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Audit Committee
Thursday 23 November 2017
10.00 am Wyndham Room - County Hall, Taunton

To: The Members of the Audit Committee

Cllr D Ruddle (Chairman), Cllr S Coles, Cllr N Bloomfield (Vice-Chairman), Cllr M Caswell, Cllr B Filmer, Cllr J Lock, Cllr M Rigby, Cllr P Ham and Cllr J Thorne

Issued By Julian Gale, Strategic Manager - Governance and Risk - 15 November 2017

For further information about the meeting, please contact Michael Bryant on 01823 359048 or mbryant@somerset.gov.uk

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Section 100A (4) of the Local Government Act 1972.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers

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AGENDA

Item Audit Committee - 10.00 am Thursday 23 November 2017

*** Public Guidance notes contained in agenda annexe ***

1 **Apologies for absence**

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils will be displayed in the meeting room. The Statutory Register of Member's Interests can be inspected via the Community Governance team.

3 **Minutes from the previous meeting** (Pages 9 - 14)

The Committee is asked to confirm the minutes are accurate**.**

4 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Committee's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5 **Partial Audit - Children's Independent Placements - Financial Controls** (Pages 15 - 46)

To consider this report.

6 **Partial Audit - The Planned Use of Schools Balances** (Pages 47 - 70)

To consider this report.

7 **External Audit Update** (Pages 71 - 96)

To consider this report from the External Auditors.

8 **Internal Audit Update** (Pages 97 - 118)

To consider this report from the Internal Auditors.

9 **Debt Management** (Pages 119 - 126)

To consider this report.

10 **Partial Audit - Debt Management** (Pages 127 - 158)

To consider this report.

11 **Income Code of Practice** (Pages 159 - 202)

To consider this report.

Item Audit Committee - 10.00 am Thursday 23 November 2017

12 **Committee Future Workplan** (Pages 203 - 206)

To consider this report

13 **Any other urgent items of business**

The Chairman may raise any items of urgent business.

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Guidance notes for the meeting

1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting – Michael Bryant on Tel (01823) 359048 or 357628; Fax (01823) 355529 or Email: mbryant@somerset.gov.uk
They can also be accessed via the council's website on
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2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at:
http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/

3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

4. Public Question Time

If you wish to speak, please tell Michael Bryant, the Committee's Administrator, by 12 noon the (working) day before the meeting.

At the Chairman's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit. The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chairman. You may not take direct part in the debate. The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

5. Exclusion of Press & Public

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

6. Committee Rooms & Council Chamber and hearing aid users

To assist hearing aid users the following Committee meeting rooms have infra-red audio transmission systems (Luttrell room, Wyndham room, Hobhouse room). To use this facility we need to provide a small personal receiver that will work with a hearing aid set to the T position. Please request a personal receiver from the Committee’s Administrator and return it at the end of the meeting.

7. Recording of meetings

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chairman can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council’s Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

8. Operating Principles for Audit Committee

Reports

i. The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.

ii. Reports should highlight issues for Member consideration, no matter how difficult or complex, for example:
   - All reports should detail current performance levels.
   - All reports should identify cost implications.

iii. No report should contain a recommendation “to note” the report.

iv. Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

Members

i. Members should be clear about cost and resourcing issues highlighted in clearly and concisely written reports.

ii. Members should seek to understand the impact of reports on Council performance.

iii. Members can refer reports / issues back to the Cabinet where there are constructive concerns about services and/or performance.

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Audit Committee

Minutes of a meeting of the Audit Committee held in the Luttrell Room, County Hall, Taunton on Thursday 21 September 2017 at 2.00pm.

PRESENT

Cllr D Ruddle (Chairman)

Cllr N Bloomfield
Cllr S Coles
Cllr B Filmer
Cllr L Leyshon (Substitute)
Cllr M Rigby
Cllr J Thorne

Apologies for absence: Cllr M Caswell, Cllr Ham and Cllr J Lock.

Other Members present: Cllr Davies, Cllr Aprico Paul.

Officers present: Kevin Nacey, Director of Finance and Performance; Martin Gerrish, Strategic Manager – Financial Governance; Scoot Wooldridge – Democratic Services; Pam Pursley – Principal Risk Officer; John Padfield and Martin Young – Strategic Managers.

Also present: Lisa Fryer - Southwest Audit Partnership.

13 Declarations of interest – agenda item 2

13.0 Members of the Audit Committee declared the following personal interests in their capacity as a Member of a District, City/Town or Parish Council: Cllr N Bloomfield, Cllr S Coles, Cllr B Filmer, Cllr Leyshon, Cllr Rigby, and Cllr Thorne.

13.1 Cllr Simon Coles further declared a personal interest regarding his membership of the Devon and Somerset Fire Authority.

14 Minutes of the last meetings – 27 July 2017 - agenda item 3

14.0 The Committee agreed that the minutes of the meeting held on 27 July 2017 were accurate and the Chairman signed them.

15 Public question time – agenda item 4

15.0 There were no members of the public present, and hence no questions asked, statements/comments made or petitions presented.

16 External Audit Annual Opinion – agenda item 5

16.0 The Committee considered and discussed this report, introduced by the External Auditor's Engagement Manager that provided an overall summary of progress in delivering this year's audit.

16.1 Members noted that since the last meeting the External Auditors had reviewed the Pension Fund Annual Report and were satisfied that it was consistent with the Pension Fund financial statements. It was also reported that the whole government accounts (WGA) work was on progress to be completed later in September. In respect of an objection raised on the accounts the objector, despite requests, had failed to confirm their electoral status and the External Auditors concluded they no longer wished to raise an objection.

16.2 There was a brief update on the process of appointing auditors to 'opted-in' bodies, now the procurement exercise had finished, and it was noted that the Public Sector Audit Appointments Board would confirm appointments in December.

16.3 Members accepted the report and noted that a further update would be presented to the 23 November meeting.

17 Internal Audit Annual Opinion - Agenda item 6

17.0 The Committee considered and discussed this report from the Internal Auditors that summarised progress against the 2017/18 audit plan. There was an overview of the 3 partial opinions regarding audit relating to the New General Data Protection Regulations (GDPR); Data Subject Access Requests (DSAR); and the Regulation of Investigatory Powers Act 200 (RIPA). The Committee sought and received assurances that the Council had plans in place to ensure compliance in these important areas.

17.1 Members were pleased to note that the report indicated that good progress was being made and that some requests for work in quarter 2 had helped with scheduling work that had been delayed. It was also reported that SWAP performance had remained good and above targets and compared favourably to the performance of partners. Members considered and briefly discussed Appendix B that provided details of audit completed, in progress and those not started. The report was accepted.

18 Quarterly Risk Management update - Agenda item 7

18.0 The Committee considered this report, introduced by the Governance Manager in detail and held a discussion on the latest risk management update.

18.1 It was highlighted to Members that the risk score for ORG0043 (Maintain a Sustainable Budget) had remained at a score of 20 and that a range of organisational mitigations and management actions continued to be used to further address and mitigate this challenging on-going risk risk. There was brief discussion about the Council's on-going work to manage its financial position and the Governance Manager assured Members that the Senior Leadership Team and Cabinet would continue to manage the financial position, robustly challenging any overspends, implementing management actions and continue to develop options to bring the overall budget back into balance.

18.2 The Committee considered the report and a brief overview was given of the four very high risks – a score of 16 or above – and how those were being addressed. It was stated that risk management was as much about exploiting opportunities as it was about managing threats. Risks needed to be managed rather than avoided, and consideration of risk should not stifle innovation. In some cases the Council might accept a relatively high level of risk because the benefits of the action outweigh the risk or disadvantages on the basis that the risk would be well managed.

18.3 Members proceeded to discuss Appendix A of the report and Appendix B which listed the partial assurance internal audit reports and sought and received assurances that the required actions were being followed up and progressed. Regarding the audits where SWAP could only offer "partial" assurance it was noted that these would come back to a future Committee meeting as part of the "follow up" process, and that agreed actions rated as 4 (Medium / High) or 5 (High) were required to be formally recorded and tracked through to completion. The Committee would receive six monthly updates setting a summary of progress. The Committee accepted the report.

19 Partial Assurance Audit – Adults – Safeguarding Alerts - Agenda item 8

19.0 The Committee considered a report from the Internal Auditors that provided an update following the recommendations received with the Safeguarding Alerts Audit issued last May.

19.1 Members were reminded that the Audit had been commissioned to assess the adequacy of the control and procedures in place for the processes across the Council. The Audit had also focussed on the subsequent 'alert stage' of a safeguarding contact and the various timescales and reporting processes in place.

19.2 Attention turned to the Final Audit attached as an Appendix to the report and the discussion focused on the agreed outcomes and actions arising from the significant findings. It was reported that significant progress had been made against the suggested actions and there was now a clear policy for staff to implement that included raising awareness of the 20 day timescale.

19.3 There was a brief discussion of the report and there was a question about when the changes would be fully embedded and become automatic and it was stated that the overall service had been subject to a period of substantial change but that the policy was becoming established and would be more ingrained as the service evolved. The Committee accepted the report.

20 Partial Assurance Audit – Adults AIS Data Quality - Agenda item 9

20.0 The Committee considered a report from the Internal Auditors that provided an update following the recommendations received with the Data Quality Audit issued last January.

20.1 Members were reminded that the Audit had focussed on the use of AIS as the Adult Social Care case management system and the measures in place to ensure that the quality of data recorded on AIS was as robust as possible.

20.2 Attention turned to the Final Audit attached as an Appendix to the report and it was stated that the service had been subject to a complete restructure and that process had meant a slight delay in progress. The suggested actions regarding the current software system 'Northgate' had been addressed and it had been agreed that a different case management system would be required to meet the requirements of the modern service. The Committee accepted the report.

21 Partial Assurance Audit – Financial Management of Care Provision - Agenda item 10

21.0 The Committee considered a report from the Internal Auditors that provided an update following the recommendations received with the Financial Management of Care Provision issued last March.

21.1 It was noted that the audit had been undertaken after a number of projects which had resulted in significant changes to staff and contract practice and structures. A number of those changes had addressed the suggested outcomes from the audit. It was also explained that the on-going work was focussed on ensuring future changes had a positive impact on behaviours and practice where possible.

21.2 Attention turned to the Final Audit attached as an Appendix to the report and 2 pages in colour from the report were tabled, to help show the information contained thereon. The progress made against the audit action plan was discussed and questions were asked and answers provided by the Strategic Finance Manager.

21.3 It was stated, in response to a question, that the increased capacity of the Care Co-ordination team along with improvements in software should mean that by the end of year the service was on sounder footing. The Committee accepted the report.

22 Partial Assurance Audit – Personal Finance Contributions, Income Collection - Agenda item 11

22.0 The Committee considered a report from the Internal Auditors that provided an update following the recommendations received with the Personal Finance Contributions, Income Collection issued last March.

22.1 Members were reminded that the audit had been undertaken after a number of projects which had resulted in significant changes to staff and contract practice and structures. A number of those changes had addressed the suggested outcomes from the audit. It was also explained that the on-going work was focussed on ensuring future changes had a positive impact on behaviours and practice where possible.

22.2 Consideration turned to Appendix B that provided details of the actions and progress made and it was noted that an on-going benefit would be a more consistent approach and outcomes for service users and a streamlined system for staff. The Committee accepted the report.

23 Forward Work Plan – agenda item 12

23.0 The Committee considered and discussed its Forward Work Plan of future agenda items and reports for forthcoming meetings in 2017 and in to 2018.

23.1 It was agreed that the November meeting would include an item on Debt recovery and the January meeting would have an Anti-Fraud and Corruption themed agenda.

23.2 In response to a question it was stated that there were 6 fraud cases under investigation, and the Strategic Manager – Financial Governance undertook to provide an update on the number of on-going investigations at each meeting.

24 Other business of urgency – agenda item 12

24.0 There were no other items for consideration and the Chairman thanked all those present for attending. The meeting closed at 11.11.

Cllr Dean Ruddle
Chairman – Audit Committee

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Independent Placements – Financial Controls: Progress against audit recommendations

1. Background

In November 2016, the South West Audit Partnership (SWAP) carried out an audit of the adequacy of financial controls and procedures in place for independent foster care, residential and educational placements across Somerset County Council.

The report made a total of thirteen priority 4 recommendations to address identified control weaknesses.

2. Progress

Appendix A shows the action plan to address the thirteen recommendations and progress made to date. This work formed part of a high priority business case on placements and is being monitored by Core Council Board.

A significant amount of work has been put into developing processes which need to be fully embedded. Much of this work will be picked up through ongoing work across children's services in respect of placements.

3. Supporting papers

Appendix A – Action Plan Monitoring
Appendix B – Independent Placements – Financial Controls: Final report, South West Audit Partnership, 23rd Nov 2016

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Audit of Independent Placements: Financial Controls – Action Plan Monitoring (Appendix A)

Objective: To review the financial control arrangements in place regarding independent foster care, residential and educational placements. Where appropriate, recommendations for improvement and/or sharing of good practice were also made.

A total of thirteen priority 4 recommendations were made to address identified control weaknesses.

Ref no.	Audit Recommendation	Responsible Officer	Implementation date	Progress commentary
S001	1.1a - Ensure that placement procedures are fully documented and made available to all relevant staff. Procedures should cover all aspects of the placement process and should mandate clear time limits for placement actions to take place and financial thresholds for decision making.	Louise Palmer	July 2017	COMPLETE: Amended placement procedures fully documented in the form of flow charts and accompanying written guidance. Communication of new procedures to relevant staff complete and processes now 'live'. However, more work is needed to fully embed this change and this is being supported by monthly placement meetings where issues can be reported. Longer term work needed to boost capacity of the Placements Team to make all independent SEND placements.
S002	1.2a - Ensure that panel decision making documentation is updated to include placement review dates. Records should then be maintained to ensure that all required reviews take place in the required timeframes.	Panel Chairs	January 2017	COMPLETE: Review dates are recorded in panel minutes and forward plan maintained by business support. Work underway to allow automated report of placement review dates to be run from LCS.
S003	1.2b - Ensure that SEND panel decision making records include information on the type, start date, and cost of all new provision. Processes (see recommendation 1.1a) should include a requirement that panel decision	Sharon Longden	June 2017	COMPLETE: Passing of decisions to finance is included in the procedures documentation. Improved SEND panel process implemented; all costs agreed through panel and IPAs in place, linked to Education Health & Care Plans.

Ref no.	Audit Recommendation	Responsible Officer	Implementation date	Progress commentary
	records are provided to finance before any payments to providers are set up.			
S004	1.3a - Ensure that placement approval processes and documentation are amended to include the 'lifetime' cost of the placement. A clear rationale for the calculation of this cost should be included in procedures but may be based on: • total cost until date of review (see recommendation 1.2a) • the cost of placement until the age where the placement will not be required. Procedures (see recommendation 1.1a) should include actions to be undertaken where likely lifetime costs of placements will exceed delegated authority levels.	Louise Palmer	July 2017 December 2017	ONGOING: When a placement is made, the Placements Team know the indicative cost and estimate the transport element when referring to the Deputy Director for approval. Lifetime cost and total cost of the placement until the date of review are noted in the Placement procedures (see S001 above) to ensure decisions are made in consideration of them. However, these exact costs will not be known at the point of finding and making a placement; they are agreed as part of the care planning process. Further work is needed between Commissioning and Finance in order to: • track indicative vs. final agreed placement costs; • understand recording of different elements of spend from individual budgets (see S005 below).
S005	1.4a - Ensure that procedures (see recommendation 1.1a include requirements for the approval of placement cost increases to: • include time limitations (where appropriate). • include dates for placement review. • require panel approval above given	Louise Palmer	December 2017	ONGOING: Commissioning and Finance are working together to consolidate the costs from different budgets (see S004 above).

Ref no.	Audit Recommendation	Responsible Officer	Implementation date	Progress commentary
	thresholds.			
S006	1.5a - Ensure that written procedures (see recommendation 1.1a) are established to ensure adequate control of non-core payments. These procedures should include the budget from which such payments are to be made.	Louise Palmer	July 2017 December 2017	ONGOING: Processes and procedures have been developed to specify which officers/panels can/cannot agree additional costs and how this should be done. These procedures were made live and available in July 2017 (see S001 above). Further work to be done by Finance and the Placements Team to monitor total costs going forward and track elements of placements spend from different budgets.
S007	1.6a - Ensure that procedures (see recommendation 1.1a) include a method for the placements team to be notified of any actual or imminent CSC placement end dates in order to enable notice periods to be enacted, all necessary actions to take place, and a new placement (where appropriate) to be sought.	Louise Palmer	July 2017	COMPLETE: Included in placement procedures documentation.
S008	1.7a - Ensure that procedures (see recommendation 1.1a) include requirements for IPAs to be in place when placements are initiated. Any changes to costs and requirements should also be captured in amended IPAs. This recommendation applies to all placement contracts but it is acknowledged that some content may vary	Louise Palmer	July 2017 November 2017	ONGOING: Requirements for an IPA to be completed are included in the placement procedure documentation which was rolled out in July 2017. However, we recognise we have a capacity issue within the Placements Team with regard to completing IPAs. That is being addressed in the form of additional business support to ensure these

Ref no.	Audit Recommendation	Responsible Officer	Implementation date	Progress commentary
	between CSC and education placements.			are completed promptly going forward
S009	1.8a - Establish clear reporting and performance measures relating to placements. This should include, but is not restricted to the following: • Placements outside of indicative cost parameters (see recommendation 3.1a) • Completion of placement reviews stipulated by approving panels (see recommendation 1.2a) • Realisation of potential placement discounts available (see recommendation 3.2b) Exception reporting should then be used to highlight areas where stated timeframes and financial thresholds are exceeded so that corrective action may take place.	Louise Palmer	December 2017	ONGOING: A data dashboard of KPIs has been developed by the Commissioning Team for reporting the activity and performance of the Placements Team. This dashboard is under further development and a future iteration will include finance information (including indicative vs. actual cost).
S010	1.8b - Instigate a review of information requirements. This should identify requirements for Social care, Education, panels, Placements Team, Commercial & Procurement and Children's Commissioning teams. Wherever possible information should be available to access from a single point in order to reduce duplication of effort and the potential for inconsistencies. In the first instance LCS and Capita should be utilised as the primary systems although it is	Louise Palmer	November 2017	ONGOING: Single placement record is progressing (see S013 below) and is held by the Placements Team. Further work is underway between ICT, Commissioning and Finance regarding improved reporting arrangements and longer term feasibility of utilising the LCS or Capita and Finance module.

Ref no.	Audit Recommendation	Responsible Officer	Implementation date	Progress commentary
	acknowledged that functionality may limit this in some instances.			
S011	3.1a - Ensure that a process is established for off-contract placement purchases which is compliant with SCC Contract Standing Orders.	Carly Wedderburn	May 2017	COMPLETE: The Contract Standing Orders (CSO) have been updated. The changes were endorsed by Constitution Committee on the 11th April 2017 and were approved at Full Council in May 2017. The CSO have been updated with revised thresholds and also provide better clarity for Officers to ensure they remain compliant with procurement rules and regulations and the CSO.
S012	3.2a - Ensure that the process for approval of placements is enhanced to ensure that the level of discounting offered by providers is received by the approver. Where discounts stated have not been obtained a clear rationale for why this is the case should be provided ahead of approval for the placement.	Louise Palmer	January 2018	ONGOING: • Process and procedures documents specify that the Deputy Director/Strategic Manager pre-approves the options submitted to them before the Social Worker can undertake matching. This decision includes scrutiny of the full costs. • Process for Special Educational Needs and Disability (SEND) placements allows for 'renegotiation' to be requested before approval. • Further work to be done between Commissioning and Finance to identify and track discounts. • Placements Team frequently achieve a better rate than the bid price when negotiating individual placements.
S013	3.2b - Ensure that finance monitoring information processes are updated to include: • The level of discounts available from each provider.	Louise Palmer	January 2018	ONGOING: Placements Team single record is complete. Dependent upon SO12 above to ensure that monitoring and application of discounts/negotiated rates takes place.

Ref no.	Audit Recommendation	Responsible Officer	Implementation date	Progress commentary
	• The level of discount applied to each placement. • The % above or below indicative framework cost for each placement. Whilst it is not the responsibility of finance staff to ensure that discounts are applied where appropriate the use of enhanced financial monitoring will facilitate reporting of higher than expected costs.			

Independent Placements - Financial Controls

Final Report

Issue Date: 23 November 2016

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

- This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

- This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

Executive Summary

Overview

As part of the 2016-17 audit plan a review has been undertaken to assess the adequacy of the financial controls and procedures in place for independent foster care, residential and educational placements across Somerset County Council. The audit was originally scheduled for quarter 4 but has been moved forward to quarter 2 at the request of the Director of Children's Services.

Somerset County Council (SCC) is part of a collaboration with Cornwall Council, Plymouth City Council, Torbay Council and Devon County Council. This collaboration is referred to as the Peninsula Framework and is concerned with the commissioning and procurement of the independent placements considered in this audit. The frame work used has been in existence since 2013 and is currently being reviewed ahead of expiration at the end of 2016/17. Currently the framework encompasses four elements (or Lots):

Lot 1) Independent residential childrens homes;
Lot 2) Independent fostering services;
Lot 3) Day and residential independent and non-maintained special schools; and
Lot 4) Support and accommodation for 16-25 year olds (including Care Leavers and those who meet the threshold for Local Authority support)

Decision making processes for all placement types have been significantly revised over the last 18 months due to resource issues and as part of efforts to increase control over costs. Decision making regarding placements is now centred around four panels as follows (the first three of which being established in July 2016):

- At risk of care panel;
- Legal gateway panel;
- Permanence panel; and
- Special Educational Needs Disabilities (SEND) statutory panel.

Further to the above a complex care panel was being formalised at the time of audit to consider children whose needs are more complex and require support from health, education and social care and therefore should be considered for funding from these agencies. A protocol has been agreed with the Somerset Clinical Commissioning Group in September 2016 which sets out the arrangements for considering these cases and the mechanisms to enable tripartite funding from Health, Education and Social Care.

SCC is currently forecasting a significant budgetary shortfall which is driven, in part by cost pressures in Childrens Services with independent placements forming a significant part of these pressures. In the case of education placements funding is via the Dedicated Schools Budget (DSG) rather than directly from SCC.

Objective
To review the financial control arrangements in place regarding independent foster care, residential and educational placements. Where appropriate, recommendations for improvement and/or sharing of good practice will also take place.

Audit Opinion:	Partial

I am able to offer partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

A total of thirteen priority 4 recommendations have been made to address identified control weaknesses. These recommendations can broadly be grouped in the following areas:

- Documented procedures are insufficiently robust to support an effective control framework.
- Placement reviews are often not stipulated or do not take place even where mandated by decision making panels.
- There is no evidence that the cumulative costs of placements is considered in decision making meaning that approval processes are unlikely to be compliant with SCC financial regulations in many instances.
- A coherent system of reporting of placement costs and contributory factors including reporting on exceptions (timeframes and costs etc.) is not in place.
- Contractual arrangements with providers are insufficiently formalised particularly in the case of education placements.
- The Peninsula Framework is not effectively utilised to deliver value for money. (It is acknowledged that this area may only be able to be significantly improved in collaboration)

Whilst the audit opinion and volume of high priority recommendations is less than positive, multiple areas of strength and ongoing improvement were identified in the course of the audit. These include well-managed purchase order exempt payment processes, developmental work taking place with Peninsula partners, and the establishment of an ongoing placements action plan (of which this audit is a part) to address areas requiring improvement.

Further information regarding findings is included in the body of this report.

Corporate Risk Assessment			
Risks	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. Financial controls regarding payments are not effective given the relative size of the budget and the need to achieve value for money.	**High**	**High**	**High**
2. Short term / emergency placements are not effectively reviewed resulting in disproportionately high costs. *(This risk has been assessed only in terms of social care placements)*	**High**	**High**	**High**
3. Placements take place outside of existing framework contract arrangements and result in increased costs.	**High**	**High**	**High**

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

Audit testing originally focussed on Children's Social Care placements and a discussion document for this work was produced on the 21st September. Further work was then completed to review education placements which has been amalgamated into this report.

All findings are recorded under sub headings to indicate the area to which they relate.

1.	**Financial controls regarding payments are not effective given the relative size of the budget and the need to achieve value for money. (controls may include authorisation & delegation, review, monitoring, and reporting etc.)**

1.1	**Policies, procedures and guidance** Finding and Impact

Children's Social Care (CSC) and Education Placements
Guidance for each of the four panels in question (Risk of Care, Legal gateway, Permanence, and SEND Statutory) takes the form of Terms of reference, standard documentation for placement requests, agendas, minutes and emails to relevant officers etc.

A process map for the making of CSC placements was identified during the audit but it was acknowledged by the responsible manager that this does not include requirements for authorisation at three points in the process.

Documented procedures that can be seen as suitably robust in terms of approval or availability were not found to be in evidence. This presents risks in several areas:
- Effectiveness of processes will be difficult to assess on an ongoing basis.
- Compliance with and monitoring of procedures will be ineffective.
- Individual officers may be unduly exposed in decision making processes.
- There is an increased likelihood of decision making taking place that is contrary to desired SCC corporate direction and may result in increased costs.

1.1a	Agreed Outcome:	**Priority 4**

I recommend the Assistant Director - Commissioning & performance ensures that placement procedures are fully documented and made available to all relevant staff. Procedures should cover all aspects of the placement process and should mandate clear time limits for placement actions to take place and financial thresholds for decision making.

Action Plan:

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	Within the Placements Action Plan highlighted above a specific workstream is to put in place robust procedures and flow chart for the process of making a placement. This will include roles and responsibilities of social care teams, SEN teams, placements team, panels and their administrative support, commissioning staff and providers. A workshop will be held in early November to facilitate this with draft procedures developed by 1 Dec 2016 for approval (including agreement with internal audit) by early / mid December. These will then be rolled out to teams over Dec/Jan.		

1.2	**Panel approval of placements** Finding and Impact

CSC Placements
A sample of fifteen placements were reviewed to assess whether these had been appropriately approved by the relevant decision making panel. In all instances except one the existence of panel decision making was able to be confirmed. In this individual instance the placement related to

criminality and would therefore sit outside of normal decision making processes. Assurance was received that under revised panel processes these types of placements would now be retrospectively reviewed by panel.

The following control weaknesses in the panel approval process were however identified:

- Ten (of fourteen) panel decisions do not state an end or review date for the placement.
- In one (of four) panel decisions where a review date was stated this review did not take place.

There is a risk that without review dates being established and actioned, placements may continue where alternatives that are more suitable and / or lower cost may have been identified.

Education Placements

Twenty three placements were identified as commencing in the current financial year. Each of these were reviewed against recorded SEND Statutory Panel outcomes (September 15 to September 16).

- References in panel outcomes to the above placements were only identified in eleven (of twenty three) instances. *Note: Clarification on the above was requested by SWAP and assurance was provided that the twelve remaining decisions would have been recorded under 'EHCP Agreed' or 'Tribunal' in panel outcomes rather than 'Placement Decisions'. This has not been further tested in the course of the audit.*
- Six (of Eleven) panel outcomes did not state the type of placement approved.
- Two (of five) placement types were found to be inconsistent between recorded panel outcomes and financial information. (It is noted that in both these instances panel outcomes stated boarding placements whereas finance records stated day placements. There is therefore unlikely to have been an increased cost impact.)
- In three (of eleven) instances panel outcome records indicate deferral or further investigation but subsequent panel records indicate that the placement had been initiated although no panel approval was identified in this audit.
- Two (of eleven) panel decisions were to initiate a search for placement but no approval of the placement could be identified.

After panel approval the relevant finance officer is notified of the decision by the caseworker. This notification should take the form of a standard pro-forma but it has been established that this is not always the case. Finance do not receive any further confirmation of panel decisions or authorisation.

Without a clear and systematic link between panel decision making and finance activity there is a risk that spending will take place without appropriate authorisation potentially increasing costs to the Authority.

1.2a	Agreed Outcome:	**Priority 4**

I recommend the Assistant Director - Commissioning & Performance ensures that panel decision making documentation is updated to include placement review dates. Records should then be maintained to ensure that all required reviews take place in the required timeframes.

Action Plan:

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	This will be encompassed within the new procedures and templates outlined above. In the short term reviews of high cost placements are already happening now on a monthly basis and the		

	chairs of all panels meet weekly to discuss these and will be made aware of this priority recommendation.

1.2b	Agreed Outcome:	Priority 4
I recommend the Assistant Director - Commissioning & Performance in liaison with the Deputy Director - Education ensures that SEND panel decision making records include information on the type, start date, and cost of all new provision. Processes (see recommendation 1.1a) should include a requirement that panel decision records are provided to finance before any payments to providers are set up.		
Action Plan:		

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	The objective will be for the placements team to be the central point of placements activity, co-ordinating between social care / education teams, panels, providers, finance and commissioning. There will be one data source of placements including panel details outlined above that will be accessible by the finance team. The revised procedures will capture this detail as a requirement. See further recommendations below.		

1.3	**Full cost of placements** Finding and Impact

CSC Placements

As previously reported, end or review dates of placements are often not recorded as part of decision making processes. In order to test compliance with SCC delegated authority levels proxy measures were used to assess potential levels of spend against the level of authority to authorise:

- Eleven (of fifteen) placement decisions were found to have potential lifetime costs above the level of delegated authority of those approving the decision.

Education Placements

Twenty three placements identified as commencing in the current financial year were reviewed and costs based on stated estimated placement end dates are as follows:

- One placement's lifetime cost is estimated as £490k.
- Four placements have lifetime costs estimated at between £300 and £400k.
- Four placements have lifetime costs estimated at between £200 and £300k.
- Nine placements have lifetime costs estimated at between £100 and £200k.

The above includes only 'core' placement costs and does not include provision for travel etc.

As detailed in section 1.2, panel decision making and subsequent authorisation has not been found to be consistent and it has not been possible to assess the delegated authority of those initiating placements.

Summary

Individual placements clearly have the potential to accumulate very high costs over the 'lifetime' of the placement. It is acknowledged that issues relating to 'lifetime' costs are known and are evident in other SCC service areas (notably placements in adult services). There is a risk that placements are

procured which incur costs above the delegated authority of the decision making officer. This risk is exacerbated where placements take place outside of the Peninsula Framework agreement (see 3.1).		
1.3a	Agreed Outcome:	**Priority 4**
I recommend the Assistant Director - Commissioning & Performance ensures that placement approval processes and documentation are amended to include the 'lifetime' cost of the placement. A clear rationale for the calculation of this cost should be included in procedures but may be based on: - total cost until date of review (see recommendation 1.2a) - the cost of placement until the age where the placement will not be required. Procedures (see recommendation 1.1a) should include actions to be undertaken where likely lifetime costs of placements will exceed delegated authority levels.		
Action Plan:		

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	As part of the revised procedures, panel paperwork will be updated to ensure all costs of the placement are included (ie the cost of the accommodation aspect plus associated costs eg transport, additional staffing, therapeutic interventions etc), the review dates of the placement and the expected length of time of placement. In the short term panel chairs will be made aware of this recommendation to ensure they consider full costs. Currently CSC placement decisions can only be agreed by the Director of Children Services and the two Deputy Directors. Education placements are approved by the Deputy Director – Education.		

1.4	**Increases in costs for children already placed** Finding and Impact

CSC Placements

A sample of fifteen children where placement costs had increased was taken and twenty increases in costs were reviewed:

- Seven (of twenty) cost increases were not found to be approved by panel.
- Thirteen (of twenty) cost increases were not for a specified time period.
- In two cases the requirement for review was stated but dates for review were not specified.
- In two cases where arrangements were described as short term no stated review dates were evident.
- In two cases where review dates were stated the review could not be identified as taking place.

