hard copy of their invoice confirming that this had been issued. It was noted by the Finance Assistant and the Finance Officer that the invoice was incorrectly filed. There is the risk that the College are not adhering to their procedures when issuing invoices to debtors.	**Low**	We recommend that the College ensure that invoices are stored in line with their procedures.
Management response			Responsibility and implementation date
All Sales Invoices to be stored and authorised in compliance with Finance Procedure. (For note: under the current COV-19 lock down, all invoices are authorised electronically and are being stored within Finance/Sales ledger folder)			*Responsible Officer:* Finance Business Partner *Implementation Date:* immediately

3 DETAILED RECOMMENDATIONS

Refund Processing Procedures			
Ref.	Finding and Risk	Grade	Recommendation
3.	The College has a Fees Policy that was last updated in January 2020 by the Vice Principal: Finance and Resources. This Policy sets out the remit for which the College will grant a refund. The College are also in the process of updating their Finance Procedures Manual to reflect the current procedures utilised by the College. During our sample testing, we found that the College do not have a documented procedure for processing refunds within the Fees Policy or the Finance Procedures Manual. There is the risk that refunds are processed inconsistently between staff members.	**Low**	We recommend that a section on processing refunds is included within the Finance Procedure Manual.
Management response			Responsibility and implementation date
The Finance Business Partner will review Finance Procedures Manual after SUN upgrade (mid May 2020). This will include refunds process in line with Fees Policy.			*Responsible Officer:* Finance Business Partner *Implementation Date:* Fee policy (immediately) Procedures (June 2020)

3 DETAILED RECOMMENDATIONS

Cash Income Procedures			
Ref.	Finding and Risk	Grade	Recommendation
4.	The College primarily receive cash income from: ➢ Access café; ➢ Restaurant; and ➢ Salon. We were informed by the Finance Officer that when cash takings do not match the cash received, discrepancies are noted on the income sheet and taken from the tips received at each premises. During our sample testing of cash income, we found minor issues relating to the Finance Team not correctly processing cash income as per their procedures: ➢ Differences being taken from 'takings'; ➢ Tips and takings not being separated on the College's receipt board; and ➢ Discrepancies not being noted. The above issues were found in the College's Restaurant and Access Café. There is the risk that staff are not appropriately processing cash income.	**Low**	We recommend that the College remind staff of the cash income processing procedures to ensure that these are adhered to.

3 DETAILED RECOMMENDATIONS

Management response	Responsibility and implementation date
Finance Business Partner has provided a reminder to staff of the cash income processing procedure and this will be adhered to going forward.	*Responsible Officer:* Finance Business Partner *Implementation Date:* Immediately

4 AUDIT ARRANGEMENTS

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit Committee meeting.

Audit stage	Date
Fieldwork start	9 March 2020
Closing meeting	11 March 2020
Draft report issued	25 March 2020
Receipt of management responses	6 May 2020
Final report issued	8 May 2020
Audit Committee	21 May 2020
Number of audit days	3

5 KEY PERSONNEL

We detail below our staff who undertook the review together with the College staff we spoke to during our review.

Wylie & Bisset LLP			
Partner	Ross McLauchlan	Partner	ross.mclauchlan@wyliebisset.com
Senior Manager	Stephen Pringle	Senior Internal Audit Manager	stephen.pringle@wyliebisset.com
Auditor	Faisal Kayani	Internal Audit Senior	faisal.kayani@wyliebisset.com
Auditor	Siobhan Archibald	Internal Audit Assistant	siobhan.archibald@wyliebisset.com

Key Contact	Andrew Jones	Finance Business Partner	ajones@borderscollege.ac.uk
Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.			

APPENDICES

A GRADING STRUCTURE

For each area of review we assign a level of assurance in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A GRADING STRUCTURE

For each recommendation we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit Committee and addressed by senior management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

Purpose of review

The purpose of this review is to ensure that the arrangements in respect of income and credit control are appropriate and are operating effectively and efficiently. This review will provide assurance to the Board, via the Audit Committee, that the College's financial controls are adequate.

This review was agreed as part of the 2019-2022 Audit Needs Assessment.

Scope of review

Our objectives for this review are to ensure:

- Income is recorded in accordance with applicable accounting standards and the College's financial procedures.
- Credit notes are only issued where there is a genuine reason for the sales invoice to be cancelled.
- Appropriate security arrangements are in place to ensure that any cash held within the College's premises is secure.
- Income is collected from debtors in an efficient manner.
- Refunds are only provided where there is a genuine need to reimburse a customer.
- The College's debtors are accurately stated.
- Debtor balances are collected efficiently as they fall due.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There are no limitations of scope.

Audit approach

Our approach to the review will be:

- Discussions with key personnel to establish the current arrangements in place for income collection and credit control.
- Review of the College's financial policies and procedures to ensure that these are adequate and comply with current guidance and good practice.
- Evaluation of the College's current arrangement and policies and procedures to ensure that they are fit for purpose.
- Sample testing to confirm that policies and procedures are being adhered to and that income is complete.
- Sample testing to confirm that there are appropriate credit control procedures in place.
- Discussions with key personnel to establish the arrangements in place for bad debt provisions.

Potential key risks

The potential key risks associated with the area under review are:

- Grant income is incorrectly recorded.
- Income is not accurately recorded through the accounting system.
- Illegitimate credit notes are created in the system, resulting in a potential understatement of sales.

B ASSIGNMENT PLAN

- Grant payments are not received as they fall due.
- Income request forms are not accurately processed.
- Debts are not paid as they fall due.
- Illegitimate refunds are processed resulting in the College's being subjected to financial loss.
- Debtors are over/understated.
- In the event of the security arrangements around cash being breached, the College may suffer from significant financial loss.