Debt Management 2017/18

Final Report

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Working in Partnership to Deliver Audit Excellence

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Executive Summary

Overview

As part of the 2017-18 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. The achievement of good performance in this area is linked to the Council's County Plan in relation to "bring in more funding and resources". The audit was required due to a Partial assurance opinion in the 2016-17 review and following a revised SCC Code of Practice for Income Management, published in November 2017. This audit has therefore focussed on debt recovery activity in the period between the previous and improved Code of Practice.

The net outstanding debt figure at the end of January 2018 was £14.326m, which has risen from £11.083 since the end of October 2017. The amount for the 2016-17 end of year was £10.583m, but such fluctuations are fairly typical, due to the raising of invoices of significant value at specific points throughout the financial year.
However, the overall performance for collecting debt at the end of 2016-17 was more favourable than the current position at 99.8%, which is consistent with the performance at the end of 2015/16.

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. The total amount of aged debt has exceeded this target throughout 2017-18 and at October 2017 the figure was 22.02% (total £2.441m). This represents a 10% increase compared to the same point in the previous year, but a significant proportion is due to a number of debts over £10,000 (total £1.7394m). In June 2017, the Audit Committee were asked to consider the introduction of the new Pre-Action Protocol introduced by the Ministry of Justice and to support a proposed action plan to mitigate the impacts on the Council. The suspension of the target that no more than 15% of debt should be over 90 days old, was also agreed by Audit Committee.

There was also a relatively low amount of debt reported as written-off during the year, at £0.122m, giving a 99.86% collect rate, which is consistent with the previous years' performance.

The control framework for debt management includes a published Income Code of Practice, 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 to identify 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 Legal Debt Recovery Officer, who is responsible for instigating and progressing legal action where appropriate for debts over £100.

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.

Audit Opinion: 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.

The main activity undertaken since the last audit has been a significant update of the Income Management Code of Practice and we are satisfied that all improvements recommended have been addressed. There has also been significant work undertaken by the Exchequer Team, including a series of workshops run to address training needs and to resolve queries with specific service areas.

The table below identifies a summary on the progress made with regards to implementing controls to mitigate the risk established for the nineteen recommendations in the previous audit.

	Complete	In Progress	Not Started	Not Agreed
Priority 4	3	2	1	1
Priority 3	6	2	2	1
Priority 2	-	1	-	-
Total	**9**	**5**	**3**	**2**

However, the improvements to guidance and procedures were not evident in the sample testing for this audit because they were only implemented two months before the audit commenced and have not yet become embedded. As previously stated, the audit focussed on debt recovery activity in the period between the previous and improved Code of Practice.

Therefore, it was not expected that we would see significant improvements to the timeliness and recording of debt recovery action. Given this position, we have not repeated the recommendations previously made, but it is important that they are communicated to finance staff and revisited in the 2018-19 audit plan to consider their effectiveness in delivering the improvements required.

We have identified further weaknesses in credit notes, which were not included in the previous audit, but are consistent with previous findings regarding insufficient evidence of recovery actions recorded on SAP.

It is recommended that the findings in this report are used to further strengthen the debt management framework and improved monitoring arrangements are put in place to ensure that this is complied with.

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;
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;
6. Debts cancelled through refunds and credit notes, to assess whether the correct method was used, there was appropriate authorisation and timely action.

Our review also included interviews with staff who have debt management involvement across the Authority.

This audit was conducted shortly prior to a separate follow-up review of Income Collection in Adult Services, which received a Partial assurance in 2016-17. For this reason, Adult Services debts have not been included in this audit.

It was agreed at the outset of the audit that we would not be able to review implementation of the Pre-Action Debt Protocol, since this has only been in place since October 2017 and should be embedded for review in 2018-19.

The following recommendation made in 2016-17 was not agreed and has therefore not been followed up:

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.