The average cost increase across the sample of twenty was found to be 212%. Given that the majority of cost increases do not include review dates there is a risk that increases in cost, even where approved will continue beyond the period for which they were intended significantly increasing cost pressures.

Education Placements

Fifteen increases in placement costs in the 16/17 financial year were reviewed:

- There was no consistent method for increases in costs to be authorised. Emails, high need placement forms, and hand written notes were identified as being used as a method of approval.
- In one instance (of fifteen) panel approval for the increase dated back to 2012. This related to a requirement for additional staff to support a given individual. (It should be noted that this additional cost had been negotiated down from £9k to £6k.)
- In one instance (of fifteen) the costs provided to panel for decision making were incorrect and when the placement was initiated an additional cost in excess of £10k was incurred. This was reported as occurring in three further instances (not included in audit sample) in the current financial year. These three occurrences relate to the same provider and incurred similar costs.

1.4a	Agreed Outcome:	Priority 4

I recommend the Assistant Director - Commissioning & Performance ensures that procedures (see recommendation 1.1a include requirements for the approval of placement cost increases to:
- include time limitations (where appropriate).
- include dates for placement review.
- require panel approval above given thresholds.

Action Plan:

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	This will form part of the revised procedures and panel paperwork outlined above.		

1.5	**Non-core costs charged by framework agreement providers** Finding and Impact

CSC Placements
Pricing schedules only exist for Lot 1 and Lot 2 of the Peninsula framework agreement. In both instances where pricing schedules exist items to be included in core provision are clearly stated.

A review of payments made by SCC above core placement costs identified multiple instances of payments being made for items such as uniforms and travel or transport both of which are stated in the pricing schedules above as being part of core provision. Payments above core costs were identified as being made from both placement and area budgets and are estimated as totalling some £60k per annum. As payments can be made from both budgets there is a risk that oversight of spend relating to individual placements will be reduced decreasing control and increasing the likelihood of duplicate or inappropriate payments.

It is beyond the scope of this audit to review non-core payments made by other Authorities party to the Peninsula Framework Agreement. It has however been stated that SCC is the only Authority who does not pay travel costs (for example) as matter of course.

No formal procedures exist that cover the payment of non-core costs but practice such as payments only being made for travel costs above 200 miles was found to be evident.

Education Placements
Non-core placement cost for 2016-17 are forecast to total some £104k. This includes items such as

therapy, exam fees, and counselling. It does not include transport costs which are held under a separate budget and were not reviewed during this audit.

Pricing schedules are not included in the framework agreement for education providers (Lot 3). Section 5.2 of Individual Placement Agreements (IPAs) does set out the respective responsibilities for 'non-core' costs between parent, provider, and purchaser. As stated in section 1.7 of this report IPAs have not been found to be in use for the majority of education placements and as such no assessment of the appropriateness of 'non-core' costs can be made at this point.

Summary
There is a risk that costs are incurred that should be included in core placement costs and absorbed by providers.

1.5a	Agreed Outcome:	Priority 4

I recommend the Assistant Director - Commissioning & Performance ensures that written procedures (see recommendation 1.1a) are established to ensure adequate control of non-core payments. These procedures should include the budget from which such payments are to be made.

Action Plan:

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	Agreed that this will form part of the revised procedures highlighted above. This will be supported by the requirement to provide total costs of the placement being requested, and therefore the commitment against budgets and clarity of costing structures within procured services.		

1.6	**Payments made after placement finish date** Finding and Impact

CSC Placements
In five (of fifteen) instances where the placement provider changed there were 'overlapping' payments of between three and nine days. It is noted that in some instances placement breakdown will result in notice periods with initial providers having to be complied with. It is also noted that a system of credit notes is in place between placement and finance teams that serves to minimise over payments.

In one instance identified during other sample testing an individual's belongings remained with the previous provider for three weeks after the placement end resulting in costs of £1,185. (these costs had been negotiated down from £3810).

There is no formal procedure for the placement team to be notified of a placement change resulting in a reliance on individual team members being alert to imminent changes and then giving notice to providers accordingly. This presents a risk that SCC will incur placement charges from multiple providers simultaneously for the same placement.

1.6a	Agreed Outcome:	Priority 4

I recommend the Assistant Director - Commissioning & Performance Strategic ensures that procedures (see recommendation 1.1a) include a method for the placements team to be notified of any actual or imminent CSC placement end dates in order to enable notice periods to be enacted, all necessary actions to take place, and a new placement (where appropriate) to be sought.

Action Plan:			
Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	This will be addressed through the revised procedures with clear review dates of placements plus the responsibility of social workers / SEND staff to advise the placements team of likely or imminent changes to any placement.		

1.7	**Payment of invoices** Finding and Impact

CSC Placements
A sample of twenty five invoice amounts as recorded in the finance spreadsheet entitled 'Agency Monitoring' were tested.

- Only sixteen (of twenty five) invoices could be located to confirm authorisation of the hard copy invoice. In these sixteen instances no issues were identified. All invoice amounts (twenty five) were confirmed against scanned invoices and details entered in SAP.
- Seven (of twenty five) invoice amounts were found not to match costs detailed in Individual Placement Agreements (IPA).

Further to the above, seventeen (of twenty five) invoice amounts were not found to match against information recorded by the placements team in the spreadsheet document entitled 'SBS Database'. Testing did identify a further spreadsheet document entitled 'Current Placements List 2016' and in this document all twenty five invoices were found to match.

Education Placements
A sample of fifteen invoices were tested. In all instances the invoice amounts corresponded to the projected amounts to be paid. Similarly each invoice reviewed was found to be authorised by a member of the SEND team. Generally this authorisation was completed by the SEND Statutory Assessment Manager but when not available this would be undertaken by a Senior Casework Officer. Control weaknesses were identified when testing invoices against Individual Placement Agreements:

- Only two IPAs could be identified for the sample selected (fifteen).
- In one (of two) IPAs the amount stated in the agreement was not able to be matched against the projected amounts to be paid or the invoice reviewed.

Further to the above the existence of IPAs was reviewed. Officers engaged with in the course of the audit consistently stated that the lack of these agreements being in place is a known issue. In order to quantify this statement:

- A review of fifteen hard files for currently placed children identified no IPAs.
- A hard file for IPAs has been created but this contained only one agreement.
- Thirty Two IPAs were identified electronically as stored on the SEND shared (T) drive. This clearly represents only a small proportion of placements.

It is noted that IPAs have been updated and it has been reported that they are now being put in place for some providers. No assurance on the effective use of individual contracts can however be given with regards to education placements.

Summary
There is an increased risk of payment error where information is not consistent between sources. In addition where IPA terms are not consistent with actual payments there are further risks that contract payments will not have been appropriately authorised, will not be able to be effectively monitored, and may be subject to provider challenge.

1.7a	Agreed Outcome:	Priority 4

I recommend the Assistant. Director - Commissioning and Performance ensures that procedures (see recommendation 1.1a) include requirements for IPAs to be in place when placements are initiated. Any changes to costs and requirements should also be captured in amended IPAs. This recommendation applies to all placement contracts but it is acknowledged that some content may vary between CSC and education placements.

Action Plan:

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	Agreed and this will be included within the new placement procedures. IPA should be the source document for the agreement with the provider on the placement and outcomes required for the child.		

1.8	**Recording and reporting of placement information** Finding and Impact

CSC Placement Recording
As detailed in finding 1.7 multiple spreadsheet documents were found to be in existence that record information relating to placements. Each of these have been developed largely independently of one another to fulfil particular purposes. Liquid Logic Social Care System (LCS) as the primary case management system also holds information on the placement of children.

Due to the variety of different methods of recording information there is a risk that efforts will be duplicated, inconsistencies may occur, and holistic information will not be readily available.

CSC and education placement reporting
The ongoing 'Placements Action Plan' has provision to establish systems to review high cost placements and placement reviews. At the time of audit work these systems were at an early stage of development and assurance cannot be given at this point as to their effectiveness.

Directorate score cards do not include information on placement numbers or on costs of placements. Given the fact that current scorecards have been developed largely in response to Ofsted requirements it may not be practicable to include specific placement issues in this reporting.

Monthly revenue reports are produced and are provided to operational managers. Whilst these reports are useful and appropriate they can only offer a largely retrospective view of costs and do not (and are not intended to) give specific measurable information to understand what is driving either increasing or decreasing costs.

There is a risk that without clear and overarching reporting on factors that drive placement cost pressures management will not be able to develop and monitor appropriate actions to mitigate these pressures.

1.8a	Agreed Outcome:	Priority 4

I recommend the Assistant Director - Commissioning & Performance establishes clear reporting and

performance measures relating to placements. This should include, but is not restricted to the following: - Placements outside of indicative cost parameters (see recommendation 3.1a) - Completion of placement reviews stipulated by approving panels (see recommendation 1.2a) - Realisation of potential placement discounts available (see recommendation 3.2b) Exception reporting should then be used to highlight areas where stated timeframes and financial thresholds are exceeded so that corrective action may take place.			
Action Plan:			
Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	Agreed. This will be part of the workshop activity planned for November. The reporting information is required for both operational and strategic management purposes including future commissioning requirements.		

1.8b	Agreed Outcome:	Priority 4
I recommend the Assistant Director - Commissioning & Performance instigates of review of information requirements. This should identify requirements for Social care, Education, panels, Placements Team, Commercial & Procurement and Children's Commissioning teams. Wherever possible information should be available to access from a single point in order to reduce duplication of effort and the potential for inconsistencies. In the first instance LCS and Capita should be utilised as the primary systems although it is acknowledged that functionality may limit this in some instances.		

Action Plan:			
Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	Agreed. A review will take place with the aim to create one source of data for all placement activity, that will utilise information within LCS and Capita case management systems. This one data source will be held by the placements team and used for a range of purposes with access enabled to those who require it eg finance staff for financial forecasting. There may need to be a short term plan utilising the Placement Action Plan whilst exploring longer term options.		

2.	**Short term / emergency placements are not effectively reviewed resulting in disproportionately high costs.**

2.1	**Emergency placements** Finding and Impact
CSC Placements Fifteen emergency placements taking place in the 2016/17 financial year were reviewed: - In one instance authorisation took place via Emergency Duty Team (EDT). This is outside of the approval process reported to audit. - Two decisions were not approved (in advance or retrospectively) by panel. There is a risk that placements are not properly authorised resulting in decreased decision making control and the potential for increased costs.	

Panel review of Emergency Placements
- In one instance an assessment of why a residential placement was required was requested by panel but this review did not take place and no subsequent change of placement has been identified.
- Two placements reviewed by panel on the 26th July required permanency planning meetings which could not be identified as having taken place as of the 6th September.
- For the seven placement decisions retrospectively reviewed by panel the average time between the placement starting and the panel review was 32 days.
- In three instances placements were changed after panel review. The time scales for panel review and placement change are recorded below:

Cost of placement (£ per week)	Days between placement and panel review	Days between panel review and placement change
£10,500	7	63
£6,000	15	97
£5,100	54	44

There is a risk that panel decision making, required placement review, and mandated actions do not take place in a timely fashion (or not at all) resulting decreased decision making control and the potential for increased costs.

Recommendation 1.2a is applicable to the control weaknesses identified. As such no further recommendation is made here.

3. Placements take place outside of existing framework contract arrangements and result in increased costs.

3.1 Off contract placements
Finding and Impact

CSC Placements
Two hundred payments made to individual providers in quarters 1 and quarter 2 of 2016/17 were reviewed as part of audit testing;

Of these payments 12% were made to providers who are not recorded as part of the South West Peninsula Framework agreement. These payments accounted for 22% of costs amongst the 200 payments reviewed.

Education Placements
One hundred and forty active placements were reviewed.

41% of these placements were with providers not identified in Lot 3 (Education Placements) of the Peninsula framework agreement. These placements accounted for 36% of 2016/17 annual cost forecasts.

Summary
The above can only ever be seen as indicative of off-contract purchasing as there will be continuous movements in placements and therefore variance in actual numbers and proportions of costs. It is also acknowledged that purchasing will have to take place outside of the framework contract where suitable vacancies are not available amongst framework providers. Further to this costs outside of the framework agreement are likely to be higher where specific or complex needs exist which

prevent placements within the framework.

Section 7 of SCC Contract Procedural Rules states that:
'Employees...... (who)are not included on the Procurement Officer Authority List are not permitted to undertake procurement activity'

The sourcing of placements outside of the Peninsula framework is undertaken by members of the placement team (CSC placements) and casework officers (education placements). As only members of the Commercial and Procurement team are included in the Procurement Officer Authority List there is a risk that off-contract placement purchases are not compliant with Contract Standing Orders which may result in the:
- Potential for challenge from providers not awarded placements.
- Potential reduction in value for money where commercial and procurement skills are not harnessed.
- Potential for undue exposure for officers making procurements outside CSOs.

3.1a	Agreed Outcome:	**Priority 4**

I recommend the Assistant. Director - Commissioning & Performance liaises with Commercial & Procurement services to ensure that a process is established for off-contract placement purchases which is compliant with SCC Contract Standing Orders.

Action Plan:

Person Responsible:	Head of Commercial and Procurement	Target Date:	1 January 2017
Management Response:	Work is already underway to address this for existing off-contract providers. One-off arrangements will be included within the revised placement processes as discussed above. In addition a review of SCC Contract Procedural Rules should be undertaken so that Placements Officers have the ability to make emergency placements where necessary.		

3.2	**Peninsula Framework Discounts** Finding and Impact

CSC and Education Placements
On applying to be part of the framework agreement providers are required to provide details of the discounts that they offer. These discounts are then detailed in the 'Version 66 Providers' document. A review of this document identified the following levels of discounts being stated as offered by framework providers:

Discounts stated	**Volume**		**Long Term**		**Siblings**		**Reserved**	
	Min	Max	Min	Max	Min	Max	Min	Max
Lot 1	0	20%	0	2%	0	10%	0	75%
Lot 2	0	10%	0	5%	0	15%	0	50%
Lot 3	0	6%	Not stated					
Lot 4	0	25%	Not stated					

All discounts stated by providers are considered by Commercial and Procurement as 'non-contractual' on the basis that pricing levels stated in Individual Placement Agreements supersede those costs stated by providers on entry to the framework. Further to the above it is reported that Authorities party to the framework agreement negotiate pricing levels independently from one another.

Despite the above, the existence of stated discount rates does offer SCC an opportunity to negotiate on price with providers and there is evidence of this occurring albeit not in a systematic fashion.

CSC Placements

Volume discounts

Payments made to Lot 2 providers were reviewed to assess the number of placements made with each provider. Those providers where more than 10 placements were in existence are recorded below.

Provider	Number of Placements	Volume discount offered				
Volume at which discount applied		**10**	**25**	**40**	**60**	**Somerset Note**
Capstone	18	1.0%	2.0%	2.5%	3.0%	11+ 5%
Enhanced Foster Care	23	1.0%	1.5%	2.0%	3.0%	N/A
Foster Care Associates	14	0%	0%	0%	0%	N/A
Fusion Fostering	15	1.0%	2.0%	3.0%	4.0%	N/A
National Fostering Agency	16	0%	0%	0%	0%	N/A
Regional Foster Placements	11	1.0%	1.0%	1.5%	0%	N/A

Note: Payments are used as an indicator of placements made with each provider (in certain instances placements may have a changed in the period tested resulting in the potential for minor double counting)

In only two instances were volume discounts recorded as being applied. Both recorded discounts related to Capstone and were for amounts of 1%.

Long term discounts

A sample of fifteen placements made with framework providers and stated as 'Full Care Order' were reviewed to provide an indication of discounts applied to long term placements:

- Seven placements (of fifteen) were identified as being with providers offering long term discounts.
- Two placements (of seven) were identified as being above the costs stated in the 'Version 66 Provider' document.

Education Placements

Volume Discounts

Payments made to Lot 3 providers were reviewed to assess the number of placements made with each provider.

Provider	Number of Placements	Volume discount offered			
Volume at which discount applied		**3**	**4**	**5**	**6+**
3 Dimensions	3	3.0%	3.0%	3.0%	3.0%
Cambian School - Somerset	8	0.0%	0.0%	0.0%	0.0%
Embrace - Somerset Progressive	11	0.0%	0.0%	0.0%	0.0%
Inaura	12	0.0%	0.0%	0.0%	0.0%
Marchant Holiday	16	0.0%	0.0%	0.0%	0.0%
Priory – Chelfham	5	1.0%	2.0%	3.0%	4.0%
Priory - Mark College	9	1.0%	2.0%	3.0%	4.0%
Priory - Newbury Manor	6	1.0%	2.0%	3.0%	4.0%

Volume discounts were not identified as being recorded as applied in any documentation reviewed during the audit.

Summary

It should be noted that a review of placement costs found multiple payments (CSC & Education) that could not be matched to costs stated in the 'Version 66 Providers' document. Whilst payments may be below as well as above the providers indicative costs, the lack of clear recording of the rationale for agreed costs presents a weakness in control.

There is a risk that SCC is not fully utilising the discounts available through the framework agreement resulting in increased costs being incurred.

3.2a	Agreed Outcome:		**Priority 4**

I recommend the Assistant Director - Commissioning & Performance ensures that the process for approval of placements is enhanced to ensure that the level of discounting offered by providers is received by the approver. Where discounts stated have not been obtained a clear rationale for why this is the case should be provided ahead of approval for the placement.

Action Plan:

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	The issue of securing discounts is already being considered by Commissioning, Procurement and Placement staff to address directly with providers. This will be systematically addressed through the revised procedures, performance and data requirements including the ability of source data to flag where discounts can be secured.		

3.2b	Agreed Outcome:		**Priority 4**

I recommend the Assistant Director - Commissioning & Performance ensures that finance monitoring information processes are updated to include:

- The level of discounts available from each provider.
- The level of discount applied to each placement.
- The % above or below indicative framework cost for each placement.

Whilst it is not the responsibility of finance staff to ensure that discounts are applied where appropriate the use of enhanced financial monitoring will facilitate reporting of higher than expected costs.

Action Plan:

Person Responsible:	Assistant Director – Commissioning and Performance	Target Date:	1 January 2017
Management Response:	This information will be built into the placement activity recording system which will provide one source of information regarding placements – recommendation 1.8b. It will also be a performance reporting requirement as highlighted in 1.8a above		

Audit Framework and Definitions

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks	
Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Support and Distribution

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We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

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Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

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Agenda item 6

The Planned Use of School Balances 2016/17

Final Report

Issue Date: 3rd October 2016

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

- This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

- This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

Executive Summary

Overview

As part of the 2016/17 internal audit plan a themed review of the Planned Use of School Balances was carried out.

Each year the Department of Education (DfE) require the Local Authority's (L.A.) Chief Financial Officer to submit a statement on the Dedicated Schools Grant, giving assurance that it has been spent in accordance with the grant conditions. This includes the requirement that the L.A. has had less than 5% of all schools with a surplus of 15% or more of their budget, for the last five years. The DfE have indicated that if the L.A. exceed this threshold, then they will be subject to increased scrutiny.

In Somerset, the 5% threshold would equate to ten schools. At the end of 2014-15, Somerset had eight schools with a surplus that represented more than 15% of their budget for the last five years. A further eight schools had exceeded the 15% level for the last four years and the L.A. are therefore close to triggering the indicator for further DfE scrutiny.

This situation also raises the concern that, given that Somerset have raised the issue of L.A. schools struggling with their allocated funding, the data for surplus budgets will detrimentally affect the case for any further funding from the DfE. As part of the 2016-17 audit plan, it was agreed that SWAP would deliver a themed audit to provide assurance over the use of surplus funds, across a sample of ten schools, including one secondary and one special school.

Themed school reviews focus on a particular area across a sample of schools with results being consolidated into a report for the L.A. and Schools Forum. Where good practice or common weaknesses are identified, the L.A. will disseminate the information to other schools to ensure weaknesses can be rectified and best practice shared.

Ten schools were selected from a sample of those with relatively high balances provided by the Education Finance Team and visited to assess the extent to which they had a planned approach to the use of their surplus balance. The issues highlighted in this report are those which were common amongst the schools assessed and action in relation to the most significant issues needs to be considered by the L.A.

Objective

The use of surplus funds in schools is appropriate, supported by detailed plans, consistent with the aims of the school and approved and monitored by governors.

Audit Opinion:	Partial

All schools have been issued with a report and where issues have been identified, an action plan has been set out with agreed changes to enhance the framework of control. We were pleased with the positive attitude to recommendations made as a result of the audit process. Three schools received Substantial assurance. Of the remaining seven schools, six received a Reasonable level of assurance and one received a Partial opinion.

There was one significant finding identified across all schools visited but generally there was evidence that schools had plans to manage surplus balances. These schools have followed a prudent approach to financial planning, an approach which is in line with accepted financial practice and guards against overspending. The result of this approach collectively across all schools, is that balances are significant and now close to exceeding DfE guidelines, which means that as a L.A. it is difficult to demonstrate that the use of surplus funds across all schools is appropriate.

Currently there is limited guidance available to schools from the L.A., so although we found evidence of the control of surplus funds by schools, it is not always at the level expected by the DfE and the L.A. The overall Partial opinion of this theme report is based on the lack of central guidance to schools, as it is believed that many of the findings in schools can be attributed to the absence of a) a process that provides clarity about the acceptable reasons and levels of surplus balances and b) a control framework to manage any exceptional circumstances.

The Department of Education removed the requirement for a balance clawback scheme in May 2010 and Somerset subsequently removed the threshold limits. However, it was clear from our discussions with school officers and from review of governor minutes that, whilst there is an understanding that the percentage thresholds no longer exist, schools and governors still operate with these limits in mind and in some cases, these percentages are still seen as a desirable target for any unforeseen expenditure.

Other L.A.'s within the SWAP partnership have taken differing approaches to the removal of the DfE scheme, with some authorities introducing their own new schemes with new limits, to identify any significant balances and with a requirement to obtain approval at Director or Schools Forum level to exceed the limit.

As a result of our findings we recommend that Somerset consider introducing a business case process for the justification of large surplus balances. In itself, the current format of the Consistent Financial Report (CFR) does not prescribe a minimum level of detail of the reasons for uncommitted revenue balances and does not provide sufficient control for the purpose of identifying whether reasons given are acceptable.
A business case process could be implemented and linked to the CFR, so that when a school identifies a carried forward balance that exceeds a certain percentage, they are required to submit a costed plan that specifies the purpose(s) for balance, the amount of balance related to each purpose and the timescale by which the balance will be spent. The plans should be supported by evidence, such as minutes of Governing Body/Management Committee meetings, invoices and quotes for work, School Improvement/Development Plans and Asset Management Plans. The business case should require approval at a senior level. Financial Returns should then be monitored throughout the year to verify that planned expenditure becomes realised.

The process should be supported by documented guidance that provides schools with clarity about the typical and acceptable reasons for carrying balances forward. There should also be clear communication that where a business case is not approved the L.A. may deduct from the current year's budget share, an amount equal to the excess.

By implementing this process and the other recommendations within this report, the L.A. will increase the assurance that surplus funds in schools are appropriate, supported by detailed plans, consistent with the aims of the school and approved and monitored by governors.

Findings and Outcomes

Method and Scope

Fieldwork for this audit comprised a review of evidence collected and reviewed during our visits to the ten schools, including one secondary and one special school, together with the key documents and records requested prior to the audit visit.

Visits were made to the schools between 29th June – 18th July 2016, during which we reviewed the budgets for 2014-15 and 2015-16, as well as the future projections for the school's finances. This was supported by examination of a range of documents and samples of reconciliations and budget monitoring reports.

The findings were discussed with the Head Teacher and School Finance Officer or Business Manager at each school. As each school's Governing Body has a responsibility to ensure that adequate procedures and controls exist, each school received its own internal audit report to which it was required to respond and detail how it intended to address the weaknesses identified.

1	Risk: High balances of surplus funds are held by the School without appropriate plans to ensure that they are used for the benefit of current pupils.

1.1.1	Finding and Impact	Priority 2

At seven of the ten schools visited, there was no evidence that governors had approved the Consistent Financial Report (CFR) prior to its submission to the Local Authority. In some cases there was evidence of retrospective approval, but others where the CFR did not appear to have been discussed at all. Schools commented that the CFR deadline is difficult because governor committee meeting cycles are largely driven by the timing of the budget approval and often they will not have a scheduled meeting in the period between the drafting of the CFR and its submission, therefore having no opportunity to approve it before the deadline. The L.A. deadline is determined by the timescales set by the Department of Education and therefore cannot be varied.

There is a risk that if governors do not approve the CFR in a timely manner, they are not fulfilling their statutory duty and this also compromises the degree to which they have a full understanding of the school's financial position at the start of the financial year.

1.1.1a	Agreed Outcome:

We recommend that schools should ensure that the Consistent Financial Report (CFR) is presented to Governors prior to submission to the Local Authority (L.A.) and that the approval is formally recorded in the minutes of the meeting at which it is discussed.

The L.A. should consider issuing a reminder of this requirement to all schools, making clear that the CFR is a statutory responsibility of the governing body.

Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	As the CFR data is generated from SIMS, there is no risk if the report is approved retrospectively. However, the approval should be minuted in a timely manner.		

1.1.2	Finding and Impact	Priority 3

At five of the ten schools we recommended that, in view of the specific circumstances that had led to the school carrying forward a surplus budget, they should consider additional budget planning activity. This would constitute producing a number of alternative budget models that are based on a range of potential scenarios, which can help the school to anticipate the impact on the finances when a particular situation is realised.

In four schools, this situation was the unpredictability of pupil numbers and a reluctance to release funds until there was greater certainty about the new intake. The Somerset School Population Forecast provides schools with an estimate of their intake, but cannot account for specific local factors. Fluctuating pupil numbers can impact on the budget by as much as £2,000 per child.

There is a risk that if schools do not produce alternative forecasts to reflect the potential range of pupil numbers, an intake significantly below the Local Authority's forecast would have a detrimental impact on the budget for future years and compromise the ability of the school to prepare for such a situation. Other circumstances, such as changes to the staffing structure could also be subject to scenario planning. These projections should also be shared with governors so they are informed about the impact on the budget.

There is also a risk that if schools do not forecast their finances to quantify the impact of potential changes, they have reduced assurance that the budget is sustainable and without better forward planning, the levels of surplus funds will increase further.

At three schools we also made recommendations about specific improvements to budget planning and accounting practices, where projections had not been included or updated in a timely manner.

1.1.2a	Agreed Outcome:

We recommend that schools should consider building alternative budget models, based on a range of scenarios so that they can project how finances will be affected if circumstances vary from what is anticipated. These projections should be shared with Governors to ensure that they aware of all budget factors.

The L.A. should consider providing further guidance to schools regarding more rigorous budget planning, particularly where there are specific uncertainties. This could also be communicated to schools via the support they receive from their allocated Senior Finance Officers.

Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	Schools Finance will review existing budget planning guidance and consider whether it can be improved. Schools Finance will liaise with the Schools Planning Commissioner to establish whether improved information and guidance can be issued in respect of population forecasts.		

2	Risk: Surplus funds are not supported by robust plans, or plans are not fully developed to ensure that funds are spent efficiently, effectively and in a timely manner.

2.1.1	Finding and Impact	Priority 4

Three of the ten schools audited had only notional plans for the use of their surplus balance, and we identified that further work was required to ensure that they produced documented plans that were fully costed and could be delivered in line with their aspirations. The remaining seven schools were able to provide evidence that their plans had been developed and documented.

One of these schools had allocated the remainder of their surplus to a General Contingency fund that represented 21% of their annual budget and there were no documented plans to support how it would be spent. It should be noted that this was the only significant finding across all of the ten schools visited and the only instance where we made a high priority recommendation in relation to the planned use of the surplus balance.

One other school were awaiting confirmation of their future pupil numbers in order to determine whether the surplus budget would be spent on the opening of an additional classroom and we recommended that they should consider alternative plans for the surplus, to ensure that regardless of the outcome, the funds will be spent on the benefit of current pupils.

There is a risk that if contingency budgets are not supported by documented plans for the use of funds, they will not be used for the benefit of current pupils.

2.1.1a	Agreed Outcome:

We recommend that schools should agree a specific use for their current contingency budget, document their plans including outline costings and monitor the plans through to delivery. Any unallocated surplus should be minimised and subject to ongoing monitoring to ensure that it can be allocated to priorities for the benefit of current pupils.

The L.A. should develop and issue further guidance to schools in respect of contingency budgets and consider implementing a business case requirement, as outlined in the Audit Opinion section of this report.

Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	Schools Finance will review the existing process and guidance and compare it to practices at other local authorities.		

2.2.1	Finding and Impact	Priority 3

At three schools we found that priorities identified in the school's Asset Plan or School Development Plan had not been considered as uses of surplus funds, especially where there were items that had not been costed.

There is a risk that priorities will not be delivered and surplus funds will continue to accumulate if schools do not cost their plans and consider whether contingency funds can be released to meet them.

2.2.1a	Agreed Outcome:

We recommended that further consideration should be given by schools to allocating the carried forward balance towards the priorities identified in the school's Asset Plan or School Development Plan

The L.A. should develop and issue further guidance to schools in respect of contingency budgets and consider implementing a business case requirement, as outlined in the Audit Opinion section of this report.

Action Plan:

Person Responsible:	Service Manager - Schools Finance	Target Date:	Autumn term Schools Forum and ADL meetings to raise issues. Spring term ADL for any revised processes/guidance.
Management Response:	Consideration will be given to using the Schools Forum Technical Working Group and the possibility of setting-up a panel process for additional scrutiny of schools with high surplus balances.		

3	Risk: Surplus budgets are not subject to regular monitoring to ensure that funds are properly spent on the pupils currently in education, or that the planned use of funds will deliver the intended outcomes.

3.1.1	Finding and Impact			Priority 3
At seven schools, we recommended that they should add a standing item to the agenda of all Governor meetings for specific discussion of the surplus budget. This was because there was either insufficient evidence of ongoing scrutiny by Governors and levels of discussion were not consistent or detailed, or that the minutes lacked detail to indicate the surplus budget was being rigorously monitored. There is a risk that without a specific item on the agenda, there will be periods where the status of the surplus is not discussed and levels of monitoring may be compromised. The position of surplus funds should be discussed by the Governors on a termly basis.				
3.1.1a	Agreed Outcome:			
We recommended that schools should ensure that an item is added to the standard agenda for the Governors to discuss the status of the surplus funds.				
Action Plan:				
Person Responsible:	Not Applicable	Target Date:	Not Applicable	
Management Response:	No further action for Schools Finance.			

Audit Framework and Definitions

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks	
Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Report Summary

Report Authors

This report was produced and issued by:

- Jenny Frowde, Senior Auditor
- Lisa Fryer, Assistant Director

Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

- The officers and governors of the ten schools visited.

