



## Report of the Chief Finance Officer

Audit Committee – 8 September 2020

### Service Centre - Accounts Receivable Update

<b>Purpose:</b>	To provide an update for the Service Centre, Accounts Receivable Function.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Legal, Finance and Access to Services
<b>Recommendation(s):</b>	That the Audit Committee note the information within the report and agree the recommendation in Section 5.
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<b>Finance Officer:</b>	Ben Smith
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Catherine Window

#### Internal Audit on Accounts Receivable Function – Update August 2020

##### 1. Introduction

- 1.1 As a result of an internal audit on the Accounts Receivable function carried out in Quarter 1 2020, an assurance level of moderate was given in the final report issued in May 2020.
- 1.2 An action plan was developed to address the issues identified and appropriate implementation steps put in place.
- 1.3 This action plan identified the following HR & MR actions (High Risk & Medium Risk)

- (3.6.2 & 3.6.10) All debts should be escalated on a timely basis. Where payment is not received within the timescales allowed a decision should be made on whether to refer to Legal or write-off the debt. (HR)
- (3.6.3a) Very old unpaid invoices should be prioritised to ensure limitation period does not expire. (MR)
- (3.6.7) Officers in Legal should ensure that AR are informed of the closure of each case promptly to ensure the appropriate action is taken ongoing. (MR) (Responsibility of Legal Dept)

**Progress to date:**

- In 2019 a review of over 1000 old invoices was carried out and were progressed in one of the following ways:
  - Payment in full was received
  - Repayment plan was negotiated
  - Referred to Legal
  - Put onto pending write off status. All invoices that were moved to write off status (under £10,000 value) were approved and closed on the system before 31 March 2020.
  - In financial year 2019 / 2020 the following were progressed to write off (approval received and closed on system) or referred to Legal Dept. The invoices written off are collated from the recommendations received from Service Departments, AR Team and Legal Dept. There is a robust process in place whereby debts and debtors are chased and carefully assessed before making the decision to write off. The team use a number of information sources internally and externally to carry out assessments and follow an internal agreed protocol of value thresholds and circumstances to determine whether to refer to Legal for further action. However, it should also be noted that even where cases are referred to Legal there is no guarantee of recovery and many cases are recommended for write off by the Legal Dept where there is no prospect of recovery. All write off reports go through several stages of checking both within the Service Centre section and Internal Audit. Invoices are only written off when all recovery avenues are exhausted.

	<b>Invoice volume</b>	<b>Invoice value</b>
<b>Written Off (closed on system)</b>	1,156	174,976
<b>Referred to Legal</b>	258	745,978

- All invoices that were raised over 5 years ago that were not on a hold reason were included in the review and progressed.
- Progress was limited by the implementation of the Oracle Fusion project in November 2019 as experienced staff were moved to the project and new temporary staff were recruited to backfill. It was necessary to transfer experienced staff to the project as project staff are required to fully appraise and test all of the new system processes and reports as well as carry out data cleansing. Of the 4 debt recovery

processors, 3 were new temporary staff. The staff were not fully in place until February 2020. They began immediate training but progress was further compounded by the Covid19 pandemic when all debt recovery activities were halted completely.

