

# ARGYLL & BUTE COUNCIL

## Internal Audit Section

### INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	DEBT RECOVERY AND WRITE OFF
AUDIT DATE	OCTOBER 2016

2016/2017



## 1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Debt Recovery and Write off Procedures within Customer Services as part of the 2016-17 Internal Audit programme.

Argyll and Bute Council has a legal duty to ensure cost effective billing, collection and recovery of all sums due, through raising charges for a wide range of services provided, as well as collecting local taxes. A corporate debt policy is in place providing general principles to be applied consistently within all Council Services in relation to debt recovery.

The Council's ability to deliver services, which meet the needs of its customers, depends heavily on its success in collecting revenues; however, ability to pay is a paramount concern when undertaking debt recovery. The approach to recovery must be sensitive to individual circumstances and take into account all debts owed to the council, namely; Council Tax, Housing Benefit overpayments, Non-Domestic Rates and Sundry Debtor Accounts.

The key objectives of the Corporate Debt Policy are as follows:

- to seek to address debt issues as early as possible with a strong emphasis on arrears prevention in order to minimise overall indebtedness and improve collection rates across all debt categories;
- to ensure that customers have a clear understanding of their responsibility to pay and the associated consequences of deliberate non-payment especially when they are able to pay;
- to operate in a fair and equal way when recovering debt;
- to work in partnership with customers and their representatives to agree realistic payments based on their circumstances;
- to ensure that all council staff and council appointed debt collection agents and sheriff officers work together efficiently and effectively and provide a single co-ordinated approach in dealing with council debtors;
- to support debtors in becoming reliable payers in the future through referral to appropriate advice agencies;
- to ensure that all debtor accounts are issued as accurately as possible and are updated for any relevant changes in circumstances in accordance with the timescales within the Council's Customer Charter;
- debtors are advised of all relevant benefit entitlements and assistance is provided in accessing these benefits.

Over the last 3 years, Argyll and Bute Council has written off the following value of debts:

<b>SOURCE</b>	<b>2013-14 £000</b>	<b>2014-15 £000</b>	<b>2015-16 £000</b>
Council Tax	463	466	326
Non-Domestic Rates	177	255	396
Sundry Debtors	163	240	149
Housing Benefit Overpayments	56	40	62
<b>Totals</b>	<b>859</b>	<b>1,001</b>	<b>933</b>

## 2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess controls in place throughout the recovery and write-off process.

Internal audit reviewed policies and procedures in place to establish compliance with relevant legislation, site visits were undertaken and a sample of debts identified for recovery and write-off was selected for review to check that controls were in place and operating effectively.

## 3. RISKS CONSIDERED

- ORR – CS05 – Failure to ensure income from local taxes and sundry debtors is maximised and properly controlled.
- Audit Risk - Recovery and enforcement do not comply with legislation, regulations and the Council’s policies and procedures.
- Audit Risk - Debt is not monitored
- Audit Risk - Recovery action is not correctly calculated and valued and is not cost effective.
- Audit Risk - Debt recovery action is not initiated and recorded promptly and is inefficient
- Audit Risk - Recovery action is not appropriate.

#### 4. AUDIT OPINION

The level of assurance given for this report is Substantial.

<b>Level of Assurance</b>	<b>Reason for the level of Assurance given</b>
<b>High</b>	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial</b>	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Reasonable</b>	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
<b>Limited</b>	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
<b>No Assurance</b>	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## 5. FINDINGS

The following findings were generated by the audit:

### Corporate Debt Policy

The Corporate Debt Policy links to the Council's corporate priorities and outcomes and is governed by the Council's Financial and Security Regulations. It provides a framework to collect council debt from debtors effectively and efficiently but with due sensitivity to the circumstances of individuals. The Policy outlines roles and responsibilities of council officers and management that naturally provide for segregation of duties. It also emphasises the need for good customer service, communications, payment and recovery options.

The Policy, however, was not readily available within the Council's internet or intranet sites for reference and it is dated 2013 showing no evidence of review since creation. Internal Audit was advised that the policy is currently under review.

### Sample Selection

A sample was selected for review from accounts that were written off during 2015-16:

No.	System
5	Council Tax Accounts
4	Non-Domestic Rates (NDR) Accounts
4	Housing/Council Tax Benefits overpayment accounts
20	Sundry Debtor Accounts
33	TOTAL

### Council Tax & NDR

Council Tax follows the following recovery process:

