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AUDIT & RISK COMMITTEE

29 May 2024

Internal Audit Assignment – Income Collection & Credit Control

1.0 PURPOSE OF PAPER

For decision

- 1.1 The purpose of this paper is to provide the Committee with findings of the internal audit for Income Collection and Credit Control.

2.0 EXECUTIVE SUMMARY

- 2.1 The Committee approved the Internal Audit plan for 2023/24 on 11 May 2023. The plan included a review of Student Retention.
- 2.2 The review of Income Collection and Credit Control has been undertaken from March to May 2024.
- 2.3 The audit has identified one recommendation and has an overall conclusion as “Strong”. The management response to the recommendations are included in the full report contained in Appendix A.

3.0 RECOMMENDATION

- 3.1 I recommend that the Audit and Risk Committee note the report contained in Appendix A.

4.0 BACKGROUND

- 4.1 The Financial Memorandum with the SFC requires the College to have an effective internal audit function and that the duties of that function conform to the professional standards of the Chartered Institute of Internal Auditors. For incorporated colleges and Regional Boards, the operation and conduct of internal audit must comply with Public Sector Internal Audit Standards and, where relevant, the Scottish Public Finance Manual. Internal Audit is to provide the Regional Board, the Principal and senior management with assurances on the adequacy of the internal control system.
- 4.2 The Internal Audit Service is contracted to Wylie Bisset who provide an annual plan of the areas to be audited. The plan for 2023/24 was approved by the Committee on 11 May 2023. The plan included a review of Income Collection and Credit Control.

5.0 INCOME COLLECTION & CREDIT CONTROL AUDIT

5.1 The audit of review of student retention levels was undertaken between 11 March and 1 May 2024.

5.2 There were one recommendation identified, four areas of good practice identified, and the overall conclusion is “strong”. The full report is contained in Appendix A.

“Following our review, we can provide a strong level of assurance surrounding income collection and credit control. We have identified 1 low grade recommendation for improvement and 1 observation.”

6.0 IMPLICATIONS AND CONSIDERATIONS

6.1 Financial Implications

The are no direct financial implications from the contents of this report.

6.2 Learner Implications

There are no direct implications from the contents of this report.

6.3 Staff Implications

There are no direct staff implications from the contents of this report.

6.4 Equality and Diversity Implications/Equality Impact Assessment

There are no direct equality and diversity implications from the contents of this report.

6.5 Sustainability/Environmental Implications

There are no direct sustainability or environmental implications from the contents of this report.

7.0 RISK COMMENTARY

7.1 To ensure the financial performance and sustainability, all income should be collected promptly. The non-collection of available income is a risk to the College and processes are in place to mitigate this risk. The audit completed has tested these procedures and controls. The overall conclusion of “Strong” demonstrates the College is performing well in this area.

8.0 CONCLUSION

8.1 The audit of Income Collection and Credit Control has been completed and resulted in an overall conclusion of “Strong”.

Kirsty Robb, Vice Principal Finance & Corporate Services

Previous Committee Approvals: N/A

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Borders College

Internal Audit 2023-24

Income Collection and Credit Control
May 2024

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 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.

Overview

Purpose of review

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

This review formed part of our 2023/24 Annual 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 on 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.

1 EXECUTIVE SUMMARY

- All reporting and submission deadlines are met regarding income funds.

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 was no limitation of scope.

Background

Financial Guidance

The Financial Regulations and Financial Procedures set out the College's approach to managing income collection and credit control. The Regulations set out the applicable accounting standards that the College complies with these being the Statement of Recommended Practices (SORP) and guidance from the Scottish Funding Council.

Aged Debtors

The process for recovering payments from Debtors is outlined within the Financial Procedures. Debtors are reminded of their outstanding obligations at the following timescales:

- 30 days – statement.
- 60 days – reminder letter 1.
- 90 days – reminder letter 2.
- 120 days – debt collection agency (for debts over £20).

