

## ABERDEEN CITY COUNCIL

---

<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	27 September 2022
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2209 – Debt Recovery
<b>REPORT NUMBER</b>	IA/AC2209
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	Jamie Dale
<b>TERMS OF REFERENCE</b>	2.2

---

### **1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on Debt Recovery

### **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 Debt Recovery.

### **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 Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.
- 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

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	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.
<b>Privacy Impact Assessment</b>	Not required

## 9. APPENDICES

- 9.1 Internal Audit Report AC2209 – Debt Recovery

## 10. REPORT AUTHOR DETAILS

Jamie Dale, Chief Internal Auditor  
[Jamie.Dale@aberdeenshire.gov.uk](mailto:Jamie.Dale@aberdeenshire.gov.uk)  
(01467) 530 988



## **Internal Audit Report**

### **Finance**

### **Debt Recovery**

**Issued to:**

Andy MacDonald, Director of Customer Services  
Steven Whyte, Director of Resources  
Jacqui McKenzie, Chief Officer - Customer Experience  
Jonathan Belford, Chief Officer- Finance  
Fraser Bell, Chief Officer – Governance  
Wayne Connell, Revenues and Benefits Manager  
Angela Crawford, Finance Controls Manager  
Sarah Macaskill, Team Leader (Transactions Services)  
Phyllis Kennedy, Council Tax and Recovery Manager  
External Audit

## EXECUTIVE SUMMARY

### Background

To ensure that income due to the Council for services provided is received it may be necessary to take debt recovery action. In the first instance, the Service Income Team managed by Finance will contact the debtor concerned to request payment. Where this action is unsuccessful, debts may be passed to the Council's Debt Collection and Sheriff Officer agency (Sheriff Officers). If all pre-litigation actions are found to be unsuccessful, a Court Decree will be applied for and thereafter recovery may be enforced by one of the relevant diligences available to the Council's Sheriff Officers (arrestment of bank account; arrestment of earnings; Inhibition Order against heritable property; attachment of goods (seizing movable property); insolvency).

Sundry debts are administered using the debtors module (debtors system) of the Council's Integrated Financial System. In the financial year to 31 March 2022, approximately 12,389 sundry debtor invoices were raised to a value of £34.60m. As at 4 July 2022, 48,903 outstanding sundry invoices totalling £35.94m were owed to the Council of which 2,863 invoices totalling £3.20m had been classified as needing to be recovered by the Council's Sheriff Officers.

The Coronavirus (Scotland) Act 2020 and Coronavirus (Scotland) (No.2) Act 2020 introduced temporary changes until 31 March 2022 to how debt recovery solutions within Scotland function. This included extending the moratorium on diligence and bankruptcy from six weeks to six months and increasing the minimum amount someone must owe, from £3,000 to £10,000, before a creditor or group of creditors can petition for a debtor's bankruptcy; this minimum amount will decrease from £10,000 to £5,000 from 1 October 2022 in accordance with the Coronavirus (Recovery and Reform) (Scotland) Bill.

### Objective

The objective of this audit was to ensure that procedures for recovering sundry debts are adequate, efficient, and consistently applied.

### Assurance

Whilst it is acknowledged that COVID-19 has had an impact on debt recovery solutions available to the Council, possible recovery action, including issuing of reminders to customers and referral of overdue debts to the Council's Sheriff Officers, was not being undertaken in line with procedure, based on a review of 30 overdue invoices. This is an area that would benefit from review to ensure the proper control framework is in place and in operation to ensure the appropriate recovery of debts.

Reminders were not being issued at all for one (4%) out of 26 invoices not in dispute and were late at least for one of the reminders for 18 (69%) of these 26 invoices and there was no referral to the Sheriff Officers in 19 (73%) out of 26 invoices not in dispute that were reviewed. In addition, the four invoices in dispute reviewed had no record of dispute resolution and escalation as required by Council policy. Also, it was noted there is no central oversight to ensure non-statutory non-essential services are ceased for customers with overdue debts. Furthermore, a system of debt recovery performance reporting, which is target based is not being reported to relevant team leaders, service managers and Chief Officers as required, increasing the risk debt recovery actions will not take place where required.

### Findings and Recommendations

The Council's Corporate Recovery and Service Income policies were approved by the City, Growth and Resources Committee in November 2018 with both covering debt

recovery tasks. Whilst the policies are comprehensive in terms of content, the Debt Recovery Policy indicates the intention is for a review to take place at least every two years and this has not happened. In addition, the Service Income Policy makes reference to Business Service Team's responsibilities, whose ownership has passed to Finance – since certain tasks are not being undertaken at all now, such as performance reporting and monitoring of dispute resolution and cessation of services, the policy requires to be updated. Also procedures require to be updated since some are incomplete or inconsistent with the Service Income Policy. The Service Income Policy indicates a payment plan for debts over £1,000 can only be set for recovery over a maximum of 24 months whilst the Council's payment arrangement procedure indicates the maximum term is 36 months; this risks inconsistent and potentially unfair debt recovery practice. The procedure for sending debts to the Council's Sheriff Officers indicates debts of £50 or below should not be sent as they will be dealt with by Council staff – there is no procedure on how this will be achieved. Lastly, write off procedures are inconsistent with Financial Regulations since no reference is made to the Chief Officer – Customer Experience, who has delegated authority to write off sundry debts of up to £25,000 per debtor for specific reasons, instead referring only to the Chief Officer – Finance. In addition, the requirements for evidencing write off reasons is not explained increasing the risk write offs will take place when debts should be pursued. Recommendations graded 'Significant within audited area' were raised with the Service to review and update policies and procedures.