Distribution List

This report has been distributed to the following individuals:

- Ken Rushton, Service Manager - Schools Finance
- Dave Farrow, Head of Improving Outcomes

Working in Partnership with

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East Devon District Council	South Somerset District Council
Forest of Dean District Council	Taunton Deane Borough Council
Hereford Council	West Dorset District Council
Mendip District Council	West Somerset Council
North Dorset District Council	Weymouth and Portland Borough Council
Sedgemoor District Council	Wiltshire Council

Statement of Responsibility

Conformance with Professional Standards

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SWAP Responsiblity

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Theme Based Audit on Planned Use of Schools Balances - Update

Lead Officer/Author: Ken Rushton, Service Manager, Schools Funding
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Summary:	This report provides an update (in red) of LA actions (2.5) on the summary of the outcomes of the Theme Based Audit on Planned Use of Schools Balances carried out during the Summer Term 2016 in a sample group of 10 schools which hold relatively high balances and previously reported in the October 2016 Schools Forum meeting. South West Audit Partnership (SWAP) gave an opinion of Partial Assurance in relation to the areas reviewed and the extent to which schools had a planned approach to the use of their surplus balances. Within the sample, three schools received Substantial assurance, six received Reasonable assurance and one received a Partial Assurance.
Recommendations:	The Schools Forum is recommended to discuss the key issues and consider the following proposed actions (detailed further in sections 2.4 and 2.5 below): *Key Issues* • Lack of evidence of Governors approving Consistent Financial Reporting (CFR) prior to submission to the Local Authority. • Unpredictability of specific circumstances carrying a risk of budget not being sustainable or leading to surplus funds being carried forward. • Lack of robust or developed plans to ensure funds are spent efficiently, effectively and in a timely manner. • A need to identify priorities in the Schools Asset Plan and School Development Plan and cost these items. • Lack of regular monitoring of planned use of funds to ensure intended outcomes are achieved for pupils currently in education. *Proposed Actions* • Share findings with Finance Officers and Business Managers at Administrative Development Liaison (ADL) meetings. • SCC Budget planning guidance to be reviewed. • Liaise with Schools Forum Technical Working Group to set up a process for additional scrutiny of high surplus balances. • Liaise with Schools Planning Commissioner re improved information and guidance of population forecasts.
Reasons for Recommendations:	The Schools Forum has decision making and consultative responsibilities for various areas of school funding.
Links to Priorities and Children and Young Peoples Plan:	The Schools Budget supports the Raising Achievement & Aspirations aim within the Children's Plan.
Financial Implications:	This report relates to the whole Schools Budget.

1 Background

1.1 In May 2010 the DfE removed the requirement for a balance clawback scheme and Somerset subsequently removed the threshold limits. However, each year the DfE require the LA Chief Financial Officer to submit a statement on the Dedicated Schools Grant, assuring that it has been spent in accordance with the grant conditions. This includes the requirement that the LA has less than 5% of all schools with a surplus of 15% or more of their individual budget, for the last five years. It has been indicated that if this threshold is exceeded the LA will be subject to increased scrutiny.

1.2 In Somerset the 5% threshold equated to 10 schools at the end of 2014-15. For this period 8 schools reflected a surplus of over 15% of their budget for the past 5 years. A further 8 schools exceeded this level for the past four years and therefore the LA is close to triggering the indicator for further scrutiny. This situation does not uphold the issue raised with the DfE by the LA that Somerset schools are struggling with their allocated funding.

1.3 As part of the Schools Financial Value Standard (SFVS), which is a statutory annual return for all LA maintained schools, Governors have to assess if they have adequate arrangements in place with regard to setting and monitoring the budget as well as the planned use of funds.

2 Detail of the Planned Use of Schools Balances Audit

2.1 In order to ensure the use of surplus funds in schools is appropriate, supported by detailed plans, consistent with the aims of the school and approved and monitored by Governors, evidence was collected and reviewed together with key documents and records requested. The following areas were tested:

- High balances of surplus funds held by the school have appropriate plans to ensure that they are used for the benefit of current pupils.
- Surplus funds are supported by robust plans, and plans are developed to ensure that funds are spent efficiently, effectively and in a timely manner.
- Surplus budgets are subject to regular monitoring to ensure that funds are properly spend on the pupils currently in education or that the planned use of funds will deliver the intended outcomes.

2.2 During this audit, 10 schools were visited. Each school received an individual report with findings and an agreed action plan of issues to be addressed. The results of the individual school audits were amalgamated into one report and collectively used to form the audit opinion re Planned Use of Schools Balances of **'Partial Assurance'**.

2.3 Whilst generally there was evidence that schools had plans to manage surplus balances and schools have followed a prudent approach to financial planning (which is in line with accepted financial practice and has guarded against overspending), there was one significant finding identified across all schools visited which led to the overall Partial opinion in this report.
It was found that there is a lack of central guidance regarding:

- a process that provides clarity about acceptable reasons and levels of surplus balances
- a control framework to manage any exceptional circumstances.

This has resulted in schools holding significant balances which are now close to exceeding DfE guidelines.

2.4 The following were identified as key findings and therefore categorised, in accordance with the definitions in Appendix A, as a level '4' or '5' priority in the action plan:

- One school had allocated the remainder of their surplus to a General Contingency fund (this represented 21% of their annual budget) with no documented plans to support how it would be spent. This was the only significant finding across all schools.
- 3 of the 10 schools audited had only notional plans for the use of their surplus balances and it was identified that further work was required to ensure the production of documented plans which are fully costed and could be delivered in line with their aspirations.
- One school was awaiting confirmation of their future pupil numbers in order to determine whether the surplus budget would be spent on the opening of an additional classroom.

2.5 As a result of the Planned Use of School Balances audit the following recommendations have been made:

- Governors to ensure that the CFR is presented, approved and recorded in the minutes in a timely manner.
- Schools should consider alternative budgets /plans for surplus funds and share with Governors to ensure that regardless of outcomes, the funds will be spent for the benefit of current pupils.
- Schools should agree specific use for contingency budgets with evidence provided by way of governor's minutes, this should include invoices and quotes for work as defined in the School Improvement/Development/Asset Plans to consider if contingency funds can be released to meet them.
- Schools should add a standing item to the agenda of Governor meetings to discuss use of surplus budget (at least termly).
- LA to consider providing further guidance regarding more rigorous budget planning especially where there are specific uncertainties which can be communicated via support from their allocated Senior Finance Officers.
- It is recommended that Somerset consider introducing a Business Case process linked to the CFR for the justification of large surplus balances. This would require the school to submit costed plans that specify the purpose(s) for a balance, the amount of the balance and the timescale by which the balance will be spent. The Business Case to be approved at LA senior level and monitored throughout the year via financial returns.

Response from LA:

- As CFR data is generated from SIMS, there is no risk if the report is approved retrospectively by Governors and minuted.
  The LA will review existing budget planning guidance and consider where improvements can be made. Revised Budget Guidance published to iPost by Education Finance Services in January 2017.
- Schools Finance will liaise with the Schools Planning Commissioner to establish if improved information and guidance can be issued in respect of population forecasts. The information is available on iPost as early as possible following receipt of census information. It is anticipated that with the New National Funding Formula schools will be able to confidently predict their budgets over a period of at least three years and that the need for holding onto high surplus balances to cover variable future funding will not be required.
- Schools Finance will review existing processes and guidance compared with other local authorities, to provide clear guidance about the typical and acceptable reasons for carrying balances forward. It will be clearly communicated that should the LA not approve a Business Case an amount

equal to the excess may be deducted from the current year's budget share. After reviewing samples of other local authority processes it has been decided to retain Somerset's decision to do away with the clawback process and permit surplus balances as per the Financial Management Scheme. However the School Balances Information Worksheet will be revised to enable schools to provide details of planned use of surplus balances linked to their School Development or Asset Management Plans with dates of anticipated implementation/completion to be monitored by the LA.

- Consideration will be given to using the Schools Forum Technical Working Group to possibly set up a panel process for additional scrutiny of schools with high surplus balances.
  A report of schools with high total surplus balances in line with DfE reporting requirements (>15% of budget and >£10k for the past 3,4 and 5 years) will be provided to Schools Forum / Technical Working Group for information.
- Findings will be shared with Finance Officers and Bursars at Administrative Development Liaison (ADL) meetings. Presented at the October 2016 meeting.

2.6 The audit opinion of Partial Assurance will be reported to the Audit and Resources Sub-Committee.

3 Implications – Financial and Other

3.1 By implementing processes and other recommendations within the report there will be increased assurance that surplus funds in schools are appropriate, supported by detailed plans, consistent with the aims of the schools and approved and monitored by Governors.

4 Background Papers

4.1 SFVS – Evidence and Guidance for Somerset 2015-16

4.2 Internal Audit Report: Planned Use of School Balances Audit Report.

Note: For sight of individual background papers please contact the report author.

5 Audit Framework Definitions

5.1 See Appendix A

Appendix A

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
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Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.

Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.

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Paper for Information Only

SOMERSET SCHOOLS FORUM

Date of meeting – 12th July 2017

Somerset School Balances 2016/17

Author: Ken Rushton, Service Manager - Schools Funding
Contact Details: kerushton@somerset.gov.uk 01823 356911

1. Summary

1.1 This is the annual report on Somerset School Balances. The general trend in previous years has been for school balances to steadily increase each year. However at the end of the 2016/17 school year there was a **decrease** of £2.2m in total school balances.
The figures include schools which have converted to academies during 2016/17 financial year, but excludes schools which had already converted to academies before the start of the 2016/17 financial year.

2. Recommendations

2.1 This report is for information only. Although Forum members may wish to consider revenue balances in light of the wider financial constraints and when making future funding recommendations.

3. Background

3.1 The previous trend of increasing school balances has now ended and there has been a decrease of £2.26m to £21.72m compared to last year's £23.98m. Savings which have been made over the past few years are being utilised to balance the school budgets. Schools are yielding to the continued pressure of increased costs and are now not able to make further savings. The slight increase in DFCG held reflects a reduction in capital spend by schools.

3.2 The level of school balances is a topic of national interest, and the current expectation of the Department for Education (DfE) is that it is sound financial management for schools to keep a small balance from year to year. In spite of Somerset's efforts to retain stability in the levels of funding to individual schools, we saw since the implementation of The School Funding Reforms in April 2013 rises in balances. Many schools were facing uncertainties in their future funding, particularly where pupil numbers were dropping. Consequently, they made savings to help to protect their financial position for future years. It appears they have reached that turning point and can no longer retain the previous level of balances to assist for the future.

3.3 Schools are self-managing and autonomous and financial responsibility is delegated to the Governing Body. However, Local Authorities (LAs) are responsible for the effective oversight of financial management in schools. There is an expectation from the DfE that LAs and their schools should manage the very large amounts of public funding they receive appropriately, securing value for money across all of their spending. Value for money is a fundamental principle of the Schools Financial Value Standard (SFVS), which has been an annual statutory return for all LA maintained schools.

3.4 In the past, it was compulsory for councils to operate a balance control mechanism where uncommitted surpluses are deemed to be excessive – identified by the DfE to be in excess of 8% of a primary or special school budget and 5% of a secondary or middle school budget. In 2011/12, following a change in national legislation there was no longer a requirement for Local Authorities to have a balance control mechanism within their Financial Management Schemes for Schools. Somerset chose to continue with this constraint within its Financial Management Scheme; however the Schools Forum supported the proposal to suspend the control balance mechanism for 2012/13 and 2013/14. At its meeting on the 7th October 2014 the Forum unanimously supported the proposal to remove the mechanism for the 2014/15 year onward. Despite the removal of the balance control mechanism the DfE will scrutinise those LAs where more than 5% of their maintained schools carry forward total revenue balances of more than 15% of their budget for five years or more, as long as the amount exceeds £10k.

3.5 The Schools Finance and Accounting Team collect and validate information on each school's balance at the financial year end. This includes consistently identifying and validating exceptions in order to determine true uncommitted balances. There is a focus on developing robust and accurate management information, improving the level of challenge regarding financial management in schools and generally raising the profile of school balances and how this information may be perceived by stakeholders.

3.6 The Schools Forum should note that the audit plan for 2015/16 included a themed audit on school balances undertaken by SWAP during the Summer term. Following a final report from SWAP on the findings The Schools Finance and Accountancy team issued a Themed Audit Summary – Planned Use of School Balances Audit 2016-17 and is available on iPost (IPOSTID-2-5542).

3.7 A summary of individual school balances is included in **Appendix A** for information.

4. Detail

4.1 Table 1 below shows how the level of school balances has changed in the last year.

N.B. Academies (except those who have converted through the current year) have been excluded from the data for both financial years.

Table 1

	£m	£m	£m

	2015/16	2016/17	Variation
Total School Balances at 31 March	23.98	21.72	-2.26
Capital Balances:			
Devolved Formula Capital Grant (DFCG) – to assist schools with capital developments and improvements over a three year period	1.53	1.56	+0.03
Other evidenced Capital Commitments – see below	0.74	0.58	-0.16
Revenue Balances:			
Other evidenced Revenue Commitments – see below	7.13	6.50	-0.63
Uncommitted Revenue Balances	14.58	13.07	-1.51

4.2 Devolved Formula Capital Grant (DFCG) Balances

Balances in respect of Devolved Formula Capital Grant (DFCG) have increased this year, by £0.03m since last year, and currently stand at £1.56m. They are used by schools to address their highest priority asset issues and for ICT hardware and infrastructure replacement. Since April 2013, each invoice has been processed by Corporate Finance to ensure that it constitutes legitimate capital expenditure. Due to the size of most capital projects, it is expected that schools should 'save' funds for up to three years in order to deliver significant improvements to their school buildings, which would not be achievable with only one year's allocation. There may be scope to utilize some DFC balances which exceed the three year rule, especially where the individual school has no imminent capital spending requirements.
There is no unspent DFC retained for more than 3 years as at July 2017.

4.3 Other Capital Projects

Schools have identified specific capital projects for which they are holding balances. Evidence of governing body approval, costs and timescales of these projects are held to validate the commitment. Together with the increase in the level of DFCG funding, there has been a decrease in Other Capital commitments. This year the decrease is £0.16m, which suggests that schools are still reluctant to commit to capital projects in the light of the uncertainty in their future level of funding.

4.4 Committed Revenue Balances

Schools have identified balances being held for specific commitments, and this has decreased by £0.63m compared with 2015/16. Committed revenue balances have been listed and checked individually and include:

- Orders raised but not paid prior to April 2017 £0.90m (a decrease of £0.18m from £1.08m in 2015/16).
- Pupil Premium £1.46m (a decrease of £0.12m compared with £1.58m in 2015/16)
- Third party balances, income held for school trips/music lessons, Community Learning Partnership funds, PFSA/SASH/PTA, nursery funds etc. £2.94m (a decrease of £0.24m compared with £3.18m in 2015/16)
- Grant funding £1.17m, mainly PE and Sport Grant and Universal Infant Free School Meals (UIFSM). A decrease of £0.19m compared to a balance of £1.36m at the end of 2015/16.

4.5 Uncommitted Revenue Balances

Most schools have spending plans for their uncommitted balances and these have been summarised in the information provided by each school to the LA at the end of the financial year. Balances have been classed as uncommitted if they do not meet the strict criteria consistent with eligible exclusions in the claw-back arrangements (as detailed in the Financial Management Scheme), even though the decision had been made not to enforce claw-back at the end of 2013/14. It is evident that most Primary, Special and PRU schools had continued to make savings up to 2015/16 so as to have sufficient uncommitted revenue balances at the end of 2015/16 to support balancing their 2016/17 budgets. This is not the case for the end of 2016/17 and schools are now finding themselves with reduced savings to assist with the 2017/18 budgets.

4.6 Analysis of the Uncommitted Balances

For 2016/2017, following recommendations from an Audit report on The Planned Use of School Balances, schools were requested to provide a detailed breakdown of the use of uncommitted balances going forward. The results are shown in Table 2 below.

Table 2

	2016/17 Uncommitted Balances (£m)
To be used to balance the following year's budget (2017 / 2018)	6.51
Surplus Balance to be used for future plans linked to School Development Plan / Asset Management Plan	2.45
Reserve contingency for repairs and maintenance (over and above DFCG) previously BMIS	0.11
General Surplus Balance	4.00
TOTALS	**13.07**

4.7 Further analysis of the 'uncommitted' balances held by schools in 2015/16 and 2016/17 across the sectors is shown in Table 3 below.

Table 3

	2015/16 Uncommitted Balances (£m)	2016/17 Uncommitted Balances (£m)
Primary	10.22	9.21
Middle	0.30	0.22
Secondary	0.75	0.37
Special	1.96	1.84
PRUs	1.35	1.43
TOTALS	**14.58**	**13.07**

4.8 Deficit Balances

At the end of 2016/17, **ten** schools had uncommitted deficit balances:

- four of which were for less than £10K (Primary schools)
- three of which were for less than £20k (Primary schools)
- one of which was for less than £100k (Middle school)
- two of which were for over £100k (Secondary schools)

The following table reflects the trend of uncommitted deficit balances for the current schools under analysis for the past six years:

Year	No. of schools	Amount	Variance on previous year
2011/2012	5	-£471K	-
2012/2013	3	-£25K	- £446K
2013/2014	7	-£58K	+ £33K
2014/2015	3	-£43K	- £15K
2015/2016	5	-£876K	+ £833K
2016/2017	10	-£1,411K	+ £535K

4.9 Further Action

The Schools Finance team will continue to be involved in supporting schools in deficit with recovery planning. Spending is being monitored against these plans to ensure that recovery plans are revised as appropriate with the aim of future budgets being balanced and sustainable.

Expected revenue balance levels in schools will be monitored throughout the year through routine monthly school budget monitoring processes. Where there are concerns, these schools will be contacted and discussions will focus around sustainability of the school and the way in which balances can be used to raise achievement.

Commitments detailed on the year-end forms (such as those for capital projects) will also be monitored to ensure that expenditure occurs as evidenced.

5. Implications – Financial and other

5.1 Individual schools' revenue balances are automatically carried forward. If funds were to be clawed back they would remain in the Individual Schools Budget and their subsequent distribution discussed with the Schools Forum.

5.2 The School Funding Reforms were implemented from April 2013 and further amendments have been made nationally in 2014/15. They have resulted in a re-distribution of funding amongst Somerset schools and an increased awareness within schools of the significant effect of changes in pupil numbers on their formula funding. Increased levels of Pupil Premium are also having a marked effect on schools' budgets and this, along with the Universal Infants Free School Meals grant implemented in September 2014, has caused fluctuation in school balances.

Further changes are expected following the consultation around "Fairer Funding" nationally and for which details have yet to be released.

6. Academy Balances

6.1 A summary of Academy Balances for academic year 2015/16 will be tabled as Appendix B. The financial information is compiled from those academies that provided the financial return circulated in the Autumn and then again in the following Spring. Where academies chose not to provide the Schools Forum with figures, their balance for academic year 2015/16 has been determined from interrogation of the financial statements. In some cases the balance has been shown for the multi academy trust as a whole, where individual academy figures could not be identified.

Audit Committee Update

Somerset County Council

10 November 2017

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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We have included an overall summary of progress in delivering this year's audit. We have also taken the opportunity to include short briefings on current issues and our latest publications.

Members of the Audit Committee can find further useful material on our website. www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 9 November 2017

2016/17	Planned Date	Complete?	Comments
Annual Audit Letter Our annual audit letter for 2016/17 is included within the Audit Committee papers for the meeting on 23 November. A copy of this letter was provided to Public Sector Audit Appointments (PSAA) by the deadline of 30 October. PSAA will make Annual Audit Letters for all local authorities publicly available on their website.	30 October 2017	Yes	
Certification Work At the time of writing, our work on the Teachers Pensions return Has not commenced. There was a national delay in determining the work auditors were required to do although this will not impact on our work being completed by the deadline of 30 November. We will provide a verbal update to the Audit Committee. There has also been a national delay in determining the work auditors are required to undertake on the school-centred initial teacher training (SCITT) return which, at the time of writing, has not been resolved. Once this has been determined, we will work with the Council to ensure that the deadline has been achieved	30 November 2017 (Teachers Pensions) 31 December (SCITT)	In progress	

Progress at 9 November 2017

2017/18	Planned Date	Complete?	Comments
Fee Letter We were required to issue a planned fee letter for 2017/18 by the end of April 2017. This is the final audit year under the current contract. PSAA has awarded contracts to audit suppliers and is currently consulting on local appointments. Your audit supplier from 2018/19 will be confirmed by the end of December 2017.	April 2017	Yes	Further information on the External Audit appointments was included in the September 2017 Audit Committee Update.
Accounts Audit Plan We will issue a detailed accounts audit plan to the Council setting out our proposed approach the audit of the Council's 2017/18 financial statements. This will be issued upon completion of our audit planning. The statutory deadline for the issuing of the 2017/18 opinion has been brought forward by two months to 31 July 2018. We are discussing with your officers our plan and timetable to ensure that we complete our work by this earlier deadline. We may also need to discuss and agree with you arrangements for the issue of the draft Audit Findings Report, in view of the time available to complete our work and your committee report deadlines.	March 2018	No	This earlier deadline has been met by the Council for the last 2 years and we are therefore well place to achieve this in 2017/18.

Progress at 9 November 2017

2017/18	Planned Date	Complete?	Comments
Interim accounts audit Our interim fieldwork visit plan will reflect the need to complete as much work as possible earlier in the audit cycle. Our work will include: • review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	January and February 2018	No	
Final accounts audit • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom	July 2018	No	
Value for Money (VfM) conclusion The scope of our work is unchanged to last year and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	July 2018	No	

Grant Thornton publications

Combined Authorities: Signs of Success

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In her foreword to 'Building our Industrial Strategy' the Prime Minister states that the initiative "will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East." Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the levering in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

Grant Thornton publications

Questions:

- Have you read our report?

http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/

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The Annual Audit Letter for Somerset County Council

Year ended 31 March 2017

11 October 2017

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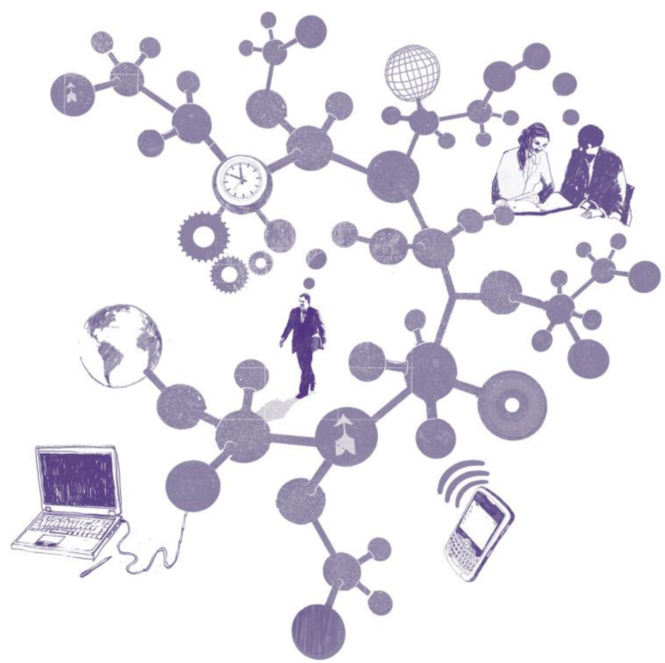

Contents

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Somerset County Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 27 July 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Councils arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements and those of the Pension Fund hosted by the Council on 27 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017 except for Children's Services. Ofsted undertook an inspection of these services in January and February 2015 and their overall judgement was that Children's Services were inadequate. We therefore qualified our value for money conclusion in our audit opinion on 27 July 2017. Further information is included in section 3 of this letter.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

We received one objection during the year although we were unable to accept it as the objector did not provide us with confirmation that they were an elector resident in Somerset.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 25 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Somerset County Council in accordance with the requirements of the Code on 25 September 2017.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £14.599 million, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for members' allowances, officers' remuneration and related disclosures and the External Audit fee reported in the financial statements.

We set a lower threshold of £728,000, above which we would have reported errors to the Audit Committee in our Audit Findings Report had any been found.

Pension Fund

For the audit of the Somerset Pension Fund accounts, we determined materiality to be £19.7 million, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for management expenses.
We set a threshold of £985,000 above which we would have reported errors to the Audit Committee in our Audit Findings Report had any been found.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance and Performance are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.	As part of our audit work we: • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walked through the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Reviewed of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work did not identify any significant issues in relation to the risk identified.
Valuation of property plant and equipment The Council revalues its PPE assets on a rolling basis with assets revalued at least every five years. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	As part of our audit work we: • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed of the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work. • Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register. • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Our work did not identify any material issues with the valuation of property plant and equipment. We are satisfied that the carrying value of your assets in your balance sheet, overall, is not materially different from their fair value. It was noted, however, that County Hall has not been revalued since 2012 and that application of our expert's indices shows a 37% movement in the value of the asset. This was not considered to be material.

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments Significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	As part of our audit work we: • Updated our risk assessment on receipt of the draft financial statements as the level 3 investments only accounted for 2% of the total investments of the fund. • Tested a sample of valuations by reviewing the most recent supporting information for individual investments. • Reviewed the qualification of the fund managers as experts to value the level 3 investments at the year end and gained an understanding of how the valuation of these investments had been reached. • Reviewed the nature and basis of estimated values and considered what assurance management had over the year end valuations provided for these types of investments.	Our audit work did not identify any issues in respect of the valuation of these investments. All the Level 3 investments held by the Fund were in private equity funds.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit by the end of May 2017, in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 27 July 2017.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit Committee on 27 July 2017.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 25 September 2017.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We received one objection during the year although we were unable to accept it as the objector did not provide us with confirmation that they were an elector resident in Somerset.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

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Overall VfM conclusion

Based on the work we performed to address the significant risks, we concluded that, except for the matter we identified in respect of the Ofsted Inspection of Children's Services, the Council had proper arrangements in all significant respects.

We therefore gave a qualified 'except for' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for Money

Value for money risks

Risk identified

Strategic Financial Planning

Our risk assessment noted that the Council experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends during 2016-17. These were offset by underspends elsewhere and a draw down on the Council's reserves.

As part of the budget setting process for 2017/18 the medium term financial plan was updated as at 6 February 2017 with target savings values identified across seven themed areas, each of which is led by a Director and a Cabinet Member, supported by a Strategic Finance Manager. The 2017/18 budget included agreed savings of £18.119m.

The cumulative shortfall over the remainder of the medium term financial plan period was £19.5m, as follows:

2018/19 - £12.8m

2019/20 - £4.6m

2010/21 - £2.1m

Work carried out

We reviewed the budgets for 2016/17 and 2017/18 and the outturn reports for 2016/17.

We reviewed the Council's medium term financial plan and its efficiency plan.

Findings and conclusions

2016/17

The 2016/17 budget required savings of £12.120m and these were deducted from the relevant service budgets at the start of the year.

This meant that the savings plans needed to be met in order to achieve a balanced position and any non-delivery of those savings would therefore result in an overspend in that service area, unless additional income was generated or alternative savings were identified and delivered. The Council was projecting a significant overspend of around £24m at the start of 2016/17 although it was able reduce this significantly and the year-end position showed an overspend of approximately £7m.

However, this headline position was as a result of large overspends in some areas which were offset by underspends in other areas. The main variations from the budget were as follows:

- Adults & Health – overspend of £9.1m
- Children & Families – overspend of £3.7m
- Economic and Community Infrastructure – underspend of £3.6m

Of concern was the fact that the largest overspends occurred in service areas which are demand-led and where the national trend is one of increasing need, escalating costs and growing public expectations. Our view is that any solution needs to be a system-wide redesign and that a 'more of the same' approach will not be sustainable.

The Council's financial position

The level of the general fund reserve and other earmarked reserves has fallen significantly over recent years:

Year End	General Fund	General Fund (Schools)	Earmarked Reserves	Total Reduction in year
31 March 2015	£25.7m	£23.4m	£57.0m	£1.6m (1.45%)
31 March 2016	£21.1m	£35.5m	£37.5m	£22m (20.8%)
31 March 2017	£20.2m	£21.3m	£8.1m	£34m (40.9%)

This trend is clearly not sustainable over the medium term and the Council recognises that its medium term financial plans cannot continue to draw on the level of reserves noted above.

Value for Money

Value for money risks

<table>
<tr><th>Risk identified</th><th>Work carried out</th><th>Findings and conclusions</th></tr>
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<td>
Strategic Financial Planning

Our risk assessment noted that the Council experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends during 2016-17. These were offset by underspends elsewhere and a draw down on the Council's reserves.

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<td>
We reviewed the budgets for 2016/17 and 2017/18 and the outturn reports for 2016/17.

We reviewed the Council's medium term financial plan and its efficiency plan.
</td>
<td>
Medium term financial planning

The Council updated its medium term financial plan in February 2017. This explicitly stated that the main risk to the Council's financial position was with any slippage or under-achievement of the proposed savings targets for 2017/18. The medium term financial plan recognised that there were limited resources available to address any significant in-year overspends and to maintain a sustainable budget.

This medium term financial plan is based on a number of key assumptions around inflation, service demand and demographic changes and it is expected that, in the main, these will be managed by the individual services within the Council. These are summarised below and we have commented on the potential risks associated with each one.

<table>
<tr><th>Area</th><th>Our view</th></tr>
<tr><td>Inflation</td><td>Although inflation is relatively low, any inflation represents a cut to the budget in real terms. For example, with Adults and Health (annual spend c£100m) inflation of 2.5% would equate to a real terms reduction of £2.5m.

Inflation is not consistent across all areas of the Council's spend and so some service areas will inevitably experience more pressures than others. Staff costs, particularly for lower-paid workers, are particularly vulnerable to market changes as well as other external factors such as changes to the living wage or the implications of Brexit.</td></tr>
<tr><td>Service demand</td><td>As with inflation, demand pressures are not consistent across all areas of the Council's spend with some services e.g. Adults & Health, Children & Families and waste disposal showing year-on-year increases.

Demand-led services have always been difficult to manage and additional resources may be needed in some areas to help manage this area.</td></tr>
</table>
</td>
</tr>
</table>

Value for Money

Value for money risks

<table>
<tr><th>Risk identified</th><th>Work carried out</th><th>Findings and conclusions</th></tr>
<tr>
<td>
Strategic Financial Planning
Our risk assessment noted that the Council experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends during 2016-17. These were offset by underspends elsewhere and a draw down on the Council's reserves.
As part of the budget setting process for 2017/18 the medium term financial plan was updated as at 6 February 2017 with target savings values identified across seven themed areas, each of which is led by a Director and a Cabinet Member, supported by a Strategic Finance Manager. The 2017/18 budget included agreed savings of £18.119m.
The cumulative shortfall over the remainder of the medium term financial plan period was £19.5m, as follows:
2018/19 - £12.8m
2019/20 - £4.6m
2010/21 - £2.1m
</td>
<td>
We reviewed the budgets for 2016/17 and 2017/18 and the outturn reports for 2016/17.
We reviewed the Council's medium term financial plan and its efficiency plan.
</td>
<td>
<table>
<tr><th>Area</th><th>Our view</th></tr>
<tr><td>Demographic changes</td><td> The Council has assumed a modest increase in its Council Tax base (i.e. the number of properties) and assumes that services will be able to absorb this. However, demographic changes will be harder to manage. The Council expects that over a ten year period from 2011 to 2021 the number of people aged over 65 will increase by 30% and the number of children aged 0-15 will rise by around 11%.
These changes will impact on the two most pressurised services areas in Somerset – Adults & Health, Children & Families – and, whilst they may achieve some success over the short term, it is hard to see how these changes can be absorbed over the longer term without the service re-design the Council acknowledges is required. </td></tr>
</table>
Future savings
The Council updated its medium term financial plan in February 2017 when the budget for 2017/18 was agreed. This showed the cumulative shortfall over the remaining three years of the plan was £19.5m, with a peak of £12.8m in 2018/19..
The 2017/18 budget included savings of £18.1m and delivering these and the shortfall in 2018/19 will be a real challenge. The use of reserves to achieve a balanced financial position is only a short-term solution.
The Council can only achieve a sustainable financial position through service re-design and our experience shows that this takes time and investment and is unlikely to be achievable over the next 12 to 18 months. Robust challenge to the budgets and proactive monitoring is essential over the next two financial years.
Conclusion
Whilst significant pressures remain we conclude that overall the Council continues to have appropriate arrangements in place for sustainable resource deployment. Close in year monitoring and timely corrective action will continue to be need to ensure budgets are delivered and service redesign implemented.
</td>
</tr>
</table>

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
Ofsted inspection of children's services Our risk assessment noted that he	We reviewed update reports to the Council on the progress against the improvement plan. We reviewed the findings of the May 2017 monitoring visit by Ofsted.	There was regular reporting and monitoring throughout the year of the actions taken to improve the service. In May 2017 Ofsted undertook a monitoring visit at Somerset County Council. Ofsted reported that overall outcomes for children were improving but that improvements that were still required to raise outcomes for children in Somerset. We did not take this into account in reaching our conclusion for 2016/17 as that only covers arrangements in place during the financial year. However, as the monitoring visit took place a month after the year end, it provides an indication of the arrangements in place in 2016/17. No formal re-inspection has taken place and so the rating of 'inadequate' still applied. **Conclusion** Whilst progress has been made, this matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and the expected provision of non-audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	99,873	99,873	99,873
Statutory audit of Pension Fund	23,859	23,859	23,859
Total fees (excluding VAT)	**123,732**	**123,732**	**123,732**

The fees for the year were in accordance with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	July 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Expected Fees £
Audit related services to be completed:	
• Teachers' Pension Return 2016/17	**4,200**
• School centred initial teacher training	**3,750**
Non-audit services	**None**

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

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SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Somerset County Council

Report of Internal Audit Activity

Plan Progress 2017/18- November Update

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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Summary

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **School and Early Years Reviews**
- **Follow-up Reviews**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for Somerset County Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 30th March 2017.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- School and Early Years Reviews
- Follow-up Audits
- Other Special or Unplanned Reviews

Summary of Work 2017/18

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

Internal Audit Work programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2017/18. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed at Appendix A of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a ‘Partial Assurance Opinion’ is given as part of this report.