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

1.1	Income code of Practice

Income Code of Practice

Previous recommendation 2016-17:
We recommended that the Strategic Finance Manager undertook a full review of the Income Code of Practice to ensure that all identified weaknesses were addressed. The identified weaknesses were:
- The timetable for recovery did not detail any recovery actions between 42 and 49 days;
- There was no guidance on debts on hold in the Code of Practice;
- Exceptions to the debt recovery procedures were not listed in the Code of Practice.

The updated Income Code of Practice now includes guidance for debts on hold and a list of exceptions to the debt recovery process. There is still a gap of seven days between required actions remains and is to allow time for letters/reminders to reach customers and time for them to respond before the next action stage is reached. We are therefore satisfied that this action is complete.

We also recommended that the Strategic Finance Manager ensured that when the Income Code of Practice was reviewed, the document should include version control, was launched by way of an official communication and that it was made available on the front finance pages of the staff intranet.

The updated Income Code of Practice was formally launched in Core Brief in December 2017. The Income Code of Practice can now also be located on the Finance intranet page under Accounts Receivable.
The Code of Practice does not yet have full version control, and this has been reported verbally to the Strategic Finance Manager. Otherwise, we are satisfied that this action is complete.

1.2	Finding and Impact

Staff Training in Corporate Procedures for Income Management

Previous recommendation 2016-17:
In the previous audit we had 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.

We therefore recommended that the Strategic Finance Manager 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 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 also include specific emphasis on the requirements for maintaining full records on SAP of recovery action and compliance with the debt recovery timetable.

The recommendation was partially agreed. It was decided that the training document would effectively be the Income Code of Practice itself, together with supplementary guidance documents

on the website. The point about maintaining an audit trail on SAP was to be clearly emphasised in the new Code.
Our follow-up identified that a programme of training for new staff has not been introduced but the Exchequer Team have delivered individual training sessions to staff teams that have focussed on the Income Code of Practice. The updated Code of Practice now also defines the responsibilities of debt chasers and emphasises the requirement to maintain full records of recovery actions on SAP.

There is an expectation that existing staff will deliver training to any new staff, but this has not been formalised. However, with no official communication of this requirement, there is a risk that lack of awareness for new staff with income collection responsibilities of the requirements and agreed procedures, may compromise the consistency of debt recovery action across the Council. We have therefore assessed our previous recommendation as being in progress.

1.2a	Proposed Outcome:	Priority 3

We recommend that the Exchequer Manager should ensure that existing staff are informed they will be required to train new staff in debt recovery procedures and this should be added to the Income Code of Practice.

Action Plan:

Person Responsible:	Exchequer Manager	Target Date:	On-going / see below
Management Response:	Agreed. This on-going responsibility has been made clear in all the service training sessions, but the Accounts Receivable will support the process to maintain consistency and "best practice". Updates to the Income Code of Practice will be made en bloc when the training roll-out has been completed and comments received back from all services. **<u>September 2018 Update</u>** Since the initial tranche of service training, Accounts Receivable has concentrated its efforts on a service by service basis, addressing local concerns and issues. It is envisaged that any and all improvements to the Income Code of Practice will be made after the 2018/2019 internal audit is completed in Quarter 4.		

1.3	Finding and Impact

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

<u>Previous recommendations 2016-17:</u>
In the previous audit we recommended that the Strategic Finance Manager 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. The previous Income Code of Practice did not specify any required recovery action at this stage
The updated Income of Practice has introduced a new debt recovery timetable with mandatory recovery actions for all debts at 23-28 days and we are therefore satisfied this recommendation is complete.

2017/18 Audit:
A sample of 21 debts were checked for compliance with the timescales for debt recovery actions specified in the Code of Practice for Income Management.
Because the updated Code of Practice for Income Management was only launched in November 2017, the debts in the sample were reviewed for compliance against the timetable requirements of the previous Code of Practice (December 2015).