Council invoices for service income are issued over various terms and most have a 28-calendar day term, although some for the more vulnerable have a 6 month term. Where an invoice for a service has not been paid, a reminder is issued seven days after the given payment term being reached followed by a final notice 14 days after the initial reminder, where payment remains overdue. The final reminder states that there are seven days to make a full payment, failing which legal proceedings will commence. Debts which remain outstanding for 45 days are passed to the Council's Sheriff Officers. After all pre-litigation actions, and as a last resort, a Court Decree may be applied for by the Sheriff Officers, and thereafter recovery may be enforced by one of the relevant diligences, as described above. Based on a review of 30 random overdue invoices debt recovery action is not being undertaken as required:

- Four (13%) invoices were in dispute meaning debt recovery action was paused however all had been in dispute for longer than the 56 day target to resolve disputes and no records were available of dispute resolution activities or required escalation.
- Of the remaining 26 overdue invoices not in dispute, no recovery action at all was taken for one (4%).
- In addition, seven (27%) had only final reminders issued with no first reminder, 18 (69%) had first reminders issued late and 15 (58%) had final reminders issued late.
- None of the 26 invoices, which were overdue and not in dispute, were passed to the Council's Sheriff Officers timeously with only five (19%) of the 26 being passed to the Sheriff Officers at all with technical issues preventing the submission of a further four (15%).

A recommendation graded 'Major at a Service Level' was raised for the Service to review the debt recovery process to ensure it is fit for purpose, ensuring payment reminders for overdue invoices are issued in a timely manner. Reminders are recommended to be automated if feasible based on cost / benefit analysis, with consideration given to the use of electronic notifications such as automated emails

and / or SMS texts. The revised process should be designed with a view to enabling staff resources to focus on high-risk high value debt recovery. In addition, a recommendation graded 'Significant within audited area' was also raised for the Service to ensure invoices in dispute are escalated and resolved in a timely manner in accordance with the Service Income policy and that this process should be automated if feasible.

As at 28 March 2022, according to the debtors system 747 invoices to a value of £254,292 require to be recovered by the Council's Sheriff Officers. However, only 39 invoices to a value of £35,440 had been passed to the Sheriff Officers. At the time of review there was a large interval when sundry debt files were not submitted to the Sheriff Officers between 3 March 2019, when the previous file was submitted, and 10 May 2022 when a recent file of trading companies was submitted to the Sheriff Officers with 2,663 outstanding invoices totalling £4.08m. The Service advised following the end of the Council's suspension of debt recovery due to the COVID-19 pandemic, a 'soft start' approach to reinstating recovery actions was adopted, with transfer to Sheriff Officers being the final step in the process to be resumed. Also, the Service advised the work with digital specialists to improve the automation of the process, to transfer files to Sheriff Officers, was delayed due to resource availability and has recently commenced. Where the Council's records of debts being managed and recovered by the Sheriff Officers is overstated, there is an increased risk of bad debt due to a lack of necessary recovery action. A new automated process was used to generate the file submitted to the Sheriff Officers in May 2022. However, whilst the process is an improvement on the previous manual debt file generation process, it is still a manual email based process to submit files to the Sheriff Officers; automation of file submission could help reduce the risk of delays submitting debts to the Sheriff Officers. Recommendation graded 'Significant within audited area' were raised for the Service to reconcile the Council's and the Sheriff Officers' debt records to ensure they agree on a recurring basis and to automate the submission of debt files to the Council's Sheriff Officers.

Whilst sundry debt write offs reviewed had been appropriately approved, Financial Regulations requires that sundry debt write offs are reported to City, Growth and Resources annually and this has not been happening. A recommendation graded 'Significant within audited area' was raised for sundry debt write offs to be passed to the Revenues and Benefits Manager by Finance for inclusion on the annual irrecoverable debt report to City, Growth and Resources Committee for monitoring purposes.

Where there are outstanding invoices in relation to an ongoing, regular service then provision of service may be withheld where there is not a statutory requirement to provide that service (for example for health and safety reasons). Each service is required to maintain a policy in respect to withholding chargeable services for each relevant service and services essential to well-being will not be subject to cessation. In circumstances where the debtor is a vulnerable person or in respect of services essential to well-being, as part of the 'sensitive recovery process'; Finance has discretion to authorise continued service provision to a customer where historic invoices remain due. At the time of review no monitoring information was made available by Finance on ceasing services where appropriate. Whilst the Council's Service Income Policy identifies if a type of charge is essential to well-being as well as charge types where a sensitive recovery process is required, the Debtors system does not automate the cease service process, increasing the risk non-statutory services not essential to well-being will continue to be offered to customers incapable of paying for those services. A recommendation graded 'Significant within audited area' was raised for the Service to automate the cessation of non-statutory services which are not essential to well-being within the debtors system.

