ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	25 September 2018
REPORT TITLE	Internal Audit Report AC1902 – Debtors System
REPORT NUMBER	IA/AC1902
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the planned Internal Audit report on the Debtors System.

2. RECOMMENDATION

2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

3.1 Internal Audit has completed the attached report which relates to an audit of the Debtors System.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

9.1 Internal Audit report AC1902 – Debtors System.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861

Internal Audit Report

Finance

Debtors System

EXECUTIVE SUMMARY

The Council uses the Debtors module of the eFinancials system to raise invoices and manage debtor accounts. During 2017/18, the system was used to issue approximately 44,500 invoices totalling £47.2 million and approximately 2,400 credit notes totalling £2.8 million. This represented a decrease in number and value of debtor invoices which has been attributed by the Service to efforts made to encourage payment in advance of service delivery where possible.

The objective of this audit was to provide assurance over system controls, documentation supporting invoices raised, and the debt recovery process.

In general, the audit confirmed that the Service has detailed procedures in place, which require some minor amendments, and procedures for setting up new users, customers, invoices and credit notes were adequate. However, some documentation supporting the creation of new users was not available, as it had been destroyed to create more storage space, along with some relating to the creation of new customers and credit notes which appears to have been lost. To address these issues, the Service is now storing such documentation electronically which should assist in maintaining an adequate audit trail.

Appropriate reconciliations are being carried out to verify the completeness of data but regular reviews of the payments suspense account had not been undertaken for a number of months. As there are relatively few transactions in this account, the value of which is not considered material, the Service will now review the suspense account on a quarterly basis. This should help ensure that any underlying issues are identified and customers are not chased for debt that they have already paid.

Collection statistics show that the Council does not perform well compared with other Scottish Councils in collecting the debt relating to invoices raised. In 2016/17, the Council collected 70.7% of its opening debt plus debt raised in the year, compared with an average 84.7% across Scotland. In this respect, issues were identified during testing relating to passing debt to the Council's collection agents, and monitoring of debtors on payment plans. The Service has stated that the performance figures resulted from large debts due by other public sector organisations that were collected following the year end and historic debt that was due for write off that had not been actioned.

Under the new management arrangements for the TOM, a comprehensive improvement plan for the end to end collection process has been developed by the Services involved, and this includes several further actions that aim to improve collection, including: digitisation, system improvements, streamlining the process, task reallocation, recovery activity, reporting and debt and service income policy. Updated policies will be developed for approval in November by the City Growth and Resources Committee.

1. INTRODUCTION

1.1   The Council uses the Debtors module of the eFinancials system to raise invoices and manage debtor accounts. During 2017/18 the system was used to issue approximately 44,500 invoices totalling £47.2 million (2016/17, 48,000 invoices totalling £55.3 million) and approximately 2,400 credit notes totalling £2.8 million (2016/17, 3,000 totalling £2.2 million). The decrease in number and value of debtor invoices was attributed by the Service to efforts made to encourage payment in advance of service delivery where possible.

1.2   At the commencement of this audit, Service income collection was overseen by the Revenues and Benefits team within the Finance service. Following the implementation of the new TOM structure, the activity is undergoing a change to three areas of responsibility:

- Service income operational recovery and records, will be integrated with costing and billing activity, from across devolved Service teams, into the Business Services Transactions team, in the Customer Function.
- Escalated recovery of Service income debt, will be managed by the Recovery team in Revenues and Benefits, under the Customer Function, with escalated recovery of all Corporate debt.
- Debt policy and procedures will be managed in the Accounting team within the Resources Function, to align this with the long term financial strategy.

1.3   Throughout the above transition, the training team in Accounting is undertaking a process review of all operational recovery, costing and billing, to streamline processes and reallocate tasks.

1.4   During the course of the audit, within the Accounting team, a restructure has been implemented such that the Finance Systems Team is no longer separate, and the tasks have been allocated across the Corporate Accounting Team and the Accounting Controls Team.

1.5   The objective of this audit was to provide assurance over system controls, documentation supporting invoices raised, and the debt recovery process.

