

# Internal Audit Progress Report



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## Lincolnshire County Council September 2021

# Contents

<b>Introduction</b>	Page 1
<hr/>	
Key messages	
<b>Internal Audit work completed</b>	Page 4
<hr/>	
Assurances	
Audit Reports at Draft	
Work in Progress	
Other Significant Work	
<b>Benchmarking</b>	Page 9
<hr/>	
Key Performance Indicators	
<b>Other Matters of Interest</b>	Page 10
<hr/>	
<b>Appendices</b>	Page 12
<hr/>	
1 Assurance Definitions	
2 Tracker Report – all outstanding audit actions due 31/7/21	
3 2021/22 Audits to date	
4 Low / Limited assurance reports	

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The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

# Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 30<sup>th</sup> April 2021 to 31<sup>st</sup> July 2021
- Give an update on outstanding management actions from previous audits
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

### Assurances

The following audit work has been completed

#### Substantial:

- Payroll
- Accounts Payable
- ICT Mobile Devices / Agile Working
- General Ledger
- Lincolnshire Fire and Rescue reimbursement of expenses

#### Limited:

- Debtors

### Audit reports at draft

- Better Care Fund (Indicative Assurance – High)
- Property (Consultancy)



Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

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## Key Messages

### **Business World – Project Status RED\***

Assurance work around the Business World redesign has paused since our last update to Committee as the **project is currently being reviewed by external consultants EntecSi Ltd**. They have been engaged to assess and advise on project readiness and timescales for go-live. Their interim report will be shared with the Council's senior management in August 21 with a final report due September 21.

### **Outstanding Recommendations**

We follow up implementation of recommendations from previous audits to monitor progress. At the 31<sup>st</sup> July 2021 we found that:

- **61%** of the actions have been **completed**
- **21% not yet due** at this date.
- Management responses established that the remaining **18% have been deferred**. There were **no High priority actions included within the 18% deferred**.

The reasons include the need for decisions to be formally made and the impact of project delays and workloads. Full details can be found in Appendix 2 of this report.

- **Project red status definition** – Successful delivery of the project appears to be unachievable. There are major issues with the project scope, schedule, budget required, quality or benefits delivery, which do not appear to be manageable or resolvable. The project may need re-base-lining and or overall viability reassessment.

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## Progress and Delivery

We have completed **24%** of the plan up to the 31<sup>st</sup> July 2021.

To ensure we have sufficient auditor resource to deliver our audit plans we continue to use experienced external resources and engage specialist resources for complex ICT audits.

Progress and delivery continues to be made difficult by the on-going impact of Covid-19 on Council teams and staff capacity issues within our team. We have had members of the team:

- leaving to take up positions in other Councils
- one of our Principal Auditors being seconded to support the BWON project
- one of our Principal Auditors going on maternity leave.

We have recently recruited two new senior auditors which has helped with capacity and are looking to recruit a further Senior auditors to the team. Over the autumn we will be looking to recruit a number of apprenticeships into the Audit and Counter Fraud teams. All actions designed to build capacity and capability within the teams.

## Service Review

The Team Leader – Counter Fraud and Investigations left the Council in September 2021. This provided us with an opportunity to review management arrangements and to refocus our Internal Audit and Counter Fraud plans – looking to make the best use of our existing resources, skills and experience – improving efficiency in delivering assurance on common cross cutting areas eg contracts, corporate systems.

We will report to the November Audit Committee an updated audit and counter fraud plan that has been realigned to focus on the key areas that require assurance.

A Corporate Audit & Risk Management service review is planned (1/4/2022) to ensure the service is fit for purpose to achieve the Council's strategic aims and lead a motivated and productive workforce within the agreed budget.

# Substantial Assurance

## Payroll

Our testing confirmed that sound processes and controls remain in place. We found evidence of authorisation around contractual payments, segregation of duties in processing transactions, continued checking of various exception reports and that documents are being retained electronically.

The majority of actions raised in the previous audit have been addressed - where these are outstanding there is a link to the ongoing Business World Redesign project or restricted access to LCC buildings.

## Accounts payable

Our review of the Accounts Payable functions found that overall the processes are well controlled and operating effectively.

During 2020-21 there was an instance where procedures to validate bank details were not followed which led to a fraudulent payment nearly being made. Procedures have since been strengthened through the implementation of an additional control within the Accounts Payable processes which acts as an additional check of any changes prior to the daily payment run.