In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.

Significant Corporate Risks

We provide a definition of the 4 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we have assessed the following risks as 'High' or 'Very High'.

In this update there are no final reports included with significant corporate risks.

SWAP Performance - Summary of Partial Opinions

- **These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.**

Summary of Partial Opinions

One audit finalised in the period were awarded partial assurance. The significant findings from this audit have been summarised below.

Better Care Fund – 'Partial' (2016/17)

The Better Care Fund (BCF) is part of the Government's vision to encourage local authorities and health services to pool resources and give people better care closer to home. A National Audit Office (NAO) report in February 2017 concluded that there are still real challenges to achieving closer integration between health and social care. The NAO concluded that "*in the face of increased demand for care and constrained finances, the Fund has not yet achieved its potential to manage demand for healthcare; support out-of-hospital care; improve outcomes for patients; or save money.*" The situation at Somerset echoes the national picture, with constant challenges and demands placed on the services provided by both the NHS and Clinical Commissioning Group (CCG).

This audit had a restricted scope to look at the overarching governance arrangements for the performance and delivery of the Better Care Fund. As such this review focussed primarily on the reporting arrangement to the boards with responsibility for the Fund – the Health and Wellbeing Board and the Joint Commissioning Board. In terms of governance the audit identified weakness in the reporting and monitoring arrangements in place covering finance, performance and risk to both boards. Without adequate information being provided there is reduced assurance in relation to the sufficiency of scrutiny and oversight of the Better Care Fund. Given the challenges in Better Care Fund delivery the achievement of these improvements is really important.

Update 2016/17 and 2017/18

Completed Assignments in the Period

Internal Audit Work Programme Progress to Date

Refer to Appendix B for detail of the individual audits.

2016/17

The plan is now complete.

2017/18

After seven months delivery of the plan progress can be summarised as follows:

- 19 final reports
- 2 draft report
- 15 in progress

In addition, 18 school visits and 6 early years visits have taken place so far this year.

Follow-up Audits

There have been delays experienced in the scheduling of some follow-up audits due to more time being needed to implement recommendations. As a result, these reviews are now scheduled to take place later than planned and a number are now scheduled for the final quarter of the year. Given the need to schedule additional work during quarter 3, detailed in the Changes to the Plan section that follows, SWAP has been able to accommodate these delays. However, it is now important that these follow-up reviews do take place in quarter 4 to provide the evidence that recommendations have been implemented. Only then will SWAP be able to give assurance that the significant risks reported within the original audit reports are now being adequately controlled.

Plan Performance 2017/18

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

SWAP performance is subject to regular monitoring review by both the Board and at Member Meetings. The respective performance results for Somerset County Council and other SWAP partners, using data to the end of October 2017 is as follows:

Performance Target	SCC Performance	Partners Performance
Audit Plan – Percentage Progress Final, Draft and Discussion Reports	32%	27%
Draft Reports Issued within 5 working days	71%	70%
Final Reports Issued within 10 working days of discussion of draft report	74%	61%
Quality of Audit Work Customer Satisfaction Questionnaire	86%	91%

We keep our audit plans under regular review so as to ensure that we auditing the right things at the right time.

Approved Changes to the Plan

Additions to the Plan

Members will note that a number of additional audit reviews have been added to the plan this year. The plan needs to be flexible to be able to respond to such requests to ensure that areas of high priority and risk can be accommodated. As a result some planned audit work scheduled this quarter has been delayed. It has also been necessary to defer some audits to accommodate this additional work, three of these audits directly related to the healthy organisation work and these will be treated as priority audits in next year's plan. To prevent having to compromise the plan by deferring further work, the latest additions have been commissioned in addition to the plan and SWAP will be paid separately for this work.

Follow-up reviews – Risks Tolerated

Our agreed process is to follow-up all audits where a partial assurance is awarded. Where recommendations have not been fully implemented a second follow-up takes place. There are three audits where this process has been followed but ongoing risks remain and are unlikely to reduce with further audit work:

- Deprivation of Liberty Standards (DoLS)
- Adults casework system – AIS
- Childrens foster care allowance calculation – Homefinders

In relation to DoLS the service has made some improvements as agreed in the action plan. However, the backlog of assessments reported is a nationwide problem and until legislation changes, which is planned, significant reduction in risk will not take place.

In the case of AIS implementation of outstanding recommendations requires further system development work but given agreement has been made to replace it, no further investment will be made. Similarly, a decision is awaited on the future use of Homefinders and until this takes place there will be no significant investment in the system.

For all three of these audits risks reported remain outstanding but further audit work will not be effective in reducing these any further. An agreement has therefore been made to convert these risks on JCAD to service risks that are tolerated, with a requirement for them to be reviewed by the service every six months.

Conclusion

During the period audit resources have focused on the delivery of additional audit work and some of the quarter 3 audits have slipped both as a direct result of this, as well as due to client requests. Some of the quarter 4 plan has been deferred to the start of the following year to accommodate the additional work and although timely delivery of the remainder of the plan will be a challenge, it should be achievable.

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★★★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲★★★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation					Comments
								5	4	3	2	1	
2016/17													
Adult Services	Operational	Better Care Fund	Q4	Final	Partial	9/03/2017	10	0	5	5	0	0	There have been delays in receipt of information.
2017/18													
Childrens Services	Follow Up	Retention of Foster Carers Follow-Up	Q1	Final	n/a	07/04/2017	0	0	0	0	0	0	Further work required - not removed from JCAD.
Childrens Services	Follow Up	Multi Agency Safeguarding Board Follow-Up	Q1	Final	n/a	10/04/2017	0	0	0	0	0	0	Satisfactory progress - removed from JCAD.
ICT	ICT	Readiness for the New General Data Protection Regulations (GDPR)	Q1	Final	Partial	01/05/2017	9	0	4	5	0	0	
ICT	Follow Up	Homefinders - Follow Up	Q1	Final	n/a	12/07/2017	0	0	0	0	0	0	Follow-up work complete and ongoing risk being tolerated.
Information management	Governance, Fraud & Corruption	Data Subject Access Requests (DSAR)	Q1	Final	Partial	02/05/2017	9	0	2	7	0	0	
Finance and Performance	Operational	Dillington House Financial Controls Review	Q1	Final	Advisory	05/05/2017	10	0	3	7	0	0	Addition to Plan – opinion based review to be performed next year.
Adult Services	Follow Up	Personal Budgets Follow-Up	Q1	Final	n/a	01/04/2017	0	0	0	0	0	0	Satisfactory progress - removed from JCAD.

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation 5	4	3	2	1	Comments
ICT	ICT	RIPA Use of Internet as a means of Surveillance	Q1	Final	Partial	01/05/2017	5	0	1	4	0	0	
Health and safety	Follow Up	Health & Safety - Premises Management SCC Establishments Follow-Up	Q1	Final	n/a	02/06/2017	0	0	0	0	0	0	Further audit work required - not removed from JCAD. Scheduled for Q3.
Adult Services	Follow Up	Deprivation of Liberty Follow-Up	Q1	Final	n/a	10/07/2017							Follow-up work complete and ongoing risk being tolerated.
Schools	School Theme	Financial Governance, Budget Planning and Monitoring	Q1	Final	Reasonable	12/06/2017	14	0	1	13	0	0	Based on summer term school visits.
Property Services	Operational	Contract Letting and Management	Q1	Final	Advisory	26/07/2017							
HR	Operational	People Strategy	Q2	Final	Advisory	10/08/2017							Advice on new people strategy
Schools	Advice	Schools Financial Value Standard Moderation	Q2	Final	n/a	07/09/2017							
Human Resources	Governance, Fraud & Corruption	Staff Benefit Scheme – HMRC compliance	Q2	Final	Reasonable	08/08/2017	3	0	0	3	0	0	Addition to Plan
Human Resources	Operational	Staff Benefit Scheme	Q2	Final	Advisory	22/08/2017							
ECI	Operational	Use of Agency staff	Q2	Final	Advisory	08/09/2017							

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation 5	4	3	2	1	Comments
Childrens Services	Early Years	Early Years Themed & Follow Up Report	Q2	Final	Reasonable	31/07/2017							
Procurement	Governance, Fraud & Corruption	Social Value Policy	Q1	Final	Reasonable	26/06/2017							
Children and Families	Operational	Financial Controls - Childrens Centre	Q2	Draft		28/08/2017							
ICT	ICT	Payment Card Industry Data Security Standard compliance	Q2	Draft		11/07/2017							
Childrens Services	Key Control	Troubled Families certification of claims	Q1	In progress		28/07/2017							Claim periods spread over the year
Corporate	Operational	Healthy Organisation Strategic Review - Follow-Up	Q1	In progress									Work to monitor this action plan will be ongoing throughout 17/18.
Transport and infrastructure	Advice	Concessionary Fares	Q1	In progress		01/04/2017							Ongoing advice through the year.
Children Services	Operational	Childrens Direct Payments	Q2	In progress		01/08/2017							
Adult Services	Operational	Risk of Care Provider Failure	Q2	In progress		14/08/2017							Deferred from Q1 due to restructure within Adult Services.
Finance & Performance	Governance, Fraud & Corruption	MTFP - The Commissioning Lead Approach	Q2	In progress		16/08/2017							

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation					Comments
								5	4	3	2	1	
Education	Operational	The Education of Children Looked After	Q2	In progress		31/07/2017							
Finance and Performance	Governance, Fraud & Corruption	Local Preparations for Managing National Fraud Risks	Q2	In progress		03/08/2017							
ICY	ICT	Business Applications - Business Critical System Capita One	Q2	In progress		11/07/2017							Terms of Reference agreed
Business Development	Governance, Fraud & Corruption	Procurement - The Monitoring and Control of Savings Made	Q2	In progress		11/09/2017							
Public Health	Operational	Vulnerable Person Resettlement Programme	Q3	In progress		08/11/2017							Commissioned audit in addition to plan.
Adult Services	Operational	Mental Health	Q3	In progress		13/11/2017							
Education	Operational	Use of Part-Time Timetables in Schools	Q3	In progress		13/10/2017							
Finance & Performance	Key Control	Payroll (including IR35)	Q3	In progress		02/10/2017							
Schools	School	School Theme - Schools Financial Value Standard (SFVS)	Q3	In progress		09/10/2017							Based on autumn term school visits.
Adult Services	Follow Up	Safeguarding Follow-Up	Q3	Not started									Deferred from Q1 to allow sufficient time for agreed actions to be implemented.

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation 5	4	3	2	1	Comments
Childrens Services	Operational	Independent Placements for CLA and Education - Financial Controls	Q3	Not started									Deferred from Q1 to allow sufficient time for agreed actions to be implemented.
Finance & Performance	Follow Up	Cash Handling - Implementation of Policy Follow-Up	Q3	Not started									Initial meeting scheduled for 11th December.
Business Development	Governance, Fraud & Corruption	Project Management - Of Projects Outside of Core Council Programme including Benefit Realisation	Q3	Not started									Initial meeting scheduled for 13/11.
Adults Services	Follow Up	Adults Income Collection - Personal Finance Contributions Follow-Up	Q4	Not started									Deferred from Q2 to allow sufficient time for agreed actions to be implemented.
Adults Services	Follow Up	Adults Placements	Q4	Not started									Deferred from Q2 to allow sufficient time for agreed actions to be implemented.
Adult Services	Follow Up	Direct Payments – ISP interface Follow-Up	Q4	Not started									Deferred from Q2 to allow sufficient time for agreed actions to be implemented.
Education	Follow Up	Health & Safety - Premises Management Schools and non schools Follow-Up	Q3	Not started									

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation 5	4	3	2	1	Comments
Finance & Performance	Key Control	Debt Management	Q3	Not started									Initial meeting 8th November
Corporate	Governance, Fraud & Corruption	Corporate Management of Health and Safety	Q3	Not started									Schedule start after follow-ups complete.
ICT	ICT	SAP - Financial System IT Controls	Q3	Not started									
ICT	ICT	Network Resilience and Authentication	Q3	Not started									
Business Development	Governance, Fraud & Corruption	Value for Money Strategy and Reporting	Q3	Not started									
Corporate	Governance, Fraud & Corruption	Corporate Contracts - Performance Management	Q3	Not started									
School Theme	Follow-up	The Planned use of school balances follow-up	Q4	Not started									Deferred from Q1 to allow sufficient time for agreed actions to be implemented.
Adult Services	Operational	The Efficiency and Effectiveness of the New Operating Model	Q4	Not started									
ECI	Governance, Fraud & Corruption	Strategic Asset Management	Q4	Not started									
Finance & Performance	Key Control	Creditors	Q4	Not started									Initial meeting 13/11/2017

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation 5	4	3	2	1	Comments
Business Development	Follow Up	Hardware Asset Management - Follow Up	Q4	Not started									
ICT	Follow Up	Incident/Problem/Change Management - Follow Up	Q4	Not started									
ICT	ICT	Active Directory/User Admin	Q4	Not started									
ICT	ICT	Position Statement on Outstanding Follow-Up Audits including Software and Healthy Organisation	Q4	Not started									
ICT	ICT	Threat Management	Q4	Not started									
ECI	Follow Up	Section 106 Agreements Follow-Up	Q4	Not started									Deferred from Q1 to allow sufficient time for agreed actions to be implemented.
Finance & Performance	Governance, Fraud & Corruption	Performance Management - Service Planning	Q4	Not started									Deferred from Q2 to allow sufficient time for agreed actions to be implemented. Focus will be on updated arrangements and not limited to service planning.
ECI	Key Control	Concessionary Fares - Key Control Review	Q4	Not started									
Education	Operational	The Transport of Children	Q4	Not started									

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation					Comments
								5	4	3	2	1	
School	School Theme	School Theme – E-Safety	Q4	Not started									
HR	Governance, Fraud & Corruption	Workforce Planning	Q4	Deferred									Deferred to Q1 2018/19 and replaced with Staff Benefit Scheme advisory review.
Corporate	Governance, Fraud & Corruption	Procurement - Category Management	Q4	Deferred									Deferred to Q1 2018/19
Business Development	Governance, Fraud & Corruption	Project Management - Benefits Realisation of Projects Outside of Core Council Programme	Q3	Removed									Replaced with Contract Letting and Management advisory review. Benefits Realisation will be included in Q3 Project Management Audit.
ICT	Follow Up	AIS - Data Quality Follow-Up	Q2	Removed									Follow-up work complete and ongoing risk being tolerated. Days added to Adults income collection.
Education	Operational	Structural Failure of School Buildings	Q4	Removed									Removed from the plan to release time for additional advisory work.

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation 5	4	3	2	1	Comments
Schools													
Schools	School	School Theme – Financial Governance Beech Grove	Q1	Final	Reasonable	05/07/2017	10	0	0	10	0	0	
Schools	School	School Theme – Financial Governance Critchill	Q1	Final	Reasonable	05/07/2017	11	0	1	10	0	0	
Schools	School	School Theme – Financial Governance Heathfield	Q1	Final	Reasonable	05/06/2017	8	0	0	8	0	0	
Schools	School	School Theme – Financial Governance St Marys	Q1	Final	Reasonable	05/06/2017	5	0	0	5	0	0	
Schools	School	School Theme – Financial Governance Stoberry	Q1	Final	Reasonable	05/06/2017	6	0	0	6	0	0	
Schools	School	School Theme – Financial Governance Swanmead	Q1	Final	Reasonable	05/06/2017	10	0	1	9	0	0	
Schools	School	School Theme – Financial Governance Wadham	Q1	Final	Partial	05/06/2017	15	0	3	12	0	0	

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ⟷ 1 = Minor Recommendation 5	4	3	2	1	Comments
Schools	School	School Theme – Financial Governance Winsham	Q1	Final	Partial	05/07/2017	11	0	2	9	0	0	
Schools	Follow-up	Churchstanton - SFVS Follow-Up	Q1	Final	n/a	04/07/2017	n/a	0	0	0	0	0	
Schools	Follow-up	Penrose School - School Balances Follow-Up	Q1	Final	n/a	26/06/2017	n/a	0	0	0	0	0	
Schools	School	School Theme – SFVS Ashcott	Q3	Final	Reasonable	09/10/2017	12	0	0	3	0	0	
Schools	School	School Theme – SFVS Avalon	Q3	Draft		09/10/2017							
Schools	School	School Theme – SFVS Cheddar First	Q3	In progress		09/10/2017							
Schools	School	School Theme – SFVS Vallis First	Q3	In progress		09/10/2017							
Schools	School	School Theme – SFVS West Huntspill	Q3	In progress		09/10/2017							
Schools	School	School Theme – SFVS Castle Cary	Q3	Draft		12/10/2017							
Schools	School	School Theme – SFVS St Benedict's	Q3	In progress		09/10/2017							
Schools	School	School Theme – SFVS Norton Sub-Hamdon	Q3	In progress		09/10/2017							
Early Years													

Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ↔ 1 = Minor Recommendation					Comments
								5	4	3	2	1	
Childrens Services	Early Years	Billy's Young Stars Nursery (Butlins Minehead)	Q1	Final	Reasonable	22/06/2017	4	0	0	4	0	0	
Childrens Services	Early Years	Churchfield Nursery (Highbridge)	Q1	Final	Partial	16/06/2017	6	0	2	4	0	0	
Childrens Services	Early Years	Little Otters Pre-School (Combwich)	Q1	Final	Reasonable	20/06/2017	5	0	0	5	0	0	
Childrens Services	Early Years	Sunny Ile Pre-School (Ilminster)	Q1	Final	Reasonable	06/06/2017	3	0	0	3	0	0	
Childrens Services	Early Years	Wellesley Park Pre-School (Wellington)	Q1	Final	Reasonable	13/06/2017	4	0	0	4	0	0	
Childrens Services	Early Years	Heron Pre-School (Ilchester)	Q1	Final	Reasonable	15/06/2017	3	0	0	3	0	0	

Somerset County Council
Audit Committee – 23 November 2017

Debtor Management

Service Director: Kevin Nacey, Director of Finance and Performance
Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance
Author: Martin Gerrish, Strategic Manager – Financial Governance
Contact Details: tel: (01823) 355303 or e-mail: mgerrish@somerset.gov.uk
Cabinet Member: Cllr David Hall, Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. This report reviews the recovery of outstanding debts (monies owed to SCC) as at the end of October 2017, including a comparison with the previous report to Audit Committee and the equivalent values as at the end of October 2016.

1.2. The achievement of good performance in this area is linked to the County Plan in relation to “bring in more funding and resources”.

2. Issues for consideration

2.1. Members are asked to comment on the position in relation to outstanding debt figures.

3. Background

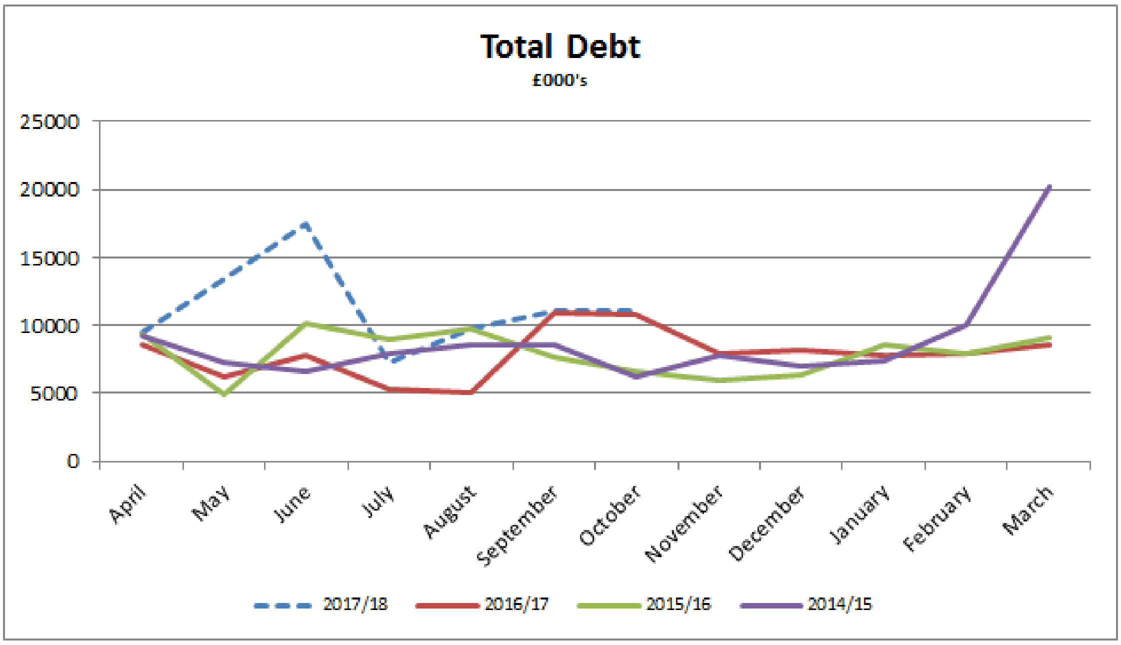
3.1. Headline figures as at 31st October 2017

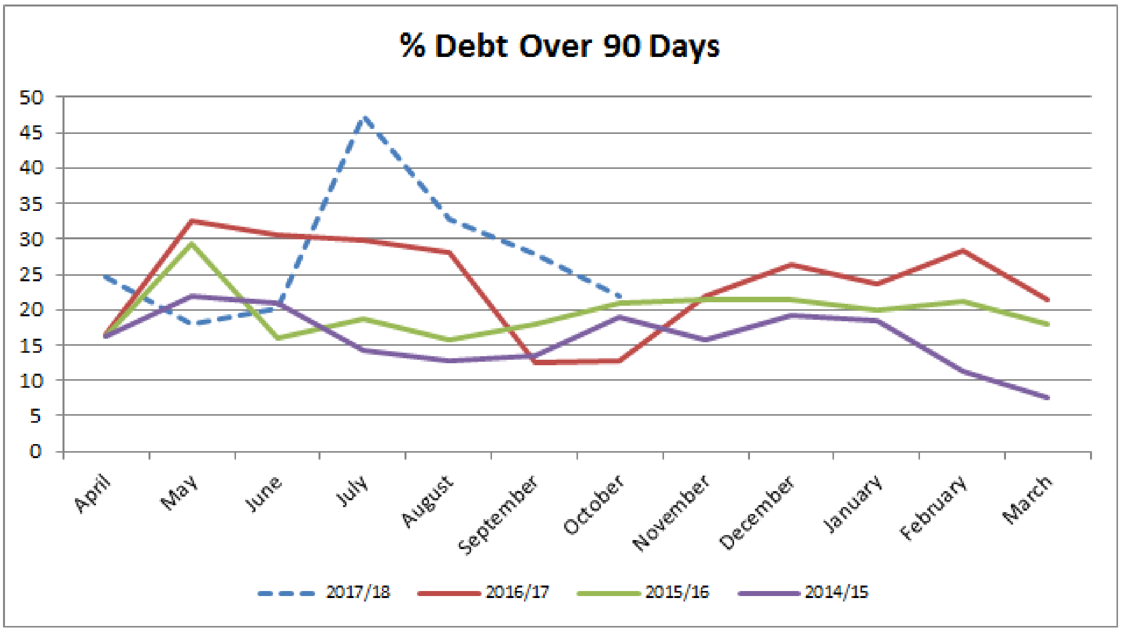
Services’ total net outstanding debt reported on the Accounts Receivable system stood at **£11.083m** as at 31st October 2017. This compares with a figure of £10.825m as at 31st October 2016, and £13.366m as at 31st May 2017, which were the last figures reported to Audit Committee in June 2017. As the graph below shows, the total debt has spiked since last reported to the Audit Committee, but is now back much closer to the previous financial year. A breakdown by service areas is included in Appendix A.

The percentage of debts over 90 days as at 31st October 2017 was **22.02%,** which is a worsening position when compared with 12.67% as at 31st October 2016, and also slightly worse than the 17.93% reported as at 31st May 2017. However, the trend since the summer has been arrested.

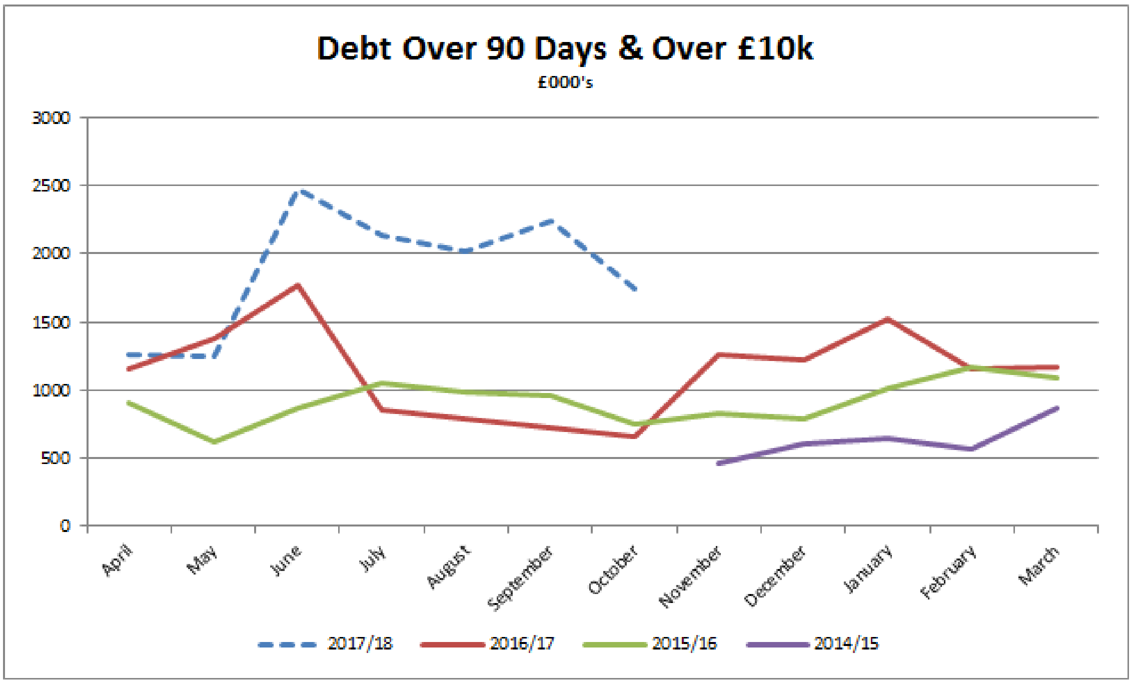
A total of **£2.441m** of our net debt as at 31st October 2017 is over 90 days old.

The graphs below show the headline figures as at 31st October 2017, as plotted against previous years' total debt and percentage of debt over 90 days old.





Further analysis of the debts over 90 days clearly shows the increase in the last few months is due to the value of larger debts (over £10,000).



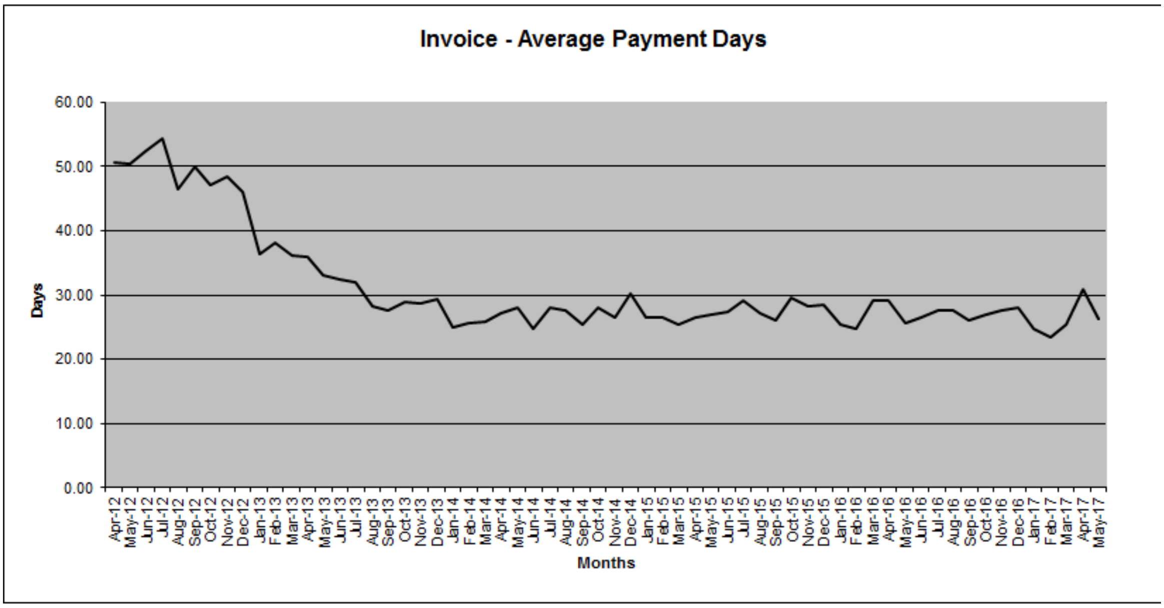
The types of debtor associated with these debts over 90 days old and over £10,000 has not changed significantly over the summer months:-

Debtor Type	End June	End July	End Aug	End Sept	End Oct
NHS	£1,038,821.14	£1,078,180.35	£1,150,398.02	£1,368,819.27	£1,211,663.86
Individuals	£228,982.71	£344,630.52	£250,726.64	£236,318.23	£187,469.88
Developers	£618,435.31	£184,563.08	£184,563.08	£184,563.08	£11,732.39
Utilities	£176,859.19	£199,230.73	£176,859.19	£171,497.09	£49,750.00
Insurance	£87,273.35	£110,691.01	£87,273.35	£97,403.94	£97,403.94
Care Homes	£36,398.68	£36,398.68	£36,398.68	£36,398.68	£36,398.68
Social Enterprises	£62,028.19	£62,028.19	£62,028.19	£62,028.19	£62,028.19
OLA's	£167,114.88	£49,708.76	£12,000.00	£32,000.00	£32,000.00
Schools & Colleges	£35,208.56	£56,515.51	£50,915.51	£50,915.51	£50,915.51
Other	£20,290.93	£15,507.76	£0.00	£0.00	£0.00
Total	£2,471,412.94	£2,137,454.59	£2,011,162.66	£2,239,943.99	£1,739,362.45

Clearly, whilst there has been some success in managing debt overall throughout the year, and our total debt is again comparable with the previous year, we have not been as successful in reducing debts over 90 days old by the same amount.

3.2. Time to Pay information

The graph below shows the average time for debts to be paid. There is a necessary time lag in terms of capturing the time to pay, and therefore this is run retrospectively, to avoid understating the average. For May 2017, this was 26.29 days, which is broadly consistent with previous months. Only once since December 2014 has the average has been above 30 days (April 2017 30.98 days).