1.6   The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Carol Smith, Accounting Manager, Graham Stubbins, Finance Partner, Jacqui McKenzie, Chief Officer – Customer Experience, and Wayne Connell, Revenues and Benefits Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures and Training

2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.

2.1.2 System procedures are maintained by the Finance Systems Team (FST) and are held as web pages with links and screenshots in a shared network drive. The procedures were reviewed and were generally found to be comprehensive, covering interface processing, journals, period end processes, and user administration. However, the web pages hosting the procedures are dated 2012 although file properties for the pages show that they were updated in 2015 and 2017.

2.1.3 Training guides are available for eFinancials which are maintained and distributed by the Finance Development Officer and regular training sessions are offered for users.

2.1.4 The Service Income Team (SIT) maintains a number of procedures covering setting up Direct Debits and writing off unrecoverable debts. It was noted that revisions to procedures are outstanding in relation to recent staff changes. The Service advised that revisions were in progress and a recommendation is made here to track progress.

Recommendation
Procedures should be updated as required and issued to appropriate staff.

Service Response / Action
Agreed.

Implementation Date	**Responsible Officer**	**Grading**
December 2018	Accounting Manager	Significant within audited area

2.2 System Access

2.2.1 Access is granted to the various eFinancials modules by submitting an authorised new user form to the FST for a user account to be created or amended. The FST aims to have new users set up within one week of receiving the form. Access levels determine what the user can see in the debtors system as well as which tasks they can carry out.

2.2.2 Internal Audit selected a sample of 15 current users to confirm that accounts were created timeously, that the action was supported, and that the supporting evidence was retained.

2.2.3 Only 9 forms were available for inspection and these had been completed and authorised appropriately. The remaining accounts had been set up more than 12 months ago and all such forms had been destroyed to free up storage space. Had the forms been scanned and stored electronically this would have maintained the audit trail.

Recommendation
The Service should scan and store documentation authorising access electronically.

Service Response / Action
Agreed. Since May 2018 new user forms are scanned and saved electronically by Finance.

Implementation Date	Responsible Officer	Grading
Implemented	Finance Controls Accountant	Significant within audited area

2.2.4   The user access level for all of the sample was appropriate to the employee's job role and, for those where the form was available, had been set up timeously.

2.2.5   Access to eFinancials is terminated by updating the relevant user role to "ZZZ", either for a specified module or for the system as a whole. This is carried out when the FST is notified by Service management or otherwise becomes aware that the user no longer requires access.

2.2.6   Internal Audit report AC1812: Financial Ledger System, recommended that leavers' access to eFinancials should be deleted timeously. The FST had not been receiving leaver reports from People and Organisation at the time of the Financial Ledger System audit. The Finance Partner confirmed that People and Organisation has since agreed to provide monthly leaver reports and, following review of a recent report to May 2018, the FST removed 7 leavers from eFinancials.

2.3   Data Input

2.3.1   Services are responsible for requesting the creation or amendment of debtor accounts and thereafter creating invoices and credit notes. Standard forms and templates, supported by appropriate guidance, are available on the Zone to support these actions. If these are not fully completed, and appropriately authorised where required, requests will not be accepted.

Debtor Account Creation

2.3.2   Debtor accounts can only be created by the SIT based on Customer Invoice Control (CIC) forms provided by the requesting Service. A check is undertaken to ensure that the debtor is not already in the system and the system flags up if a duplicate postcode is input to assist with this process. The Team Leader carries out weekly spot checks on additions and amendments to confirm they are accurate and supported.

2.3.3   Almost 3,400 debtor accounts were created during 2017/18. A sample of 25 accounts that were recently created was selected and reviewed to confirm that these were authorised, accurately and timeously input, and not created by staff responsible for processing invoices / credit notes.

2.3.4   Three forms had not been retained and could not be tested. The Service advised that while paper forms were in use some had gone missing after processing but before filing; it is possible that some had been misfiled due to the large number of forms received. Since forms are now received electronically and saved to the shared drive this risk is better controlled.

