

Board of Management Audit & Assurance Committee

Date of Meeting	Wednesday 15 September 2021
Paper No.	AAC1-G
Agenda Item	5.2.2
Subject of Paper	Internal Audit Report – Debtors/Income
FOISA Status	Disclosable
Primary Contact	Henderson Loggie
Date of production	6 September 2021
Action	For Discussion and Decision

1. Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

2. Purpose of report

The purpose of this review is to provide management and the Audit and Assurance Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

3. Key Insights

This internal audit of Debtors/Income provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

4. Impact and implications

Refer to internal audit report.

Appendix – Internal Audit Report – Debtors/Income

City of Glasgow College

Debtors and Income

Internal Audit report No: 2021/03

Draft issued: 24 August 2021

Final issued: 6 September 2021



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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Assurance Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Good	System meets control objectives.
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Risk Assessment

This review focused on the controls in place to mitigate the following risks on the City of Glasgow College Strategic Risk Registrar as at 20 May 2021:

- Risk number 15 - Failure to achieve operating surplus via control of costs and achievement of income targets, current status Red.

Background

As part of the Internal Audit programme at City of Glasgow College (the College) for 2020/21 we carried out a review of the systems in place for Debtors and Income. The Audit Needs Assessment, completed in March 2017, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

While 74% of the forecasted income of £90.8m for the College, in the current academic year, is derived from funded student places to maintain a balanced budget, the remaining 26% (or £23.5m) is raised from other income sources. Of this £23.5m, some £20.3m is raised through commercial sources, and it is this commercial income which is the focus of this audit.

To maintain a balanced budget it is essential that the College has an effective process in place to bill and collect monies due. This audit reviewed the effectiveness of the controls in place to manage these income processes within the College.



Scope, Objectives and Overall Findings

This audit focused on the systems of internal control in place within the College in relation to commercial income generating activities; education contracts; and other income. In addition, debt management and recovery procedures were also reviewed.

The table below notes each separate objective for this review and records the results:

Objective	Findings			
The objective of our audit was to ensure that:		1	2	3
1. Invoices / claims are raised promptly in respect of income due to the College.	Good	0	0	1
2. Credit notes are appropriately authorised before issue.	Good	0	0	1
3. Adequate debt management and recovery procedures are in place and are consistently followed in practice.	Good	0	0	0
Overall Level of Assurance	Good	0	0	2
		System meets control objectives.		

Audit Approach

From discussion with Finance and Faculty staff we identified the key internal controls in place in the above areas and compare these with expected controls. Substantive testing was undertaken to confirm compliance with the required controls and assess their effectiveness.



Summary of Main Findings

Strengths

- Policies and procedures are in place to support the prompt and accurate raising of sales invoices for monies due to the College;
- Regular reconciliation of SAAS funding awards is undertaken to identify monies due to the College;
- The use of a hotel booking system to manage the student accommodation income with daily reconciliation of monies received with the College's Symmetry finance system;
- The College has in place a defined approach for credit notes and College course refunds;
- All credit notes are required to be approved before they are processed;
- The College course refunds process is controlled centrally within Finance;
- All sales invoices have payment terms of 30 days and failure to make payments within this timescale results in the payment being included in the overdue payment reports;
- Debt recovery action is taken when accounts become overdue;
- Unpaid accounts over 90 days are referred to the College's appointed debt collection agency to pursue outstanding amounts;
- There is a defined approach in place for writing off bad debts; and
- In the current academic year, the College has in place a provision (£800k) to absorb any identified bad debts.

Opportunities for Improvement

While the audit did not identify any control weaknesses, the process would be further enhanced if the following areas could be addressed:

- Sales invoices - it was evident from our review that invoice requests are being raised and submitted to Finance to raise the invoice on the sales ledger. This entails a degree of manual 'double handling', thus reducing the efficiency of the process overall; and
- There is an absence of a single guidance/procedure in place for the credit note process (including authorisation protocols and the required approval limits).

Acknowledgment

We would like to take this opportunity to thank the staff at the College who helped us during the course of our audit review.