3.3. Significant older debts outstanding

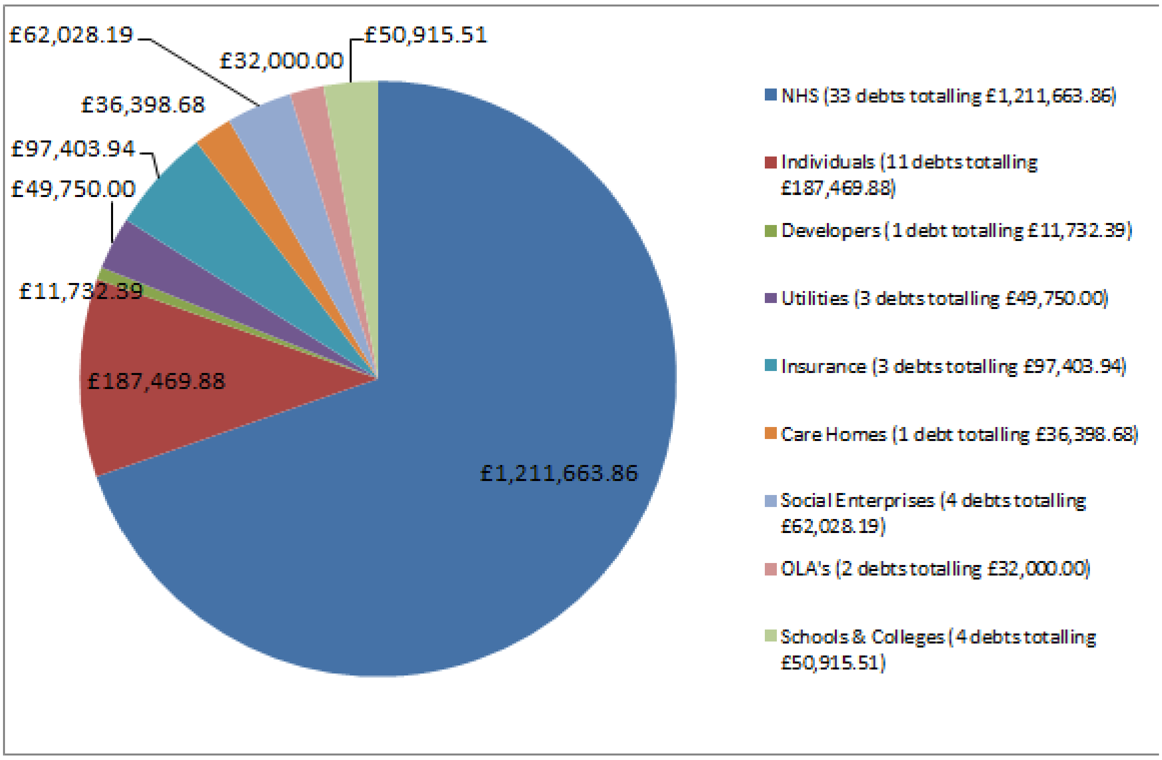
As at 31st. October 2017, there were a total of 62 individual debts that were both over 90 days old and over £10,000. (Totals were 72 at the end of September, 63 at the end of August, 94 at the end of July and 68 at the end of June).

As in the table above, the value of these 62 debts is £1,739,362.45. The total value of all debts over 90 days old is £2.441m, so these 62 individual debts represent 71.26% of all such older debts owed to the County Council. This is a higher percentage than the June 2017 report, where larger individual debts only accounted for 51.9% of the total debts over 90 days old.

The pie chart below shows the composition of these particular debts.

Any individual debts that have been paid off since the end of October will be verbally reported to the meeting.

3.4. Significant older debts outstanding (illustration)



4. Consultations undertaken

4.1. Debt management is considered monthly at the Finance Management Team meetings, chaired by the Director of Finance, and is on the Finance scorecard. Debt is also regularly reported to Cabinet.

5. Implications

5.1. If debt is not collected promptly it greatly increases the risk that it may need to be written off which has an impact on the revenue budgets of services.

6. Background papers

6.1. Previous reports to Audit Committee.

Note For sight of individual background papers please contact the report author

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APPENDIX A - DEBT OUTSTANDING BY AREA AS AT 31/10/2017

Directorate	Not overdue	0-30 days £000	31 to 90 days £000	91 to 365 days £000	365+ days £000	Total (Gross) £000	Unassigned Cash £000	Total (Net) £000
Adults & Health Comm	0	10	0	0	126	**136**	0	**136**
Adults & Health Ops	93	825	344	666	195	**2123**	0	**2123**
Business Development	25	338	97	174	45	**679**	0	**679**
Customers & Communities	0	115	109	0	0	**224**	0	**224**
Children & Family Ops	2	18	0	517	6	**544**	0	**544**
ECI Comm	3	2	2	2	0	**9**	0	**9**
ECI Ops	933	1109	2598	193	196	**5029**	0	**5029**
Schools & Early Years	30	10	9	10	6	**65**	0	**65**
Finance & Performance	4	256	0	15	9	**283**	0	**283**
Children & Learning Comm	255	42	26	193	3	**519**	-1	**518**
LD Ops	16	0	1	31	45	**94**	0	**94**
Support Services for Education	8	875	35	9	0	**927**	-1	**926**
Public Health	0	446	8	0	0	**453**	0	**453**
Total £	**1370**	**4045**	**3229**	**1811**	**630**	**11085**	**-2**	**11083**
Total %	**12.36%**	**36.49%**	**29.13%**	**16.33%**	**5.69%**	**100.00%**		

Total % over 90 days = 22.02%

PREVIOUS DEBT FIGURES (AS AT 31/05/2017)

Directorate	Not overdue	0-30 days £000	31 to 90 days £000	91 to 365 days £000	365+ days £000	Total (Gross) £000	Unassigned Cash £000	Total (Net) £000
Adults & Health Comm	0	0	219	122	5	**346**	-1	**345**
Adults & Health Ops	89	5436	640	441	211	**6817**	-1	**6816**
Business Development	27	144	2223	140	77	**2612**	-16	**2596**
Customers & Communities	0	4	119	0	0	**122**	0	**122**
Children & Family Ops	7	13	107	304	10	**440**	-5	**435**
ECI Comm	4	7	2	0	1	**13**	0	**13**
ECI Ops	116	267	585	167	151	**1287**	0	**1287**
Schools & Early Years	36	25	9	6	10	**86**	-4	**82**
Finance & Performance	4	43	107	490	9	**653**	-1	**652**
Children & Learning Comm	42	12	48	172	5	**279**	-14	**265**
LD Ops	59	19	10	45	37	**170**	-2	**168**
Support Services for Education	8	111	465	2	0	**585**	-3	**582**
Public Health	0	0	2	0	0	**2**	0	**2**
Total £	**394**	**6079**	**4535**	**1890**	**515**	**13413**	**-47**	**13366**
Total %	**2.93%**	**45.33%**	**33.81%**	**14.09%**	**3.84%**	**100.00%**		

Total % over 90 days = 17.93%

VARIATIONS FROM THE PREVIOUS PERIOD (*)

Directorate	Not overdue	0-30 days £000	31 to 90 days £000	91 to 365 days £000	365+ days £000	Total (Gross) £000	Unassigned Cash £000	Total (Net) £000
Adults & Health Comm	0	10	-219	-122	122	**-209**	**1**	**-209**
Adults & Health Ops	4	-4,610	-296	225	-17	**-4,694**	**1**	**-4,693**
Business Development	-2	194	-2,126	34	-32	**-1,933**	**16**	**-1,917**
Customers & Communities	0	111	-9	0	0	**102**	**0**	**102**
Children & Family Ops	-5	6	-107	213	-4	**104**	**5**	**109**
ECI Comm	-1	-5	0	2	-1	**-4**	**0**	**-4**
ECI Ops	817	842	2,013	26	45	**3,742**	**0**	**3,742**
Schools & Early Years	-6	-15	0	4	-4	**-21**	**4**	**-17**
Finance & Performance	0	213	-107	-475	0	**-370**	**1**	**-369**
Children & Learning Comm	213	30	-22	21	-2	**240**	**13**	**253**
LD Ops	-43	-19	-8	-14	8	**-76**	**2**	**-74**
Support Services for Education	0	764	-430	8	0	**341**	**2**	**343**
Public Health	0	446	6	0	0	**451**	**0**	**451**
Total £	**977**	**-2,034**	**-1,306**	**-79**	**115**	**-2,328**	**45**	**-2,283**

Deterioration in % = 4.09%

(*) A positive figure in the Variations table denotes an increase in the amount of debt owed to SCC of that particular type and age.
A negative figure in the Variations table denotes a decrease in the amount of debt owed to SCC of that particular type and age.

Figures are rounded to the nearest £000

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Somerset County Council
Audit Committee 23 November 2017

Partial Audit – Debt Management Covering Report

Service Director: Kevin Nacey, Director of Finance and Performance
Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance
Author: Martin Gerrish, Strategic Manager – Financial Governance
Contact Details: tel (01823) 355303 or e-mail: mgerrish@somerset.gov.uk
Cabinet Member: David Hall
Division and Local Member: All

1. Summary/link to the County Plan

1.1. This is a covering report in relation to the Partial audit on Debt Management (money owed to the County Council), which highlights some of the key points raised and the management actions that have been put in place.

1.2. The achievement of good performance in this area is linked to the County Plan in relation to "bring in more funding and resources".

2. Issues for consideration

2.1. Members are asked to consider the management progress with responding this audit, and to note the actions that have been undertaken.

3. Background

3.1. Officers within the Finance function asked for this particular audit.

There has been sufficient audit work on the Accounts Receivable (debtors) system itself to provide confidence (Reasonable Assurance was achieved previously). However, there has always been anecdotal evidence from the officers concerned that compliance with the system, and with debt management in particular, was variable.

With the Accounts Receivable function returning from South West One, and having gone through a restructure and a reduction of staff as a MTFP saving, it was appropriate to review the function, and the audit could help inform that process.

Finance managers were also aware that the previous Income Code of Practice was out of date and did not provide definitive guidance to those officers who have a responsibility to chase debts.

3.2. It was originally envisaged that the management response to this Partial audit would have come back to the June or July 2017 Audit Committee meeting. Unfortunately, as was reported to the June meeting, our timetable was put back due to a Pre-Action Protocol issued by the courts that was to come into force from 1st October 2017.

(As a reminder to members, this Protocol was designed to reduce the amount of debt cases coming before the courts, by requiring all alternatives to be completed and exhausted, and with more detailed evidence shared, before court action can be taken against individuals or sole traders. The further documentation requirements and further stages introduced by the Protocol will inevitably slow down our ability to collect debts from individuals. It is possible under the Protocol for individuals to delay payments to the County Council by several months without us being able to undertake legal actions.

It was therefore decided to re-write sections of the Income Code of Practice to incorporate the Pre-Action Protocol, rather than have to re-issue the Code a few months later with these changes).

Officers can confirm that our debt management case system (Norwell) now allows us to be consistent with the requirements of the Pre-Action Protocol in terms of the necessary communications required.

3.3. Whilst the findings from the audit were obviously of a serious nature, confirming officers' thoughts in many cases, members are reminded that the Accounts Receivable service as a whole is performing well.

As was reported to the June Audit Committee meeting, we collected 99.86% of the net debt raised on the system in 2016/2017, which is consistent with previous years. Although there are some exceptions, payments are generally collected in a timely manner, and our average time to pay statistic has remained consistently below 30 days.

However, officers have taken on board where the processes could be improved, as can be seen in the individual comments to the Final Audit (attached).

4. Consultations undertaken

4.1. Not directly applicable to the audit report, although some key users were consulted on the draft Income Code of Practice.

5. Implications

5.1. A number of key measures have been highlighted by the audit, which will become additional indicators for Finance managers to consider the performance of the Accounts Receivable service.

6. Background papers

6.1. Draft Income Code of Practice (also on this agenda).

Note For sight of individual background papers please contact the report author

Debt Management 2016/17

Final Report

Issue Date: 28th February 2017

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

- This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

- This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

Executive Summary

Overview

As part of the 2016-17 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for debt management across Somerset County Council. This has taken the place of the audit ordinarily focussed on the key controls of the accounts receivable function and was identified as a specific area that requires an in-depth review. The audit was requested due to the timely opportunity to review and re-model arrangements where required, after the end of the SouthWest One Contract.

For Somerset County Council, the net outstanding debt figure at 30th September 2016 was £10.883m, which is the highest total level of outstanding debt since March 2015.

Aged debts are classified as those over 90 days and there is a corporate target for these debts to not exceed 15% of total debt.

At 30th September 2016 the figure was 12.58%, totalling £1.380m, but had reached 32.43% at the end of May 2016.

However, whilst the aged debt position has fluctuated, the overall performance for collecting debt during 2015-16 was more favourable at 99.8%. There was also a relatively low amount of debt report as written off during the year, at £0.170m.

The current control framework for debt management includes a published Code of Practice for Income Management, which is supplemented by an Authorisation List of staff who are permitted to approve certain transactions.

The financial management system, SAP, is used to produce reports that identify outstanding and aged debts and there is a lead officer in each service who is responsible for compiling debt reports and supplementary information on a monthly basis.

Debts are also reported at corporate and committee level, with reports presented to both Cabinet and Audit Committee on a regular basis.

SAP has additional functionality for debts that should not be subject to recovery action, which places a system hold on the debt and supresses automatic reminders from being issued to the debtor. Debts that cannot be pursued can also be processed as a write-off on SAP.

Current procedures require that debts exceeding 49 days are referred to a Debt Recovery Officer, who is responsible for instigating and progressing legal action where appropriate.

This report provides management with a summary of the audit findings, where expected controls are not met, and offers recommendations for improvement to assist in managing the risk.

Audit Objective

To ensure that a framework is in place and is being followed to support the active management and recovery of all debts due to the Authority.

Significant Findings

Finding:	Risk:
1. The Income Management Code of Practice requires a number of improvements;	1. Staff may be unclear on required procedures and not fully aware of their responsibilities in managing income;
2. There is no formal programme of	2. As above;

training for staff involved in debt management; 3. There are insufficient controls for debts placed on hold; 4. Current arrangements for referral of debts for legal recovery require review and improvement; 5. Corporate debt reporting requires a number of improvements; 6. Service debt reporting arrangements require a number of improvements; 7. Accounting practices do not encourage ownership and accountability for debts within services.	3. Debts may be inappropriately placed on hold and remain so for lengthy periods with no recovery action taken; 4. The Council will not be able to reduce and successfully maintain a lower level of aged debt; 5. Current levels of monitoring are not commensurate with the level of priority that debt management requires and variances remain unexplained; 6. As above; 7. Inadequate debt performance is not addressed.

Audit Opinion:	Partial

I am able to offer partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

The Council's budget deficit and resulting spending freeze has been well-publicised and received high profile attention within the communications of both the Leader of the Council and the Chief Executive. Maximising income collection, through a robust framework that services comply with has the potential to make a significant contribution to the overall financial performance of the Authority. However, this review reports concerns about the inability of SCC to consistently perform within the 15% aged debt target, and the debts over 90 days figure is consistently reaching close to £1.5m.

The main issues identified through this audit have been the lack of assigned responsibility for debt management within services; the framework for performance monitoring includes insufficient targets at both corporate and service levels; variances in debt performance are subject to only limited challenge and current arrangements for corporate and service level reporting and monitoring do not go far enough in identifying root causes when variances occur. Furthermore there is currently insufficient focus on recovery action in the immediate period after debts have reached an age of 30 days, even though it is well understood that debts that are not collected promptly greatly increase the risk that they will need to be written off, which has an impact on the revenue budgets of services.

It is now recommended that the findings in this report are used to strengthen the debt management framework and improved monitoring arrangements, particularly at service level, put in place to ensure that this is complied with. Given the Council's financial position, a limiting factor is the availability of resources but by ensuring responsibilities, reporting arrangements and escalation routes are clear, more effective use can be made of staff time available.

Corporate Risk Assessment			
Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
Non recovery of debt results in financial loss to the Authority.	**High**	**Medium**	**Medium**

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

We conducted sample testing in the following areas:

1. Debts less than 49 days to establish service recovery action after 30 days
2. Debts over 49 days not referred to Legal - justification for non-compliance with Income Code of Practice
3. Debts over 49 days referred to Legal - timeliness of referral and recovery action
4. Debts on hold to establish whether there is appropriate authorisation and periodic review.
5. Debts written off, to assess whether all recovery options were exhausted and there was both appropriate authorisation and timely action.

Our review also included interviews with a high number of staff who have debt management involvement across the Authority, and who are named and thanked for their input on the penultimate page of this report.

This audit was conducted concurrently with a separate review of Income Collection in Adult Services and focussed on Personal Finance Contributions. There were a number of findings in the Adults audit that were consistent with those reported here and are indicative of the wider control weaknesses in the corporate approach to debt management.

1.	Non-recovery of debt results in financial loss to the Authority.

1.1	Finding and Impact

Code of Practice for Income Management

Timetable for Recovery Action

The Code of Practice provides a timetable for recovery action to be undertaken by staff. The timetable does not state any actions required for debts under £5,000 when the debt is 28-35 days old which increases the risk that debts within this category will not be paid.

Additionally the timetable states that debts should be sent to the Legal Debt Recovery Officer at both the 35-42 day and the 49-56 day stages, which creates a risk that staff may be unclear on when to refer the debt.

Debts on hold

Services have the ability to place debts on hold and there are currently 19 different types of hold for a range of reasons. The Code of Practice for Income Management does not provide any guidance regarding debts on hold. Whilst there is guidance on SAPNAV detailing how to process a debt on hold on SAP, there is no guidance detailing appropriate reasons for debts to be placed on hold, or the appropriate use of reason codes. If the Code of Practice does not have any guidance on the treatment of debts on hold there is a risk that debts will be placed on hold without an appropriate reason and this may negatively impact the collection of income. Our findings under subsequent findings also add weight to the need for improved guidance in this area.

Variations to agreed procedures

In the introduction of the Code, the following statement in included "*Whilst it is anticipated that these procedures will be suitable for most services and debts there may be some officially approved service specific variations to these procedures. If so these will be listed in appendices once approval has been sought and granted by the appropriate Finance Service Strategic Manager*". There are however no such examples included so it is not clear whether any exceptions have been approved and there is a risk that this impacts on the credibility of the guidance.

1.1a	Proposed Outcome:	**Priority 4**

I recommend that the Strategic Finance Manager – Governance should undertake a full review of the Income Management Code of Practice to ensure that all identified weaknesses are addressed. This review exercise should also involve the Legal Debt Recovery Officer to ensure that specific guidance is developed to provide improved clarity around the processes for legal action (see also recommendations under 1.6a and 1.7a).

Action Plan:

Person Responsible:	Strategic Manager – Financial Governance	Target Date:	End of April 2017
Management Response:	Agreed. This will involve a number of key staff who have AR responsibilities, who will author various sections of the new Code of Practice. **UPDATE NOVEMBER 2017** **The Income Code of Practice has now been rewritten by the relevant officers, and issued as guidance by the Director of Finance and**		

	Performance under his Financial Regulations authority. There will be both general communications on the Code, and then targeted training and updates for those staff who have a specific responsibility under the Code. The findings in this audit report have been invaluable and have been incorporated within the Code wherever possible / practical. **The Legal Debt Recovery Officer (LDRO) has been part of the working group that has rewritten the Code. In particular, she has worked with the Accounts Receivable team to:-** **1. Agree the Standard Debt Management Timetable (Appendix 1) and the Debt Recovery Process Map (Appendix 2) which sets out the "handover points" between the Debt Chaser and the LDRO, and the requirements to be followed (Section 15).** **2. To review and update the 7 Day Letter (Appendix 4) and the Referral to Legal Form (Appendix 5), and to set out the Legal Debt Recovery Action Flowchart (Appendix 7).** **3. To set out the court charges and costs that will ordinarily be applied if a debt becomes late (Section 6 Payment Terms).** **4. To provide commentary about debt management, when debts are not paid quickly and to advice on dealing with individuals such as the Pre-Action Protocol and payments by instalments (Sections 10 and 13).** **For the first time in the Code, the role and authority of the Legal Debt Recovery Officer has been set out specifically (Section 2 Roles and Responsibilities). The Code now makes it clear that that the LDRO has the final decision as to whether a debt is to be written off.**

1.2	Finding and Impact		
<u>**Version control and accessibility of guidance**</u> The current Code of Practice for Income Management is dated May 2015, however the document name suggests it was last reviewed in December 2015. The Code of Practice does not feature version control and is due for renewal. There is a risk that conflicting dates may result in confusion for staff and the Code may not be reflective of desired practices, if it is not subject to periodic review. The Code of Practice is available on the staff intranet, however it is relatively difficult to find. It is located in the *Budgets and Accounts* section under *Information and Procedures* but does not show when the keyword search function is used for 'Code of Practice Income Management' and 'Code of Practice' to find it. Without this guidance being easily available to staff, there is a risk that officers are not fully aware of their responsibilities in managing income.			
1.2a	Proposed Outcome:		Priority 2
I recommend that the Strategic Finance Manager – Governance should ensure that when the Income Management Code of Practice is reviewed, the document includes version control, it is launched by way of an official communication so that all staff are aware of the main changes and that it is made available on the front finance pages of the staff intranet.			
Action Plan:			
Person Responsible:	Strategic Manager – Financial	Target Date:	End of April 2017

	Governance		(When the Code is completed and when the Finance website is set up.)
Management Response:	Agreed. This will include a formal launch as part of Core Brief, the new Finance website and with targeted training for key users. It is envisaged that the Finance website will be reached from the front page of the intranet. Other versions will be deleted at the same time. **UPDATE NOVEMBER 2017** **The communications "launch" for the Code will now be implemented, starting with Core Brief in December.** **Accounts Receivable is one of the areas where templates and guidance are particularly good on SAPNAV, and the Code and new forms will be linked to the emerging Finance website and all previous versions deleted at this point.**		

1.3	Finding and Impact

<u>Staff Training in Corporate Procedures for Income Management</u>

From our review of existing guidance and discussions with staff including the Accounts Receivable team, we have established that there is no programme of staff training in the corporate procedures for income management, including recovery of debts. Without such training and given the weaknesses identified with existing guidance, there is reduced assurance that staff are fully aware of and understand corporate procedures and a risk that that debt management across services is therefore not fully effective.

The Authorisation List 2016 details a total of 72 staff who are Debt Chasers and represent all services of the Council. Twenty-two Debt Chasers were contacted and asked a number of questions regarding their role. A further five members of staff identified through other testing as debt chasers but not listed as such on the Authorisation List were also contacted. The staff contacted covered 26 different service areas.

Three staff listed as Debt Chasers were no longer employed by Somerset County Council and three staff stated explained that finance is not part of their current role.

Of the remaining 16, only 12 members of staff were aware they were responsible for chasing debt.

Further results of this testing are detailed in Appendix A (page 21) to this report, but in summary we found low levels of:

- staff who have received any training in debt recovery procedures;
- awareness of the corporate timescales for recovery of debt;
- staff who are aware of, and how to access the documented guidance and procedures relating to debt recovery;
- staff who stated that they are aware of and comply with agreed procedures for entering recovery action updates onto debtor accounts in SAP.

There is a risk that lack of staff awareness of their responsibilities and agreed procedures will compromise the effectiveness of debt recovery action across the Council. If staff do not comply with the requirements for maintaining an audit trail of recovery action, there is reduced assurance that debt recovery is efficient and effective.

Further sample testing reported under subsequent findings has also identified the need for more

explicit guidance on debt recovery requirements and improved ownership.			
1.3a	Proposed Outcome:		Priority 4
I recommend that the Strategic Finance Manager - Governance should introduce a programme of training through the Learning Centre for all staff in finance roles, which is based on and consistent with the Income Management Code of Practice. **Training should make clear the responsibilities of all staff in respect of debt recovery and be explicit on the responsibilities of staff to encourage improved ownership.** **Training should include particular emphasis on the requirements for maintaining full records on SAP of recovery action and compliance with the debt recovery timetable.**			
Action Plan:			
Person Responsible:	Exchequer Manager and AR Team Leaders	Target Date:	End of April 2017
Management Response:	Partially agreed. The training document will effectively be the Income Management Code of Practice itself, together with a number of supplementary guidance documents that will be part of the website. Again, training will be targeted. The point about maintaining an audit trail on SAP will be clearly emphasised in the new Code. **UPDATE NOVEMBER 2017** **Now that the Code is complete, it will act as the key training document and guide for all staff who are involved in debt management. With the templates on SAPNAV, there is no need for additional training material, although the Accounts Receivable team will issue guidance as they deem necessary.** **The roles and responsibilities of staff, particularly that of the Debt Chaser, are clearly set out in Section 2 of the Code.** **The Accounts Receivable team have already started engaging with key users and teams, and are finding that targeting work with small groups of users with common needs is the most effective way of training and sharing good practice. This will be continued to be rolled out over the coming months.** **The need for an audit trail being maintained on the SAP system is repeatedly made throughout the Code, including specifically within the Debt Chaser role.**		
1.3b	Proposed Outcome:		Priority 3
I recommend that the Strategic Finance Manager - Governance should update the Authorisation List to reflect the current Debt Chasers in all services and consider arrangements for making these staff aware of their specific responsibilities. **The role of the Debt Chaser should be included within the Code of Practice for Income Management and should make clear the specific requirements for maintaining an audit trail of debt recovery action on SAP and compliance with recovery timescales.**			
Action Plan:			
Person Responsible:	AR Manager and Team Leaders	Target Date:	End of June 2017
Management Response:	Partially agreed. Given the difficulty of maintaining a complete and up		

	to date authorisation list, this will be done through identifying owners of Sales Offices and maintaining that list. It will be for these individuals to determine who will be appropriate Debt Chasers in their services. **UPDATE NOVEMBER 2017** **The list of current Debt Chasers for each Sales Office has been compiled, and will be held and maintained by the Accounts Receivable team. (It will of course require information from services as to any staff changes to remain current).** **As above, the role of the Debt Chaser is clearly set out within the Code and suitable training will be provided by the Accounts Receivable team. The need for compliance with the Code on audit trail and timescales has been heavily emphasised.**

1.4	Finding and Impact

The Code of Practice provides a timetable for recovery action to be undertaken by staff. The timetable does not state any actions required for debts under £5,000 when the debt is 28-35 days old which increases the risk that debts within this category will not be paid.

Debts less than 49 days old

A sample of 34 debts covering different service areas were tested for compliance with the timescales for debt recovery actions, as specified in the Code of Practice for Income Management. Services were contacted and asked to provide evidence of recovery actions in relation to each debt. The debts were also checked on SAP to confirm if actions and outcomes had been recorded on the system. It was found that:

- Only four out of the 34 debts complied with the timescales and instructions to add notes onto SAP;
- For 21 out of the 34 debts there was no recovery action taken 28-35 days from the issue of the invoice. This included two debts over £5,000; and
- By 35-49 days, four debts in the sample had been paid and one had been referred to the Legal Debt Recovery Officer. For 19 of the remaining debts there was no action taken between 35-49 days.

If timescales specified in the Code of Practice are not adhered to there is a risk that debts will not be collected in a timely manner and it is known that debts that become aged have a reduced likelihood of being recovered.

Throughout testing there were numerous examples where a number of different officers had to be contacted to provide a full account of recovery actions for a single debt, because actions taken had not been recorded on SAP. If recovery actions taken are not documented in SAP then records of activity may be fragmented across different systems or may not exist at all, reducing the ability for monitoring by other staff.

A recommendation has been made under 1.3a to introduce training for finance staff on income management and an emphasis should be given to compliance with timescales and recording activity within SAP.

1.4a	Proposed Outcome:	**Priority 3**

I recommend that the Strategic Finance Manager - Governance should introduce further required actions for debts under £5,000 when the debt is 28-35 days old, to minimise the number and value of debts that become aged.

Action Plan:			
Person Responsible:	AR Team Leaders and Legal Debt Recovery Officer	Target Date:	End of April 2017
Management Response:	Agreed. Appendix 1 of the Code will restate the entire timeline required and what actions are required at each point. **UPDATE NOVEMBER 2017** **Appendix 1 of the Code sets out all the required action for all debts by age of debt and by size of debt.**		

1.5	Finding and Impact

Debts on hold

For clarification, when a debt is placed on hold on SAP, this action suppresses dunning and means that reminders are not issued to the debtor.

At 1st November, there were a total of 1,375 debts on hold, amounting to £1,788,635 of uncollected income; 757 of these had been assigned the reason code relating to Debts referred to Legal, although there is no straightforward means of confirming this is accurate. A further 565 had been assigned the reason code for Reminders on Hold, which does not specify the actual reason.

The Code of Practice for Income Management does not provide any guidance for staff regarding debts on hold. Whilst there is guidance on SAPNAV on how to place debts on hold, there is no guidance detailing the appropriate treatment for debts on hold. All staff with access to the Accounts Receivable modules on SAP have the necessary permissions to place a debt on hold.

For this reason we were only able to test for reasonableness in terms of whether each account on hold has been subject to regular review and whether there were legitimate reasons for the continued provision of services, where this is the case. Fifteen debts with a service hold were tested. It was found that:

- All fifteen cases were satisfactory in terms of regular review.
- There were nine cases where services were still being provided to the debtor in question. Five cases related to vulnerable adults, for whom care is being provided.
- The remaining three accounts are for County Farm tenant rent instalments. These payments are subject to a historic decision that:
  a) the twice yearly rents are subject to a 60 day payment timescale, which differs from the 30 day timescale applied to all other invoices and
  b) the tenants will not receive automatic invoice reminders and are manually chased by the Estates Team.

There was evidence that the Estates Team have chased these particular payments in a timely manner, however by using the hold function on SAP, which does not currently prompt periodic review, there is a risk that County Farm invoices are not subject to the same level of monitoring and chasing.

This also represents an exception to corporate procedures that has not been included in the Code of Practice, despite there being provision for this.

Timescales for debts on hold

For 3 out of the 15 debts on hold, services were unable to provide the date on which the account had been placed on hold. For the remaining 12 debts it was found that:

- 4 accounts had been on hold for over 200 days
- 3 accounts had been on hold for over 100 days

There is no formal oversight of debts with a hold and no trigger to prompt periodic review. The

timescales reported demonstrate that debts can be placed on hold for a considerable length of time. Without a formal process for placing debts on hold and their subsequent review there is a risk that debts may be inappropriately placed on hold and remain so for lengthy periods without debt recovery action being taken.			
1.5a	Proposed Outcome:		Priority 4
I recommend that the Strategic Finance Manager - Governance should improve controls for debts on hold to ensure that • **formal management review is prompted after a set number of days;** • **positive confirmation is required for the debt to remain on hold;** • **debts above a certain threshold should require management authorisation;** • **the ability to place debts on hold should be appropriately restricted through system controls.** **Debts on hold should also be specifically monitored and reported at both corporate and committee levels.**			
Action Plan:			
Person Responsible:	Exchequer Manager and AR Team Leaders	Target Date:	End of April 2017
Management Response:	Agreed. Improving the controls over debts on hold is not something that can be done without making significant changes to the roles involved on SAP, e.g. entering notes onto the system. This will be included in the Code. The allowable reasons for putting debts on hold will be reviewed and reduced. Notes will be required for all debts out on hold. Debts on hold will be reviewed regularly by the AR Team, and anything if notes have not been updated as to the satisfactory reason to remain on hold (e.g. with Legal Debt Recovery Officer), they will be released. **UPDATE NOVEMBER 2017** **The list of acceptable reasons for placing debts on hold (through placing a dunning block on the invoice to prevent any reminders being issued) has been reviewed and reduced to 6 key reasons (as per Section 11 of the Code). No other reasons will be permitted. The need for including suitable explanations has been made, and failure to comply will result in the dunning block being released and normal debt collection processes re-commenced.** **There is a limit to what can be done in terms of all the audit recommendations without the need for major changes to the SAP system, but the number of officers who have the ability to place a dunning block is limited by their roles.** **This will be kept under regular review (at least quarterly) by the Accounts Receivable team, with the initial review now to be carried out by the end of December 2017. Non-compliance will be discussed with the Debt Chasers, and repeated misuse will be treated as a performance issue.** **Officers acknowledge that this process has been subjected to inappropriate use by services previously and too many debts being left on hold. Should any quarterly review reveal too many instances of**			

	non-compliance, it will be reported to the Finance Management Team chaired by the Director of Finance and Performance.