In accordance with the Council's Service Income Policy, monitoring income collection performance is necessary to assess the success of charging for service delivery. The outcomes of this should be compared to Council and service income targets, objectives and priorities. The Policy requires clear targets to be set and information to be collected and analysed on a regular basis. The Policy also requires monthly performance information to be referred to relevant team leaders, service managers and Chief Officers for further decision and escalation however this is not happening. In the absence of this reporting, there is an increased risk of disputes being unresolved in a timely manner, of services being delivered to customers without the means to pay for them and generally of an increase in bad debts and delays in receiving payment for outstanding debts. The Service advised resource constraints within the team meant with prioritisation of key tasks, regular performance reporting has ceased, with information provided on request. A recommendation graded 'Significant within audited area' was raised for Finance to establish a comprehensive system of debt recovery performance reporting which is target based and reported regularly to relevant team leaders, service managers and Chief Officers for debt recovery escalation and decision-making purposes.

#### Management Response

It is clear that the pandemic had an effect on the collection of debt and now through this audit it has revealed that by diverting resources and prioritising other work across the various teams the opportunity to review and update the existing debt recovery policies and procedures should have been done before now. This will be addressed.

In addition staff have had a range of debt collection and recovery instructions over the last two years that makes the position of debt recovery more challenging but since reinstating service income debt collection and recovery arrangements automation has been brought into the processes in relation to Sherriff Officer referrals and a more rigorous approach to unallocated income has been introduced that improves what has gone before. That said more can be done and will be done, with the implementation of the agreed actions.

# 1. INTRODUCTION

- 1.1 To ensure that income due to the Council for services provided is received it may be necessary to take debt recovery action. In the first instance, the Service Income Team within Finance will contact the debtor concerned to request payment. Where this action is unsuccessful, debts may be passed to the Council's Debt Collection and Sheriff Officer agency (Sheriff Officers). If all pre-litigation actions are found to be unsuccessful, a Court Decree will be applied for and thereafter recovery may be enforced by one of the relevant diligences available to the Council's Sheriff Officers (arrestment of bank account; arrestment of earnings; Inhibition Order against heritable property; attachment of goods (seizing movable property); insolvency).
- 1.2 Sundry debts are administered using the debtors module (debtors system) of the Council's Integrated Financial System. In the financial year to 31 March 2022, approximately 12,389 sundry debtor invoices were raised to a value of £34.60m. As at 4 July 2022, 48,903 outstanding sundry invoices totalling £35.94m were owed to the Council of which 2,863 invoices totalling £3.20m had been classified as needing to be recovered by the Council's Sheriff Officers.
- 1.3 The Coronavirus (Scotland) Act 2020 and Coronavirus (Scotland) (No.2) Act 2020 introduced temporary changes until 31 March 2022 to how debt recovery solutions within Scotland function. This included extending the moratorium on diligence and bankruptcy from six weeks to six months and increasing the minimum amount someone must owe, from £3,000 to £10,000, before a creditor or group of creditors can petition for a debtor's bankruptcy; this minimum amount will decrease from £10,000 to £5,000 from 1 October 2022 in accordance with the Coronavirus (Recovery and Reform) (Scotland) Bill.
- 1.4 The objective of this audit was to ensure that procedures for recovering sundry debts are adequate, efficient, and consistently applied.
- 1.5 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Jonathan Belford, Chief Officer – Finance, Angela Crawford, Finance Controls Manager, Sarah Macaskill, Team Leader – Customer Experience, Wayne Connell, Revenues and Benefits Manager and Phyllis Kennedy, Council Tax and Recovery Manager.