Main Findings and Action Plan

Objective 1 - Invoices / claims are raised promptly in respect of income due to the College (Continued).

Invoices for income due to the College are generally raised by the Finance department through the Symmetry system. These invoices are raised following requests made by other areas within the College to recover monies due. There are policies and procedures in place for the raising of invoices on Symmetry for the monies due to the College and these are detailed within the College's Financial Regulations and described in more detail within the Income Collection procedure. In addition to raising an invoice income can also be collected by:

- The use of the Epitome system for the hire of student accommodation; and
- The use of credit card and online payments for College services, including payments for course fees.

Once the sales invoice has been raised within the sales ledger, it generates the customer code to enable the invoice to be tracked within the Finance system, including matching when any payment is received. Alternatively, where the invoice is unpaid 30 days after issue this passes over in to the debt management process. It is the standard approach for all areas within the College to raise a sales invoice request when monies are due. This is submitted to the Finance department to raise and issue the sales invoice. The sales invoice request contains the key information:

- Authorisation for the invoice;
- The amount to be invoiced;
- Description of goods/serviced supplied;
- The applicable VAT rate;
- Account Code: and
- Cost centre code.



Debtors and Income

Objective 1 - Invoices / claims are raised promptly in respect of income due to the College (Continued)

Observation	Risk	Recommendation	Management Response			
<p>It was evident from our review that invoice requests are being raised and submitted to Finance to raise the invoice on the sales ledger. This entails a degree of manual 'double handling', thus reducing the efficiency of the process overall.</p> <p>During the sample period of our review, 1 September 2020 to 31 March 2021, a total of 3803 sales invoices were issued. The current approach requires the details for any invoice request to be duplicated into the sales ledger by the Finance department. The volume of the sales invoices raised, and the duplication of effort involved in this approach, heightens the risk of errors being made; increases the administrative cost of the process; and places a large work volume on the Finance department.</p>	<p>Inefficient process resulting in mistakes being made with increased administrative costs in the current approach.</p>	<p>R1 The College should review its current approach for raising debtor invoices and identify whether any elements of the current process could be delegated to other teams in the College to raise invoices directly onto the sales ledger, without the need for a sales invoice request. A pilot exercise could be undertaken to test out this approach and identify the controls required to ensure the continued accuracy of the sales invoice process.</p>	<p>We will work with the commercial department to set up a pilot programme for session 2122 ensuring strong financial controls remain place to ensure accuracy of the sales invoicing process.</p> <p>To be actioned by: Head of Finance</p> <p>No later than: 30 November 2021</p> <table border="1" data-bbox="1585 874 2089 1021"> <tr> <td data-bbox="1585 874 1872 1021">Grade</td> <td data-bbox="1872 874 2089 1021">3</td> </tr> </table>		Grade	3
Grade	3					



Objective 2 - Credit notes are appropriately authorised before issue.

The College has in place a defined approach for the use of credit notes. Where the credit notes relate to a delegated department budgets, the relevant department are responsible for approving their own credit notes. For all other credit notes, including the refund of course fees, the approval of the credit notes lies with Finance department staff.

For the refund of student fees, either directly to a student or anyone paying their fees, the College policy entitled 'the Refund of Course Fees' details the required steps to be completed before consideration and approval of any course fee refunds. All of these refunds require to be submitted on a credit note request with supporting information to the Finance department for approval before the refund is issued. In addition to these refunds, where a sales invoice has been issued for course fees, and the student is subsequently awarded SAAS funding, the Finance department will also raise the credit note to cancel the issued invoice.

The City Halls team, who operate the Epitome system, utilise a different approach. Where a refund for student accommodation is due, the City Halls team calculate the amount due on a spreadsheet which is downloaded for the Finance department to check and confirm that no outstanding amounts are due to the College which should be offset against the amount calculated. Any remaining balanced due is refunded to the student on the Symmetry Finance system. While the City Halls team do not use the credit note request system, the spreadsheet process in place provides an adequate audit trail of the calculation and the amount of the refund due to the student, enabling Finance staff to review, approve and issue the refund.