## Lincolnshire Fire and Rescue reimbursement of expenses

Overall we can provide a substantial level of assurance around the effectiveness and efficiency of the employee expense reimbursement process at Lincolnshire Fire & Rescue Service. We can confirm that claims submitted are compliant with policies, procedures, and guidelines and that there is a consistent approach to the reimbursement of expenses across the Service.

Submission of claims does however require some improvement. Instances were also identified where some mileage claims had not been checked and approved. These claims also raised a query as to whether the mileage claimed for one specific regular journey was overstated. These claims have been passed to the Area Manager, Service Development for further investigation.

# Substantial Assurance

Mobile Device Management is an important tool to help an organisation manage information security risks associated with the use of devices, which include mobile phones, tablets and remote access laptops. The Council and Serco understand the need for a strong MDM solution and the majority of the required steps for this are already in place.

However there are still some improvements needed in the application of the controls to manage the associated risks. Whilst none of these control improvements have a high priority, several areas of medium priority are identified. These include no formal project plan for the transition to MDM software which sets out clear objectives and milestones, and a lack of formally documented security configurations (secure baselines) that describe how the Council's mobile devices should be configured.

Our review of key controls found that they are in place and generally working effectively.

There are still issues outstanding with sales invoices being raised on one control account and being paid on a different account resulting in an imbalance on individual accounts. A solution to this is still being worked through between Finance & Income colleagues.

ICT Mobile  
Devices/  
Agile  
Working

General  
ledger

# Limited Assurance

We found that debt recovery arrangements were not working effectively due to the significant increases in disputed debts.

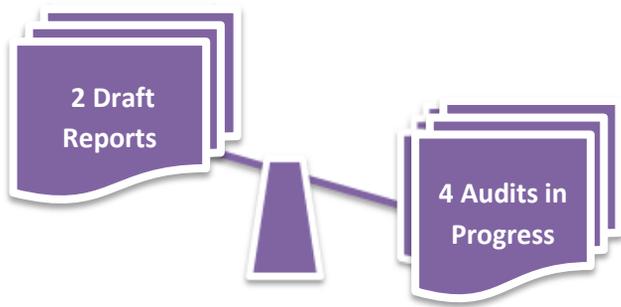
The Councils' outstanding debt had increased from approximately £9.5m at January 2018 to £23.8m by March 2021.

Whilst total outstanding debt had only increased from £21m to £23.8m since March 2020, there had been a significant increase in the value of disputed debts (£9.6m to £14.2m). The majority of this debt related to 'LCC decision pending' which had almost doubled in the year to £8.5m at the end of March 2021.

Whilst debt remains classified as 'LCC Decision Pending' (awaiting a decision on court action or write off), recovery activity will be limited.

Where there are delays in taking action to recover debt there is an increasing risk that the debt will need to be written off by the Council. LCC and Serco need to work together to review the process for raising and recovering debt to identify potential improvements.

## Debtors



## Audits in Progress

We have 4 audits at fieldwork stage:

- Safeguarding Adults
- Trade Union Facility Time Review
- ICT Privileged Account Management
- Transport Connect

## Other Significant Work

### Grants

Grant audits work is in progress to ensure that funds have been used in line with grant conditions. Two grants (Bus Service Operators' grant and the Highways' grant for road maintenance) are due for submission by the end of September 21.

### Supporting Families Work

Quarters 1 and 2 have been completed, and we reported no issues. The 3rd quarter review is due to start in September. We were also asked to attend a meeting in June with Northampton Council to share our practices .

## Business World Redesign

The BW Redesign Project has at present 3 critical risks:

- The Hoople Service Design and plan is still unknown and there is a risk this will not be delivered for go live in November 21
- The ability to complete data cleanse activity – in particular dis-established positions
- There is a risk the consultant resources which are currently in place will not be available post November 2021 as a result of the contracts ending.

This has resulted in 'red status' for the project. Given the above risks and unknown status of the anticipated 'go live' date, the move to the Hoople Service Design is an area of key assurance concern at present.