2.3.5   All debtor accounts were created by members of the SIT, who do not have system access to create invoices or credit notes. All CIC forms were input timeously and all were appropriately authorised.

2.3.6   In 3 cases the data input did not match the CIC form; in all 3 cases there were spelling mistakes which had not been noticed or corrected at the time of the audit. A further 3 debtor accounts containing errors were identified during invoice testing as discussed below in 2.3.10. Errors in addresses appear unprofessional and may lead to invoices not being delivered to debtors.

Recommendation		
The SIT should introduce checks to ensure debtor information input matches data on CIC forms when creating accounts.		
Service Response / Action		
Agreed.		
Implementation Date	**Responsible Officer**	**Grading**
December 2018	Business Services Manager	Important within audited area

Invoices

2.3.7   Invoices are raised by staff within Services who have the relevant access. Many of the required details are automatically completed from data already in the system. However, although the input is required to be authorised, this is generally done by the person creating the entry, meaning that there is no independent check of the invoice details, including the amount being charged.

2.3.8   A sample of 40 invoices raised between January and March 2018 was selected to ensure they matched the template submitted by the Service, the invoice was complete and correct, and the invoice was raised and sent timeously.

2.3.9   VAT regulations require that VAT invoices are issued within 2 months of the tax point for local authorities, ie the date the Service is performed / goods are made available to the customer or the date payment is received if in advance of goods / services being delivered. 28 of the sampled invoices had been raised within one month. A further 8 were raised within 3 months, whilst 4 were raised after 5 or more months. Services advised that the delays were caused by the late receipt of information required to calculate the charges and in one case due to a lack of staff. The VAT on one invoice was reported late due to a delay raising the invoice, however the VAT of £3,138, was not material for VAT return error reporting purposes and the reason for the delay was outwith the Service's control.

2.3.10   Three of the invoices contained typographical errors in the debtor details, including misspelling the debtor's name or address. These errors were as a result of the customer standing data in the debtors system being incorrect. A recommendation has already been made at paragraph 2.3.6 above regarding this.

Credit Notes

2.3.11   Credit notes are input to the system by Services but must be approved by the SIT before they can be completed. Credit Note Authorisation (CNA) forms are submitted by Services seeking credit note approval by the SIT detailing reasons for credit notes, related invoice details, credit note value and revised invoice value. They are processed in the same way as invoices but only printed and sent to customers when a refund is required. When set against an invoice that has been raised and issued but not paid, or credited against an invoice yet to be issued, they are not printed. Refunds are made by BACS where the debtor has provided bank details, or by cheque.

2.3.12   A sample of 40 credit notes raised between January and March 2018 was selected to ensure they were reasonable, supported by evidence, appropriately authorised and applied timeously.

2.3.13   In 8 cases the CNA forms had not been retained. Since April 2018, the SIT requires CNA forms to be submitted by email rather than in paper form, and are saving them to a shared

drive, minimising the risk of forms being lost or mis-filed. All of the remaining forms were appropriately completed and authorised. All but two were created timeously; for these two, over a year had passed before the credit note was requested. No reason was given for the delay in either case.

2.3.14   Reasons were recorded for 35 of the 40. In 2 cases text had been input by the Service to the Credit Note form but this did not meet the standard for explanation given on the form, since reasons provided lacked detail. It was also observed that these reasons were generally not input to eFinancials by the Service. Despite this the credit notes had been checked and approved by the SIT.

2.3.15   If forms are not retained and errors are later identified, the cause of the errors may not be found and corrected. The forms also confirm that segregation of duties was observed between creation and authorisation of the credit note.

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Recommendation
Services should be reminded of the requirement to raise credit notes in a timely manner.

The SIT should only input CNA forms that have adequate explanations from the originating Service.

The Service should remind staff of the need to retain CNA forms.

Service Response / Action
Agreed. The responsibility for raising invoices in Services and the Corporate Service Income function are being integrated into the Business Services team. This will improve communication and enable process improvements between the two parts of the process.