Of the 21 debts in the sample we found that:

- Only five debts complied with both the timescales for recovery action and the requirement to add progress notes in SAP;
- For five debts over £5,000, there was no evidence on SAP of recovery action taken during the required timescale (the Code of Practice states that between 28 and 32 days, the customer should be contacted to ascertain a payment date);
- For seven debts there was no evidence on SAP of any recovery action taken between 35-49 days;
- Recovery actions had only been recorded in SAP for 7 out of 21 debts in total.

If timescales specified in the Code of Practice are not adhered to there is a risk that debts may not be collected in a timely manner. Without a full case history of recovery action recorded in SAP, officer time and effort may not be as efficient as possible.

1.3a	Proposed Outcome:	Priority 4

We recommend that the Exchequer Manager should summarise the results of this audit and circulate them to all Debt Chasers as a means of highlighting ongoing weaknesses and the importance of the revised Code of Practice requirements.

Action Plan:

Person Responsible:	Exchequer Manager	Target Date:	See below
Management Response:	Whilst we accept the findings, this is not agreed, but an alternative action that will be more service-specific will be put in place after the training roll-out has been completed. It became clear during the training that there was a lack of knowledge in a number of services about the need to comply with the timetable in the new Income Code of Practice. From the previous audit from SWAP, which served to start the work towards the new Income Code of Practice, this was largely expected. The Accounts Receivable Team will continue to highlight where services are not complying with the timetable and are not handing debts for legal debt recovery in accordance with the Code. Officers believe that there will be more success with returning to services with individual failures to comply with the Code timetable than with a wider audit. It is also felt that there is a need to give services a chance to embed the Code and that more current information can be provided to them at a later date. <u>September 2018 Update</u> The service by service approach is still followed. The Account Receivable Team will speak to services when it is apparent that direction or corrective action is necessary.		

1.4	Finding and Impact

Previous recommendations 2016-17:

Debts on hold - County Farms

In the 2016-17 audit report, we recommended that the Strategic Finance Manager should specifically review the arrangements for treatment of debts on hold relating to County Farm tenant payments, to consider whether they needed to be bought in line with corporate procedures, or formally approved and recorded as an exception in the Income Code of Practice. This has been completed and debts on hold for County Farms are now recorded as an exception in the revised Income Code of Practice.

Debts on hold - all services

We also reported that for 3 out of the 15 debts on hold reviewed, services had been unable to provide the date on which the account had been placed on hold. For the remaining 12 debts it was found that 7 had been on hold for over 100 days and 4 of these had been on hold for over 100 days. We therefore concluded that there was no formal oversight of debts with a hold and no trigger to prompt periodic review. The timescales reported demonstrated that debts could be placed on hold for a considerable length of time.

We recommended that the Strategic Finance Manager improved 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.

From review of the updated Income Code of Practice, we have confirmed that the allowable reasons for putting debts on hold have been reviewed and reduced. We are satisfied that this part of the recommendation is complete and follow up of the remaining recommendations is reported below.

2017/18 Audit:

A sample of ten debts on hold were tested to verify whether they have been subject to periodic review and evidence of reviews are retained on SAP. It was found that for six of the ten debts, evidence of recovery and notes on SAP were not present. For two of the debts, this meant it was not possible to determine who was responsible for chasing the debt and if it was being reviewed.

Therefore, it was not possible to confirm that the agreed actions of the previous audit have been sufficiently embedded. The absence of SAP notes meant it was not possible to confirm that a formal review had taken place or that positive confirmation had been given for the debt to remain on hold.

Without comprehensive notes and evidence of review being retained on SAP, there is a risk that debts will not be reviewed appropriately or chased with the necessary frequency. There is a risk that this could result in a financial loss for the Council. This is consistent with our findings for 1.3 and no further recommendation has been added here.

1.5	Finding and Impact

Legal Debt Referrals

Previous recommendation 2016-17:

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.

However, it was recognised that if all services had referred their aged debts in a timely manner, then the 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 was to consider the delegation of certain recovery tasks to services.