We continue to provide advice and insight to the project on risk and control. The project continues to progress:

- Shareholder agreement has been signed at end of July 21
- The 1st of three planned parallel payroll runs have reached sign-off stage for Fire payroll. The Corporate payroll is due to be completed by the end of August and Schools payroll by early September. A number of adjustments to the Hoople system build have been identified and actioned through this process and this should support smoother progress going forward.



Delivery has been re-planned and additional resources added to the project team.

- User Acceptance Testing was due to be completed on 23rd July – work has carried on to finalise testing on 20th August. Further UAT have been highlighted and a phased two is due to take place in Sept / Oct partly due to the engagement required from Schools
- The project continues to raise the impact of the movement to the Hoople Service Design and liaising with service leads to agree how they adapt and adopt the new solution. This includes full understanding of process and differences in approach and service areas being ready and capable to use the new system.
- A Training strategy has been produced and approved by the Business change steering group. Additional resource has been identified to plan and record the production of all training and guidance material. Initial prototypes have been shared for feedback and the day by day production of training materials will be completed by the end of August. The work has started on the detailed delivery plan in understanding how many sessions will need to take place and how they will be managed, the use of Lincs2learn to track the attendance at mandatory training and the day by day delivery of training prior to going live.
- Data migration, reconciliation and cleanse activities continue to work in cycles with data migration and reconciliation phase 4 due to take place late October/ early November. Service areas continue to cleanse identified data sets throughout the process. Decision taken by Head of HR to remove vacant positions from the migration piece due to the significant volume and effort involved in

closing them down manually. Efforts will need to be made in the services to maintain data once cleansed and where possible the project are supporting in this.

## Transformation Programme

We continue to attend all the Transformation Steering Board meetings as we support the programme and provide regular assurance reports to management and the Audit Committee on progress.

We are refreshing the audit terms of reference (TOR) as we enter the second year of the programme. Updates will be sought from all board members to ensure effective audit coverage continues.

Based on the status of a number of projects and the assurance rating following the recent audit - the Programme Assurance status has been amended from Green to **Green/Amber**.

The only project in the programme to report a Red status is the BW Redesign Project. It is reported that overall the project is running behind plan, and 1st November go-live date is under review. The Entec Si review of the project continues and will include recommendations for the project going forward including any changes to the go-live date. The report from Entec Si is expected w/c 16th August 2021.



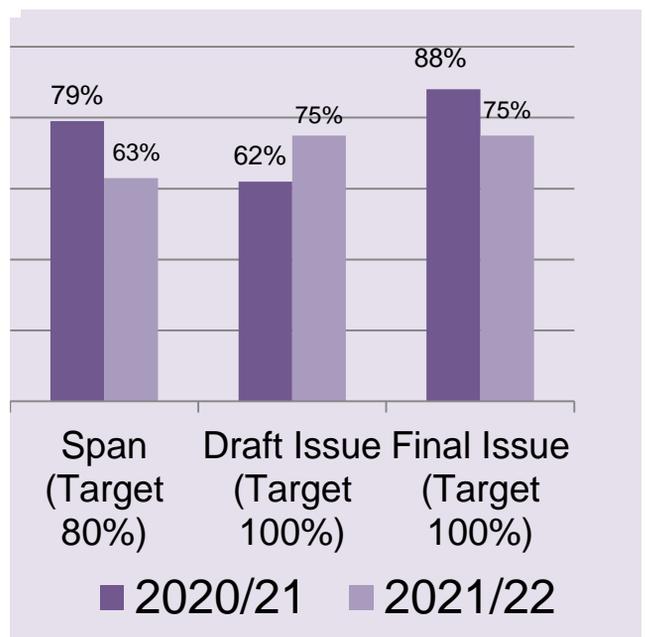


Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

## Performance on Key Indicators

**Positive feedback has been received**

**Plan completed 24%**





# Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

## **Please find below some of the key extracts from the CIPFA Audit Committee Update Issue 35 (July 2021):**

### **Supporting improvements to risk management arrangements**

The Better Governance Forum held two discussion groups with members in April 2021 to discuss the experience of the pandemic and what it meant for risk management. The groups discussed how their arrangements had fared in supporting the organisation's management through the pandemic. The key areas for improvement identified by the groups were as follows:

- better integration with plans and management processes
- consistency across the organisation, and
- a focus on action.

When asked how improvements to risk management arrangements could be achieved both groups were consistent in their choice of the best action to take – investment in staff training and awareness of risk management.