1.5b	Proposed Outcome:	Priority 3

I recommend that the Strategic Finance Manager - Governance should review the arrangements for treatment of County Farm tenant payments and consider whether they need to be bought in line with corporate procedures, or formally approved and recorded as an exception in the Income Management Code of Practice.

Action Plan:

Person Responsible:	Finance Manager	Target Date:	End of April 2017
Management Response:	Agreed. We will review the tenancy agreements and determine whether this is an appropriate exception to include in the Code or the practice will cease. **UPDATE NOVEMBER 2017** **The County Farms team has confirmed that tenants under the Agricultural Holdings Act do have (within their agreement) the right to have 60 days to pay, and therefore are one of the few remaining approved exceptions to the Code in Appendix 8).** **Other debts within County Farms are subject to the Code, and an initial review suggests that these are being managed effectively (other tenancies are usually on a direct debit).**		

1.6	Finding and Impact

<u>**Legal Debt Referrals**</u>

Reporting for October 2016 identified that in comparison to the total of all SCC Aged Debt, referrals to the Legal Debt Recovery Officer are:
By total amount = 5.23%
By volume of all invoices = 8.43%

Sample testing of debts referred for legal recovery identified that six out of fourteen did not comply with the timescales set out in the Income Code of Practice (a separate recommendation has been for improvements to the Code of Practice under 1.1a).

However, it must be recognised that if all services were to refer their aged debts in a timely manner, then this workload would far exceed the capacity of the Legal Debt Recovery Officer. For this reason and whilst still wanting to improve the debt recovery performance across all services, the only option available is to consider the delegation of certain recovery tasks to services. This activity would need to be in line with the legal requirements of Civil Procedure Rules and would require a named contact in each service area who receives training from the Legal Debt Recovery Officer. The contact would be responsible for establishing whether their service debts are enforceable and this would reduce some of the burden on the Legal Debt Recovery Officer.

Improved guidance has been recommended and this could include bespoke procedures for common debt referral types, along with letter templates and including the Letter Before Action. The timescale for referral at 49 days could be moved to the named service contact and the Legal Debt Recovery Officer would then become involved at the stage when legal proceedings need to begin.

If the current process is not revised then there is a risk that the Council will not be able to reduce

and successfully maintain a lower level of aged debt.				
1.6a	Proposed Outcome:			Priority 4
I recommend that the Strategic Finance Manager - Governance should revise the debt recovery timetable and process, to make provision for services to now refer their debts at 49 days to a nominated Debt Chaser in each service area. Each Debt Chaser, having been trained and provided with guidance by the Legal Debt Recovery Officer, should assume responsibility for the initial stages of legal recovery, establishing whether the debt is enforceable and then referring only those cases for legal action to the Legal Debt Recovery Officer.				
Action Plan:				
Person Responsible:	Exchequer Manager and AR Team Leaders	Target Date:	End of April 2017	
Management Response:	Agreed. This will be included in the Code, with a revised and improved timetable. The Debt Chaser role will also be outlined in the Code. **UPDATE NOVEMBER 2017** **As above, the new timetable for debt recovery is included within the Code. The Debt Chaser role is clear within the Code. The Legal Debt Recovery Officer (LDRO) role and responsibilities are also clear.** **The potential increased need for the LDRO to provide further guidance to Debt Chasers, (and services in general), to ensure that debts are legally enforceable is accepted, particularly in terms of guidance under the new Pre-Action Protocol. This will be emphasised as the Code training is rolled out across the Council.**			

1.7	Finding and Impact

<u>Legal Recovery Guidance</u>

Testing also identified that there are common issues causing delays to debt recovery and also areas of misunderstanding, which could be addressed by issuing improved guidance to services.

Persistent issues include cases where services refer debts to the Legal Debt Recovery Officer which are not enforceable and cannot be pursued. This can be for reasons such as not having a legally enforceable agreement, a copy invoice or lengthy delays in services referring matters, reducing the likelihood of success. Cases can progress beyond referral and into investigation, before it transpires that the service have insufficient evidence available and this creates inefficiencies. Services would benefit from guidance about the minimum requirements for common debt types.

Furthermore, other delays can occur when the Legal Debt Recovery Officer seeks authorisation from the service to issue legal proceedings and there is a lack of timely response, either because higher authority has to be sought, or the service reconsider the approach. Services should be advised of the consequences of these delays and the reduced likelihood of recovery.

Currently there is a risk that these common areas create an additional but avoidable pressure on the limited resource for legal debt recovery.

<u>Value of debts referred for legal recovery</u>

The Code of Practice for Income Management details when debts are to be referred to the Legal Debt Recovery Officer and information which must be included in the referral. However, whilst this provides a basic list of information, it does not include details of the appropriate documentation required by the Legal Debt Recovery Officer to confirm that the debt is enforceable and can be pursued, for example, a copy of a signed agreement, or evidence that a service has been provided. Without detailed guidance there is a risk that officers will not provide the appropriate documentation which may prevent timely action to recover the debt. Similarly, the Code of Practice explains when and for what reason a debt can be referred but it does not provide guidance on the actual process for how debts should be referred for legal action.

The Code of Practice Section 15 specifies that:
Debts under £50 can be referred to the legal debt recovery officer for a 'Letter before Action", which often proves effective. However, because of the cost formal recovery action through the courts will not normally be taken for amounts under £50. In such cases the debt will be referred back to the service for write off.
This is however contrary to the informed view of the Legal Debt Recovery Officer. Because the minimum fee to issue proceedings is £35.00, the minimum solicitor's costs are £50.00 and interest is added to the debt at the rate of 8% per annum, a debt would need to be at least £100.00 to be deemed as cost effective to pursue. This is another area where improved guidance is required and there is a risk of inefficiency in the debt recovery process if the guidance does not reflect actual practice.

1.7a	Proposed Outcome:	Priority 3

I recommend that the Legal Debt Recovery Officer should devise a guidance document to supplement the Income Management Code of Practice, which provides advice for common debt referral types:

- **on minimum requirements for evidence required to support legal recovery procedures;**
- **that only debts over £100 are cost effective to pursue beyond a Letter Before Action;**

Guidance should also emphasise the importance of timely responses from services and of maintaining an audit trail of recovery action in SAP.

Action Plan:

Person Responsible:	Legal Debt Recovery Officer	Target Date:	End of April 2017
Management Response:	Agreed. This will be included in the Code, especially the need for a maintained audit trail in SAP. **UPDATE NOVEMBER 2017** **As laid out in detail in response to Proposed Outcome 1.1a above, this has all been included in the Code itself, without the need for a supplementary document at this stage. This includes the minimum requirements for the new Pre-Action Protocol. (This does not preclude further guidance from the Legal Debt Recovery Officer or Accounts Receivable team as required).** **Timeliness of referral is already measured (as per 1.8 in this report below) and will continue to be under the new Code, and areas of non-compliance will be addressed.**		

1.8	Finding and Impact

<u>Aged Debts not referred to Legal</u>
Corporate statistics have highlighted that service compliance with the requirement to refer all debts over 49 days is at a very low rate, with only 8.4% of all aged debts having been referred.

There is no trend analysis used to identify service areas that do not comply with the requirements for debt referral. Currently, no action is taken to correct patterns of poor practice within services, other than ad-hoc verbal challenges on a case-by-case basis, by the Strategic Finance Manager - Governance. Without trend analysis to identify services that are not complying, there is a risk that poor practice will not be corrected.

A sample of 40 aged debts were selected from the Aged Debt report. Despite continuous chasing, a response was either not received from five services, or not forthcoming because there was uncertainty about who was responsible for the aged debt. A further seven debts were no longer eligible for testing.

Of the remaining 27 debts, 12 were being disputed with the customer and therefore were not referred to Legal. One debt was subsequently paid and the reasons why the remaining 14 debts had not been referred are summarised below:

- 6 debts were not referred as the service was still trying to contact the customer.
- 3 debts had been raised by mistake but had not been credit noted after 2, 3 and 9 months.
- 1 debt was not referred as it was an Early Years Entitlement Provider. We were advised that because the Council has a requirement to provide childcare, these debts are only referred to Legal as a last resort.
- 1 debt was not referred as it was an internal debt (a school).
- 1 debt was not referred as the service was not aware the debt existed.
- 1 debt was originally referred to Legal and then a write-off was processed but reversed. It was not re-sent to Legal as there was uncertainty about who was responsible for reversed write-offs.
- 1 service was not aware there was a Legal Debt Recovery Officer and therefore had not referred the debt.

Debts are not being referred due to a number of unacceptable reasons and there is an increased risk that income owed to the Council will not be collected.

Furthermore there was no evidence of recovery action recorded on SAP for 19 out of the 40 debts. Services were also asked to provide evidence of recovery action and attempted contact with the debtor. They were unable to provide evidence of contact with the customer for 6 out of 28 debts. There was also a lack of evidence of timely and ongoing review for these 6 debts.

If contact is not maintained with the debtor there is an increased risk the debt will become uncollectable. Maintaining a record of recovery actions on the system is key to efficient chasing of debts.

Recommendations in respect of aged debts have been made under 1.6a and 1.7a.

1.9	Finding and Impact

Salary Overpayments

Testing of debts referred for legal action included a number where the debtors are both existing and ex-employees and the debt is for recovery of a salary overpayment.

This prompted further enquiry and it was found that as at 1st November 2016, there was a total outstanding debt of £135,952 for salary overpayments, with 161 individual debtors.

For the cases referred to the Legal Debt Recovery Officer, there was a disproportionately high volume of cases resulting from negligence by line managers, where contracts had not been correctly terminated in a timely manner. These cases were often further compromised by delayed action from the service in referring the debt.

Many of the debtors have instalment plans for amounts less than £10 per month. There are 22 where the debt exceeds £1,000 and one debt that is over £10,000.

This is of concern and suggests there may be training issues for staff with line management responsibilities.

1.9a	Proposed Outcome:			Priority 3
I recommend that the Strategic Finance Manager - Governance should liaise with Human Resources colleagues and seek to establish how the Council can prevent continuation of the high rate of salary overpayments. Any identified issues should be addressed through improved training for line managers.				
Action Plan:				
Person Responsible:	Strategic Manager - Financial Governance	Target Date:	End of April 2017	
Management Response:	Agreed. Strategic Manager will speak to HR. Chief Accountant will ensure with payroll that invoices clearly state "Salary Overpayment". Persistent offending line managers will be warned and, if necessary, disciplined. **UPDATE NOVEMBER 2017** **The HR Document "Managing Leavers –A Manager Document" is easy to find on the HR website. It very clearly sets out the need to inform HR Admin and Payroll staff of the impending departure of staff and to complete the relevant forms to ensure that staff do not continue to be paid beyond their last day of employment.** **The request for invoices to state "Salary Overpayment" has been made and will now be implemented.** **The Legal Debt Recovery Officer will monitor those overpayments that have resulted from management negligence and will report at least quarterly to the Strategic Manager – Financial Governance if there are persistent offenders.**			

1.10	Finding and Impact

<u>System Records and Reporting</u>

There are no agreed processes or minimum standards for recording the audit trail of recovery action on both SAP and the legal case management system, used by the Legal Debt Recovery Officer. This is a difficulty in that SAP does not have the functionality to provide a legal case management system for debts, due to the need for detailed recording of the legal staged process. This is the reason for the requirement for the separate case management system used and due to the fact that the Legal Debt Recovery Officer manages this entire workload alone, she has limited capacity to update both the legal system and SAP to the same degree.

To some extent this compromises her efficiency and frustrates progress because services will need to contact the officer for updates and time is spent in updating them, when the desirable situation would be for services to read updates through the long text in SAP.

Furthermore, the legal case management system does not have the ability to produce reporting on certain key performance data.

The Legal Debt Recovery Officers is aware that there are resource issues with the current court bailiff team and the level of debt recovered through this approach indicates that their performance has reduced significantly in the last six months.

However due to lack of reporting available, it is not possible to conclude whether the Council should continue to instructing bailiffs and paying warrant fees for the reduced success of this action.

No solutions can be identified for these issues but are reported for information, due to the impact this can have on the efficiency of recovery progress.

1.11	Finding and Impact	
Corporate Reporting A compiled debt report is reviewed by the Strategic Finance Manager - Governance who contacts individuals on a monthly basis and request further updates on high value and aged debts. Any debt over £10k would be included and also any persistent items appearing on reports. However, this is driven by a notional threshold in mind each month, based on the level of concern and capacity to investigate. This rather ad-hoc approach could result in an inconsistent approach being taken and as a result, not all debts of significance will be subject to the same level of scrutiny. There is a standing agenda item on the Finance and Performance Senior Management Team agenda on large outstanding debts, which gives the Strategic Finance Manager – Governance a chance to update senior finance staff on the large debts and on particular issues. There is also a debt performance indicator on the Finance and Performance scorecard that goes to Senior Management Team on a regular basis for discussion, and the scorecard also forms part of the review meetings with the Chief Executive. However there is currently a lack of an escalation route available to ensure that individual debts defined as significant are identified at a management level, to ensure they are actively pursued. **Aged Debt Monitoring - Analysis** As part of the audit, a basic month on month variance analysis was conducted using monthly aged debt reports for the period November 2015 - November 2016. This analysis demonstrated the ways in which the Council could improve their monthly monitoring of aged debts, to detect variances and provide direction for where challenge needs to be increased, even with the limited resource available to do so. The analysis also identified that the current approach to treating all Sales Organisations as similar individual businesses is a flawed approach, as there are significant differences in the way that they operate and the factors that influence their aged debt levels. The analysis was shared with the Finance Manager (EC&I) who commented that it could be a useful improvement, but would need to be done at the more specific sales office, rather than the higher level sales organisation level to be fully effective. **Conclusion** It is clear that the Council needs to revise its approach to aged debt monitoring in terms of the way that services areas are analysed and reported on in the same manner, when in fact they operate as very different businesses. It would be worth exploring whether specific targets should be allocated to each service area, in line with the known factors that impact on their debt management performance, to enable monitoring in line with certain tolerance levels. This factor also adds weight to the case for conducting more trend analysis across the year that will provide improved information with which to raise queries with services.		
1.11a	Proposed Outcome:	**Priority 4**
I recommend that the Strategic Finance Manager - Governance should conduct a review of corporate debt reporting, with consideration given to the following improvements: • **A clear framework for reporting of all debts that are deemed to be significant, by both value and age, and an escalation process for follow-up by a Strategic Manager;** • **Include trend analysis across the year to identify significant variances in services;** • **Include monitoring of the level of debt referred to Legal**; • **Include monitoring of any aged debts that have no information in the Long Text field in**		

SAP, where no audit trail of action has been recorded.			
Action Plan:			
Person Responsible:	Strategic Manager – Financial Governance	Target Date:	End of April 2017
Management Response:	Agreed. Officers will review the corporate debt reporting along these lines. However, it not considered that the level of information needs to be increased, other than for Finance Management Team, who are in a position to improve performance. Any increased corporate reporting would have to be commensurate with the levels of debts collected (which are currently very good). Resources will not allow the review of all service areas, particularly those that are performing well. The review of debts on hold will cause officers to review aged debts in any event. **UPDATE NOVEMBER 2017** **The reporting of debt has been reviewed by the Chief Accountant and external performance monitoring is set out in Section 12 of the Code. The need (and resource) for all the other audit recommendations on 1.11a is not accepted. However, as set out in the response to this audit report, and in the Code itself, other specific key indicators (debts on hold, timeliness of referral, salary overpayments) will be monitored locally. It will be for the relevant officer (Exchequer Manager, Accounts Receivable Team Leader, Legal Debt Recovery Officer) to exercise their professional judgement as to when they need to inform the Finance Management Team of deteriorating performance.** **If there is a need to increase the debt reporting, then because data is held at transaction level with dates, this could be developed from this source.** **If the timetable and requirements of the Code are met by Debt Chasers and other staff, the current level of debt recovery should not deteriorate and the efficiency of the process should improve.**		

1.12	Finding and Impact

Assigned Responsibility for Debt Management

A contributory factor to the weaknesses in corporate aged debt monitoring is that currently, there is no assigned Debt Lead for each service area. The managers and officers responsible for service level reporting (covered under 1.14) are at different levels of seniority and their reports are provided to a variety of service managers, none of whom are specifically accountable for income management, including debts.

There is a risk that without a manager responsible for debts in each service, debt management will not receive the priority attention that it requires.

Income Management Meetings

The managers and officers responsible for service debt reporting within service each advised of bespoke requirements for reporting and attendance at service meetings. Service areas each approach the monitoring of collection rates in different ways. However they are not required to attend any corporate meetings that focus on the subject of income collection.

In previous times, there was an Accounts Receivable User Group that met quarterly and part of their remit was to discuss income management and aged debt. However, due to restructuring of services and the exit from the SWOne contract, the meetings became less frequent and ceased to take place around eighteen months ago. There are plans for the group to be reformed but with a different context and remit than before, but as yet to be decided. This will be after 1st April 2017 when the new structure is formally in place. There is a risk that without an overarching network of finance managers meeting regularly to monitor the Council's debt position, there are insufficient arrangements to provide the level of scrutiny needed.			
1.12a	Proposed Outcome:		Priority 3
I recommend that the Strategic Finance Manager - Governance should establish a Debt Lead in each service and monitor their performance in debt recovery through set targets that align with corporate targets. Each Lead should receive regular updates from the existing Debt Chasers and feed into revised corporate reporting arrangements.			
Action Plan:			
Person Responsible:	Strategic Manager – Financial Governance	Target Date:	End of April 2017
Management Response:	Agreed. In effect, the Debt Lead for each area is the responsible budget holder, but they will be reminded of their responsibilities and the need to review debts regularly with the Debt Chaser and if necessary AR. **UPDATE NOVEMBER 2017** **The key role will be the Debt Chaser in each area. However, it will be for the responsible budget holder (under Financial Regulations) to ensure that they allocate sufficient time in their budgetary duties to consider any income areas. If debt is not being collected, or written off, then this will impact on the overall financial position that they will be reporting.**		
1.12b	Proposed Outcome:		Priority 3
I recommend that the Strategic Finance Manager - Governance should ensure that regular Accounts Receivable User Group meetings resume as soon as possible and part of their remit should be to monitor the performance of service Debt Leads and share best practice.			
Action Plan:			
Person Responsible:	Exchequer Manager	Target Date:	End of December 2017
Management Response:	Partially agreed. The need for an ARUG will be reviewed once the improvements to the Code, to the information provided to users and the new requirements have bedded in. The key officers that are responding to this audit have agreed to continue to meet regularly. **UPDATE NOVEMBER 2017** **The need for resurrecting an Accounts Receivable User Group will be reviewed once the Code-based training has been rolled out. Previously, attendance was not uniform and problems might be more easily solved in smaller working groups with similar issues. Alternatively, meetings may be arranged to discuss specific topics should legislation change or performance deteriorate.**		

1.13	Finding and Impact

A wider issue for the Council in terms of ownership and accountability for debts relates to the SAP process that results in services immediately receiving a credit to their budget when an invoice is raised, regardless of when or if it is paid. This approach has two impacts on debt management:
i) it does not encourage individual or budget holder responsibility for recovery or ownership of aged debt;
ii) it creates delays in unrecoverable debts being written off in a timely manner because of the reluctance by budget holders to have the credit being removed from their service budget.

1.13a	Proposed Outcome:	Priority 4

I recommend that the Strategic Finance Manager - Governance should investigate options for making changes to current SAP procedures to encourage improved ownership for debt by services, as follows:

- **cease the practice whereby service budgets are immediately credited when an invoice is raised; or**
- **introduce a budget impairment that is applied to and reflective of the level of aged debt in each service.**

Action Plan:

Person Responsible:	Strategic Manager – Financial Governance	Target Date:	End of April 2017
Management Response:	Not Agreed. It is not possible to make the proposed changes to SAP without making end of year impossible in terms of recognising income when it is due. However, budget holders and Finance Managers will be reminded of the need to consider aged, material and doubtful debt when reporting the financial position each period. This is automatically done at year end as a standard process. **UPDATE NOVEMBER 2017** **The need to recognise income under standard accounting practices correctly at year end remains paramount. The end of year process to review doubtful debts and make any necessary bad debt provisions will be easier if the Code is complied with by all services.**		

1.14	Finding and Impact

Service Level Reporting and Monitoring

The monthly debt reports produced in each service were reviewed with the officers responsible for compiling them.
We were satisfied that reporting and monitoring is completed on a monthly basis, but numerous differences in approach were identified, particularly in terms of the levels of commentary to explain aged debts and the extent of the audit trail of debt recovery action for debts of a significant age. However, there were some examples of good practice observed in individual areas that could be extended to all areas and a recommendation has been made to ensure this.
While it is accepted that there may be reasons why some service level procedures are needed to supplement the corporate approach, there is no consistent approach by services to analyse whether the debt position has improved or worsened each month. The corporate target for debtor performance is that aged debt should comprise no more than 15% of the total debt, but this is not monitored or assessed at a service level.

Furthermore, the Finance Manager responsible for collating information from each area, advised that the narrative provided by each service area reflects the service's view of significant issues, rather than targeted at any specific variances. As a result, from review of a sample of committee reports, the narrative paragraph for each service varies in level of detail and focus of information.

Our testing was unable to conclude that all aged debts are included in service reporting. Due to the bespoke approach in each service area, it is not possible to confirm the extent to which they provide a true and fair reflection of aged debts, as the degree of manipulation meant that it was not possible to verify whether reports are based on complete and accurate data.

Debts that are part-paid are reflected on SAP as 'unallocated cash' and requires a manual adjustment made by each debt reporting lead. It was not possible to confirm whether this is being treated in a consistent manner by all officers responsible for debt reporting - it should be subject to an agreed set of principles and communicated to all service aged debt leads to mitigate the risk of an inconsistent approach that results in misrepresentation of the true debt position.

1.14a	Proposed Outcome:	Priority 4

I recommend that the Strategic Finance Manager - Governance should introduce measures to ensure that all service level debt reporting includes:

- **an analysis of whether the debt position has improved or worsened each month, including whether aged debt is below 15% in line with the corporate target;**
- **a comparison of performance each month to previous month, for amounts of debt recovered and new aged debt;**
- **identification of all Legal referred cases and a reason obtained for any debts over 49 days that have not been referred;**
- **an agreed methodology for the treatment of unallocated cash;**
- **authorisation of debts excluded from budget monitoring reports**

This information should also be summarised to be reported corporately.

Action Plan:

Person Responsible:	Strategic Manager – Financial Governance	Target Date:	End of April 2017
Management Response:	Partially agreed. We will review the information provided to service areas and see whether there are additional measures that should be reported. However, it would not be practical to do this for every service area, regardless of the level of income raised. Guidance will be issued on the treatment of unallocated cash in the debt reports. We are already providing reports on the level of debts referred to Legal. **UPDATE NOVEMBER 2017** **This has been covered under 1.11a above, and is still felt to be excessive given the current level of resources available. Those reporting the corporate debt position already review the unallocated cash figures in their services, and where possible manually apply it to the relevant invoices to give a more accurate position.**		

1.15	Finding and Impact

Corporate and Service-level Targets

The monitoring of debtor performance is currently carried out at an organisational level only and is carried out in two different ways:

1) Time to Pay (or Debtor Days)

2) Corporate target for aged debt to comprise no more than 15% of the total debt.

The information reported to Audit Committee in June 2016 in respect of Debtor Days for 2015/16 was that the latest analysis at December 2015 was 28.43 days and since 2013, this figure has been consistently below 30 days (which is the target).
This figure is taken from the Time to Pay report run by the ECI Finance Manager. Information in the Time to Pay reports is already six months old when it is collated and is therefore of limited value. The reason for this is because it calculates the average time to pay, rather than how many debtors pay within 30 days. Having an interval of six months reduces the risk of making debt recovery look more efficient than it actually is, but it would be helpful to have an up to date report giving the percentage of invoices paid within the 30 day timescale (if the system can produce one) to provide more current data.

There are no current targets at service level and services do not measure their own compliance with the debtor performance targets above.
Procedures to investigate debt in service areas are at the discretion of each Finance Manager in terms of where they focus attention on a monthly basis and there are no other targets in place at a service level.

Reporting on Service-level Income Collected and Overdue

Through discussion with the Accounts Receivable team, we established that it is not possible to identify the volume of income raised and received through the year, to be able to establish the value of outstanding income at a service level. Therefore it is neither possible to confirm the percentage of income collected compared to all invoices raised. The reporting capability of SAP is therefore limited and key information is not currently available.
This is due to a lack of understanding about how SAP can be used to report on these specific parameters. It is possible to run separate reports on invoiced income and then the aged debt report but the data is not currently pulled together in this way and it would require significant manual work to report the information in a single format.

The current availability of information and levels of debt recovery performance go only some way to providing the complete picture that the Authority requires, to be able to reflect on the varying performance between services.

1.15a	Proposed Outcome:	Priority 3

I recommend that the Strategic Finance Manager - Governance should introduce procedures to ensure that up to date performance against
a) Time to Pay (or Debtor Days) and
b) percentage of invoices paid within the 30 day target
are monitored at service level and reported corporately.

Action Plan:

Person Responsible:	Strategic Manager – Financial Governance	Target Date:	Not applicable
Management Response:	Not agreed. As discussed during the audit, the Time to Pay report must have a necessary time lag to pick up payment dates. We will only look at the percentage of invoices paid within 30 days at a corporate level, and only when the Time to Pay report suggests a deteriorating performance. **UPDATE NOVEMBER 2017** **The Time to Pay figure at a corporate level remains acceptable and there is no appetite to break this figure down. Debts over 90 days, especially those over £10,000, are monitored in summary for the Cabinet reports and in more detail to the Audit Committee and the**		

	Finance Management Team. Debts over 90 days remain an indicator on the Finance scorecard.

1.16	Finding and Impact

Debts Written Off

There is a clear process for writing off debts and this is documented in the Code of Practice for Income Management.

An Authorisation List is maintained by the Accounts Receivable team but was found to provide conflicting guidance to that within the Code of Practice, because the Code of Practice states that only Strategic Finance Managers can authorise write-offs below £1,000 whilst the Authorisation List states that officers can authorise write-offs above £1,000. There is a risk that if authorisation processes are not clear, write-offs may not be correctly authorised in line with SCC principles. This issue was also reported in the 2015 Debtors Key Control audit and we recommended a review of the Code of Practice and Authorisation List to ensure that the documented process and authorisation levels are consistent. This action had been reported as completed but has been found to remain incomplete.

In the sample testing detailed below there was one write off above £1,000 that had been authorised by the Strategic Manager Community and Traded Services when this should have been completed by the Strategic Finance Manager.

A sample of 25 write offs covering a range of service areas were selected at random and tested for compliance with the Code of Practice for Income Management. Only five out of 25 write offs were entirely satisfactory in all the areas tested.

Write Offs agreed in a timely manner

We tested whether write offs had been agreed in a timely manner from the last action taken to recover the debt. It was found that:

For 19 out of the 25 debts the write off was agreed within three months of the last debt recovery action.

However four debts were written off between six and thirteen months after the last recovery action, with no explanation for the delay.

Agreed write offs processed in a timely manner

Whilst 22 of the 25 write offs had been written off within two weeks of the decision being taken to write off the debt, three debts were not written off until two, five and six months after the decision being taken to write off the debt, with no explanation for the delay.

If write offs are not agreed in a timely manner and processed promptly then the Aged Debts reports do not accurately reflect the Council's collectable debts.

Supporting documentation

For 11 of the 25 write offs there were no notes detailing recovery actions on SAP. Write off request forms and supporting documentation are sent to the Accounts Receivable team to file. It was found that 12 out of 25 write off files did not include any evidence of recovery actions taken prior to write off, but it is accepted that this may have been provided to the authoriser and simply not recorded.

1.16a	Proposed Outcome:	Priority 3

I recommend that the Strategic Finance Manager - Governance should include in both a review of the Income Management Code of Practice and a training module on debt recovery, the requirement for write offs to be agreed and processed in a timely manner as soon as a debt has been confirmed as uncollectable.

Delayed write offs should also be identified through service-level reporting and targeted by the named contacts responsible for debt in each service area.

Action Plan:			
Person Responsible:	AR Team Leaders, plus Legal Debt Recovery Officer	Target Date:	End of April 2017
Management Response:	Agreed. This will be included in the Code. The write-off templates will be amended to ensure that an appropriate narrative is given for the debt to be written off, and AR will monitor the time taken for write-offs from legal referral and court decisions. **UPDATE NOVEMBER 2017** **This has been updated and included within the Code. The Accounts Receivable team will monitor delayed write-offs and escalate poor performance as they see appropriate.**		

1.16b	Proposed Outcome:	Priority 3
I recommend that the Strategic Finance Manager - Governance should ensure that the Authorisation List is reviewed in conjunction with the Income Management Code of Practice and conflicts in guidance are addressed.		

Action Plan:			
Person Responsible:	AR Team Leaders	Target Date:	End of April 2017
Management Response:	Agreed. The Code will contain all the relevant roles. **UPDATE NOVEMBER 2017** **As above, this has been reviewed and roles established.**		

1.17	Finding and Impact

<u>Reasons for Write Offs</u>

Debts were written off for a variety of different reasons:

- 10 out of 25 debts were written off as not cost effective to pursue.
- 10 out of 25 were written off as unlikely to receive payment. The customer's current address could not be located for five debts. The service had undertaken extensive chasing for two of the 10 debts, however they were written off before they were referred to Legal, when they could have been traced by other means not available to services.
- Two of these write offs were for debts which were being disputed.
- One debt was written off because the customer entered a voluntary arrangement.
- Four were written off due to the service mislaying supporting evidence for the debt or not having the correct information.
- One was written off due to a child being removed from a foster carer under distressing circumstances.

The Code of Practice for Income Management states that debts should only be written off because it is uneconomic to pursue the debt further or where there is no likelihood of payment. However, reason codes for write offs are not currently available in SAP and therefore the common reasons cannot be analysed.

Debts are being written off for reasons which are not included in the Code of Practice for Income Management and in some instances before all recovery processes are exhausted. There is a risk that income due is not collected because debts are not being written off appropriately.

Analysis of debts written off by services over the last 12 months

Service		Value of write offs	Number of write offs
Economic & Comm Ops	£	15,650.45	156
Adults & Health Ops	£	11,494.92	29
LD Operations	£	7,195.75	12
Children & Learn Com	£	543.18	8
Schools & Early Year	£	1,173.51	6
Learning & Achieve Ops	£	190.45	6
Community	£	585.04	4
Environment Highway Claims	£	1,221.07	3
Finance & Perform	£	119.03	2
Environment	£	552.25	2
Children & Family Op	£	128.13	2
EC&I Commissioning	£	145.73	1
Grand Total	**£**	**39,000.58**	**231**

SAP is unable to produce a report showing the reasons why debts are written off and the reasons are not reported in any other way. The Debt Recovery Officer provided reasons why debts were written off for the Audit Committee report 23rd June 2016 and 66.4% of debts were written off because they were not cost effective to pursue, which is consistent with the reasons found when testing the sample of write offs.

Without recording and analysis of the reasons why debts are written off within each service, there is reduced assurance that debts are being written off appropriately.

