Committee and date	Item
Audit Committee	
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SALES LEDGER UPDATE ON PROGRESS IMPLEMENTING IMPROVED MANAGEMENT CONTROLS

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1. Summary

1.1 This report provides an update on progress of implementing improved management controls within Sales Ledger in order to address the “Limited” assurance opinion that emerged from the Internal Audit review in June 2016. The review highlighted five ‘Significant’ recommendations and the focus within the team has been to start to address some of the weaknesses in these specific management controls.

1.2 Progress has been made in addressing the significant recommendations, however it should be recognised that these are considered to be short term solutions until a more sustainable and efficient debt recovery process can be developed within the finance system as part of the ICT digital transformation project.

2. Recommendations

2.1 The Committee are asked to consider and endorse, with appropriate comment, progress made since June 2016 in addressing Internal Audit recommendations.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The action plan within Sales Ledger aims to address five significant risks identified by Audit Services in June 2016 including the corporate approach to debt recovery, monitoring of instalment arrangements, referrals to debt recovery agents, write off of aged debts, and improved reporting around the aged debt position to identify the potential financial risk of non-recovery.

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
2015/16	Limited	11	0	5
2014/15	Unsatisfactory	18	1	6
2013/14	Limited	23	0	9

5.2 The last three years demonstrate the significant issues experienced in the control environment for debt recovery over the last three years, but also shows an improvement has been made over the 3 year period. This demonstrates the work done within the team to address the issues raised, although it is acknowledged that further work is required to address the remaining 11 recommendations made in the current audit report.

6. Action against Recommendations

6.1 Five of the eleven recommendations made within Sales Ledger were "Significant" recommendations. The remaining recommendations were rated as items "Requiring Attention".

Significant Recommendation 1
An operational approach including appropriate liaison and support from

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 The team have been working over the last twelve months to try and improve communication and information sharing between teams to improve debt recovery practices. This has especially been prevalent in Adult Social Care, where the debt recovery team have been working with Adult Social to consider how the delays between care funding agreements being raised and invoices being generated can be reduced. The team have also been working closely with the Estates team to improve debt recovery around workshop rents. No definable targets have been set as yet for reducing debt as the focus has been on better working practices, however as this progresses monitoring of debt recovery will be performed to confirm the effectiveness of the approach.

Significant Recommendation 2
Management should consider how they can effectively monitor the accounts of debtors who fail to comply with instalment arrangements.

6.3 The default position for debtor repayments is that all invoices should be paid in full. However there are circumstances where instalment plans are agreed. The current financial system allows the team to set up instalment plans for customers repaying debts, however it does not provide a facility for monitoring payments against these plans. Therefore to track these would be a manual process that would not be feasible given the level of resources within the team.

6.4 Therefore in order to address this issue, the debt recovery team have recently implemented a policy where any debtor requesting an instalment plan, has to agree that all instalments are paid by Direct Debit. In the last 6 months the team have implemented a Direct Debit payment scheme from Allpay which enables the electronic processing of Direct Debits to be performed. This service also provides the team with a daily report detailing any uncollected direct debits and thereby will allow the team to track these payment plans.

Significant Recommendation 3
Debts should be referred to Bristow and Sutor in a timely manner, where appropriate, after the dunning process has been followed.

6.5 The team have been using Bristow and Sutor for a period of 18 months and usage of this facility continues to increase. Debts are considered for referral after the automated reminder process generated by the system is complete. The team have looked to automate the process of referral to Bristow and Suter however this is not possible as some debts needs specific work to be undertaken on a case by case basis before referral. This is particularly pertinent to Adult Social Care debt. Therefore the referral process following dunning process will remain a manual process for the foreseeable future. The team are recruiting a Modern Apprentice whose duties will include ensuring referrals are made in a more timely manner.

Significant Recommendation 4
A review of severely aged debts should be undertaken to assess their chance of recovery. They should be put forward for write off if there has been no contact with the debtor or the debt is assessed as being non-collectable. Writing off severely aged debts will help to ensure that the Debt Recovery Officers can target “newer” aged debts with a better chance of recovery.

6.6 Progress has been made in this area over the last 12-18 months where particular focus was made on some of the debts that we inherited at the time of the transition to a unitary council. As a result a number of this a higher proportion of write offs have occurred over the last two years in comparison to previous years:

Financial Year	Value of Write Offs
2012/13	£353,685
2013/14	£387,019
2014/15	£680,321
2015/16	£479,097
2016/17 to date	£104,748

Communication has also commenced specifically with Adult Social Care to analyse some of the older debts that have been outstanding for a number of years, particularly identifying debts where the debtor is now deceased. Approval has been sought to write off these that are now out of statute and so cannot be recovered through legal action. Whilst this is not the outcome that the team strive for, if the debt is now deemed to be unrecoverable, these should be cleared so that the team can focus on those that they can recover.

Significant Recommendation 5
Debt position reports should be reported to Directors on a regular basis in line with the 2015/16 Debt Reporting Timetable. The report should encompass all Sales Ledger debts based on value and age to provide an accurate and up to date position.
The report should highlight the direction of travel and any significant factors that have impacted on this.

6.7 Directors have been receiving reports on a quarterly basis and these have been discussed at Directors Meetings and the issues raised have been referred on to Service Managers within Directorates. It is acknowledged though that the reports to Directors have lapsed over the last 6 months due to work pressures. The current financial system does not have the facility to generate adequate and meaningful data around debt recovery, and the process developed to remedy this is time consuming to manage. The team are going to review whether small efficiencies can be made in the current process to potentially focus on reporting to Directors on the more recent debt that can be recovered rather than the aged debt. Unfortunately until improvements are made to the financial system through the IT Digital

Transformation Programme, this reporting system will remain a very time consuming process. Therefore the focus for the team is to ensure that the time invested in producing the reports is repaid by prompting appropriate action from Departments in a combined approach to Debt Recovery.

7. Conclusions

7.1 Whilst the team are looking to make small improvements where possible, it cannot be underestimated that a major improvement to the complete debt recovery process will come from the implementation of an improved financial system package for debt management. There are inefficiencies in the current processes due to the current system not having specific functionality to target and monitor debt recovery action effectively and as a result, the team are consistently developing manual workarounds to compensate which is not ideal. Reporting is particularly poor from the current financial system and prevents the team from giving timely and accurate information on the debt position to management across the organisation. This is a key feature will be built into any new specification developed for the financial system in the IT Digital Transformation project.

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) Malcolm Pate (Portfolio Holder for Strategy, Financial Strategy, Budget and Business Plan) and Tim Barker (Chairman of Audit Committee)
Local Member
Appendices