We sampled a selection of 5 debtors from the period January 2024 to March 2024 and confirmed that the debt was chased in line with the Financial Procedures. The College conducts Aged Debtor analysis on a monthly basis through reports that show the breakdown of each timescale. Aged debtors 30 days and over total £110,537.75, which represents 6.5% of the sales within the financial year, this being:

- More than 30 days - £67,282.75.
- More than 60 days - £625.00.
- More than 90 days -£1,919.53.
- More than 120 days - £39,582.36.

Refunds

The College's primary area of refunds is returning deposits to those students who return their locker keys, this is returned via the Finance Team with the money coming out the petty cash float. Our review of 2 refunds found a request form was completed and this was approved in line with the Financial Regulations.

Petty Cash

Petty cash is held in a safe within the College's Finance Department with the Financial Procedures stating that transactions above £20 must be approved by the Director of Finance & Procurement. Our review found for 2 petty cash transactions out of a sample of 5, the approver was not explicitly listed in the financial procedures. Additionally, we found that the College is unaware of how much cash is held by the third-party, BaxterStory, who manage the refectory. **Please refer to Section 4 – Observations for information.**

Credit Notes

Credit Notes are raised when an error is identified after the invoice has been sent to a customer, or in instances where a customer receives credit. A member of staff within the Finance Department will raise a Credit Note Request Form which sets out the customer's details, the order details and the preparer and approver of the Credit Note. Our review found for 1/3 Credit Notes, from March 2023 to July 2023, the approver was not explicitly listed in the financial procedures. **Please refer to Section 3 – Detailed Recommendations for information.**

Grant Income

As an education provider the College receives various types of grants as listed within their Financial Procedures i.e. Grant-in-Aid / Student Support funds, other SFC grants and other grant income. We sampled a selection of 2 incomes, from December 2023 to February 2024, and confirmed that evidence was provided by the grant funder and this amount was received by the College in the bank account.

Work Undertaken

Our work undertaken for this review included the following:

Objective 1: Income is recorded in accordance with applicable accounting standards and the College's financial procedures.

- We reviewed a sample of Grant Income, December 2023 to February 2024, and found for both samples that evidence was provided from the grant funder and this amount was received by the College in its bank account.

Objective 2: Credit notes are only issued where there is a genuine reason for the sales invoice to be cancelled.

- We reviewed a sample of 3 Credit Notes, that were cancelled as they related to invoices raised in error and a cancelled invoice and found for 1 Credit Note the approver was not explicitly listed in the financial procedures.

Objective 3: Appropriate security arrangements are in place to ensure that any cash held within the College's premises is secure.

- We reviewed a sample of 5 petty cash transactions, August 2023 to February 2024, and found for 2 of the transactions the approver was not explicitly listed in the financial procedures. **Please refer to Section 3 – Detailed Recommendations for information.**
- We confirmed with the client that cash is held within a safe within the Finance Department.
- We confirmed that the third-party running the College's refectory holds cash on premises, however the College does not know what levels of cash is held, nor does the College's insurance cover this cash. **Please refer to Section 4 – Observations for information.**

Objective 4: Income is collected from debtors in an efficient manner.

- We reviewed a sample of 5 Aged Debtors and found for that all debt was chased in line with the Financial Procedures.

Objective 5: Refunds are only provided where there is a genuine need to reimburse a customer.

- We reviewed a sample of 2 refunds and found both sampled refunds a request form was completed and this was approved in line with the Financial Regulations

1 EXECUTIVE SUMMARY

Objective 6: The College`s debtors are accurately stated.

- We reviewed 3 months of Aged Debtor analysis (December 2023, January 2024 and February 2024) to confirm that the College is reconciling its debtor balances on a monthly basis.

Objective 7: Debtor balances are collected efficiently as they fall due.

- We reviewed the most recent Aged Debtor report and confirmed that 6.5% of the College`s total sales are aged debt i.e. has been owed for more than 30 days.

Objective 8: All reporting and submission deadlines are met regarding income funds.

- We reviewed two submissions to the College`s funding providers to confirm the College is complying with its reporting requirements.

1 EXECUTIVE SUMMARY

Conclusion

Overall conclusion

Overall Conclusion: Strong

Following our review, we can provide a strong level of assurance surrounding income collection and credit control. We have identified 1 low grade recommendation for improvement and 1 observation.