In the current academic year, due to the impact of the Covid-19 Pandemic the College has been unable to fully deliver its course offering and has been required to refund significant amounts of course fees (for self-funding courses) and accommodation charges. As the College has not been able to fully deliver all of the courses, which they would normally collect a fee for, they have taken steps to limit the volume of refunds by using course "credits". This involves offering future courses or extending the current course to a later date to allow completion. If this can be arranged, the current course "credits" are held on the individual students account.

A similar approach has been adopted for students who have left their accommodation but will return to the College for the next academic year. Where this has not been possible the refunds have been applied. as detailed above.

As part of our audit testing, we sampled 5% of the credit notes raised during the period of 1 September 2020 to 31 March 2021. The testing undertaken confirmed that the approval of the credit notes complied with the documented approach in place.



Debtors and Income

Objective 2 - Credit notes are appropriately authorised before issue (Continued).

Observation	Risk	Recommendation	Management Response	
<p>While the audit testing did confirm compliance with the authorisation process in place, it did identify the absence of a single guidance/process in place for the credit note process including its authorisation and the limits placed on their approval.</p> <p>Guidance, for the credit notes is dispersed within a number of policies including, the Refunds of College Fees However, there is currently no specific reference made to Credit Notes requirements, including approval limits, within the current College Financial Regulations.</p>	<p>Financial loss, inaccurate refunding of monies due to the college</p>	<p>R2 The College should review an update the current guidance in relation to credit notes, outlining the process to be followed and specifically detailing who can authorise the credit notes and providing improved clarity on limitations on the approval limits for credit notes.</p>	<p>Agreed – credit notes will be issued in line with the refund policy. The limits for authorisation will mirror the authorisation levels for finance staff within the financial regulations.</p> <p>To be actioned by: Head of Finance</p> <p>No later than: 30 September 2021</p>	
			<p>Grade</p>	<p>3</p>



Objective 3 - Adequate debt management and recovery procedures are in place and are consistently followed in practice.

The payment terms for all issued sales invoices are 30 days. When a sales invoice is raised and issued the balance is held within the sales ledger until the payment is received and matched. If after 30 days the payment has not been received then the balance will be captured within the Trade Debtors report and will require a 30 day letter to be issued to the customer by the Finance department requesting payment of the outstanding balance.

The City Halls team undertake the initial debt recovery action when a direct debit for student accommodation fails. Contact will be made to arrange for the payment of the outstanding monies due. If this cannot be resolved within 30 days, the matter is then referred to the Finance department to continue debt recovery actions.

This process will be repeated after 60 days when a further reminder letter will be issued. If after 90 days no contact has been received then the debt will be passed to the College's appointed debt collectors for enforcement action. Due to the nature and amount of some of the debts as they relate to course fees payment plans can be arranged and if maintained no further recovery action will be undertaken.

At the moment, due to the Covid-19 Pandemic, students cannot be evicted for non-payment of accommodation charges.

There is also a defined process in place for consideration and debt write off. If the debt is under £50 and is not recovered within 90 days, then it will be written off. Debts over 12 months old, which are not being actively pursued by the debt collectors, should be reviewed by the Head of Finance for potential write off.

The required process in place for the write off of outstanding debts is detailed within the College's Financial Regulations. There is a bad debt provision in place to offset the bad debts in the academic year, with the number of bad debts written off reviewed and reported in the year-end financial reports and accounts. The Trade Debtors report and monies outstanding are reviewed monthly and are discussed by the Head of Finance and the Vice Principle Corporate Services and reported in the monthly management accounts. As part of our audit testing, we sampled a selection of bad debts written off and confirmed that the documented controls had been applied consistently.

Also as part of our testing programme, we reviewed a sample of overdue accounts and confirmed that ongoing debt recovery activity was in place. It was evident that there is continuing activity and contact in place with a number of payments being made to reduce the balance of amounts outstanding.



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