## 2. FINDINGS AND RECOMMENDATIONS

### 2.1 Policies and Procedures

- 2.1.1 Comprehensive written policies and procedures and their effective communication are an essential element in any system of control. They are beneficial for the training of current and new employees and provide management with assurance correct and consistent instructions are available, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 The Council's Service Income policy and Corporate Debt Recovery policies were approved by the City, Growth and Resources Committee in November 2018; both are comprehensive and clear in terms of areas covered by the policies. As well as covering the Council's charging policy, the Service Income policy covers recovery of service income; payment plans; debt write-offs; cessation of services; payment options; and performance reporting. The Corporate Debt Policy complements the Service Income policy covering general debt recovery principles, aims and objectives; collection and recovery methods for various debt types, both statutory (e.g. Council Tax, Business Rates and Rent) and non-statutory (e.g. sundry debts resulting from non-statutory 'Service Income' fees and charges).
- 2.1.3 However, the Service Income policy makes various references to the responsibilities of the Business Services Transaction Team in relation to debt recovery despite the fact the Business Services Transaction Team no longer has these responsibilities, since ownership has passed to Finance. However, as described within section 2.4 'Disputes' and section 2.9 'Ceasing Service Delivery' of this report, certain tasks the Business Services Transaction Team are responsible for under the Council's Service Income policy are no longer undertaken in practice by any service, including production of monthly performance information of accounts that are overdue for the purposes of ceasing service delivery where appropriate, and monitoring of invoices in dispute for escalation purposes to ensure disputes are resolved within 56 days. In the absence of ownership of Debt Recovery tasks there is an increased risk they will not be undertaken. In addition, the Corporate Debt policy indicates the intention is for a review to take place at least every two years. A review of both policies is necessary to ensure responsibility for debt recovery tasks are adequately allocated.
- 2.1.4 Debt Recovery procedures are available to relevant staff via shared drives and cover various processes, with timescales for sending reminders and passing debts to the Council's Sheriff Officers; covering how to set up payment plans and how to deal with the debts to be written off.
- 2.1.5 Whilst the Council's Service Income Policy indicates a payment arrangement for debts over £1,000 can only be set for recovery over a maximum of 24 months, the Council's payment arrangement procedure indicates the maximum term is 36 months; this risks inconsistent and potentially unfair debt recovery practice.
- 2.1.6 The procedure for preparing the file of debts to be passed to the Council's Sheriff Officers states:
- 'We only send debt to Scotts if the total outstanding debt per debtor is over £50' and also states 'these invoices [less than or equal to £50] will be dealt with in house by the team'.*
- 2.1.7 However, there are no written procedures in place describing how debts of £50 or lower are handled by the Council, increasing the risk appropriate actions will not be undertaken as required for these debts. 2,995 debtors had debts of £50 or lower totalling £72,440 as at 4 July 2022.

2.1.8 Financial Regulations describe the permitted reasons and delegated authority for writing off sundry debts however the 'Service Income Write Off Procedure' has not been prepared in line with Financial Regulations since it makes no reference to the Chief Officer – Customer Experience, who has delegated authority to write off sundry debts of up to £25,000 per debtor for specific reasons, instead referring only to the Chief Officer – Finance. In addition, the write off procedure permits write off following a service provider request, without explaining the specific permitted reasons for such a request, increasing the risk of a write off for a reason not permitted by Financial Regulations. Furthermore, the procedure did not cover write off reasons 'unable to trace' and 'recommendation of sheriff officer', despite these being permitted by the Council's Financial Regulations. Also, the write off procedure permits writes offs where companies have ceased trading or been dissolved or where a debtor is subject to sequestration, administration, liquidation or receivership, provided written confirmation is provided to that effect – however the procedure does not indicate where the written confirmation should come from increasing the risk of writes offs based on customer assurances without necessary evidence. The Council Tax and Recovery Manager advised the Accountant in Bankruptcy Eden system can be used to confirm cases of sequestration, administration, liquidation, and receivership however this is not formalised in a procedure. Finally, the procedure does not explain which officers are responsible for processing write offs within the Debtors system increasing the risk the debtors system and general ledger will not be updated as required once approval has been given by the relevant officer with delegated authority to write off debts.

**Recommendation**

a) Debt recovery policies and written procedures, including the Service Income policy, Corporate Debt Recovery policy, payment arrangements procedure and the write off procedure should be reviewed and updated where necessary.

b) The Service should formalise the small value debt recovery procedure (£50 and lower) for debt recovery undertaken by Council staff.

**Service Response / Action**

a) Agreed. These are due for review and will be undertaken together

b) Agreed. This will be done as part of the review of the Service Income policy and an update of the written procedures

**Implementation Date**

a) June 2023

b) June 2023

**Responsible Officer**

a) Council Tax and Recovery Manager (Debt Recovery Policy) & Finance Controls Manager (Service Income Policy and other procedures)

b) Finance Controls Manager

**Grading**

Significant within audited area

**2.2 Debt Recovery Process**

2.2.1 Council invoices for service income are issued over various terms (monthly, quarterly, annually bi-annually as stipulated by the service) most have a 28-calendar day term, although some for the more vulnerable have a 6 month term. Where an invoice for a service has not been paid, a reminder is issued seven days after the given payment term being reached followed by a final notice 14 days after the initial reminder, where payment

remains overdue. The final reminder states that there are seven days to make a full payment, failing which legal proceedings will commence. Debts which remain outstanding for 45 days are passed to the Council's Sheriff Officers. After all pre-litigation actions, and as a last resort, a Court Decree may be applied for by the Sheriff Officers, and thereafter recovery may be enforced by one of the relevant diligences, as described in paragraph 1.1 above.