Testing also identified that there were 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 were not enforceable and could not be pursued.

We recommended that the Strategic Finance Manager should revise the debt recovery timetable and process, to make provision for services to refer their debts at 49 days to a nominated Debt Chaser in each service area. Each Debt Chaser should assume responsibility for the initial stages of legal recovery, establishing whether the debt is enforceable and then referring only those eligible cases for legal action to the Legal Debt Recovery Officer. Furthermore, there was a need for improved guidance of the minimum requirements for evidence required to support legal recovery procedures.

The updated Income Code of Practice now includes a clear timetable for the referral of debts for legal recovery and the nominated Debt Chaser now sends a Letter Before Action to the debtor. The Legal Debt Recovery Officer had input into the updated Income Code of Practice, which now also provides clearer guidance about pre-checks and minimum criteria to establish whether a debt is enforceable, before attempting legal recovery. An improved Referral Form has also been implemented and the Legal Debt Recovery Officer continues to work with services to resolve specific issues. We are therefore satisfied that the recommendation has been completed.

2017-18 Audit:

Legal Case Management System

The recent launch of the updated Income Code of Practice and the introduction of a new legal case management system, meant that it was not possible to fully assess compliance with the timeliness of referral of debts for legal recovery, since both improvements are still embedding. Therefore, the testing of a sample of legal debts tested focussed on older debts to assess recovery action and this identified findings whereby services have raised and pursued debts that are not legally enforceable, due not having followed correct procedures in previous interactions with customers. There were also two examples of debts pursued with a deceased customer and a customer who has no means to pay a debt, due to poor communication between services. These findings are consistent with those in the last audit and are therefore thought to be as a result of revised procedures having not yet become fully embedded. The recommendation has not been repeated.

Our testing did however identify a concern with the Prescient case management system used to monitor legal debt recovery. The system was introduced in May 2017 and currently there are some configuration issues that are causing total debts to be misrepresented. This means that the Legal Debt Recovery Officer needs to double check the breakdown of the original debt, any payments and additional fees, to establish the correct balance. The risk of pursuing an incorrect amount is mitigated by the fact that the Legal Officer understands where issues can arise and will carry out a double check. However, for a new system, it appears that is does not yet deliver an acceptable standard of service and this may present a risk to both efficiency and the accuracy of legal debt

management recovery. At the conclusion of the audit, we were informed that some improvements have been implemented and therefore this will remain under review.				
1.5a	Proposed Outcome:			Priority 3
We recommend that the Strategic Manager - Governance, ECI and Corporate Services and Legal Debt Recovery Officer should keep the Legal Debt Case Management System under review in respect of the issues with calculating debt values.				
Action Plan:				
Person Responsible:	Strategic Manager - Governance, ECI and Corporate Services	Target Date:	July 2018	
Management Response:	*Agreed. We are still looking at the Case Management System and assessing where it could be improved to aid debt collection and Code of Practice compliance.* September 2018 Update The Legal Debt Recovery Officers have liaised with Civica, to rectify system errors and will continue to do so, should errors occur in future cases. The Case Management System is not duplicating the errors that were previously present. Given that some debt values were not been calculated correctly previously, there has been a manual review of every case held on the Case Management System to rectify any discrepancies or errors that were present on the system. A further control has been introduced, whereby all Court applications and forms whereby the system generates figures are rechecked by the Legal Debt Recovery Officers manually by cross referencing with SAP before they are sent out.			

1.6	Finding and Impact

Aged Debts not referred to Legal

2017-18 Audit

A sample of 16 debts over 49 days which had not yet been referred to Legal were selected and reviewed with services, to establish the reasons for non-compliance with the Income Code of Practice.

We contacted the debt chasers to establish the reasons why and despite continuous chasing, a response was not received for two debts.