The detailed results of the discussions are available in a briefing, the link to which can be found within the CIPFA Audit Committee Update Issue 35 (July 2021). The paper contains a summary of the findings identifying strengths and areas for improvement.

### **Audit Committee Guidance**

In July the Ministry of Housing Communities and Local Government (MHCLG) issued a further update on progress against the Redmond Review recommendations. One of the areas reviewed as part of the consultation was guidance for Audit Committees which the MHCLG has recommended to be strengthened and updated to support effective audit committee arrangements. The consultation asks for comments on this proposal and whether it is agreed.

The updated guidance is likely to include the following:

- structure
- role of independent members
- how the committee interacts with full council
- reporting to those charged with governance
- core functions
- knowledge, expertise and training of audit committee members
- facility to meet privately with auditors.



# Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

## **Reporting to full council/those charged with governance**

MHCLG is proposing to amend the Accounts and Audit Regulations so that the full council should receive the auditor's annual report from the local auditor. The purpose of this is to improve transparency to the public and ensure all members are aware of issues raised by the auditor and recommendations. It is also proposed that it is accompanied by a report from the audit committee containing its responses to the auditor's annual report.

The full CIPFA Audit Committee Update Issue 35 (July 2021) can be found using this link:

<https://www.cipfa.org/services/networks/better-governance-forum/audit-committee-update>

**High**

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

**Substantial**

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

**Limited**

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

**Low**

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

## Tracker Report – all outstanding audit actions due 31/07/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Cyber Security	March 19	Limited	6	4	0	2	0	0
	<p>There are two outstanding actions that relate to Network and Monitoring Strategy. The Network action is not due until 31/12/21 and will be followed up by a future tracker. Following discussion with the key contact for the Monitoring Strategy they stated that the monitoring that is now in place since the initial audit in 2018 has grown. There are also setbacks which include slow progress to complete ongoing in-flight projects that is reducing the usefulness of the new tooling. Once the LCC projects are completed then LCC monitoring abilities will be at a standard that would allow better governance. Currently multiple monitoring reports are shared with LCC monthly. This is expected to be replaced using the upcoming system Azure where practicable. The action has progressed 80% and should be complete by 30/10/21 pending LCC projects and for LCC to decide if they want a managed Security Operations Centre.</p>							
Transformation	June 21	Amber/Green (Highlight report)	7	2	0	0	0	5
	<p>The two actions that were due have been completed.</p>							
Implementation of Mosaic Finance	March 21	Low	8	7	0	0	0	1
	<p>All actioned apart from one which is not yet due.</p>							
Education Health Care Plans	Dec 20	Substantial	1	1	0	0	0	0
	<p>The action that was due has been completed</p>							
LSAB Peer Review	Dec 19	High	2	0	0	2	0	0
	<p>First draft of the Policy and Procedures is still under construction and expected to be completed by the end of July 2021. Awaiting Executive Board where the Policies and Procedures will go for full sign off. New deadline set for 08/09/2021</p>							
Bank Reconciliation Key Control Testing	April 21	High	1	0	0	1	0	0
	<p>The recommendation has not been actioned as yet given time pressures on all concerned and the Hoople implementation Project. It is hoped to progress this by 30/9/2021</p>							

## Tracker Report – all outstanding audit actions due 31/07/21

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Safeguarding – Covid-19 Measures	March 21	Substantial	2	2	0	0	0	0
	Both actions have been completed							
Spalding Relief Road Follow Up Audit	March 21	Substantial	1	1	0	0	0	0
	The action has been completed							
<b>Total</b>			28	17	0	5	0	6