2.2.2 According to the Council's Service Income policy, in circumstances where a debtor is a vulnerable person or in respect of services essential to well-being, the Business Services Transaction Team Leader has discretion to authorise deferred payment terms for existing and historic invoices, and such discretionary action must be reported monthly as part of a performance management regime – this is part of a 'sensitive recovery process'. This is no longer the responsibility of Business Services with ownership having passed to Finance – a recommendation has already been made at paragraph 2.1.8 above to update the policy and a recommendation has been made at 2.10.4 below to establish a system of performance reporting.

2.2.3 A sample of 30 overdue invoices raised between March 2014 and January 2022 was reviewed in order to gain assurance that the recovery process described above was followed. Four (13%) of the 30 invoices randomly selected were in dispute and are considered further at section 2.4 below since debt recovery action is not taken for invoices in dispute. In relation to the 26 invoices not in dispute, the following exceptions were noted:

- No reminders (initial or final) were issued for one (4%) out of 26 invoices despite both reminder types being required.
- Seven (27%) out of 26 invoices had no first reminder issued but instead only a final reminder.
- 18 (69%) had first reminders issued 21-31 days late.
- Only 10 invoices (38%) out of 26 had a final reminder issued as required within 14 days of the first reminder letter being issued. 15 invoices (58%) had a late final reminder (issued 15 - 247 days after the first reminder).

**Recommendation**

The Service should review the debt recovery process to ensure it is fit for purpose, ensuring payment reminders for overdue invoices are issued in a timely manner. Reminders should be automated if feasible based on cost / benefit analysis, with consideration given to the use of electronic notifications such as automated emails and / or SMS texts. A revised process should be designed with a view to enabling staff resources to focus on high-risk high value debt recovery.

**Service Response / Action**

Agreed. A few points are highlighted by the audit that related to resource limits and practices adopted over a period of time that included specific decisions in relation to collection of debt during the Covid-19 pandemic. Since then, the process of debt recovery has been reviewed and a more consistent approach has been introduced that includes the automation of processes where possible. Based on the outcome of the audit it's agreed that this will be reviewed again, in line with the policy reviews per recommendation at 2.1.

**Implementation Date**

June 2023

**Responsible Officer**

Finance Controls  
Manager

**Grading**

Major at a Service Level

**2.3 Debt Collection and Sheriff Officer Agency**

- 2.3.1 The Finance, Policy and Resources Committee approved the procurement of a Debt Collection and Sheriff Officer contract to a value of £4.5m for a 5 year period to July 2023 on 1 December 2017. The contract notice inviting tenders was published in the Official Journal of the EU (OJEU) via the Public Contracts Scotland (PCS) website in March 2018. According to the PCS OJEU contract award notice, the contract was awarded to the provider already in use by the Council in July 2018 for a four-year period to July 2022 for a value of £1.75m, with an option to extend until July 2023. The contract was extended in June 2022 until 31 March 2024.
- 2.3.2 As at 28 March 2022, according to the debtors system 747 invoices to a value of £254,292 require to be recovered by the Council's Sheriff Officers (codes DS - Passed to Sheriff Officers and DB - At Sheriff and in Dispute). However, only 39 invoices to a value of £35,440 had been passed to the Sheriff Officers. At the time of review there was a large interval when sundry debt files were not submitted to the Sheriff Officers between 3 March 2019, when the previous file was submitted, and 10 May 2022 when a recent file of trading companies was submitted to the Sheriff Officers with 2,663 outstanding invoices totalling £4.08m.
- 2.3.3 The Urgent Business Committee (UBC) on 23 March 2020 decided, in light of the financial circumstances emerging from the COVID-19 pandemic, to suspend recovery activity across all accounts, including sundry debts. This decision was not lifted until the first quarter of financial year 2021/22 and took a 'soft start' approach to reinstating recovery actions, initially introducing first reminders, with transfer to Sheriff Officers being the final step in the process being put back in place. The work with digital specialists to improve the automation of the process, to transfer files to Sheriff Officers, was delayed due to resource availability and has recently commenced.
- 2.3.4 Where the Council's records of debts being managed and recovered by the Sheriff Officers is overstated, there is an increased risk of bad debt due to a lack of necessary recovery action.

**Recommendation**

The Service should reconcile the Council's and the Sherriff Officers' debt records to ensure they agree and do so on a recurring basis.

**Service Response / Action**

Agreed. The Service will work through how the system data can be reconciled and maintained and implement a process where this can be achieved.

**Implementation Date**

March 2023

**Responsible Officer**

Finance Controls  
Manager

**Grading**

Significant within audited  
area

- 2.3.5 The Council's debtors system does not cover the debt recovery actions taken by the Sheriff Officers where debts classified in the debtors system as submitted to the Sheriff Officers or at the Sheriff Officers and in dispute. The Council is receiving quarterly key performance indicator (KPI) reports providing high level statistics on debt recovery action taken e.g. number of SMS text messages and telephone calls, number of enquiry visits, number of bank or earnings arrestments executed etc. Monthly reports are also received covering current and prior year collection values and rates as well as values of write offs and accounts on hold. In addition, records of debts being managed by the Council's Sheriff Officer are accessible via the Sheriff Officer's portal. The contract with the Council's Sheriff Officers refers to the related invitation to tender requirement for the Sheriff Officers to submit a service plan and service level agreement to the Council by 31 March each year for discussion and agreement of performance targets, with the plan to be reviewed every 3 months throughout the financial year in question. KPIs covered

include collection rates, speed of collection, quality measures and customer service and care. In practice, these are agreed in September of the financial year to allow time for the Council Tax warrant to be processed and relevant diligences to be analysed for that financial year, since Council Tax recovery forms part of the contract; the Service advised the Service Level Agreement was agreed on 26 August 2022 and the Service Plan is on course to take place as to be agreed as planned in September 2022.