Summary of recommendations

Grading of recommendations

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

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.	For a sample of 2 refunds, we confirmed for both that a request form was completed and approved in line with the Financial Regulations.
2.	For a sample of 5 Aged Debtors, we confirmed for all 5 samples that the debt was chased in line with the Financial Procedures.
3.	For a sample of 2 instances of grant income, we confirmed for both that evidence was provided from the grant funder and this amount was received by the College in its bank account.
4.	The College's approach to income is set out in its Financial Regulations, these regulations detail the relevant legislation the College complies with.

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.

Staff Wellbeing

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

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

3 DETAILED RECOMMENDATIONS

Financial Regulations			
Ref.	Finding and Risk	Grade	Recommendation
1.	<p>Organisations should have a complete list of approvers and the limits to which they can approve.</p> <p>Our review found that the College divides approvers into the Wider Leadership Team and Senior Leadership Team with approval limits being £5,000 and £20,000 respectively. However, neither the Financial Regulations or the Financial Procedures contain a complete list of staff members who can authorise transactions and the value to which they can authorise.</p> <p>There is a risk that staff may approve above their limits, as it is unclear what their limits are, which could lead to inappropriate or inaccurate transactions.</p>	Low	<p>We recommend the Financial Regulations clearly state which job roles are part of the Wider Leadership Team, and which are part of the Senior Leadership Team.</p>

3 DETAILED RECOMMENDATIONS

Management response	Responsibility and implementation date
Agreed – list of job role to be appended to financial regulations.	<i>Responsible Officer: Director of Finance & Procurement</i> <i>Implementation Date: 31 July 2024</i>

4 OBSERVATIONS

The following is a list of observations from our review

1. The College should be aware of the levels of cash held on its premises and tailor its level of security accordingly. Our review found that the College is not aware of the level of cash held by BaxterStory, the independent hospitality provider that runs the College's refectory. Whilst we accept this income is not the College's, its presence can entice theft which may cause damage to College premises.

5 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	11 March 2024
Closing meeting	15 March 2024 & 28 March 2024*
Draft report issued	18 April 2024
Receipt of management responses	25 April 2024
Final report issued	1 May 2024
Audit Committee	29 May 2024
Number of audit days	3

*A second closing meeting was held as more evidence was provided.

6 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	Graham Gillespie	Partner	graham.gillespie@wyliebisset.com
Senior Manager	Sue Brook	Senior Internal Audit Manager	susan.brook@wyliebisset.com
Senior	Colin McNeill	Internal Audit Senior	colin.mcneill@wyliebisset.com

Borders College			
Key Contact	Sara Wilson	Director of Finance	swilson@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 collection and credit control are appropriate and are operating effectively and efficiently including restaurant and refectory income. This review will provide assurance to the Board, via the Audit Committee, that the College's financial controls are adequate.

This review will form part of our 2023/24 annual internal audit plan.

Scope of review

Our objectives for this review are to ensure:

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- 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.
- All reporting and submission deadlines are met regarding income funds.

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 is no limitation of scope.

Audit approach

Our approach to the review will be:

- Discussion with relevant management and finance staff to establish the income collection arrangements and their involvement in this process.
- Evaluating these arrangements to confirm their adequacy and whether they comply with current guidance and good practice.
- Review of documentation to confirm that policies and procedures are in place and that current arrangements comply with good practice.
- An overall review of the internal control environment to ensure all relevant controls are evident and being complied with. We shall also consider whether these controls are appropriate highlighting any weakness in the controls and/or any redundant controls. This will also include a review of the restaurant and refectory income.
- Review of accounting records and supporting information.
- Review any unallocated cash balances and ascertain the reason why.
- Review aged debtors' analysis and ascertain reasons, and how customers are notified of arrears.
- Review the communication and reporting arrangements in the College

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.
- 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 organisation's being subjected to financial loss.
- Debtors are over/understated.
- In the event of the security arrangements around cash being breached, the organisation may suffer from significant financial loss.