Of the remaining 14 debts:

- 9 debts had not been referred to Legal as the services in question were still trying to chase the customer;
- 2 debts were not referred to Legal as the service was not aware of the debt, so no recovery action had been undertaken;
- 1 debt was still being disputed by the debtor 164 days after the invoice was raised and the service were continuing to liaise with them;

- 1 debt was not referred to Legal as the service was waiting for information from a different service to establish the balance remaining after a part-payment. The debt chaser was not made aware of the debt until five months after the invoice date;
- 1 debt had been identified as being raised in error but had still not been credit noted after 90 days.

If debts are not referred to the Legal Debt Recovery Officer in a timely manner, there is reduced likelihood that debts owed to the Council will be collected.

Furthermore, there was no evidence of recovery action recorded on SAP for 15 of the debts in the sample. Services were therefore asked to provide evidence of recovery action and attempted contact with the debtor and for 5 debts they were unable to do so. There was also a lack of evidence of timely and ongoing review for a total of 9 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.

1.6a	Proposed Outcome:		Priority 4
We recommend that the Exchequer Manager should summarise the results of this audit and circulate them to all Debt Chasers as a means of highlighting ongoing weaknesses and the importance of the revised Code of Practice requirements.			
Action Plan:			
Person Responsible:	Exchequer Manager	Target Date:	See below
Management Response:	Whilst we accept the findings, this is not agreed, and is similar to 1.3a above. Officers believe that using more service-specific examples are more likely to get Debt Chasers encouraged to be more compliant with the requirements of the Code. <u>September 2018 Update</u> As with 1.3a above, the service by service approach is still followed.		

1.7	Finding and Impact

<u>Salary Overpayments</u>

<u>Previous recommendation 2016-17:</u>

Testing of debts referred for legal action in 2016-17 identified a high number where the debtors were both existing and ex-employees and the debt was 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.

We recommended that the Strategic Finance Manager should liaise with Human Resources colleagues and seek to establish how the Council could prevent continuation of the high rate of salary overpayments. Any identified issues should be addressed through improved training for line managers.

The Strategic Finance Manager had established with the Head of Payroll that the issue is a result of Line Managers not completing and submitting termination forms in a timely manner when an employee leaves the Authority. It is important to recognise that Payroll cannot end a contract without a timely completed termination form, so the issue here lies with services. Debt reporting has identified that the issue persists and a total of 47 new debtors with salary overpayments during 2017 has generated a total of £41,668 worth of new debt, which includes both SCC services and schools. Therefore, another recommendation has been made, to mitigate the risk that the Council are generating debt themselves through inadequate administration of staff. We have assessed the previous recommendation as being in progress.			
1.7a	Proposed Outcome:		Priority 3
We recommend that the Chief Accountant should issue a communication to Line Managers via Core Brief and iPost to explain the impact on the Council's financial position of not submitting employee termination forms in a timely manner, and a reminder of the required procedure.			
Action Plan:			
Person Responsible:	Chief Accountant	Target Date:	May 2018
Management Response:	Agreed. <u>September 2018 Update</u> Due to the focus of resources on the Financial Imperative work within the authority this communication has not been issued yet. It is envisaged that a communication will be issued in the Core Brief in October which will give a clear instruction on the need to comply with control processes and will illustrate the impact of non-compliance in financial terms. This will be a joint communication between HR and Finance.		

1.8	Finding and Impact

<u>Corporate Reporting of Debt</u>

<u>Previous recommendation 2016-17:</u>

During the last audit, we established that a compiled corporate debt report was produced monthly, but review and challenge was only driven by a notional threshold in mind each month, based on the level of concern and capacity to investigate. The Finance and Performance Senior Management Team reviewed large outstanding debts but there was no formal escalation route to ensure that individual debts defined as significant were identified at a management level and actively pursued with services.

An analysis conducted as part of the audit identified that the reporting approach to treating all Sales Organisations as similar individual businesses was a flawed approach, as there are significant differences in the way that services operate and the factors that influence their aged debt levels.