- Covid 19 restrictions have now started to lift and debt recovery activities have been recommenced with a slow ramp up to allow for customer adjustments. The CM & AR Manager has carried out a fresh review analysis of all outstanding invoices on the system and set priorities and targets. These will be reinforced by the re-commencing of the monthly Debt Recovery Activities meeting where staff report back with progress updates and discuss cases and issues. The actions set are:
  - Nulls over 5 years
  - High value Nulls – any age
  - Awaiting evidence of debt from service dept
  - Any hold reasons reflecting recovery action needed, including Sale Pending and Awaiting Probate
- Referrals to Legal will recommence in September 2020.
- The reconciliation of invoices referred to Legal progressed in 2019 but also halted when the Oracle Fusion project was implemented. This is a time consuming piece of work which is hoped will be able to be progressed once sufficient resource becomes available. However, current resource is focussed on debt recovery, training new staff members and essential Oracle project tasks such as data cleansing and report development.
- All AR customer telephone calls have been diverted to the Service Centre Helpdesk since February 2020 as a first line of enquiry which has alleviated the burden on the AR Team freeing up time for more valuable tasks eg debt recovery.
- All communications sent to HOS and to the Receivable system user group contain a link to Accounting Instruction 7 which outlines all procedures and protocols for giving credit. Staff are also regularly reminded of the accounting instruction and are given specific reminders on best practice by direct email.
- A new MS Team has been set up for all AR Invoicing system users across the Authority. All users have been added and invited to engage with the platform. 2 dedicated channels have been created to provide training materials (previously these were emailed to users) and for users to post questions for general advice. This Team will be used as a central point to issue mass communications to all users quickly and for access to up to date information and resources.
- All workflow and process efficiencies are being explored as part of the Oracle Fusion project although the go-live date has now been delayed until 2021.
- Robotic Process Automation is an initiative that is being taken forward corporately and the Service Centre is participating as part of this initiative. The AR processes will be reviewed as part of this initiative. RPA is functionality that can automate any step-based task that is currently being undertaken by staff eg customer requests. We will identify any AR processes that could be undertaken by a Virtual

Worker which will free up time for staff to focus on more value-added activities eg debt recovery. We will be in a position to review this once Oracle Fusion has been implemented.

1.4 Further clarification on the Accounts Receivable debt recovery procedures and devolved responsibilities has been requested by the Audit Committee Chair. This is provided below:

- A summary of the AR Debt Recovery procedures is appended for information.
- **Responsibilities:** AR invoice responsibility lies in 3 areas which are broadly outlined in the table below. The Service Department and AR Section both have a continuous and simultaneous responsibility for debt recovery, whilst the Legal Dept only has responsibility when cases are referred to them. Note that these responsibilities have not changed, however the AR Team has endeavoured to re-inforce the Service Dept role in the debt recovery process by encouraging sections to implement a monthly monitoring routine for their area by running regular system reports. They are requested to resolve disputes without delay and make contact with those customers who have unpaid invoices. This is particularly important in service areas where there are ongoing services being provided eg Commercial Waste Recycling or Social Services sections invoicing partners such as the Health Board.

Department	Responsibilities
Service Department	<ul style="list-style-type: none"> <li>• Provides the goods or services</li> <li>• Retains overall responsibility (or ownership) for the debt as the income ultimately is paid into their budget code</li> <li>• Instigates the relationship with the customer</li> <li>• Resolves all disputes</li> <li>• Instructs AR of any invoice reductions or cancellations</li> <li>• Plays a part in monitoring all outstanding debt for their area and maintains ongoing customer relationship to ensure that debts are paid and that no further credit is given unless payments are up to date</li> <li>• Responsible for obtaining, retaining and supplying evidence of the debt</li> <li>• Recommends write off as appropriate and in accordance with protocol</li> </ul>
Accounts Receivable	<ul style="list-style-type: none"> <li>• Intermediary central control point</li> <li>• Issues and manages all aspects of the invoicing process</li> <li>• Liaises with Service Dept, Customer and Legal Dept to ensure end to end invoice process is progressed efficiently</li> <li>• Invoice debt is carried on the AR central code until the invoice is either paid, cancelled or written off. Note that the Service Dept receives a credit for an</li> </ul>

	<p>invoice when it's raised on the system. The code is only debited for unpaid invoices when the invoice is closed on the system i.e. it's cancelled or final approval to write off is provided</p> <ul style="list-style-type: none"> <li>• Responsible for issuing all debt recovery letters, chasing up outstanding debts, negotiating and managing all instalment repayment plans</li> <li>• Recommends write off as appropriate and in accordance with protocol</li> <li>• Reviews all outstanding debt and refers cases to Legal in accordance with agreed protocol.</li> <li>• Prepares write off reports for final approval</li> </ul>
Legal Department	<ul style="list-style-type: none"> <li>• Accepts referrals and issues Court Warning Notices</li> <li>• Enters debts into court appropriately and in line with corporate protocols</li> <li>• Obtains Charging Order and Third Party Debt Orders as appropriate</li> <li>• Negotiates instalment repayment plans</li> <li>• Recommends write off as appropriate and in accordance with protocol</li> </ul>

