Debt Management 2016/17

Final Report

Issue Date: 28th February 2017

Working in Partnership to Deliver Audit Excellence

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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
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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

Staff Training in Corporate Procedures for Income Management

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. **<u>Debts less than 49 days old</u>** 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

<table>
<tr><td colspan="4">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.</td></tr>
<tr><td>1.5a</td><td colspan="2">Proposed Outcome:</td><td>Priority 4</td></tr>
<tr><td colspan="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.</td></tr>
<tr><td colspan="4">Action Plan:</td></tr>
<tr><td>Person Responsible:</td><td>Exchequer Manager and AR Team Leaders</td><td>Target Date:</td><td>End of April 2017</td></tr>
<tr><td>Management Response:</td><td colspan="3">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</td></tr>
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	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

Legal Debt Referrals

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

System Records and Reporting

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

<u>Service Level Reporting and Monitoring</u>

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

<u>Corporate and Service-level Targets</u>

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

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Support

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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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.