We recommended that the Strategic Finance Manager 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.

It was agreed that corporate debt reporting would be reviewed but it was not felt that the level of information needed to be increased. Any increase would only be triggered by a deterioration in debt collection performance and this was also partly due to limited available resource to increase activity.

2017-18 Audit

It was agreed to review the corporate debt reporting and we confirmed that the Income Code of Practice has been updated accordingly, with requirements for regular reporting specified under section 12 of the Code. We also confirmed that debt recovery performance continues to be monitored through reports to Cabinet and Audit Committee and the Finance Scorecard.

Through a review of the reports presented to Cabinet and Audit Committee it was found that although debts are identified during such meetings and actions have been suggested, these actions are not service specific, providing limited accountability for the actions.

It is however accepted that any increased corporate reporting should be commensurate with the levels of debts collected, which are currently satisfactory, and that available resource prevents corporate-level monitoring of all service areas.

Therefore, this finding is reported for information only and no further recommendations have been offered.

1.9	Finding and Impact

Service Reporting of Debt

Previous recommendation 2016-17:

We previously reported that a contributory factor to the weaknesses in corporate aged debt monitoring was the absence of an assigned Debt Lead for each service area. Service level reporting was being provided to a variety of service managers, none of whom were specifically accountable for income management, including debts. Furthermore, we identified that each service had bespoke requirements for reporting and attendance at finance meetings, and the monitoring of collection rates was carried out in different ways. Service leads were not required to attend any corporate meetings that focused on income collection.

Our recommendations were for the Strategic Finance Manager to establish a Debt Lead in each service and monitor their performance in debt recovery through set targets that align with corporate targets. We also recommended that the Strategic Finance Manager ensured that regular Accounts Receivable User Group meetings resumed, and part of their remit should be to monitor the performance of service Debt leads and share best practice.

Our follow-up review has identified that the Exchequer team have established and recorded members of staff who are effectively debt chasers for each service, although they have not formalised the role of a more senior Debt Lead. The Exchequer Manager explained that they have issued some general communications in Core Brief but still need to liaise with the Strategic Manger Financial Governance, ECI & Corporate Services to provide specific guidance on the requirements of the Debt Chaser role.

It was partially agreed that the Accounts Receivable User Group may be reinstated but this would be informed by a review once the updated Code of Practice and the new requirements have been imbedded. Key corporate finance officers have agreed to continue to meet regularly.

We also reported that whilst the corporate target for debtor performance is that aged debt should comprise no more than 15% of the total debt, this level was not monitored or assessed at service level. We recommended that the Strategic Finance Manager should introduce measures to ensure that all service level debt reporting included:

- 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.

The recommendation was partially agreed and that the information provided to service areas would be reviewed and identify whether there are additional measures that should be reported. However, it was felt to be impractical to do this for every service area regardless of the level of income raised. Guidance would be issued on the treatment of unallocated cash in debt reports and reporting of the level of debt referred to Legal was already in progress.

Our follow-up has confirmed that the four Finance Managers responsible for producing service level reports have agreed a methodology for the treatment of unallocated cash and are now manually adjusting each report to ensure the reports are a true reflection of service debt.

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Service areas continue to monitor collection rates in different ways and against different timescales. The Income Code of Practice specifies three key performance indicators that must be reported and tracked by management, however it does not explain who this should be reported to or how the information will be used. The Income Code of Practice does not provide targets or guidance for how budget holders or Finance Managers should be monitoring the monthly aged debt to ensure there is consistency across service level reporting. Without guidance to ensure a consistent approach to service level reporting there is reduced assurance that the debt reports are a true reflection of outstanding debt and ongoing monitoring arrangements adequate.

Whilst the Accounts Receivable Team have offered training sessions in relation to the Income Code of Practice, the Accounts Receivable User Group has not been re-established. 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.

