



Committee and date

Audit Committee

17th September 2015

Item

Public

SALES LEDGER UPDATE ON PROGRESS IMPLEMENTING IMPROVED MANAGEMENT CONTROLS

Responsible Officer Cheryl Williams

Email: cheryl.williams@shropshire.gov.uk Tel: 01743 258937 Fax: 01743 255011

1. Summary

- 1.1 This report provides an update on progress of implementing improved management controls within Sales Ledger in order to address the "Unsatisfactory" assurance opinion that emerged from the Internal Audit review in May 2015. The review highlighted one 'Fundamental' and six 'Significant' recommendations and the focus within the team has been to address the weaknesses in these specific management controls.
- 1.2 Good progress has been made in addressing the Fundamental and Significant recommendations with project groups working on developments over the summer with the intention of being implemented during the Autumn.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, progress made since May 2015 in addressing Internal Audit recommendations.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The action plan within Sales Ledger aims to address seven Significant and Fundamental risks identified by Audit Services in May 2015 including the corporate approach to debt recovery, improved reporting around the aged debt position to identify the potential financial risk of non-recovery and data security.

4. Financial Implications

- 4.1 The financial implications of not improving financial controls within sales ledger are the non-recovery of debts which may ultimately impact on the revenue budget in year. Departments do hold bad debt provisions to cover any risk around write off of debts, however this assumes only a small percentage of non-recovery and should our procedures not be robust enough to get prompt payments of debts raised, the levels of bad debt provision may not be enough to cover the levels written off.

5. Background

- 5.1 The Sales Ledger system is reviewed annually by internal audit and has been subject to close management scrutiny due to the level of aged debt that has developed over a number of years. The audit assurance level provided for the system over the last three years is as follows:

Year	Audit Assurance	Total No. of Recommendations	No. of Fundamental Recommendations	No. of Significant Recommendations
2014/15	Unsatisfactory	18	1	6
2013/14	Limited	23	0	9
2012/13	Limited	22	0	10

- 5.2 Whilst additional resources have been provided to the team at times to reduce the level of debt the underlying controls have not been amended and so the debt has crept up to previous levels now that the additional resources have been withdrawn. This demonstrates the reason for the lower audit assurance provided due to management controls not being improved in relation to debt recovery.

6. Action against Recommendations

- 6.1 The "Fundamental" recommendation made was in relation to an operational approach being defined for debt recovery with clear targets in respect of reducing debt outstanding.

Fundamental Recommendation

An operational approach including appropriate liaison and support from the directorates should be defined with clear targets in respect of reducing debt with details relating to where operational staff will be used to support debt reduction both in terms of the amount of debt and numbers of accounts in debt.

- 6.2 This relates to the ongoing issue of the levels of aged debt with levels increasing again over the last 18 months. Whilst action has been taken on a number of older debts outstanding, new debts raised are now falling into the aged debt category which has resulted in an overall increase in the values outstanding. It is recognised that whilst the sales ledger team are a key component in recovering outstanding debt, a number of items are out of their control and need to be subject to corporate or department action in order to achieve full recovery of the debt. The recommendation by Internal Audit highlights this, so that a corporate view of debt recovery can be made.
- 6.3 In response to this recommendation, the Sales Ledger team have reviewed the debt outstanding and identified that the Adult Social Care debt should be given priority given the large value that this represents within the aged debt outstanding. As a result a project has commenced with Adult Social Care teams to look at improvements to be made in the process. Several process changes relating to collection of care charges have been drafted by the Sales Ledger team and submitted to the project team for consideration. The team have also visited Telford & Wrekin Council for a 'sharing best practice' meeting to compare the recovery approaches of the two councils.
- 6.4 Five of the six "Significant" recommendations related to the reporting process for aged debt in terms of identifying the appropriate debt recovery action to be taken, informing management of debts written off to inform service delivery to the same service users, and providing analysis of the outstanding debt to understand the origin and collectability of the debt.