2.3.6 None of the 26 invoices reviewed as described in paragraph 2.2.3 above were passed to the Council's Sheriff Officers after 45 days of being overdue:

- 15 were not sent at all.
- Only five invoices (17%) of all tested were passed to the Council's Sheriff Officers (three invoices were sent on 5/5/2022 (transaction type TRA only) and two invoices were sent in 2017).
- An attempt was made to send 4 invoices but due to technical issues the file was not accepted by the Sheriff Officers.
- One Invoice has been classified 'DO - Charging Order' since 18/11/2014
- One invoice was out of scope as it related to Bon Accord Care.

2.3.7 A recommendation has already been made at paragraph 2.2.3 to review the debt recovery process.

2.3.8 An external developer undertook work in September 2021 to automate the manual process of creating debt files for submission by email to the Sheriff Officers with the assistance of the Service.

2.3.9 This process was used to generate the file submitted in May 2022 above. Whilst the process is an improvement on the previous manual debt file generation process it would be a further improvement if the submission of debt files could be automated also (in addition to automation of file creation), removing the requirement for manual intervention, particularly since as highlighted in paragraph 2.3.2 above, there was a recent significant delay submitting invoices to the Council's Sheriff Officers for debt recovery purposes. It was also noted in section 2.5 Payment Plans below that overdue payment plan invoices were not referred to the Sheriff Officers as expected; automation of referral of overdue payment plan invoices where appropriate could help ensure debt recovery action is taken where payment plans are broken.

<b><u>Recommendation</u></b>		
The Service should automate the submission of debt files to the Council's Debt Collection and Sheriff Officer Agency.		
<b><u>Service Response / Action</u></b>		
Agreed. In this area of work the Service has already successfully implemented a level of automation, with the potential to extend the automation capability. The Service will work to implement further capacity going forward.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
March 2023	Team Leader (Transactions Services)	Significant within audited area

2.3.10 Monthly meetings are taking place between the Council and Sheriff Officer to monitor contract performance. This covered all debt types being managed by the Sheriff Officer

(including non-sundry debts such as Council Tax debt). Minutes of the February 2022 indicated Service Income discussion was limited to problems with the interface file. Furthermore, at this stage only 39 Service Income invoices were being managed by the Sheriff Officers totalling approximately £35,000, meaning other debts such as those for Council Tax took priority. A recommendation has already been made to reconcile debts with the Council's Sheriff Officers at 2.3.4 to ensure debts are recovered and monitored as required.

## 2.4 Disputes

2.4.1 According to the Council's Service Income policy, invoices in dispute will not be subject to recovery action; invoices subject to dispute for more than 14 days require to be reported to the Business Services Transaction Team leader and relevant Service Manager for review and escalation; and invoices subject to dispute for more than 28 days will be reported to the relevant Chief Officers for review and escalation. Disputed invoices should be reported to Finance in practice and a recommendation has been made at paragraph 2.1.8 above to address this. A resolved dispute is classified as:

- The service accepts the customer is correct and they receive full credit.
- The customer is partly correct and that is agreed with the service and the customer receives partial credit.
- The customer accepts they are incorrect and after discussion with the service agrees to pay the full amount of the invoice.
- There is no agreement between the service and the customer, however, the service maintains they are correct and the debt is reinstated in the system for further recovery action.

2.4.2 The target is that all disputes to be resolved within 56 days of the dispute being raised. Appropriate records are required to be maintained of any communication in respect of the dispute by the Business Services Transaction Team and the service. 2,015 invoices and agreed payment plan payments to a value of £3.18m were in dispute as at 28 March 2022 and 1,873 (93% disputed invoices by count) to a value of £3.16m (99.5% of disputed invoices by value) have been in dispute for 60 days or more (aged debt report does not provide over 56 days data) meaning these invoices should no longer be in dispute.

2.4.3 Of the 30 invoices randomly selected for review as described in paragraph 2.2.2 above, 4 were in dispute. All four disputed invoices reviewed have been in dispute for over 56 days; as at 22 July 2022 two had been in dispute since August 2021, another since August 2018 and another since May 2017. There is no evidence of escalation to the respective Chief Officers in line with the Service Income policy. Where invoices remain disputed for long periods of time beyond policy targets, without adequate escalation, there is an increased risk debt recovery action will not resume in a timely manner where necessary and of a reduction in available staff resources to pursue other debts. The Service observes that the process of escalation is time consuming and manual in nature and due to competing demands on the team the escalation activity has not been at the top of the priority list and this requires to be addressed. A recommendation has been made separately at section 2.10 to establish performance monitoring arrangements.