Whilst it is acknowledged that some improvements have been achieved and that there is limited resource available, it is important that Strategic Finance Managers keep under review whether debt recovery performance warrants issuing further guidance to set clear expectations for a) the role of the Debt Chaser and b) the reporting of key performance indicators at service level. There should also be further consideration of whether the revised guidance has removed the need for reinstating the Accounts Receivable User Group.

1.9a	Proposed Outcome:	Priority 3

We recommend that the Strategic Finance Manager – Governance and Chief Accountant should keep under review whether debt recovery performance requires clearer guidance in respect of the Debt Chaser role and to improve the consistency of service-level debt monitoring. It should also be kept under review whether to reinstate the Accounts Receivable User Group, when it is clear whether revised guidance has achieved an improved level of compliance with debt recovery requirements.

Action Plan:

Person Responsible:	Strategic Finance Manager – Governance and Chief Accountant	Target Date:	September 2018

Management Response:	A review of the Code will be necessary and carried out over the summer months, when the training roll-out is complete. Staff will be reminded that the Code is mandatory. Officers will also review whether or not the Accounts Receivable User Group should be reconstituted at this stage, and what Terms of Reference is might operate under. The User Group has always been considered a longer-term idea, and we would certainly change the name and the emphasis to make it clear that this User Group would be looking at ICOP, performance and best practice. <u>September 2018 Update</u> It has been agreed that a review of the Code will follow the next (imminent) SWAP audit when the latest sampling has been done. This would also be an opportunity to canvas views of service users of the system as to improvements that could be made in the Code, and re-consider the User Group in this role.

1.10	Finding and Impact

Crediting Budgets When an Invoice Is Raised

Previous recommendation 2016-17:
Last year we reported that a wider issue for the Council in terms of ownership and accountability for debts related 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.
We recommended that the Strategic Finance Manager should investigate options for making changes to current SAP procedures to encourage improved ownership for debt by services.

This recommendation could not be agreed due to the requirement to recognise all income in the year that it is due, in order to comply with accounting practice. Therefore, the recommendation has not been repeated and is reported for completeness of information only.

1.11	Finding and Impact

Debts Written Off

Previous recommendation 2016-17:
We previously reviewed whether a sample of 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. For 11 of the 25 write offs there were also no notes detailing recovery actions on SAP.
It was further identified that reason codes for write offs were not available within SAP and therefore the common reasons could not be analysed.
We recommended that the Strategic Finance Manager should include in both a review of the

Income Management Code of Practice the requirement for write offs to be agreed and processed in a timely manner as soon as a debt has been confirmed as uncollectable.

Because it was found that debts were being written off for reasons not included in the Code of Practice for Income Management and in some instances before all recovery processes are exhausted, we also recommended that the Strategic Finance Manager 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. Our follow-up findings are reported below.

2017-18 Audit
From a review of the updated Income Code of Practice we found that no reference has been made to the need to agree write offs in a timely manner once a debt has been confirmed as uncollectable. However, the ICOP does make clear the need to process a write off within 10 working days of the decision being made to do so.
A review of the write-off form confirmed that a reason code is now requested. Through testing carried out on a sample of ten write offs, it was found that all had provided a reason code. We are therefore satisfied that these actions are now complete.

However, through testing of a sample of ten write offs, it was found that three had not been processed in line with the Code of Practice deadline of 10 working days from the decision being made. In each case, the delays were caused by services and not the Exchequer Team.
It was also found that although the write off form has been updated and is being used, for seven of the ten write offs tested, the form had not been fully completed and did not include details and dates of the recovery action taken. Without this information, the authorising officer is unable to satisfy themselves that all recovery actions have been exhausted and there is a risk that debts may be written off before it is appropriate to do so.

It was also found that none of the ten had notes or evidence to support the write off retained on SAP and this is consistent with our finding reported under 1.3, for tested debts under 49 days old.

