Internal Audit & Corporate Fraud Services

DEBT RECOVERY AND WRITE OFFS

Report issued by: Siobhan Martin - Head of Internal Audit
Report prepared by: Kate Hind and Joseph Agbalaka

Date: 09/2018
Audit Reference: CC010

DISTRIBUTION

Executive Portfolio Holder	M Cook
Audit & Governance Committee	
Chief Executive	R Williams
Chief Operating Officer	H Pluck
Head of Finance & Revenues and Section 151 Officer	J Chance
Operations Manager	T Minnican
Banking and Income Team Leader	S Fitzpatrick
External Audit	M Russell

FINAL

1.0 EXECUTIVE SUMMARY

1.1.1 Introduction

Internal Audit & Corporate Fraud Services acts in accordance with the Accounts and Audit Regulations (2015), Public Sector Internal Audit Standards and Local Government Application Note (2013). This audit has been prepared in accordance with our Audit Charter.

As part of the Audit Plan for period 1st April 2018 to 31st March 2019 approved by the Audit & Governance Committee on 27th February 2018, we have undertaken an audit of the systems of internal control in place over debt recovery and write-offs.

In the 2017/18 financial year the value of debts written off by IBC was £1,273,145 (0.7% of Council debt raised for the same period).

Debt Recovery is carried out by the Revenue Collection Officers & Write-offs are processed by the Corporate Income Officer. There are 5 main categories of income that can go through debt recovery procedures if they remain unpaid past the required terms; Sundry Debts (incl. Allotments, Admin Penalties, Building Control, Entertainments, Environmental, HEARs Service, Ipswich Borough Homes – Repairs, Leaseholder charges, Legal, Licensing, Parks, Waste, Corporate Rents, Cemeteries & Events), Business Improvement District Levy, Former Tenant Rent Arrears, Former Homeless Rent Arrears, & Historic Housing Benefits Overpayments.

Debt recovery for Council Tax, Business Rates and current Housing Benefit Overpayments are undertaken by the Shared Revenue Partnership and not covered in this report.

This report sets out our findings and raises recommendations to address areas of weakness and/or non-compliance with existing controls, as set out in the action plan.

1.1.2 Audit Scope & Objectives

In planning this audit, a risk assessment was undertaken, with the following considered to represent the potential key risks relating to debt recovery and write-offs which could impact on the Council's ability to deliver relevant Council Priorities and service objectives:

<u>Delegations & Authorisations</u>

- Delegations may not be kept up to date leading to unauthorised debt write-offs and non-compliance with Financial Standing Orders (FSOs).
- Debts are considered for write off by staff without the appropriate authorisation.

<u>Debt Recovery</u>

- Financial loss due to lack of regular monitoring of outstanding debt.
- Inappropriate segregation of duty may lead to financial loss.
- The Debt Recovery Policy is not kept up to date which may lead to non-compliance with legislation and FSOs.
- Aged debt reports are not regularly produced and independently reviewed leading to failure to maximise income collection.
- Recovery action is not recorded leading to financial loss and reputational damage.

<u>Write-offs</u>
• The early or delayed write off of debt may lead to reputational damage and financial loss.
• Unauthorised write-offs may be made that could remain undetected due to a lack of proper records, documentation or segregation of duties.
• Debts may be referred for write off having not gone through the approved recovery cycle leading to financial loss and non-compliance with FSOs.

The objective of the audit was to ascertain the extent to which the identified risks had been managed and to evaluate whether effective controls to mitigate the risks had been established, and were operating effectively throughout the period under review.

1.2 ASSURANCE STATEMENT

1.2.1 Overall Assurance Level**

Good	Adequate	Limited	Unsatisfactory
	✓		

** For definitions see Appendix A

1.2.2 Positive Audit Comments

We would like to draw management attention to key controls in operation over Debt Recovery and Write Offs processes and procedures that were operating effectively and efficiently:

- There are controls in place to ensure that debts referred for write-offs are being authorised at the appropriate level by post-holders with the delegated authorisation to do so.
- There are processes in place to monitor and recover outstanding debt on a regular and timely basis.
- There are appropriate checks and balances which are being observed by the Debtors team.