Implementation Date	**Responsible Officer**	**Grading**
December 2018	Business Services Manager	Significant within audited area

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2.4   Timetabling & Interfaces

2.4.1   Timetables and required tasks were reviewed as part of the Financial Ledger Systems audit and reported in audit report AC1812; some recommendations were made which have now been implemented. As a result, this was not considered as part of this audit.

2.4.2   Debtor interfaces include: the cash receipting system (payment data), and the trade waste, commercial leasing and property factoring systems (invoice data). Interface files are extracted from the feeder systems overnight and are posted to a 'Clink' holding area within eFinancials. The system has a number of automated checks which identify failures for Systems Analysts in IT to take corrective action as required. Successful interfaces are notified to the Controls Team by IT each morning by email for posting to eFinancials, with details of the Clink batch name, date, net amount, VAT and number of transactions for each interface.

2.4.3   The Processing Team also run a BOXI report detailing all interfaces waiting to be uploaded, including interface value and number of transactions. Finally, in the case of invoice interfaces, the system administration team emails interface details (amount and number of transactions) to the Controls Team. A reconciliation is then carried out by the Controls Team, confirming the interface details per the BOXI report and email from IT agree, and in the case of invoice interfaces that the BOXI report and system administration email also agree. A control document is created for each interface using the BOXI report

which records these checks. Once agreed, the Controls Team upload to eFinancials, and sign and date the control document to indicate this has taken place.

2.4.4   The upload process generates reports in eFinancials highlighting any errors which are investigated and corrected by the Controls Team, referring back to the Service or Finance Systems Team (FST) if necessary. The Controls Team notifies the FST once invoice interfaces are ready to be posted by them. The emails and the Clink report should be printed out and filed with the control document once the FST has been notified.

2.4.5   Duplicate interface uploads are recognised by eFinancials based on Clink batch references and invoice numbers and are automatically rejected, with rejected transactions held in the Clink holding area. System generated exception reports are produced for the batches containing rejected transactions. The Controls Team reviews these reports and rejected transactions are queried with System Owners who are required to investigate and inform the Controls Team if rejected transactions should be deleted or processed. Exception reports for low value VAT differences are not queried with System Owners; they are, instead, corrected by the Controls Team. Exception reports were tested as part of the Financial Ledger System audit (AC1812). These were being circulated to System Owners timeously and the Clink holding area had been cleared of such transactions by the Controls Team.

2.4.6   A sample of 10 payment interfaces and 10 invoice interfaces dated from January to May 2018 was reviewed and all had been appropriately recorded and none had been duplicated.

2.4.7   All of the interfaces were uploaded timeously. In all cases the interface control document data matched the emails from IT. However, for 2 payment interfaces, payments from the cash receipting system were not successfully applied to customer accounts in the debtors sub-ledger The Service advised that in each case the payments were recurring or advance payments for which invoices had not yet been raised; these are the only circumstances in which these differences arise, and the Service does not have the time and resources to identify and annotate every case in which this happens.

2.4.8   Only 2 of the 20 sampled interfaces had been completely filed in hard copy and testing could only be completed by accessing electronic copies of reports. Clink reports or emails had not been printed out to confirm verification; for 4 invoice interfaces no control document had been printed; for a further 4 invoice interfaces, the control document did not include the total value; and in 1 invoice interface the document had not been signed to indicate who had carried out the reconciliation.

| **Recommendation** |
| The Controls Team should print out, sign and file interface verification documents following procedure. |

Service Response / Action
The Service agree there is a need for a record of interface verification and will document this electronically.

Implementation Date	**Responsible Officer**	**Grading**
September 2018	Finance Controls Accountant	Important within audited area

2.5   Reconciliations

2.5.1   As part of the monthly period end process, the debtors sub-ledger is balanced to the debtors control account by total value and at year-end by customer. After the sub-ledger

for the period has been closed and rolled forward, a control account report is run to reconcile the total customer outstanding sub-ledger balance with the debtor control account value in the general ledger. This creates a PDF report showing, for Debtors, the opening ledger balance plus all transactions from the Debtors sub-ledger and compares the result to the closing ledger balance. The report is checked by a Finance Assistant to confirm that "closing balance" and "closing balance per ledger" values match. If the balances do not match this is flagged to the Finance Partner and ICT for investigation and correction. The reports are saved in the shared drive.