### **Recommendation**

The Service should ensure invoices in dispute are escalated and resolved in a timely manner in accordance with the Service Income policy. This process should be automated if feasible based on a cost / benefit analysis.

### **Service Response / Action**

Agreed. The Service intends to reconsider the terms of escalation to ensure that an effective process that can be successfully maintained. This will be done as part of the review of the Corporate Debt Recovery and Service Income Policies.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
June 2023	Finance Controls Manager	Significant within audited area

## 2.5 Payment Plans

2.5.1 Payment plans must be confirmed in writing to the customer with, where necessary, a target date for the resumption of normal terms. The policy for payment plans is as follows:

- No arrangements for debts < £100
- Debts between £100 and £1000 – arrangement to a maximum of 12 months
- Debts over £1000 – arrangement to a maximum of 24 months
- Debts over £10,000 must be referred to the Business Services Transaction Team Leader before any arrangement is agreed.

2.5.2 As at 15 July 2022, 990 staged payments (transaction type SP) to a value of £34k had gone beyond their due date. Of these 176 totalling £1k were in dispute. Of the remaining 814, 65 totalling £5k were outstanding for greater than 28 days and had a value exceeding £50 indicating they should have been referred to the Sheriff Officers. A recommendation has already been made to automate submission of debt files to the Sheriff Officers at 2.3.9 above.

2.5.3 A sample of five payment plans was reviewed. No exceptions were noted and letters had been prepared in all cases to notify customers of agreed payment plans.

## 2.6 Irrecoverable Debts

2.6.1 The Chief Officer - Finance and Chief Officer – Customer Experience have the authority to approve write-off of sundry debts up to £25,000 per debtor in the following five categories:

- Insolvency, receivership, liquidation and sequestration.
- Ceased trading/defunct company.
- Unable to trace.
- Recommendation of sheriff officer.
- Unable to legally pursue.
- Small balances that are uneconomic to pursue.

2.6.2 Where a debt is deemed uncollectable this must be recorded on a schedule of debtors showing name, address, amounts due, and reason for the debt. The Chief Officer - Customer Experience must submit an annual joint report to the City Growth and Resources Committee advising of the number, value and reasons for debts they have written off and the number and value of debts exceeding £25,000 that they recommend for write off.

2.6.3 This was last done for 2020/21 in November 2021 however analysis of sundry debt write offs in the period was not included in the report (the report covered Council Tax, Housing Benefit Overpayments, Non-domestic Rates, Council House Rents, Penalty Charge Notices and Bus Lane Enforcement Charge Notices write offs but not those relating to sundry debts).

### Recommendation

Sundry debt write offs should be passed to the Revenues and Benefits Manager for inclusion on the annual irrecoverable debt report to City, Growth and Resources Committee.

**Service Response / Action**

Agreed.

**Implementation Date**

December 2022

**Responsible Officer**

Revenues and Benefits  
Manager

**Grading**

Significant within audited  
area

2.6.4 A sample of two write offs were reviewed; these had been approved as required.

**2.7 Reconciliations**

2.7.1 The debtors system sub-ledger of customer accounts is part of an integrated financial system that includes the general ledger. As reported in report AC2203 Financial System Interfaces and Reconciliations, at period end the accounts receivable (debtors) sub-ledger is closed down and reports run to confirm that this had taken place successfully; the sub-ledger was closed timeously in July and August 2021 and system exception reports, which included a check of sub-ledger totals to general ledger control account totals, had been run on the same day the sub-ledger was closed down, with no exceptions reported.

**2.8 Unallocated Income**

2.8.1 Unallocated income can arise for several reasons but generally in relation to sundry debtors this is due to payment reference errors at the point of payment. Different scenarios are described below:

- If the debtor account and the invoice number is incorrect, the income will be posted to that debtor but not auto matched to the correct invoice.
- If the debtor account number is incorrect but has the correct number of characters, the income will be posted to the debtor account for unidentified income (DCA175401).
- If there is no reference or it is not in the correct format, the Bank Recs team will try to identify it. If they fail to do so it will be posted to (DCA175401) as above.
- Payments made to the correct debtor which do not match to any outstanding invoices need to be investigated as they may not relate to Service Income.

2.8.2 463 transactions totalling £52,000 were present in unidentified income account DCA175401 as at 21 July 2022, with the oldest income received in February 2014. The account is being reviewed and between 1 January 2021 and 21 July 2022, 232 transactions totalling £23,000 were cleared.