- **Underlying issues that have resulted in invoice backlogs:**
  - The AR Team resource has been depleted over the last 10 years resulting in a situation where the Team is unable to give all invoices the necessary attention in order to review and progress in a timely manner.
  - The team has undergone 4 changes of management/ team leader and 2 section re-structures in the last 5 years creating a volatile environment for the staff.
  - New team members have been recruited at various points over the last 5 years. It takes a considerable amount of time for these staff members to be trained and gain the experience needed to fulfil the role competently.
  - Depleted resource has meant that team members are unable to allocate a sufficient percentage of their time to focus on debt recovery activities. This affects the Team priorities as efforts are most often focussed only on the higher value debts with the result that lower value ones are left stagnant. Prior to 2015 staff dedicated to debt recovery activity specific roles were able to allocate 70% of their time specifically to these tasks. By 2018 that had reduced to about 20% where it remained until February 2020 when the first line customer enquiries were directed to the Service Centre Helpdesk. Staff now have about 45% of available time that can be dedicated to these activities.
  - Legislative changes have also contributed to backlogs where the AR Team were unable to refer to the Legal Dept for 1 year. These changes also placed a greater burden on the AR Team as the Pre Action Protocol was more prescriptive and required the AR team

to obtain evidence before referral to Legal, whereas previously this burden of responsibility lay with the Legal Dept. This has improved the situation for the Legal Dept but the work was absorbed into the already depleted AR Team with no extra resource provision available.

- Depleted resource in the Legal Dept has contributed to debts remaining open on the system. Prior to 2015 monthly referral meetings were held between AR and Legal which provided a useful interface to discuss any issues and recovery strategies. This is no longer possible and all referrals are now made via an online form. The online form is an efficient process but the benefits gained by liaison are lost. Legal Debt Recovery officer numbers have also decreased to a very low level compared to previous years.
- Service Depts have a continuous responsibility for the outstanding debt but there are mixed levels of activity across the authority. Some departments have a regular and thorough monitoring routine whereas others have very little or are inconsistent. Where AR staff have engaged with Service Depts an improvement in recovery rates has been seen. However this requires an investment of AR staff time in order to achieve results. It's not possible for AR to be able to monitor whether Service Depts are running reports by checking on the system. Heads of Service are issued with monthly dispute list reports and quarterly lists of outstanding debt over 60 days old for visibility and action. AR relies on the HOS to cascade these down to the relevant managers with the correct message. Liaison has shown that sometimes these lists do not always reach the correct manager and action is not always followed through by dept staff. This has been found for disputes and outstanding debt. The reasons for this lack of action by the Service Depts is not completely understood but may be due to lack of available resource within the Dept, a lack of understanding on what their responsibilities and actions should be, an inability to navigate the Oracle system or possibly simply a view that debt recovery is solely the responsibility of AR. The new MS Team will help the AR Team to improve engagement with Service Depts.

## **2. Equality and Engagement Implications**

2.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

2.2 There are no equality or engagement implications in this report.

**3. Financial Implications**

3.1 There are no financial implications other than those set out in the body of the report.

**4. Legal Implications**

4.1 There are no legal implications other than those set out in the body of the report.

**5. Recommendations**

5.1 Service Departments to be reminded of their responsibilities and role in the invoice process. This should be reinforced through the Directors and Heads of Service to ensure consistency and robustness of process.

**Background Papers:** None.

**Appendices:**

<b>Appendix A</b>	Accounts Receivable Final Audit Report
<b>Appendix B</b>	Invoicing Debt Recovery Procedures summary