2.5.2   The 6 control account reports from December 2017 to May 2018 were obtained and reviewed. In each case the two balances matched and no corrections had been required. The control account balance for end May 2018 was also reviewed in eFinancials using 'ACTR13 Transactions by account report' and was seen to match that in May reconciliation.

2.6   Payments

2.6.1   Invoices may be paid by cash or cheque via Kiosks, at cash offices, or by card through the online or telephone systems. Some Trade Waste debtors pay by direct debit; this has been running as a pilot since 2017. There are plans to extend the availability of direct debit, with the next phase being for property rental and lease, and to extend digital options for payment in advance. Plans are also underway to encourage customers to pay by the most efficient methods and reduce the number of cheques received. Payments come in through the cash receipting system; a process has been devised by the FST which allows payments to be automatically matched to invoices if enough data is provided by the debtor during the payment process. Where this is not possible the payments have to be manually matched in eFinancials by the SIT.

2.6.2   Payments which cannot be matched are allocated to a suspense account while they are investigated. As at 28 June 2018, there were 89 transactions still outstanding in this account totalling £16,067; the oldest unresolved transaction dated from 17 April 2012. The majority of un-cleared transactions over a year old were less than £100 in value; the largest was £600, dating from 4 November 2015.

2.6.3   Although the values are generally small, if transactions in suspense are not regularly investigated and reallocated, customers may be chased for debts which they have already paid. If the payment was made in error, the Council is holding money to which it is not entitled.

Recommendation
The Service should investigate and clear transactions in the suspense account on a regular basis.

Service Response / Action
Agreed. The Service considers that all major suspense items are cleared in a timely manner. The suspense account will be reviewed on a quarterly basis to ensure balances are investigated and cleared. Long standing minor (below £100) suspense amounts will be appropriately written off more regularly.

Implementation Date	Responsible Officer	Grading
December 2018	Accounting Manager	Significant within audited area

2.6.4   The process for collecting Direct Debits was reviewed to confirm that appropriate checks are in place to ensure that all payments due are identified and submitted correctly and

timeously. Documents recording the collection run from January 2018 were obtained and tested.

2.6.5   All documents supporting the January collection had been retained, with one exception, and showed that reports had been run timeously and were verified as complete and reconciled before submission of the direct debit BACS instruction to the bank. One check had not been documented; the SIT had requested confirmation of matching of the Direct Debit batch total due to be submitted to the bank to the BOXI report of invoices due to be paid by direct debit, but this had not been given in writing. The SIT Leader advised that on this occasion the confirmation had been given verbally and added that due to restructuring this check was now done within the SIT and was being documented.

2.6.6   Three rejections were identified for the period January 2018. Corrective action was taken promptly and the payments chased.

2.6.7   A sample of 10 Direct Debit mandates was reviewed and it was confirmed that the forms were complete and had been input to eFinancials accurately.

2.7   Income Recovery

2.7.1   Only Sundry Debts are administered through the Debtors module by the SIT. As standard, Council invoices give the debtor 28 days to pay. On a weekly basis, the SIT runs a report (ACTRC6) in eFinancials, which generates reminder letters to customers who have unpaid debts over 35 days old, requesting payment be made 'without further delay'. A subsequent final notice letter is issued for invoices overdue by a further 14 days which indicates that if payment is not made in full within 7 days, legal proceedings will be undertaken.

2.7.2   The Council uses Sheriff Officers as collection agents where all other recovery action has failed. The previous contract expired in July 2018 and the retender was advertised in March 2018. Bids were being evaluated at the time of the audit in May 2018. The Service have advised that a new 4 year contract commenced in August 2018 with the option to extend for a further year. These agents pursue the debt on the Council's behalf and will initiate Court action to enforce recovery, with the costs of court action being recharged to the Council. The contract specifies key performance indicators and quarterly service meetings as well as weekly and monthly reports. These are monitored by the Council Tax and Recovery Manager. The last quarterly service meeting was held in December 2017. KPIs and monthly reports detailing recovery performance are being received as expected. The percentage of sundry debt passed to Sheriff Officers in 2017/18 that was recovered in 2017/18 was 28.3%, below the target of 36% (attributed to a downturn in the oil industry), while 19% of prior year debt was recovered compared to a target of 17%. The Service is reviewing recovery arrangements and reviewing Service Income and debt policy, and will develop revised performance measures reflecting this policy.