2.8.3 4,576 negative transactions applied to debtors accounts totalling £638k were classified with dispute code 'DZ – Floating Payment'. 2,761 of these credits totalling £248k have not been allocated to the respective outstanding invoices in over a year. Where income remains unallocated for long periods of time there is an increased risk of inappropriate debt recovery action risking reputation damage to the Council. A recommendation has already been made at paragraph 2.10.4 to address performance reporting of Unallocated Income. The Service has established a procedure for reviewing and correcting unallocated income and evidence of review of unallocated income 'DZ – Floating Payment' transactions was provided. As at August 2022 there were 3,649 transactions 24 totalling £404k of unallocated income classified with dispute code 'DZ – Floating Payment', dating from 2022 to 2011, that have yet to be reviewed and reallocated. A recommendation is included to track progress.

**Recommendation**

The Service review income applied to debtor accounts which has not been applied to outstanding invoices to ensure it is matched where appropriate to outstanding invoices.

**Service Response / Action**

Agreed. The Service has in place a comprehensive procedure on unallocated income, and this is being applied more robustly. However, resource constraints have prevented all of the outstanding sums from being cleared. The Service intends prioritising resources to ensure the backlog of unallocated income is reviewed and action taken; and will continue to maintain the procedure for any new unallocated income received.

**Implementation Date**

March 2023

**Responsible Officer**

Team Leader (Transaction Services)

**Grading**

Important within audited area

**2.9 Ceasing Service Delivery**

2.9.1 The Council's Service Income Policy requires monthly performance information for accounts that are overdue to be prepared by the Business Services Transaction Team; responsibility is now with Finance in practice and a recommendation has been made at paragraph 2.1.8 above to address this. Where there are outstanding invoices in relation to an ongoing, regular service then provision of service may be withheld where there is not a statutory requirement to provide that service (for example for health and safety reasons). Each service is required to maintain a policy in respect to withholding chargeable services for each relevant service and services essential to well-being will not be subject to cessation. In circumstances where the debtor is a vulnerable person or in respect of services essential to well-being, as part of the 'sensitive recovery process' referred to in paragraph 2.2.2 above, Finance has discretion to authorise continued service provision to a customer where historic invoices remain due.

2.9.2 The Debtors system does not automate the cease service process, increasing the risk non-statutory services not essential to well-being will continue to be offered to customers incapable of paying for those services, risking bad debt. The Council's Service Income policy already identifies if a type of charge is essential to well-being as well as charge types where a sensitive recovery process is required.

**Recommendation**

The Service should automate the cessation of non-statutory services which are not essential to well-being within the debtors system.

**Service Response / Action**

Agreed. This was considered by the Council some years ago and limited action was taken at the time. With the development of systems and processes the Service will look at what action can be taken to cease services and also to consider the cost/benefit of automation options that may now exist.

**Implementation Date**

June 2023

**Responsible Officer**

Finance Controls Manager

**Grading**

Significant within audited area

**2.10 Performance Management and Reporting**

2.10.1 In accordance with the Council's Service Income policy, monitoring income collection performance is necessary to assess the success of charging for service delivery. The outcomes of this should be compared to Council and service income targets, objectives and priorities. A clear distinction is required to be made in all reports between income that has been invoiced and that which has been collected. The policy requires clear targets to be set and information to be collected and analysed on a regular basis. The policy also

requires monthly performance information to be referred to relevant team leaders, service managers and Chief Officers for further decision and escalation.

2.10.2 Suggested reporting includes:

- Aged Debt Analysis
- Number and Value of Invoices raised and paid
- Number and Value of Accounts Outstanding
- Overdue Debt against Annual Revenue (12 month average),
- Percentage of unallocated cash when measured against 12 months cash receipts
- Level and age of unresolved disputes
- Debts subject to Payment Arrangements
- Debts subject to Deferred Recovery Action
- Customers subject to a cessation of service

2.10.3 The performance reporting described in paragraphs 2.10.1 and 2.10.2 above is not being made available to relevant team leaders, service managers and Chief Officers. In the absence of this reporting, there is an increased risk of disputes being unresolved in a timely manner, of services being delivered to customers without the means to pay for them and generally of an increase in bad debts and delays in receiving payment for outstanding debts.

2.10.4 The Service advised that limited resources within the team in recent years has meant that prioritisation of the key tasks has not addressed the shortfall of consistent performance information, relying instead on periodic reporting when asked.

**Recommendation**

The Service should establish a comprehensive system of debt recovery performance reporting which is target based and reported regularly to relevant team leaders, service managers and Chief Officers for debt recovery escalation and decision-making purposes. The following regularly reporting should be considered: aged debt analysis, unallocated cash receipts, unresolved disputes, payment arrangements, deferred recovery action, and customers subject to cessation of service

**Service Response / Action**

Agreed. A comprehensive system of performance reporting will be developed to support the transactions team in carrying out their work as, and Council management in scrutiny and decision making purposes.

**Implementation Date**

March 2023

**Responsible Officer**

Finance Controls  
Manager

**Grading**

Significant within audited  
area

**AUDITORS:** J Dale

A Johnston

A McDonald

## Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
<b>Major at a Corporate Level</b>	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.
<b>Major at a Service Level</b>	<p>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.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	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.