Significant Recommendations

A formal reporting process should be established that informs budget holders of debtors in arrears on a timely basis, this should include details of accounts where invoices continue to be raised where aged debt has previously been written off.

The analysis of all Sales Ledger debts to provide an accurate and up-to-date position on the status of all debts should be progressed. The debts should be classified and prioritised into which debts should be pursued by officers in the Sales Ledger Team in accordance with approved procedures. Where it is not possible to pursue debts further or they are uneconomical to pursue this should be referred to the service area which is responsible for the debt for further action. Debts which are referred to the service area should be monitored and where progress is not satisfactory this should be reported to senior management.

Consideration should be given to introducing new processes relating to pursuance of aged debt and the automation of notice issue and post dunning activity.

Appropriate debt analysis should be regularly undertaken to understand the origin and collectability of the debt together with the identification of any trends. This analysis should be used to drive debt collection activities.

The aged debt reporting mechanism should be reviewed to ensure that appropriate debt related information is recorded and reported on a timely basis, and that any data (i.e. future scheduled payments and unallocated amounts) that may distort the figures reported is removed prior to reports being generated and issued.

- 6.5 At the time of the audit, the Council was working with the supplier of the finance system to understand whether there were any developments that could be done within the sales ledger module to improve the reporting output. The solution identified by the supplier was a new reporting system that they have developed that would incur significant additional one off costs of implementation and ongoing licensing and maintenance costs. This has been considered and evaluated that this is not something that we would want to progress with at this time given the budget pressures of the Council and development priorities surrounding the finance system. In light of this decision, management have developed new reporting around the aged debt position using IDEA which is a software tool that Internal Audit use to analyse large volumes of data.
- 6.6 The new reports include a quarterly summary report to Directors outlining the value and number of invoices outstanding by age and by directorate. It also provides a summary of the debt recovery action taken within each age banding and the top 10 debts by value and top 10 that require further debt recovery action. In addition each Director will also receive monthly reports outlining the specific details of debts raised in their service area which also reports on invoices where the sales ledger team are awaiting a response from the service department to progress further, and any invoices that are awaiting write off. Directors will be asked to consider these reports at their regular DMT meetings and circulate to service managers as appropriate. The first set of management reports will be issued to Directors in September.
- 6.7 Whilst it is accepted that production of these reports is not an automatic process, the reports are considered to be comprehensive and will inform all service areas of the level of debt outstanding within their areas and the necessary action in order to recover the debts. The position will be carefully monitored over the next six months to establish whether the improvement in reporting and the collective approach to debt recovery has an impact on the levels of debt outstanding.

- 6.8 The final “Significant” audit recommendation related to ensuring that all officers within the Sales Ledger team had completed the Protecting Information Training as directed by the Senior Information Risk Owner (SIRO).

Significant Recommendation

All staff should complete the Protecting Information Training annually as directed by the Senior Information Risk Owner (SIRO). Line Managers should review completion of this training annually and ensure it is completed as directed.

- 6.9 This has now been addressed and everyone has undertaken and passed the training course. This training has been programmed into the team’s work plan to complete again in early 2016.

7. Conclusions

- 7.1 As described above, good progress has been made in improving the reporting of the aged debt position in an attempt to get a corporate approach to recovery of the debt. The sales ledger team are often at the end of the process and so departments who raise the transactions need to play an active part in assisting with recovery of the debts.
- 7.2 The developments made since the audit report are interim measures in order to deliver an immediate response to the weakness in management controls. It is accepted that in the longer term further work is required within the sales ledger module of the finance system to develop the system to remove manual interventions and processes to make the system more efficient. Consultations are ongoing with the provider of the finance system and it is understood that the next upgrade of the system will deliver some process efficiencies, however this needs to be a planned longer term development within the finance system development plan. This will be investigated further to understand exactly what benefits can be achieved from this upgrade and the impact this may have on the recovery of debt.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Mike Owen (Portfolio Holder for Resources, Finance and Support) and Brian Williams (Chairman of Audit Committee)
Local Member
Appendices