1.17a	Proposed Outcome:	Priority 3

I recommend that the Strategic Finance Manager - Governance should enquire whether SAP can be configured to request a reason code for all write offs processed. Reasons can then be subject to periodic monitoring to identify any significant issues that should be addressed through staff training.

Action Plan:

Person Responsible:	AR Team Leaders, plus Legal Debt Recovery Officer	Target Date:	End of April 2017
Management Response:	Agreed. This will be included in the Code. The write-off templates will be amended to ensure that an appropriate narrative is given for the debt to be written off, and AR will monitor the time taken for write-offs from legal referral and court decisions. **UPDATE NOVEMBER 2017** **This has been implemented, and the template now requires an appropriate reason for the write-off.**		

Audit Framework and Definitions

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks	
Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Appendix A

Twenty-two members of staff listed as Debt Chasers on the Authorisation List 2016 were contacted and asked a number of questions regarding their role as a Debt Chaser. A further five members of staff who were involved in debt chasing but not on the Authorisation List were also contacted. The staff contacted covered 26 different service areas.

Debt Recovery training

It was found that:

- Twelve out of sixteen members of staff listed as debt chasers had not received any training for recovering debt. Five members of staff had received some on the job training.
- The five members of staff who were involved in recovering debts but not on the Authorisation List had not received any debt recovery training.

Debt Recovery Guidance Documents

- 8 out of 16 members of staff listed as Debt Chasers had not received any guidance documents for debt recovery. 8 members of staff were aware of guidance on SAPNAV or had received debt recovery flow charts.
- 11 out of 16 staff listed as debt chasers were not aware of the Code of Practice for Income Management.
- Out of the five staff contacted not on the Authorisation List only one had received guidance documents on debt recovery and three out of the five were not aware there was a Code of Practice for Income Management.

Entering relevant information onto SAP

- 10 out of 16 members of staff listed as Debt Chasers stated they did not enter any information regarding debt recovery onto SAP. Staff kept information on their own drives, spreadsheets, working lists and binders.
- Out of the five staff contacted not on the Authorisation List, four did not enter debt recovery information onto SAP.

Timescales for following up debts

It was found that:

- 6 out of the 16 staff listed as Debt Chasers did not follow a timescale for following up debts.
- 10 of 16 staff followed up debts at least monthly, 8 staff run aged debts report from SAP on a monthly basis, one member of staff runs the reports fortnightly and another on a weekly basis.
- All five members of staff not on the Authorisation List followed debts up at least monthly.

Report Summary

Report Authors

This report was produced and issued by:

Klara Wilkins, Auditor
Jenny Frowde, Senior Auditor
Lisa Fryer, Assistant Director

Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

Kerry Hepple – Debtor Team Leader
Nicola Saunders – Debtor Team Leader
Emily Costello – Debt Recovery Officer – Legal Enforcement
Jenny Slack – Finance Manager (EC&I)
Ian Tier – Finance Manager
Edward Ball – Senior Finance Assistant
Marcus Venn – Finance Manager (Financial Planning)

Distribution List

This report has been distributed to the following individuals:

Martin Gerrish – Strategic Manager – Finance Governance
Steve Rose – Accounts Receivable Manager
Sharon Campbell – Strategic Manager – Finance Controls
Lizzie Watkin – Service Manager – Chief Accountant
Kevin Nacey – Director of Finance & Performance

Working in Partnership with

Devon & Cornwall Police & OPCC
Dorset County Council
Dorset Police & OPCC
East Devon District Council
Forest of Dean District Council
Herefordshire Council
Mendip District Council
North Dorset District Council
Sedgemoor District Council
Somerset County Council
South Somerset District Council
Taunton Deane Borough Council
West Dorset District Council
West Somerset Council
Weymouth and Portland Borough Council
Wiltshire Council
Wiltshire Police & OPCC

Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Somerset County Council
Audit Committee 23 November 2017

New Income Code of Practice for Somerset County Council

Service Director: Kevin Nacey, Director of Finance and Performance
Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance
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Contact Details: tel (01823) 355303 or e-mail: mgerrish@somerset.gov.uk
Cabinet Member: David Hall
Division and Local Member: All

1. Summary/link to the County Plan

1.1. This covering report is to highlight key areas within the new Income Code or Practice, and to explain to members how it is intended to launch and to follow up the new Code to ensure compliance.

1.2. The achievement of good performance in this area is linked to the County Plan in relation to "bring in more funding and resources".

2. Issues for consideration

2.1. Members are asked to endorse and support the new Income Code of Practice for the County Council.

3. Background

[N.B. To avoid bombarding Audit Committee members with significant additional paperwork, it was decided not to include the various embedded appendices to the Code in the paperwork. These are mostly templates and forms for officer use, and are not essential to understand the overall Code and what is proposed].

3.1. One of the key findings in the SWAP Debt Management report was that the previous Income Code of Practice was out of date and not robust enough in setting out what was required from the relevant officers involved in debt recovery.

The Income Code of Practice will be issued under the powers of the Director of Finance and Performance, effectively as part of Financial Regulations. As such, it is no longer advisory and best practice; it is mandatory and must be complied with in collecting debts owed to the County Council. It will take on board the specific points of governance raised in the audit.

It is very much the expectation of Finance managers that officers who continually fail to comply with the Code, (following suitable training and guidance from the Accounts Receivable team), will be treated as having performance management issues.

3.2. One of the key points in the Income Code of Practice is the assignment of roles and setting out the responsibilities requirements under each of those roles.

Senior officers within service are paid to be budget holders within the County Council, and are therefore required to consider the income coming into their budgets. They must ensure that there are sufficient officer resources available to act as Debt Chasers, who will be the first line of debt recovery until handing over to the Legal Debt Recovery Officer at pre-determined points.

The Accounts Receivable team will provide system support and development, plus training and specialist support across all the functions, but will also be responsible for policing the Code and reporting non-compliance.

The Legal Debt Recovery Officer's (LDRO) role has been spelt out in greater detail, and the Code is clear that once a debt has been assigned to the LDRO then it will be for her to decide on the next steps to recover the money.

3.3. There are a number of strong messages within the Code itself that officers would highlight to the Audit Committee.

As endorsed by the Audit Committee at its June 2017 meeting, the County Council will continue to seek payment in advance or at the time of the provision of goods or services, to avoid any risk of non-payment. The new Code is only to deal with cases where the County Council accepts the need to raise invoices. (Section 5).

It will remain the default position of the County Council to commence legal proceedings where debts are not paid in a timely manner, and to impose interest and Court costs into the debtor (Section 6).

The need for a suitable audit trail on SAP will continue to be emphasised in order to put the County Council in the best position to recover the debt (particularly under the Pre-Action Protocol).

The number of exceptions to the standard debt recovery process has been reduced. Services are not allowed to vary from the Code unless they have a specific exemption, or individual cases have been agreed by specific officers as set out in the Code (Appendix 8).

3.4. The plan to "launch" and implement the new Income Code of Practice is as follows:-

Core Brief will be used to ensure that the new Income Code of Practice is communicated to all staff. Further targeted communications will then follow to key system users.

All current Debt Chasers will be contacted about their role, and any training needs assessed and delivered. (This has already taken place in some areas, where training and support to similar services, e.g. all highways areas, has been provided). It is envisaged that training will continue to be rolled out through small groups of Debt Chasers who have similar services issues.

Any positive suggestions coming back on the new Income Code of Practice will be welcomed, and the Code will be initially reviewed after the end of this financial year. The Code is intended to be regularly reviewed thereafter, and should remain a “living document”.

Debt performance figures will continue to be monitored at the Finance Management Team meetings and on the Finance Scorecard, and at Cabinet and Audit Committee public meetings.

Accounts Receivable staff will police the key requirements of the Code (e.g. dunning blocks, time to write-off debts, time to refer debts to the LDRO, correct use of credit notes and Print to Post etc) and will report significant non-compliance to the Finance Management Team in the first instance.

3.5. In addition to the work on rolling out the new Income Code of Practice, work is continuing to try and move to payment being be obtained either prior to, or at the time of provision of goods or services. We continue to review where it is possible to cut out the need for debt recovery entirely by insisting on payment in advance on a service by service basis.

4. Consultations undertaken

4.1. Consultations were carried out across the finance community, and with key staff in services. The latter in particular, were asked to justify cases where their services were previously an exception to the Income Code of Practice. In some cases, these exceptions have now been removed and the service has agreed to follow the standard debt recovery practices.

5. Implications

5.1. The Income Code of Practice will become the key document for debt management and for managing performance.

6. Background papers

6.1. Draft Income Code of Practice (attached).

Note For sight of individual background papers please contact the report author

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CODE OF PRACTICE FOR INCOME MANAGEMENT

Somerset County Council

(November 2017 - Issued)

CODE OF GOOD PRACTICE FOR INCOME COLLECTION

CONTENTS

STATUS OF THE CODE

The Director of the Finance and Performance issues guidance to underpin Financial Regulations which Members, Officers and others acting on behalf of the authority are required to follow.

The Income Code of Practice is guidance issued under Financial Regulations, and is therefore mandatory in the collection of monies owed to Somerset County Council. Contravention of the Code is therefore a serious matter and could lead to disciplinary proceedings.

The Senior Leadership Team is responsible for ensuring that all Officers in their service areas are aware of their responsibilities under Financial Regulations and other internal regulatory documents, and that they comply with them.

Only where prior agreed exceptions to the Code are explicitly noted below can these requirements be waived.

Approximately £100 million of income is raised on the Accounts Receivable system each year. Collection of this money owed to the County Council is an essential part of the overall financial resources available to provide services. Prompt action in accordance with this Code will maximise the income collected, reduce the administrative time and cost of carry, and ensure that debts do not have to be written off.

The correct documentation (forms, templates and letters) for debt recovery purposes must be used at all times. It is not acceptable, unless specifically stated within the Code, for any service to use alternative documentation as this reduces the efficiency of legal debt recovery. Documents can be found on the SAPNAV site, via the Finance website or through the Accounts Receivable Team.

Section 1. Introduction

The following procedures will assist you in collecting monies due to the Council. It is important to remember that this is public money and the faster it is collected the faster it can be deployed to provide Public Services.

When reading this code it is important to remember and always comply with the following key principles:

- Wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices.

- An accurate record of the charge that will be applied/record of contract must be kept and maintained.

- When an invoice does have to be raised the details need to be accurate and complete within the invoice and agreed with the customer.

- The invoice is raised in a timely manner.

- The service or goods provided fully meet all relevant professional, ethical and environmental standards.

- The cost of services has been fully identified; and

- The cost of services is fully recovered.

- Debts are managed in strict accordance with the timetable as set out in Appendix 1 to this Code, including the prompt referral to Legal Services for further action.

- Debts are followed up quickly and proactively to ensure that disputes are identified early and the risk of income not being collected is reduced.

- At all stages of the debt recovery process, adequate notes are kept on SAP as to the progress and actions undertaken to recover the money.

The Code is set out in discrete sections dealing with the various stages of income collection.

The Code will help services maximise the cost-effectiveness of the Council's goods and services by:

- Defining roles in the collection function
- Maximising sales income and improving cash flow
- Securing prompt payment within agreed terms
- Enhancing collection levels and thus reducing the risk of bad debts
- Ensuring that the County Council has the necessary information to win legal cases to recover money owed should this prove necessary.

This code is **mandatory**. It is anticipated that these procedures will be suitable for most services and debts, but there may be some officially approved service specific variations to these procedures. These are detailed in Appendix 8. If you do not have an officially approved service specific variation, then your service must adhere to all aspects of this Code.

Should you have any questions, comments or suggestions for improvement, please contact Martin Gerrish (Strategic Manager - Financial Governance), 01823-355303; mgerrish@somerset.gov.uk, the Legal Debt Recovery Officer, an Exchequer Team Leader or Steve Rose (Exchequer Manager), 01823 357609

Section 2. Roles and responsibilities

Officers who have the SAP role to **raise invoices** must have undertaken acceptable training from either the Accounts Receivable Team or an Accounts Receivable user delegated from the Team. Invoice raisers must ensure that a number of checks are performed on the invoice before it is raised. This may be something that the invoice raiser does themselves or it may be done by another officer if the invoice raiser is simply entering payment request details onto SAP. Such checks are to ensure that the debt is valid, and that there is suitable back-up information available in the event of a legal dispute.

For reporting purposes, SAP assigns debts to Sales Offices. It is the responsibility of the **Budget Holder**(s) who are expecting to receive the income into their budget to ensure:-

i) There is at least one **Debt Chaser** nominated for each of their Sales Offices, (depending on the nature of the income that is being collected);
ii) That the Debt Chaser is in an appropriate position within the service or Business Support to chase debt, or within Finance, or assists the Accounts Receivable Team in chasing debts.
iii) That the Debt Chaser has had appropriate training from the Accounts Receivable Team, and that they are aware of the requirements of the Code of Practice;
iv) That the Debt Chaser has the appropriate knowledge of the service and the debts to be effective in their role.
v) That the Debt Chaser maintains an audit trail on SAP of their debt recovery actions.
vi) That the Debt Chaser takes responsibility for all actions on debts prior to referral to the Legal Debt Recovery Officer.
vii) That the Debt Chaser ensures that suitable notes are included on SAP as to the progress and actions taken to recover the money.
viii) That the Debt Chaser ensures a suitable handover of the debt to the Legal Debt Recovery Officer once this point in the timetable in Appendix 1 is reached.

It is entirely acceptable that the Debt Chaser is also the officer that raises the invoices for payment, but not essential. This will depend on the staffing structures in the individual services.

The **Accounts Receivable Team** will be responsible for:-

i) Maintaining the list of Debt Chasers nominated for each Sales Office.
ii) Maintaining the list of Authorised Officers, who are able to carry out certain tasks for each Sales Office, such as writing off of larger debts and agreeing non-standard payment installment plans.
iii) Providing training and guidance to those raising invoices, Debt Chasers, Finance Officers and services with regard to both required and best practice in using the Accounts Receivable system
iv) Recommending and issuing of new guidance and procedures with regards to the raising and pursuit of debt on behalf of the Director of Finance and Performance.

v) Policing the use of Accounts Receivable functions such as “Debts On Hold”, the appropriateness and timeliness of write-offs, and the effective use of audit notes made on the system.
vi) Distributing to Debt Chasers monthly reports detailing the outstanding debts for Sales Offices that they are responsible for.
vii) Ensuring that the latest documents and templates that are in use for debt collection are available on the Finance website and are regularly reviewed.
viii) Ensuring that any non-compliance with the Code is identified, raised with the necessary officers, and escalated to management if appropriate.
ix) Act as the Debt Chaser for certain, pre-agreed Sales Offices

The **Legal Debt Recovery Officer** will be responsible for:-

i) Reviewing on a regular basis the supporting documentation that is used to support the raising of invoices, and advising on necessary improvements to ensure that the debt is capable of recovery through legal means should this prove necessary. (This is particularly relevant when dealing with individuals and sole traders, where the Pre-Action Protocol applies and the requirements placed on the County Council to go to Court to recover debts are much higher).
ii) Taking over responsibility for all debt collection when they have reached the handover points in the timetable as set out in Appendix 1.
iii) Making decisions as to the most appropriate method(s) for the recovery of each debt, and ensuring that all such actions are undertaken.
iv) Informing the service when, in his or her professional opinion, the debt is not legally recoverable and has to be written off.

The **Strategic Finance Manager – Governance, ECI and Corporate Services** will be responsible for:-

i) Reporting the performance on debt collection, outstanding debts, trends and legislative changes to Audit Committee (in detail) and Cabinet on a quarterly basis.
ii) Reporting to the Finance Management Team when the performance on debts is out of tolerance and when corrective action is required.
iii) Ensuring that the Income Code of Practice is reviewed at least annually for any improvements in best practice and local systems.
iv) Ensuring that the latest Income Code of Practice is available on the Finance website.

Section 3. Charging for Goods and services

Charges are usually made in response to a request for goods or services. As a general principle, a local authority cannot provide goods or services unless these are part of its functions as a local authority. In these circumstances, it cannot charge unless there is a specific basis to do so (for example, libraries have to be specifically authorised to charge for videos and cannot charge for lending books). If you are proposing to charge for new or additional services and are unsure, please get advice from your Finance and/or Legal teams first.

Before providing goods or services, it is essential that we obtain and retain sufficient information that could later be relied upon in Court, should this be necessary.

It is essential that we obtain an official order, or equivalent signed or electronic agreement, prior to the commencement of work or the provision of services. (In a small minority of cases, this may not be appropriate, such as where the service is provided in line with a nationally agreed fee rate).

Wherever possible, written confirmation must be made to the customer and where possible written confirmation must be received prior to commencing work or providing any goods or services. A written agreement should cover all of the following:

- Service Specification;
- Price of the Service; and
- Terms and Conditions of Payment

All documentation must be maintained for our records.

This is particular important when dealing with private individuals and sole traders, (as opposed to companies and other local authorities), where the evidence requirements to commence legal proceedings are significantly higher. As a minimum to send a Letter of Claim in these circumstances, the Courts will require us to demonstrate:-

i) The amount of the debt;
ii) Where the debt arises from an oral agreement, who made the agreement, what was agreed (including, as far as possible what words were used) and when and where it was agreed;
iii) Where the debt arises from a written agreement, the date of the agreement, the parties to it and the fact that a copy of the written agreement can be requested from the creditor

Failure to obtain any written confirmation for provision of goods or services will prevent effective debt recovery on behalf of your service.

For detailed guidance and queries as to what is appropriate documentation to support debt collection, please contact the Legal Debt Recovery Officer.

Section 4. Pricing the services

The price to charge for providing our services will be determined by one of the following criteria (in strict order):-

i) Prices that are set nationally for the provision of certain services, where we have no option but to charge these rates.
ii) Prices that have been determined by local political decisions as to how much to charge service users.
iii) Prices that fully recover our costs of providing the service, including a suitable apportionment of corporate overheads.
iv) Prices that fully cover our direct costs of providing the services and make a contribution to corporate overheads. (This should only be considered in certain exceptional circumstances, such as where we are in a competitive environment and where we would lose the income by seeking a higher price. This also might be suitable where we are in a partnership agreement and where contributions towards a collective project have been agreed).

For guidance and support where the service is considering pricing the service according to iii) or iv) above, it is essential that you contact your Financial Manager to ensure that you have included all the necessary direct costs and overheads, and that you have priced the service appropriately.

Professional Indemnity insurance is in place at Somerset County Council for any work carried out for outside organisations. If the service that you are seeking to charge for contains advice or design for any external organisation, it is essential that you contact the Insurance Team through insurance@somerset.gov.uk for our insurance information and for guidance. It may be necessary to consider adding insurance costs into your prices.

If you do not know the current charging levels for goods/services, you should consult your Strategic Finance Manager. Charging rates should be reviewed at least every twelve months, and relevant staff should be notified of all changes to charging rates.

Situations may arise in which it will not be possible to estimate for certain additional costs when completing a quotation. If so, this must be made clear in the quotation and the customer's written acceptance obtained. Before undertaking any additional works or supplying any supplementary goods or services, it is essential to obtain written authority from the customer, including acceptance of the additional costs involved.

If the service relates to a contribution, a formal written agreement must be obtained from the contributor (e-mail is acceptable). If the contribution is payable when the project has been completed, the invoice should be raised immediately following completion.

If the charge is to include Value Added Tax, this also must be made clear to the customer. Advice on whether to charge VAT can be obtained from your Finance Manager.

Section 5. Extending credit and checking credit worthiness

The standard position of the County Council, (endorsed by our Audit Committee), is that **wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices**.

However, it is accepted that there will be some circumstances where it is necessary to raise invoice in order to provide a service and generate income. Such examples would include but are not limited to:-

i) Where we are directed under a national scheme, or a formal Decision under the County Council's decision-making process.
ii) Where the costs might be prohibitive for individuals to accommodate in a single payment, and therefore is a barrier to their receiving the service and us generating income. In these circumstances, it would be appropriate to spread the payments over a reasonable period of time. (A good example is the County Ticket scheme, where direct debit payments are monthly over the academic year that students can travel).
iii) Where we are bidding for work in a competitive situation, and where we have to agree to invoice the customer in order secure the work.
iv) Where we are operating under the terms of a partnership or grant agreement, where the Terms and Conditions dictate.

If credit is to be extended, services must ensure in advance that the customer is made aware of the County Council's payment terms (see below).

In addition, **invoices should never be raised for amounts below £25.00**, because this is extremely uneconomic to raise and to recover the debt. On receipt of a request for goods and services valued below £25.00 you should ask for payment in advance.

Goods or services should only be supplied once you are satisfied of the customer's ability to pay. This is particular important when dealing with new customers. If you are considering whether or not to carry out a credit check, please contact your Finance Manager to discuss.

Finance Managers can carry out a company (or individual) search to help assess credit worthiness. You will be asked for the following information:

- Company Name;
- Company Registration number;
- Company's registered address; and
- Code to charge search cost.

Finance Mangers can download the last submitted accounts of limited companies for finance staff to make an additional assessment if they consider that it is required.

If the credit check is being undertaken on an individual in advance of the provision of service you must obtain their permission, their full name, address and their date of birth. Such permission is often built into an agreement at the point customers are applying for specific services, a specific case in point being County Transport bus tickets.

Credit checks can also be carried out prior to the issue of Court Proceedings (by the Legal Debt Recovery Officer (LDRO)) in accordance with Section 35 of the Data Protection Act, in order to prevent public funds being spent on the attempted recovery of funds, where success is not likely. If you believe a check is required please seek the advice of the LDRO.

There are other safeguards that must also be considered before deciding to extend credit to an organisation or individual:-

i) Before extending credit, services should ensure that the customer does not already have significant outstanding debts to the County Council, or has had debts written off previously by checking SAP records.
ii) Particularly if we are supplying goods or services over an extended period of time, stage or interim payments should be agreed with the customer, preferably through the setting up of a direct debit. Ensure that written confirmation of the method of invoicing is received prior to provision of any goods or services. This will both maximise the County Council’s cashflow, and also reduce the amount outstanding at any one point.

Section 6. Payment Terms

The Council's current payment terms are immediately on receipt of invoice and this is stated on the face of each invoice. This must be made clear to the customer prior to extending credit and supplying the goods or services.

Our immediate payment terms as set to try and minimise any loss through cashflow when we have extended credit to a customer, to ensure that debts are collected promptly and with the minimum staff time required.

When chasing debts, customers should also be reminded that they were notified of the payment terms.

When drawing up written agreements or contracts with customers a clause covering penalty interest for overdue payment should be included in the contract. If payment is late, we have a statutory right in relation to the provision of goods or services to claim interest under Late Payment Legislation on debts. Unless we have a specific agreement within the contract, a debt becomes "late" after 30 days from public bodies and 60 days from businesses from:-

- the customer receiving the invoice; or
- when we provide the goods or service (if this is later).

If it becomes necessary for Court Proceedings to be issued, interest must be charged. Unless we have a specified interest rate in the contract, 'statutory interest' is 8% plus the Bank of England base rate, and added to the debt at the date of issue.

There is also a statutory right to charge a business a fixed sum for the cost of recovering a late commercial payment on top of claiming interest from it:-

Amount of debt	**Fixed sum chargeable**
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

In the event that a debt becomes "late", Somerset County Council's contractual position is that the above interest charges are added to the account. A decision to waive interest charges can be made by the Debt Chaser or Budget Holder, but this can only be for a legitimate reason such as actual hardship, harming of future relationships and potential future income from the customer, or a genuine misunderstanding about the payment. The Accounts Receivable Team will review waivers and determine their appropriateness.

The daily "statutory interest" rate will also be used when Judgment is entered, when additional interest is added to the balance for the days between the date of issue and the date of the request for Judgment. Fixed Solicitors costs, as set by HM Courts & Tribunals Service (HMCTS), are also added to the debtors balance outstanding at each stage of Court action, along with the recharge of any Court Fees paid out by SCC. In no circumstances will any costs incurred under legal debt recovery means be waived.

Section 7. Raising Invoices

Invoices should never be raised for amounts below £25.00, because this is extremely uneconomic to raise and to recover the debt. On receipt of a request for goods and services valued below £25.00 you should ask for payment in advance. Payments can be through cash, cheque, BACS in advance or on service delivery

It is critical that the invoice raised is correct to ensure prompt collection and avoid delay through customer queries. This includes:-

- The invoice is correctly and fully addressed and detailed in the description.
- The invoice quotes the customer's purchase order number if supplied or an appropriate other reference (such as a contract reference) that helps the customer identify the charge.
- The customer is expecting the invoice and knows that payment is now due.
- The invoice shows the full details of the charge, details of goods or services provided and VAT (where appropriate).

Payment methods are set out on the reverse of the invoice.

All invoices should be raised within 1 week of the provision of service, unless this is explicitly different in any relevant Terms and Conditions. **All invoices must be raised not later than 30 days after supply.** VAT legislation requires a VAT invoice to be provided within that time. Failure to comply can result in HMRC imposing penalties.

If you do not have on-line access to the financial system, or you are not interfacing with the system, a standard invoice request form needs to be completed and sent to the relevant officer (usually in Business Support) assigned to raising invoices for the service.

Invoices should not be raised speculatively or for charges that are not enforceable or not agreed with the customer. It is also not acceptable to raise invoices far in advance of expected or agreed payment due dates, other than for debts to accrue in care cases. (To do this for other debts will distort performance information reported to members).

Section 8. Raising Credit notes

It is important to differentiate between the writing-off and cancellation of debts.

If an invoice has been raised in error, or there is a need to reduce the invoice value if, for example, part of the goods or service has not been provided then a credit note must be used and issued to the customer.

If a debt cannot be collected e.g. because of insolvency, the write-off process must be followed (see below). **Under no circumstances should a credit note be raised to cancel a *valid* outstanding debt**.

If an invoice has been raised incorrectly or in error, it must be cancelled as soon as possible with a credit note. If the mistake or error affects only a part of the invoice, payment should be obtained for this and a credit note issued for the remainder.

The credit note should clearly state why it is being raised. Credit notes can only be released by an officer who has the necessary SAP access rights. (Steve Rose, Exchequer Manager can approve additional officers to have SAP access to release credit notes if required and appropriate).

In line with audit recommendations and best practice all departments must be able to provide adequate documentation or information to support the credit note. This should include any correspondence to and from the debtor relating to reduction or cancellation in the charge. If the credit note has simply been raised to cancel an error in the raising of the invoice, the person who made the error should attach an explanation to support the credit note request. Supporting documentation should be added to SAP; e.g. copies of any e-mail correspondence and/or scanned paper authorisation.

Section 9. Print to Post

Synertec provide Somerset County Council with a 'print to post' solution for printing Accounts Receivable documents, the documents print at an office based in Bristol. This provides a cost effective solution for the printing of Somerset County Council's and Somerset County Council Pension Fund's invoices, credit notes, reminders and direct debit letters.

In extenuating circumstances invoices and credit notes can be returned to the requesting service. If required an email should be sent to the Accounts Receivable Team (accountsreceivable@somerset.gov.uk) before 2pm on the same day that the invoice was raised on SAP.

NOTE: Accounts Receivable are unable to control any technical faults (i.e. failure of emails) or human error (i.e. transposing of invoice numbers) that may occur. There is also a reliance on the postal service to return invoices efficiently.

It is therefore suggested that if invoices need extra documentation or covering letters sent with them, that a letter is sent beforehand to advise the that invoice will follow shortly after. Only in extremely unusual circumstances should a service ever request non-despatch documents, as this is not cost effective. Accounts Receivable will police instances of non-despatch documents required by services.

Invoices that need to be directed to an individual not named on the customer account should have the individuals name included on the header text of the invoice.

Section 10. Managing debts

All service and finance staff must recognise the importance of recovering outstanding debts as promptly as possible, and managers must ensure that appropriate resources and time are devoted to this activity.

The longer it takes to collect debts, the greater cashflow costs the County Council will incur and the greater staff time and effort will be expended in the process, and the less likely recovery becomes.

It is also important that customers know that we will always follow up outstanding invoices quickly. Customers should never be under the impression that they can delay or avoid paying altogether.

Appendix 1 shows the standard debt management timetable that **must be followed for all types of external debt** unless formal approval has been given by a Financial Manager, as per the Authorisation List, or the Legal Debt Recovery Officer. This timetable is designed to minimise the time between the debt being raised and its collection. It is also designed to maximise the possibility of the debt eventually being collected. By following the timetable and procedures, collection times will be improved and staff time and effort will be reduced. Appendix 2 shows the debt recovery flowchart in a schematic form.

If payment is still outstanding after 14 days a system reminder is sent to the customer, requesting payment within 7 days.

Depending on the nature of the debt, telephone calls can be beneficial and effective in chasing payment of overdue invoices. However, with smaller debts or individual customers, depending on how the debt originated a telephone call may not be appropriate if a relationship is not already established, i.e. with an overpayment of salary, HR Admin & Payroll and Accounts Receivable will not likely have a sufficient relationship with the customer whereby using the telephone number from their staff record can be deemed appropriate. However, with an Adult Social Care debt, there will most likely be a Social Worker still allocated (unless involvement has ceased) who has a sufficient relationship to phone to discuss the matter, or discuss it at their next scheduled visit to the client.

Additionally, when communicating with individual debtors, if the matter at a later stage went to Court Proceedings level and we were required to evidence the reasonable efforts made to recover the funds and resolve the matter without unnecessary Court involvement, a telephone call is more difficult to document. As such, a note of the content of all telephone calls (date, contact name and brief description) must be made and added to SAP, whether it is an outgoing call to the debtor from SCC or incoming in response a chaser letter or Letter Before Action.

If it seems likely that the debt will be disputed, due either to its nature or if the customer has a history of being difficult or a bad payer, email or postal correspondence should always be used in the first instance to allow a comprehensive audit (and if necessary, evidence) trail to be compiled. However if a telephone call is taken from the customer a more comprehensive SAP record of the conversation should be recorded.

If the debt is over £100 in value and remains unpaid after 23-28 days, the relevant debt chaser should telephone the customer (if the debtor is a company or the service has an appropriate relationship with the individual customer) to ascertain a payment date. If a date is not forthcoming or the invoice is disputed, the relevant Service Manager should be immediately informed and a note placed on SAP while resolution is sought.

If a phone call is not relevant, due either to the debt being under £100, or the nature of the relationship between the service and the customer, the debt chaser must chase via letter or email, advising that payment of the invoice is overdue and that payment should be forwarded within no more than 7 days.

If the debt remains outstanding after 35-42 days, the debt chaser must refer the matter to the Legal Debt Recovery Officer for a Letter Before Action (LBA) if the value exceeds £100 (see section 15). This letter will advise the customer that if payment is not received within 14 days, Court Proceedings will be issued against them without further notice. The letter will also reference additional fees, costs and interest that will be added to the debt, and asks that if payment is being withheld for whatever reason, or the debtor needs to discuss the option of payment by instalments, they should contact us immediately.

If no meaningful recovery plan has been forthcoming as a result of the Letter Before Action **(49-56 days), the debt must be referred in its entirety to the Legal Debt Recovery Officer for legal enforcement action**.

The Legal Debt Recovery Officer will consider alternative options for legal enforcement of the debt, considering for example knowledge of the debtor's finances from credit checks (see section 5**. Extending credit and checking credit worthiness**), or knowledge of the debtor's financial circumstances due to the nature of the debt (i.e. Adult Social Care debtors who have been subject to a FAB Assessment). Action will be advised by the Legal Debt Recovery Officer to the budget holder and service, and authorisation will be sought from the referring client at each stage where further costs are incurred and added to the debtors balance.

If, at any stage of the recovery process, a customer queries or disputes an invoice, it must be referred to the debt chaser straight away. If only part of the invoice is in dispute, payment should be obtained for the undisputed part whilst negotiations continue, and further recovery action for the disputed portion of the invoice should be suspended and SAP annotated accordingly (See section **14. Disputed invoices**).