1.11a	Proposed Outcome:	Priority 4

We recommend that the Exchequer Manager should summarise the results of this audit and circulate them to all Debt Chasers as a means of highlighting ongoing weaknesses and the importance of the revised Code of Practice requirements.

Action Plan:

Person Responsible:	Exchequer Manager	Target Date:	See below.
Management Response:	Whilst we accept the findings, this is not agreed, and is similar to 1.3a and 1.6a above. Officers believe that using more service-specific examples are more likely to get Debt Chasers encouraged to be more compliant with the requirements of the Code. <u>September 2018 Update</u> As with 1.3a above, the service by service approach is still followed.		

1.12	Finding and Impact

Credit Notes

The Income Code of Practice states that when a credit note is raised, supporting evidence should be attached to SAP to support the need for a credit note. Credit note requests should also be authorised in line with the Authorisation List, however there is a further stage whereby credit notes can only be released by an officer who has the necessary SAP access rights.
A sample of five credit notes were reviewed to confirm that evidence of compliance with procedures. We are pleased to report that in each case, the credit note was the appropriate course of action and none should have been written-off.
Of the five notes tested, it was found that two requests were received via email from officers not on the Authorisation List and with limited details of the reason for the credit, and two of the five credit notes were verbally requested by officers, meaning that there was no evidence to support them. This does not comply with the Code of Practice requirements to retain evidence of the reason for the credit note.
Furthermore, without an authorised officer requesting the credit note and evidence of this being retained, there is risk that credit notes may be raised inappropriately, possibly resulting in a financial loss to the Council.

Furthermore, through our testing of debts less than 49 days old it was also identified that four of the invoices in our sample had either been raised in error or only required part payment, but were waiting for credit notes to be approved. Three of the invoices credit notes were approved during the audit, but this was at 19, 52 and 57 days after they had been requested. At the end of the audit, one credit note was still waiting approval 86 days after it was requested. Again, these delays were caused by services and not the Exchequer Team. If credit notes are not approved in a timely manner, customers will experience a delay in obtaining a refund and aged debt reports will not show a true reflection of debt.

1.12a	Proposed Outcome:		Priority 3
We recommend that the Chief Accountant ensures that officers are reminded of the required evidence and authorisation process in relation to credit notes.			
Action Plan:			
Person Responsible:	Exchequer Manager	Target Date:	July 2018
Management Response:	Whilst officers are pleased that audit testing has revealed that credit notes are only made when they are the appropriate course of action (usually where an error has been made), it is accepted that the current performance on credit notes needs to be improved. Credit notes should not be processed without suitable evidence being available in support. Officers who have the SAP role to release credit notes will be reminded that this is dependent on having the necessary written evidence of the reason, and the authority from an officer who is permitted to do so. <u>September 2018 Update</u> All SAP users who have the authority (role) which enables them to release credit notes were contacted, and reminded of the need to hold suitable back-up information to release credit notes from the officer who raised the credit note initially.		

1.12b	Proposed Outcome:		Priority 3
We recommend that the Chief Accountant should agree and communicate a timescale within which requested credit notes should be approved.			
Action Plan:			
Person Responsible:	Chief Accountant	Target Date:	July 2018 / On-going

Management Response:	A period of 10 working days will be instigated as the required timescale for credit notes to be approved. All officers with the relevant SAP role will be notified that this is case, and this will be included in the next version of the Code of Practice. Debt Chasers and those with budget monitoring responsibility will be reminded that they should be checking for outstanding balances on monthly reports that should have been cleared by a credit note and that they should chase where this has not happened. The Accounts Receivable Team will put in place a periodic checking of unreleased credit notes and will refer necessary actions back to the relevant officer. <u>September 2018 Update</u> Periodic checking is now undertaken.

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

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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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Kayte Luton – Debt Recovery Officer – Legal Enforcement

Distribution List

This report has been distributed to the following individuals:

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Lizzie Watkin – Service Manager – Chief Accountant
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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.