Recommendation
Performance measures for collection agents will be updated to reflect new debt policy.

Recommendation
Performance measures for collection agents will be updated to reflect new debt policy.

Service Response / Action
Agreed. The policy is under preparation for presentation to November City Growth and Resoues Committee. The performance measures will be developed alongside this timescale.

Implementation Date	Responsible Officer	Grading
December 2018	Council Tax and Recovery Manager	Important within audited area

2.7.3   Debts to be passed to the SO are identified by running a BOXI report; debts identified by this report as ready to be passed to collection agents were then flagged manually within eFinancials. This was carried out by the SIT when time was available, rather than to a set schedule, and may have taken a significant amount of time to complete. As a result, the report was not run frequently and is currently approximately 12 months behind. Following the identification of this issue an automated report is under generation as part of the commitment to improve this process. A recommendation is included for tracking purposes.

Recommendation		
The Service should automate reporting of debts due to be referred to collection agents.		
Service Response / Action		
Agreed.		
Implementation Date	**Responsible Officer**	**Grading**
October 2018	Finance Partner	Important within audited area

2.7.4   The 40 invoices reviewed in section 2.3 were examined to confirm whether they had been paid timeously or, if not paid, had been subject to the income recovery procedure.

2.7.5   12 invoices were paid after the due date, 5 of which had been chased by the SIT before payment was made, the remaining 7 were not chased as payment was made before a reminder was required. 6 invoices past their payment due date had not been sent to Sheriff Officers for further recovery action, despite qualifying.

2.7.6   Aged debt reports are run by the FST and sent to Finance colleagues monthly, to be discussed at Service budget meetings, to review recovery action. The most recent report, at the time of testing, was issued as planned on 5 June 2018. The Service intend to revise the format of the aged debt reports to better highlight where recovery action is required but not being taken. A recommendation is included for tracking purposes.

Recommendation		
The Service should revise aged debt reports to highlight where recovery action is required.		
Service Response / Action		
Agreed.		
Implementation Date	**Responsible Officer**	**Grading**
December 2018	Accounting Manager	Important within audited area

2.7.7   A report on aged debts was provided by the FST and a sample of 8 debtors was selected and reviewed. In 2 cases appropriate follow up actions had not been taken by the SI Team: the debts had not been referred to Sheriff Officers despite qualifying.

Recommendation
The SIT should commit resources to improve clearance of the backlog of debts due to be sent to Sheriff Officers.
Service Response / Action

> Agreed. Resource has been identified to commit to resolve the backlog of debts and other recovery activity as part of the creation of the Business Services Team under the new TOM structure. Staff will undergo training and reallocation of tasks, with this activity being a priority between August and December 2018.
>
> | **Implementation Date** | **Responsible Officer** | **Grading** |
> |---|---|---|
> | December 2018 | Business Services Manager | Significant within audited area |

2.7.8   The SIT advised that they aim to run reports on debts to be written off, disputes, holds, arrangements and accounts in credit on a monthly basis; these are monitored and acted on within the team. Copies of reports run on holds and disputes were obtained and reviewed. Although action was seen to have been taken on a number of accounts, the reports were not being run every month due to staffing constraints.

2.7.9   Debts below £25,000 can be written off by the Chief Officer - Finance or Chief Officer - Customer Experience, while debts of £25,000 and above must be written off by the City Growth and Resources Committee, per Financial Regulations 5.3. A sample of 8 debts sent to be written off during financial year 2017/18 were obtained from the Service and reviewed. All written off debts reviewed were for under £25,000, had been appropriately approved and supporting evidence had been retained. Recovery action had been undertaken for all 8 debts before they were marked for write off. In 6 cases there was no record of the debts being sent to collection agents. The Service advised that in these cases there was a delay in sending the debts for collection and during that time the Service had established that the debts were unrecoverable. A recommendation has been made in relation to debt recovery at paragraph 2.7.7 above.