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Supporting Families 1	Review and validation of periodic claims for the Troubled Families programme.	12/04/21	12/04/21	14/04/21	Completed
ICT Privileged Access Management	Review to confirm that the allocation and use of privileged access rights is restricted and controlled.	06/05/21	28/06/21		Fieldwork stage
Supporting families 2	Review and validation of periodic claims for the Troubled Families programme.	14/06/21	14/06/21	15/06/21	Completed
Highways grant	To confirm compliance with Grant funding criteria	09/07/21	09/07/21		Fieldwork stage
BSOG grant	To confirm compliance with Grant funding criteria	15/07/21	15/07/21		Fieldwork stage
Adults Safeguarding response to Covid	Review how government guidance was been complied with and provide assurance that the Council has maintained robust safeguarding arrangements through the Covid 19 Pandemic.	18/08/21	18/08/21		Fieldwork stage
Trade Union Facility Time Review	Assurance that the raising, approving, recording and reporting of time taken off for trade union activities is operating as intended.	01/08/21	16/08/21		Fieldwork stage
Transformation programme – Transformation Steering Board	Support and advice to the project overseeing the future Transformation developments	01/04/21	01/04/21		Ongoing work over the year
Fire and Rescue Expenses	To provide assurance around the effectiveness and efficiency of the employee expense reimbursement process at Lincolnshire Fire & Rescue Service, to ensure it is compliant with policies, procedures, and guidelines.	01/04/21	27/04/21	20/07/21	Completed Substantial Assurance

## Debtors – Limited Assurance

ISSUED AUGUST 2021

### Background and Context

The Council's AR processes involve staff at LCC (raising and approving debtor accounts) and the Serco AR team is responsible for issuing the debtor accounts, processing amendments and debt recovery arrangements. The Serco Master Data team sets up customer details on the Business World ERP system.

The previous full audit of Accounts Receivable (AR) was undertaken in 2016/17 and given a Limited Assurance opinion. Further key control testing has been completed since evidencing improvements to systems and processes with the opinion rated as High Assurance in the audit report issued April 2019 but reducing to Substantial in June 2020 due to identifying areas where improvements were needed in debt recovery to avoid the need for large value write-offs. This is still an area of increasing concern.

Reports on debt levels and debt recovery performance are provided to LCC Finance each month. Reports at the end of March 2021 have a total outstanding debt of £23,830,178. Adult care make up £15m of this debt. The debts older than 365 days total £9.37m.

### Scope

To provide independent assurance that the processes and controls in place for raising, collecting and recovering debts are appropriate and robust..

We sought to provide assurance around systems to ensure:

- Debtor invoices are raised promptly and accurately
- Amendment/cancellation of debtor invoices is approved
- Debt recovery procedures are effective
- Debt levels are monitored and managed effectively with reporting to stakeholders
- All debts written off are processed and authorised in line with procedures

Our review included the use of data analytics to identify outliers in debt recovery information.

## Executive Summary

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Debtors invoices raised are incorrect / inappropriate	Low	0	0
Invoice amendments/cancellations are incorrect/fraudulent	Low	0	0
Debt recovery arrangements are not effective	High	1	1
Information on debt collection/recovery is inaccurate/incomplete	Medium	0	4
Fraud risks are not managed	Low	0	0
Staffing resources are insufficient or do not have appropriate knowledge/skills	Low	0	0
The debtors system fails to produce the required outputs	Low	0	0
Previously agreed actions remain outstanding.	Low	0	0
<b>TOTAL</b>		<b>1</b>	<b>5</b>

Aged debt reporting reflects that over the last few years the level of the Councils' outstanding debt has been increasing, from approximately £9.5m at January 2018 to £23.8m by March 2021. Whilst total outstanding debt has only increased from £21m to £23.8m since March 2020 there has been a significant increase in the value of disputed debts (£9.6m to £14.2m). The majority of this debt relates to 'LCC decision pending' which has almost doubled in the year to £8.5m at the end of March 2021. Whilst debt remains classified as 'LCC Decision Pending' (awaiting a decision on court action or write off), recovery activity will be limited. Where there are delays in taking action to recover debt there is an increasing risk that the debt will need to be written off by the Council. On this basis we cannot report that debt recovery arrangements are working effectively and our assurance is Limited. The introduction of payment for Residential & Nursing placements as gross due from April 2022 and the new legislation around 'debt breathing space' introduced in May 2021 are both likely to cause a further increase in debts and debt recovery activity. Whilst the Strategic Finance team have undertaken significant work focussed on Adult Care debt, the Council and Serco need to work together to identify process improvements to support recovery activity. For LCC this includes ensuring that a more robust and timely approach is put in place to review and take decisions on recovery action once debts are referred to the Council for a decision if debt levels are to be controlled.