1.2.3 Audit Report Follow-up

A follow-up review was undertaken to ensure that recommendations agreed in the previous audit report (*Debtors 2017-18, RM046 issued 02/2018*) had been implemented. There were no recommendations made in the previous report.

1.2.4 Control Issues

This review has not identified any control areas where we consider that key improvements to current processes and procedures are needed or where there is the potential risk of fraud and corruption.

1.2.5 Adequacy of Individual Control Areas

Control Area	Adequacy assessment **	Number of recommendations raised		
		High**	**Medium****	**Low****
Delegations & Authorisations	Good	0	0	0
Debt Recovery	Adequate	0	1	0
Write-off's	Good	0	0	1
Total recommendations raised	**2**	**0**	**1**	**1**

** For definitions see Appendix A

1.3 ACKNOWLEDGEMENTS

We would like to thank management and staff for their co-operation during the course of this audit.

2.0 ACTION PLAN

1. Debt Recovery

REC No.	RISK	FINDING	RECOMMENDATION	REC. PRIORITY**	RESPONSIBLE OFFICER	MANAGEMENT IMPLEMENTATION DATE	MANAGEMENT RESPONSE
1	The Debt Recovery Policy is not kept up to date which may lead to non-compliance with legislation and FSOs.	Internal Audit found that: • The debt recovery policy was last reviewed in 2014. • At the time of audit testing, Internal Audit was not able to obtain formalised guidance for how long supporting documentation gathered during the debt recovery process should be retained for.	Internal Audit recommend that when the planned review of the debt recovery policy takes place, the debt recovery policy is comprehensively reviewed to ensure that it is in line with the current process, delegations & FSOs and clarifies the retention schedule for debt recovery-related documents as agreed by Finance Management.	Medium	Banking & Income Team Leader	31 December 2018	Agreed.

2. Write-off's

REC No.	RISK	FINDING	RECOMMENDATION	REC. PRIORITY**	RESPONSIBLE OFFICER	MANAGEMENT IMPLEMENTATION DATE	MANAGEMENT RESPONSE
2	Recovery action is not recorded leading to reputational damage.	Internal Audit found that: • Efforts to digitise supporting financial documentation have been put on hold. • There are inconsistencies within the revenue collections team in how supporting documentation is stored.	The Team Leader banking and Income should renew efforts for moving over to using Information@Work for debt recovery supporting documentation.	Low	Banking & Income Team Leader	30 September 2019	Agreed.

** For definitions see Appendix A

APPENDIX A

3.0 OVERALL ASSURANCE LEVEL

Control Adequacy Assessments

We have four categories by which we classify our overall level of assurance of the processes examined and, also, the adequacy of the individual key control areas. They are defined as follows:

Good	All controls are being applied consistently and effectively. This means that all the control areas in the audit are being properly managed and the associated risks are being mitigated.
Adequate	Controls exist but there is some inconsistency in their application. This means that a few of the risks in the audit may need attention.
Limited	Some controls do not exist. This means that a reasonable number of the risks in the audit need attention.
Unsatisfactory	A significant number of controls do not exist and/or there are major omissions in the application of controls. This means that a significant number of risks in the audit are not being properly managed.

4.0 RECOMMENDATION PRIORITIES

We have three categories by which we classify our recommendations. They are defined as follows:

High	A top priority due to the absence of or non-compliance with a fundamental control process, creating the risk that significant error or malpractice could go undetected. These recommendations should normally be implemented within 1 to 3 months.
Medium	An important issue, which is needed to bring the internal control system up to an adequate standard or eliminate a serious level of non-compliance with an existing control process. These recommendations should normally be implemented within 1 to 6 months.
Low	An issue, which, if addressed, would contribute towards raising the standard of internal control to a level higher than adequate or help to reduce a less serious level of non-compliance with an existing control process. These recommendations should normally be implemented within 12 months.