2.7.10 Payment arrangements are possible before the Sheriff Officer stage of income recovery and are managed through eFinancials. The SIT encourage the use of these where payment is not received in full; they attempt to limit them to 12 months, if not possible they will discuss with the debtor, using an income / expenditure form to ensure payment plans are realistic. In rare circumstances plans may be extended for over a year. Debtors are expected to pay by cash or cheque, or to make online payments, on schedule; they cannot use direct debits for payment arrangements but may set up Standing Orders. Reminder invoices will be sent if payment arrangements fail; the SI team run a process which should be monthly but is currently on an ad hoc basis to check if arrangements are up to date. This report has to be assessed manually as there are no system flags for failed payments. Payment arrangements were last reviewed by the SIT in February 2018. Since these are higher risk debtors, monitoring should be more frequent.

> **Recommendation**
> Debtors on payment arrangements should be monitored on a regular basis to ensure payments are being made in line with the arrangement.
>
> **Service Response / Action**
> Agreed. The Service will introduce more streamlined methods of reporting and identifying payment arrangements. Resource will be allocated to monitor this task monthly under the Business Services Team.
>
> | **Implementation Date** | **Responsible Officer** | **Grading** |
> |---|---|---|
> | December 2018 | Business Services Manager | Important within audited area |

2.8   Reporting

2.8.1   Collection statistics are run by the FST and reported annually as part of the CIPFA Directors of Finance Scottish Performance Indicators. Comparison of the Council's performance in 2016/17 against other Scottish Councils, using these Indicators, show that the Council collects the lowest percentage of the Opening Sundry Debtors Balance, plus Sundry Debtor Accounts issued during the year, with 62.1% compared to the average of 84.7%. The Council also performed poorly compared to the average for cost of collection and proportion of outstanding debt over 90 days old.

2.8.2   The Service reviewed calculation of the performance statistics and factors that may be influencing performance. It was identified that the statistic had been incorrectly calculated and the correct figure was 70.7% which is still fourth lowest in Scotland. The figure was not caused by any particular type of debt, but by large debts to public sector organisations that were collected following the year end and historic debt that was due for write off that had not been actioned.

Recommendation
The Service should report the amended 2016/17 collection of sundry debtors accounts performance indicator to CIPFA as part of the next return.

Service Response / Action
Agreed.

Implementation Date	**Responsible Officer**	**Grading**
November 2018	Finance Partner	Important within audited area

2.8.2   It is recognised by the Services that improving this collection rate is a priority. Under the new management arrangements for the TOM, a comprehensive improvement plan for the end to end process has been developed by the Services involved, and this includes several further actions that aim to improve collection including digitisation, system improvements, streamlining the process, task reallocation, recovery activity, reporting, engagement with Services, reviewing charging/pricing policies and debt and Service Income policy. Updated debt and Service Income policies are being developed for approval in November by the City Growth and Resources Committee.

2.8.3   During the audit of the 2016/17 Annual Accounts, external audit noted that it was unlikely that debts over a year old would be collected and it was recommended that management review the bad debt provision. In the 2016/17 Audited Annual Accounts the bad debt provision was increased to 37% of outstanding debt or £9 million. During 2017/18, £4.3m of historic debt that was raised prior to 2012 and deemed uncollectable was written off. This historic debt had not been subject to recent review and write off; this debt written off equated to less than 1.7% of debt raised in the related period. The 2017/18 audited accounts include a bad debt provision of £5.8 million which equates to 28% of outstanding debt. The bad debt provision and historic debt write off is now reviewed annually as part of the closedown process. The method of recognition of bad debts has also been revised so that debts are increasingly provided for, the older they are.

AUDITORS: D Hughes
            A Johnston
            L Jarvis

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.