When an individual claims to have difficulty in being able to repay their debt they should be treated with sensitivity and given time to discuss their situation in confidence. If they claim to be suffering severe financial hardship, it is appropriate to refer the customer to an independent advice agency e.g. Citizens Advice Bureau or Step Change Debt Charity for assistance. Appendix 6 is the Pre-Action Protocol that must be followed when dealing with legal debt recovery for an individual or sole trader. The Courts will absolutely expect the Protocol to be followed

If the debtor is willing to pay, but merely claims they are unable to in full, a repayment plan will need to be agreed with them. Information obtained from independent advice agencies, if applicable, should be taken into account when negotiating an instalment plan, and instalments should be considered as a way of agreeing realistic repayments without the need for more serious recovery action. See section **13. Payment by Instalments** for guidance on negotiating instalment plans. If an agreement cannot be reached the debt will need to be referred to the Legal Debt Recovery Officer.

Details of all correspondence with the customer, throughout the debt management process (both written and verbal) must be recorded in SAP for future reference. These will be essential if court proceedings are necessary. Where appropriate attachments (copies of correspondence and emails for example) should also be recorded and appended to SAP.

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Section 11. Dunning Blocks

A dunning block can be placed on an invoice to prevent any reminders being issued to the customer. There are acceptable reasons why a dunning block can be applied to an invoice. **When applying a dunning block, it can only be for an acceptable reason from the list of options below**. If none of these apply, a dunning block must not be placed. (N.B. The process by which dunning is run will automatically prevent Debts To Accrue from being included).

When placing a dunning block on an account, you must add a note to SAP providing an explanation as to why the dunning block has been applied along with your initials and date. If applicable, please also state when the hold can be removed.

The Accounts Receivable Team will carry out dunning reviews at least quarterly to ensure that accounts are not left on hold unnecessarily. Services and debt chasers must respond quickly to these reviews and provide updates and reasons as necessary.

A – Invoice in Dispute See Text: This should be used when there is a genuine ongoing query or dispute on the account. The text should set out the service, the nature of the dispute, the officers involved in resolving the dispute

It is possible that the date that the dunning block can be removed is not known, (if you are awaiting a response or more information), but this cannot be a reason to hold the dunning block indefinitely.

B – Referred to Legal: This reason is only to be used by Accounts Receivable Team or the Legal Debt Recovery Officer and only once debt is with formally handed over for legal enforcement.

D – Deceased: This should be used once we have received official confirmation that the customer has died from the service.

F – Pending Write Off: This is used when approval has been given from the budget holder to write the balance off, or when the Legal Debt Recovery Officer has agreed that there is no prospect of collection.

The procedures for debt write-offs are in section 17 below. Write offs must be approved by an appropriate officer as set out in this Code Of Practice, and must be done promptly.

N – Salary Deduction: This is used when an invoice is being cleared by salary deductions.

P – Referred for Letter Before Action (LBA): To be used when passing to the Accounts Receivable Team for gathering the necessary information to create a Letter Before Action, prior to sending this information to the Legal Debt Recovery Officer.

Section 12. Performance monitoring

Debt management is an important performance indicator of the County Council's financial position. It is important that this is reported on regularly to the appropriate officers for corrective action to be taken, and for senior managers and members to take assurance that the controls in place are being adhered to and debt is being collected promptly and fully.

The following debt management reports are required to be produced regularly:-

Monthly:-

Report	Produced By	Recipient	Reason
All outstanding transactions by Sales Office and service	Accounts Receivable Team from SAP	1.Debt chasers and services 2.Nominated Finance officers within teams	1.Debt chasers and services – to aid in forthcoming debt recovery and to track performance 2.Finance officers – to compile reports for the Finance scorecard (monthly).
Summary value of debts by service and age (bands)	Nominated Finance Officers	Strategic Finance Manager – ECI, Governance and Corporate Services	To identify key performance issues and to report to FMT and services as necessary.

Quarterly:-

Report	Produced By	Recipient	Reason
Summary value of debts by service and age (bands), with corresponding figures for the previous financial year.	Nominated Finance Officer within ECI Finance Team	Chief Accountant	Inclusion in quarterly summary budget monitoring for Cabinet.
Detailed debt report including summary value of debts by service with age (bands), average time to pay, debts over 90 days old and details of larger debts outstanding.	Strategic Finance Manager – ECI, Governance and Corporate Services and nominated Finance Officer within ECI Finance Team.	Audit Committee	Governance role.

Annually:-

Report	Produced By	Recipient	Reason
Annual level of write-offs and the reasons	Legal Debt Recovery Officer	Strategic Finance Manager – ECI, Governance and Corporate Services	Inclusion in annual summary debt report to Audit Committee

The key performance indicators that must be reported to and tracked by management are:-

i) The percentage of outstanding debt over 90 days old (excluding debts to accrue and rechargeables). This indicator will be reviewed once the impact of the Pre-Action Protocol can be reliably estimated.
ii) The overall percentage of debt collected and written off in each financial year from the net debt raised on the Accounts Receivable system.
iii) The average number of days for payment to be received by month.

Section 13. Payment by Instalments

It is SCC policy is to obtain the payment in full immediately, but in certain circumstances it may be appropriate for a customer to pay by instalments. Payment by instalments is only acceptable when the customer is genuinely unable to settle the debt in full immediately, (or where this is set out in national guidelines or local political decisions), or in the case of agreed schemes such as County Ticket for students.

The need or payment by instalments is much more likely to occur (and be acceptable under this Code of Practice) **when the customer is an individual** or sole trader, rather than a business. **Where this is the case, it is important to take note of the Pre-Action Protocol** in Appendix 6. The Protocol encourages the creditor (County Council) to try and reach agreement for the debt to be paid by instalments, based on the debtor's income and expenditure. It is essential that this Protocol be followed and for every effort be made to reach a mutually acceptable agreement. Points worth noting are:-

i) If we do not agree to the debtor's proposal for repayment of the debt, we are required to the give the debtor reasons in writing. If we do get to Court proceedings, these reasons would form part of the evidence.
ii) If we do reach an agreement concerning the repayment of the debt, the Protocol states that we "should not start court proceedings while the debtor complies with the agreement" and would have to start the whole process again if we wanted to increase the instalments. (This is a key reason why the agreed instalments should not be too low – see below).

It may be necessary to refer individuals in particular to an independent advice agency e.g. Citizens Advice Bureau or StepChange Debt Charity, if they have not already done so themselves. A statement from an independent advice agency should be taken into account when action to recover the outstanding amount is considered, as this will show the overall level of the customer's debt, and not just the amount owed to us. When secured debts such as loans, credit cards and hire purchase/finance feature as creditors, these will always take priority when a payment offer is being negotiated on the debtor's behalf, and this would be replicated should the matter reach Court.

If the debtor is not engaging with a debt advice and management service, and their claimed ability to repay is minimal or their offer seems disproportionately small, an Income and Expenditure form (Appendix 3) should be sent out to the debtor for them to complete and return to us. This will allow us to make the same level of assessment as we would had the information come directly from a debt advice/management service, and will allow us to counter offer if applicable.

This form has been collated from those used by both Debt Advice Services and HMCTS when responding to a claim, and whilst it is not a legally binding agreement it should cause debtors to think more carefully about making false or exaggerated claims with regards to their financial circumstances, as this document could be submitted to Court at a later date if it becomes necessary.

Value	Timescale		
	2 - 6 Months	7 - 12 Months	12 Months+
Under £100.00	✓	Approval to be sought from officers listed below *	Approval to be sought from officers listed below *
Over £100.00	✓	✓	Approval to be sought from officers listed below *

*The following officers (<u>only</u>) have authority to agree an extended timescale for payments by instalments, and their approval must be sought before any such agreement can be made with the customer:-

Finance Strategic or Service Manager for the service in question
Chief Accountant
Exchequer Manager
Accounts Receivable Team Leader
Legal Debt Recovery Officer

The instalment offer needs to be for a realistic amount per month, with the **expectation that the debt will normally be recovered in a maximum of 12 months**. Debt chasers should not accept an initial offer if it appears too low, officers listed above and they should always review proposals for the amount of the instalment, prior to any agreement. The Legal Debt Recovery Officer should also be contacted for advice, particularly in the case of an individual.

When negotiating an instalment plan, often a debtor will ask what we are prepared to accept before making an offer of their own. If they are not forthcoming with an offer without input from us, you should divide the amount outstanding by 6 or 12 (depending if the debt value is under or over £100.00) and use this as the **absolute minimum instalment rate** we would be prepared to accept. Affordability must be considered, and if the customer claims to be unable to meet this rate, at this stage the income and expenditure form as detailed above should be sent out, and a mutually agreeable rate negotiated upon receipt of the completed document.

In no circumstances is it acceptable for a service or Debt Chaser to agree a “local” agreement to pay instalments, and a formal repayment plan must be set up on SAP. Notes of the agreement must also be included on SAP.

Sometimes a proposal, even when based on income and expenditure information, may appear to be unrealistic. Reasons for this might be the value and frequency of the repayments and the length of the plan. In such cases the officers listed above may consider accepting a lesser sum in settlement if paid within a much shorter time-frame.

Overpayment of salary debts should generally be recovered over the same period of time in which the overpayment occurred if the person is still an employee. In exceptional circumstances the repayment can be considered over a longer period, but should be negotiated in line with the guidelines on the previous page. If the member of staff is about to leave the salary overpayment should be recovered in full prior to departure or from the final salary payment.

Direct Debit or BACS/Standing Order is always the preferred method of payment for instalment plans.

If a debtor is unable to pay or will not agree to repayment by Direct Debit or BACS/Standing Order then other forms of payment can be considered. Instalment payments must be monitored closely and prompt action taken if a payment is missed.

If an instalment plan is in place, and an instalment is late or not collected a system reminder is sent informing the customer that we are aware the instalment is overdue. The reminder states that they are required to contact the "above" office to resolve the matter and avoid legal action being taken. Note that if the customers direct debit defaults twice the instalment plan will be cancelled, meaning the value of the debt will be due in full immediately and action will be taken by the Legal Debt Recovery Officer.

Section 14. Disputed invoices

A disputed invoice is one that the customer has genuinely queried, or refuses to pay all or part of for a given reason. **If only part of the invoice is in dispute, payment should be obtained for the undisputed part whilst negotiations continue.** If the query or complaint does not relate to the entire balance due, you should advise your customer in writing (letter or email) that there is still a balance owing which is in no way connected to the queries raised, and that payment of the undisputed portion of the invoice(s) is due immediately.

In the case of a genuine dispute, further recovery action should be suspended and SAP annotated accordingly (see Dunning Blocks).

It is essential that any genuine dispute or query is resolved promptly, otherwise the customer will feel perfectly justified in withholding payment of all or part of the relevant amount until we respond to them.

If a customer genuinely queries or disputes an invoice, it must be referred to the relevant debt chaser within 24 hours, and notes added to SAP accordingly.

The following is the **required timeframe for action on disputes**:-

Type of dispute	Resolution timeframe (working days)
Copy invoice or credit note required	3 days
Invoice raised in error and requires cancellation	3-5 days
Incorrect invoice value	Request for credit note for full or part value raised within 3-5 days
Inadequate or incomplete service provided	7-10 days
Contractual problems	21 days

If it is not possible to resolve the dispute within the above timescale, the matter must be reported to the appropriate Finance Manager or Accounts Receivable Team Leader or Legal Debt Recovery Officer for action. In conjunction with the relevant service manager, they will decide whether:-

- An agreed amount of additional time is given to resolve the dispute and a note, with relevant dunning block, placed on SAP accordingly.
- Whether legal action should commence.
- Whether a credit note should be raised.
- Whether write off action should be undertaken.

Section 15. Referring for legal recovery action

If the recovery procedures have not resulted in a payment being received in accordance with the timetable set out in Appendix 1 and Appendix 2, the debt <u>must</u> be referred to the Legal Debt Recovery Officer. The only circumstances where a debt is not to be referred to the Legal Debt Recovery Officer are when this has been explicitly agreed by the relevant Finance Manager on the Authorisation List, or the Legal Debt Recovery Officer, the Exchequer Manager or the Accounts Receivable Team Leader).

The sooner a case is referred the more chance there is of recovering the monies owed - typically there is no benefit in undertaking long and drawn out dialogue with the debtor prior to referral, unless there is a dispute over the nature of the debt that the Legal Debt Recovery Officer cannot assist with or would be required to refer back to the service.

The first stage of referral is for a Letter Before Action (LBA). A Letter Before Action (or Letter of Claim under the Pre-Action Protocol) is a mandatory stage in the debt recovery process. The only circumstances where this will not be sent is where the matter is particularly contentious or complex, and Legal Debt Recovery Action or Finance Manager on the Authorisation List agree that a Letter Before Action is not sufficient to detail the particular circumstances.

If a Letter Before Action is not successful, then the debt chaser and service must:-

i) Check Accounts Payable prior to referral, to determine whether they are also owed money by the County Council to enable one amount to be offset against the other.

ii) Write off any debt with a value less than £100, in accordance with the guidance below. (Debts with a value of less than £100 should not be referred to the Legal Debt Recovery Officer, unless there is a particular reason that the service wishes proceedings to be issued, i.e. if the debtor has previous history of poor payment or it is known that future invoices will need to be raised. The LDRO will need to be advised of why the service believe it to be necessary to pursue debts under £100, and will advise if this is indeed appropriate at the time).

iii) Complete the referral form in Appendix 5, if necessary with assistance from the Accounts Receivable Team.

When referring the debt please include the following information to support the referral form (in Appendix 5):

- Customer Number
- Customer Name
- Invoice Number(s)
- Amount(s) Outstanding
- Copies of all correspondence to date (including invoice) and any other specific details i.e. national insurance number, D.O.B
- A signed copy of the agreement/contract under which the debt is owed/proof of how the debt originated (i.e. termination of employment form along with

payslips showing salary payments past the date of employment termination in the case of overpayment of salaries).

Once the debt is referred it becomes the responsibility of the Legal Debt Recovery Officer to determine how (or if) to recover the debt.

Once a debt has been transferred to the Legal Debt Recovery Officer all queries from customers concerning the debt should be referred to them. During this time agreements should not be reached with customers by service departments or debt chasers unless the Legal Debt Recovery Officer is unavailable and the matter requires urgent attention. In such circumstances the services should refer any queries to an Exchequer Team Leader, who has the necessary delegated authority from the Legal Debt Recovery Officer to negotiate instalment plans in their absence

The Legal Debt Recovery Officer will review the paperwork to ascertain whether the debt is a) enforceable and b) if the paperwork provided is sufficient or if more information is required. Any queries will be referred back to the service at this time, and the debt chaser and service need to respond in a timely manner. If Court Proceedings have already been issued, failure to respond in an appropriate time frame may result in Court fees being incurred by SCC for non-compliance to deadlines, which the service will be charged directly.

As a Letter Before Action will have already been sent to the customer at the point of referral, and a reasonable period of time to allow payment or response has passed (21 days), the **default position will be to commence proceedings** against business and other bodies and to follow the Pre-Action Protocol to move towards proceedings against individuals.

If, for whatever reason, the Legal Debt Recovery Officer does not feel this is the most appropriate course of action, they will refer back to the service with advice on how to proceed and request according instructions.

Note that referring a large number of debts in bulk at one time will adversely affect the Legal Debt Recovery Officer's workload so it is best to forward matters "little and often".

Should the Legal Debt Recovery Officer consider a debt to be irrecoverable the service will be advised accordingly. In such cases the debt must be written off.

Section 16. Insolvency

Be aware of your customers' financial position. Payment must always be obtained in advance of service provision wherever possible. Where this is not possible, consider obtaining a credit check before extending credit if there is any doubt about the customer's ability to pay.

If you become aware that a company or individual is entering receivership or is about to become insolvent, notify all services who provide services for the company and individual, and also notify Accounts Receivable immediately and provide any additional information that you have available (e.g. name of insolvency practitioner or liquidator). This is to ensure that:-

- Accounts Payable is checked to determine whether the debtor is due to receive payment by the County Council. If so it may be possible to offset the money they owe against the money we are due to pay them.
- The supplier is placed on hold whilst trading with the company or individual is reviewed;
- The liability of the Council is known;
- Our debts are recorded by the appointed Administrator or Insolvency Practitioner via a Proof of Debt form.
- an attempt is made to recover all monies and progress chase the case to secure any dividend due;
- VAT is reclaimed according to HMRC rules.

Irrecoverable sums will need to be written off immediately. Even if there is a prospect of some sort of dividend being paid in the future the debt should still be written off. The AR team will continue to monitor the case and ensure any such dividend is credited to the service or write off SAP codes when payment is received.

Section 17. Un-collectable debt and write off procedures

Debts should be written off either because it is uneconomic to pursue the debt further, or where there is no likelihood of payment because all recovery options have been exhausted, or the debt is unenforceable, (usually when the supporting information is insufficient to commence legal proceedings.

Accounts Receivable team may write off debt to the value of £5 on any one invoice if it is uneconomic to continue recovery action or for housekeeping purposes e.g. where a debtor has inadvertently underpaid by a small amount.

All other write-offs must be authorised as follows

£1,000 and Under (inclusive of VAT)	Approval of one of the designated approvers from the authorisation list
Over £1,000 (inclusive of VAT)	Approval of one of the Finance Service Managers from the authorisation list

All requests for write-off must be supported with full details as to the reason for write-off. A record of debts written-off and the reasons will be maintained by the Accounts Receivable Team. The current template for debt write-off requests can be found here:- http://intranet.somerset.gov.uk/sapnav/useful-forms/

In no circumstances should a credit note be raised to write off a debt.

For debts over £1000 a debt write-off over £1,000 form must be completed by the service and then authorised by the relevant Strategic or Service Finance Manager. The form is then returned, approved or otherwise to enable you to maintain a record of write-offs.

All write-offs must be processed and sent to Accounts Receivable within 10 working days of the decision being taken. Failure to complete the necessary paperwork within this timescale, will lead to the invoice(s) and income continuing to appear on the aged debt report and budget monitoring reports. Accounts Receivable will police the time taken to write debts off, and will ask the service and debt chaser to provide an explanation as to why this has not been done when the decision has been made. Repeated failures to write-off debts in a timely manner, could lead to this being escalated through the relevant Service or Strategic Finance, and ultimately the Director for Finance and Performance as necessary.

The VAT element of the bad debt can be reclaimed from HMRC 6 months after the date that the invoice was due (and up to 4 years and 6 months after). The person responsible for processing write-offs for your service needs to be informed to ensure that this is done.

Section 18. Receiving payments

It is important that monies received should be allocated and accounted for as promptly as possible.

Failure to do so can result in complaints and reputational damage if debt recovery activities continue when a payment has already been received. It can also result in some payments being made twice and having to be refunded.

Should a customer offer to pay by cheque advise them that the cheque must be made payable to Somerset County Council and sent to the Cashiers section in County Hall.

Often a customer may call at a local office and offer payment. If so all money should be recorded in a cashbook at the point of receipt, most likely to be the reception. If a receipt has been issued (using a SCC receipt book) the receipt number should be recorded in the cashbook.

Such payments must be banked intact or passed to the Cashiers Section in County Hall without delay. If you are in an area office, you should pay them into your local branch of NatWest Bank using a bank paying-in book. Any money received must be banked a soon as possible. Any cash or cheques not banked must be held securely.

It is essential that the Cashier has sufficient information to allocate these amounts and therefore should be provided with a coded remittance advice, BACS remittance or similar without delay

If payment is received in respect of an invoice, it is essential to record the invoice number clearly in the bank paying-in book or inward remittance book and not just your financial code. If just the financial code is provided the debt will remain outstanding. Customers may then receive reminder letters for invoices which they have paid.

If you are based in County Hall you need to pass the payments to the Cashier's office together with a completed bank paying in slip. The paying in slip requires that all cash be broken down and cash itself needs to be counted and be separately bagged.

For all cash handling and payment requirements, please speak to the Accounts Receivable Team, or consult the Cash Handling Guidelines.

The Council offers the following payment methods to customers:

Over the phone by using a Debit/Credit card through Somerset Direct
Via the Internet using Debit/Credit card via E-payments
Cheques or Postal Orders made payable to 'Somerset County Council'
At any branch of Nat West Bank
At the customers bank
Through Giro bank
At the Cashiers Office, Finance, County Hall
At any Post Office (although some no longer accept cheques)

By BACS
At Local Hubs
By Direct Debit

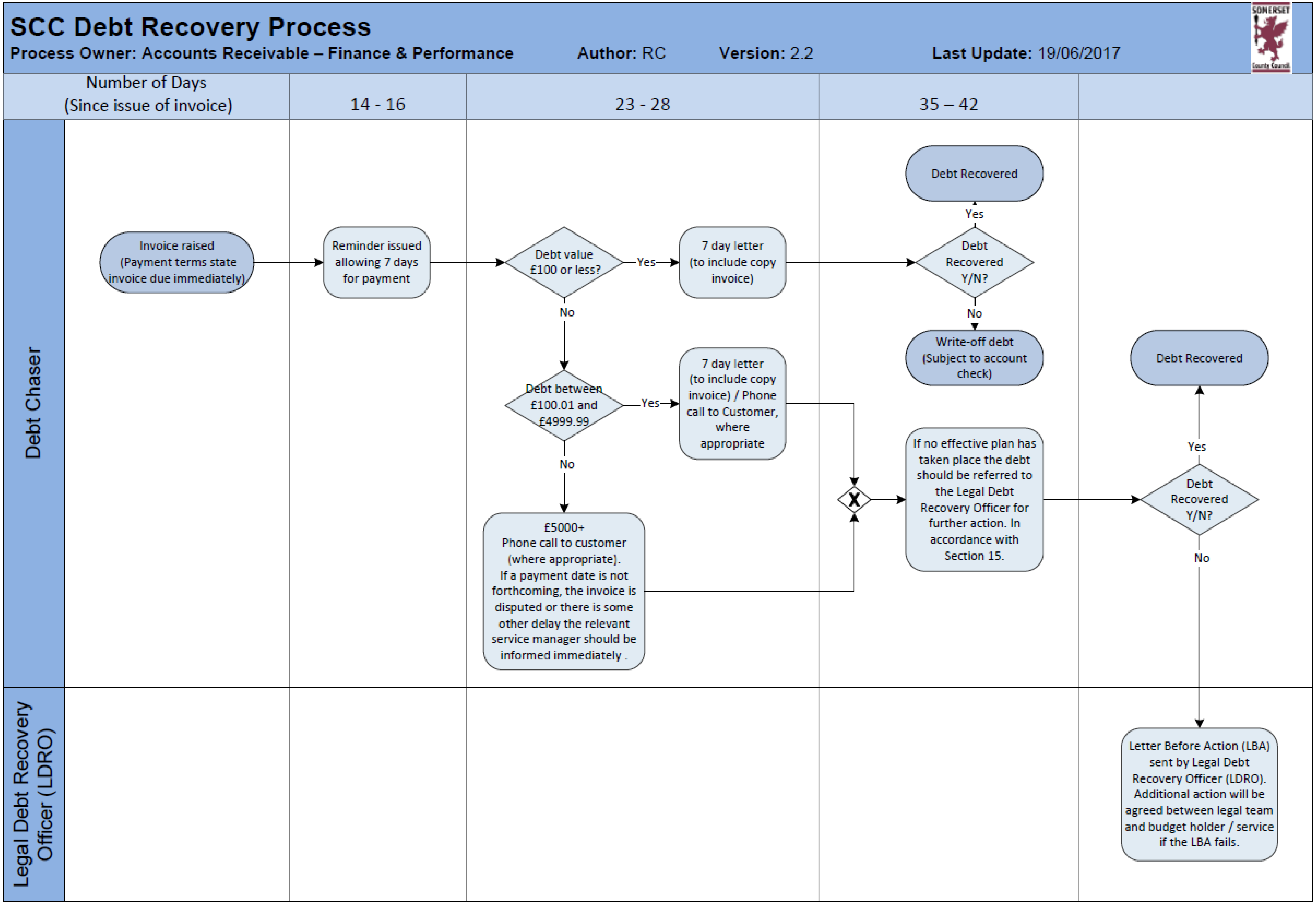
Appendix 1: Standard Debt Management Timetable

No of Days (since issue of invoice)	Action Under £100	Action £100.01 - £4999.99	Action £5000+
1	Request for invoice to be raised received. It should be examined critically for accuracy and completeness prior to raising the invoice and queried as appropriate. Invoice raised (our terms state payment is due immediately)	Request for invoice to be raised received. It should be examined critically for accuracy and completeness prior to raising the invoice and queried as appropriate. Invoice raised (our terms state payment is due immediately)	Request for invoice to be raised received. It should be examined critically for accuracy and completeness prior to raising the invoice and queried as appropriate. Invoice raised (our terms state payment is due immediately)
14-16	Reminder issued allowing 7 days for payment. (Additional 7 days to allow for any payment received to be banked and appear on the system).	Reminder issued allowing 7 days for payment. (Additional 7 days to allow for any payment received to be banked and appear on the system).	Reminder issued allowing 7 days for payment. (Additional 7 days to allow for any payment received to be banked and appear on the system).
23-28 days	7 day letter (to include copy invoice)	7 day letter (to include copy invoice)/phone call to customer, where appropriate	Phone call to customer (where appropriate). If a date is not forthcoming, or the invoice is disputed or there is some other delay the relevant service manager should be immediately informed.
35-42	Write Off (subject to account check) – Accounts Receivable to make any necessary adjustments for debts under 6 months old where VAT cannot be claimed until this time.	If no effective plan has taken place the debt should be referred to the Legal Debt Recovery Officer for further action. In accordance with Section 15. Debt referred to the Legal Debt Recovery Officer.	If no effective plan has taken place the debt should be referred to the Legal Debt Recovery Officer for further action. In accordance with Section 15. Debt referred to the Legal Debt Recovery Officer.
		Letter Before Action sent by Legal Debt Recovery Officer. The Legal Debt Recovery Officer will determine what legal action will be undertaken if the LBA does not result in payment. The service and the budget holder will be consulted, particularly where additional costs would be incurred.	Letter Before Action sent by Legal Debt Recovery Officer. The Legal Debt Recovery Officer will determine what legal action will be undertaken if the LBA does not result in payment. The service and the budget holder will be consulted, particularly where additional costs would be incurred.

NB: Notes should be added to customer accounts for all actions taken place

Details of all interaction with the customer and service should be recorded on the system for future reference.

APPENDIX 2: DEBT RECOVERY PROCESS MAP



APPENDIX 3 : INCOME AND EXPENDITURE FORM

Appendix 3 Income
and Expenditure Forn

APPENDIX 4 : 7 DAY LETTER

Appendix 4 7 Day
Letter SCC.docx

APPENDIX 5 : REFERRAL TO LEGAL FORM

Appendix 5 Referral to Legal for LBA.xlsx

APPENDIX 6 : PRE-ACTION PROTOCOL

Appendix 6 Pre Action Protocol for De

Appendix 6 PAP Income and Expendit

APPENDIX 7 : LEGAL DEBT RECOVERY ACTION FLOWCHART

Appendix 7 Legal
Debt Recovery Flowc

APPENDIX 8: OFFICIALLY APPROVED SERVICE SPECIFIC EXEMPTIONS

Process	**Description**
Standard (type 1)	All Sales Offices / services not mentioned below.
Exception type 2	Overpayment of salaries. Current employees will have a repayment plan as part of future salary payments. Ex-employees are chased through Payroll with a reminder and then a straight referral to legal. (Also includes Cycle Saver/Home Computer/Car Loan schemes).
Exception type 3	Blue Book schools – similar to Standard procedures, but approval must be sought from the service to chase debt.
Exception type 4	Third Party Claims – longer process due to legal work.
Exception type 5	County Farms (Agricultural Holdings Act tenants only, where the terms of the tenancy give 60 days to pay).

For the avoidance of doubt, the following are no longer approved exemptions:-

Accounts Payable duplicate payments
Highways claims and rechargeables
Dillington House

Somerset County Council
Audit Committee 23 November 2017

Forward Work Plan

Service Director: Kevin Nacey, Director of Finance and Performance
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Cabinet Member: Cllr D Hall, Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. Members have asked that we review forthcoming items coming to Audit Committee, and also that officers ensure that the Committee has Partial assurance audits brought to it in a timely manner. A draft Forward Work Plan will be brought to the Audit Committee at least quarterly.

1.2. Members have also requested that the number of current investigations be regularly updated to the Audit Committee.

2. Issues for consideration

2.1. Members are asked to note the outline Agendas for the 26th January 2018 and 18th March 2018 public meetings, as set out in Appendix A to this report, and to comment on any further items that they would like to be scheduled.

2.2. Members are asked to consider other agenda items on this November agenda, and whether they would like to have a further update on any of these audits, risks or topics.

3. Background

3.1. Audit Committee has set out the requirement for any internal audit from SWAP that only achieved Partial Assurance to come to a future public meeting and for the manager(s) responsible to update members as to their progress against the agreed action plan.

3.2. There is also a number of “staple” Audit Committee items that form part of either the annual Statement of Accounts cycle, or that are regularly brought to Audit Committee as part of its general risk and governance role.

3.3. It is always possible, and has been the case in the recent past, that additional Audit Committee meetings can be added to incorporate the workload.

3.4. At the June 2017 meeting, members required that officers scheduled in previous Partials audits to ensure that these were “caught up”. (The absence of a meeting in May 2017 had put this cycle slightly in arrears). This has now been achieved, and officers intend to bring Partial audits back to the next available meeting.

4. Consultations undertaken

4.1. None required

5. Implications

5.1. Any items requested not yet covered by the draft Forward Work Plan at Appendix A will require scheduling by officers, in conjunction with the Chair.

6. Background papers

6.1. Previous Audit Committee decisions on the process for dealing with Partial Audits.

Note For sight of individual background papers please contact the report author

APPENDIX A: Draft Audit Committee Work Programme

Future Agenda Items	Notes
25th January 2018	
Anti-Fraud and Corruption Update	This is the annual review of our anti-fraud work, incorporating a review of the relevant policies, the latest national picture on emerging fraud risks facing Local Authorities, our local fraud defences and their review by SWAP, plus anonymised local cases that are being investigated.
National Fraud Initiative	This will be a presentation item for members on the key national database that is used by Local Authorities to review possible fraud "matches".
Section 106 agreements	An update on the County Council's work on section 106 agreements, including project work on implementing the new s106 system.
External Audit Update	The regular external audit update as part of their annual cycle.
Internal Audit Update	The regular progress report from SWAP on the completion of the 2017/2018 Internal Audit Plan, highlighting any high risks that have arisen from their work.
Debtor Management	The regular performance report on our progress to collect monies owed to the County Council and the causes of outstanding debts.
Risk Management	The regular update on progress in mitigating the highest scoring risks that face the County Council.
18th March 2018	
Internal Audit Plan and Charter	The 2018/2019 proposed Internal Plan and Charter will come to the March meeting for approval.
External Audit Update	Including the detailed Accounts Audit Plan for the audit of the County Council's 2017/2018 financial statements, and an update on the early fieldwork.
ISA 240 Responses	For members to consider the responses by the Director of Finance and the Chair of Audit Committee in relation to SCC's governance and anti-fraud arrangements and whether these responses accord with members own understanding.

Annual Report to County Council	**To consider the annual report from the Chair of Audit Committee to the County Council.**
Internal Audit Update	**The regular progress report from SWAP on the completion of the 2017/2018 Internal Audit Plan, highlighting any high risks that have arisen from their work.**
Debtor Management	**The regular performance report on our progress to collect monies owed to the County Council and the causes of outstanding debts.**
Partial Audits and Risks	**To review any completed internal audits that have only received a Partial Assurance.** **These can be added to any suitable agenda as time, circumstances and member requests dictate.**