### **Significant Increase in Decisions Pending**

In addition to the £8.5m classified as 'LCC decision pending', a further £1.3m is recorded as probate cases and incorrect financial assessments £1.2m. Review determined that the 'LCC pending decision' debt is not due to one or two large debts but numerous smaller debts. This means 61% debts are disputed and of these 60% are awaiting decisions about whether they should be taken to court or written off. This represents a 77% increase since last year when this issue was highlighted in our audit report.

### **Adult Care Write-offs**

Due to the concerns around the high level of Adult Care debt awaiting recovery or to be written off an Adult Care Debt Recovery Programme, headed by the Executive Director, Adult Care and Community Wellbeing, was introduced in 2020/21 by Adult Care Finance to strengthen the debt recovery processes. The remit of the debt recovery programme was to understand why the debt had not been repaid, whether any legal processes were in place and if over 6 years old identify those debts that needed to be written off.

Some improvements have been put in place to help improve the decision making by budget holders in Adults with the aim to improve the debt recovery process by speeding up the decision making by budget holders. However this is an on-going process and controls need to be strengthened further especially when the Council moves to paying Residential & Nursing placements as gross (April 22) and the new legislation around 'breathing space' coming into effect in May 21 where anyone who has a debt can require a delay in their payment period. A more robust credit control process needs to be in place to ensure these changes do not significantly impact on debtors.

Our review determined that a number of actions highlighted in the previous audit report remain outstanding. For three of these progress has been impacted by the change freeze on the BW system which has stopped development activity.

## Managers Response

### LCC Finance: Tony Warnock - Operations and Financial Advice Manager

The Council's finance managers have for a long time held the view that considerably more needs to be done to improve debt recovery and reduce the age of outstanding debt. The team has managed to carve out a considerable amount of time from existing resource over the last five years to improve the position. I am proud of the improvements made over last year in particular, because of: the limited additional resource available; the numerous challenges presented by Covid-19, including home working; the need to administer an additional £100m of government grants, and; the considerable commitment of time needed to the help secure a smooth transition to Hoople's BW system; etc. Nevertheless, we are clear that much more needs to be done and we have therefore developed a comprehensive, 22 point action plan to drive the improvements required. The plan will be shared with the audit team to help inform its scoping of Accounts Receivable reviews in future years, and with the Director and Assistant Director of Resources.

The action plan aims to:

- increase awareness of the importance of debt collection and clarify roles and responsibilities;
- promote alternative payment mechanisms to avoid raising invoices where possible;
- ensure all debt raised is accurate;
- improve the matching of payments to invoices;
- ensure more effective systems are in place to deal with disputes;
- ensure all relevant debts are secured on property legally and in a timely manner;
- establish effective systems to address debts that may fall 'out of time' and become irrecoverable; continue to develop plans to recover payroll related debts due from existing and former employees; review debts at customer, not invoice level;
- focus greater attention on the highest value debts in each directorate;
- review the frequency of reminders and whether statements can be produced with Hoople's version of BW;
- seek clarification regarding Serco's charges for its credit control function;
- promote consideration of the resource levels required to manage the size and age of debt;
- seek a review of how performance is measured under the Key Performance Indicator;
- benchmark performance with similar local authorities;
- review the debt write-off process to ensure it is effective

- review Serco's monthly management reports to ensure the contents remain relevant;
- increase reporting to the Council's senior management, to promote debt recovery;
- seek to capitalise on improvements available through the move to Hoople's BW system;
- assist Serco in staying up-to-date with changes in government policy, particularly around Adult Social Care, and;
- participate in the Council's review of longer term opportunities for improvement in debt collection performance and other exchequer functions, etc.

The Finance team's objective is to improve debt recovery and reduce considerably the age of outstanding debt. Progress against the 22 point plan will be reviewed on a regular basis and the results will be shared with the Audit team, to assist the shaping of future reviews of the Accounts Receivable function.'

#### **Serco: Ian Blindell - Serco Transactional Services Manager**

This year's debtors audit has identified a number of new and previously highlighted recommendations including one in the high risk category.

Although it has been demonstrated that continued progress has been made over the past few years, it is clear that the budget holder decision making process remains a significant issue and continues to be the priority area for improvement. Despite guidance notes being issued to budget holders explaining their roles and responsibilities, it is evident that further work is required to engage budget holders and ensure that the decision making process is reviewed and expedited within desired timescales.

We'd like to thank the audit team's focus and attention on this audit review which only had a minimal impact on our operational team's resource time this year.