- Bills for year are issued stating monthly instalments are due 1<sup>st</sup> April through to 1<sup>st</sup> January (option to pay on 15<sup>th</sup> of Month by Direct Debit)
- Reminder/Finals are sent for any instalments that are not paid in full by 15<sup>th</sup> of Month
- The full amount should be paid within 7 days of the reminder date
- Petition letters are prepared 7 days later for all accounts with payments outstanding and sent to Sheriff Officers
- Sheriff officers take up to 3 weeks to assess appropriateness to pursue debt
- Final list has 10% surcharge placed on each payers debt and file sent to Sheriff officers via electronic interface to pursue payment on behalf of the Council
- Arrangements can be made to pay Sheriff Officers or by arrestment of earnings, bank account or benefit. Payment may also be made to the Council
- Annual file sent to the Council from Sheriff Officers suggesting debts to be written off
- Head of Customer and Support Services reviews list and ensures evidence to support decision is present (e.g. death/sequestration certificate)
- Individuals Council Tax accounts updated
- General ledger accounts updated

NDR follows the undernoted recovery process:

- Annual Bills are issued early April stating amount due split over 2 instalment dates at end of June and December (option to pay by Direct Debit over 10 months from May until February)
- Where 1<sup>st</sup> instalment is not received by 30 June, reminders are sent July, August and September (legally 50% must be paid by 30 September)
- Final notice is sent mid-October
- Petition letters are prepared November for all accounts with payments outstanding and sent to Sheriff Officers
- Sheriff officers take up to 3 weeks to assess appropriateness to pursue debt
- Final list has 10% surcharge placed on each payers debt and file sent to Sheriff officers via electronic interface to pursue payment on behalf of the Council
- Arrangements can be made to pay Sheriff Officers or by arrestment of earnings, bank account or benefit. Payment may also be made to the Council
- Annual file sent to the Council from Sheriff Officers suggesting debts to be written off
- Head of Customer and Support Services reviews list and ensures evidence to support decision is present (e.g. death/sequestration certificate)
- NDR accounts updated
- General ledger accounts updated

Council Tax and NDR use CIVICA document management system to store all back-up documentation relevant to the debtor; this provides a full audit trail of notices, invoices, reminders and any general correspondence.

From the sample selected, all notices and reminders were issued in accordance with the policy and stipulated reminder and recovery timetables, however, there were no copies of the first and second reminders within the CIVICA system for NDR customers as they are auto generated by the NDR system and not captured for storage in the document management system.

Where provided, alternative contact details were stored on the systems to enhance communication with debtor.

From the sample selected, all accounts were found within the signed and authorised write off schedules and supporting information viewed on CIVICA.

Where recovery was still in progress it was evidenced from the sample selected that instalment schedules have been created to help debtors make payments. Sheriff Officers also advise the debtor of the availability of instalment plans.

### Housing Benefit/ Council Tax Reduction (HB/CTR) Overpayments

HB/CTR follows the undernoted recovery process:

- Overpayment identified and HB/CTR system updated to reflect this
- Letter immediately issued to debtor to advise of overpayment and amount to be recovered from ongoing benefit where appropriate
- An invoice is sent to those no longer in receipt of benefit advising of the amount overpaid and how to make payments
- Reminder is sent one month later
- Final demand after a further 14 days
- On a 2 weekly basis, the HB/CTR Overpayments Officer runs a report from CIVICA Document Management System to identify all final demands sent. This identifies any new final demands issued to debtors that have defaulted on their monthly arrangement as well as those who do not yet have an arrangement in place.
- For default cases, the overpayments officer checks addresses and accesses DWP information system to establish if debtor is in receipt of other benefits from which to recover debt (DWP send payment file to Council of deductions taken)
- Overpayments Officer will search LOCTA website (tracing tool used by public services to provide up-to-date information on individuals and businesses) for employer information, where found, the debtor is advised that their employer will be contacted if no response is received to arrange instalment plan for payment.
- Employer is contacted with details of direct earnings attachment from which to deduct payments from the debtors salary if no response received within 2 weeks
- Where no employment information is found, the overpayments officer will continue to monitor the debtors account to determine current income status and refer to DWP or contact the debtor accordingly.
- Only once all contact means have been exhausted and several years have passed would a write off be recommended due to unable to recover



- An annual write off list is sent to Head of Customer and Support Services for approval with supporting documentation where possible of cases where recovery actions have been exhausted

As with Council Tax and NDR, Housing Benefit/Council Tax Benefit also use CIVICA to store all back-up documentation relevant to the debtor, this provides a full audit trail of notices, invoices, reminders and any general correspondence.

It was evidenced that reminders were issued in accordance with the policy and stipulated reminder and recovery timetables.

There is a good working relationship with the Department for Work and Pensions (DWP) who may deduct funds from the debtors benefit in order to repay HB/CTB overpayment. The overpayments officer searches the "LOCTA" website for employment details if the debtor is no longer in receipt of benefit. Where successful, these actions allow for prompt payment through deductions to the debtors benefits or earnings.

The reminder process restarts if the debtor defaults on an instalment plan, this will not be picked up by the overpayments officer until the final demand stage is reached again and is issued, and thereafter the whole recovery process starts over from the beginning.

### Sundry Debtors (SD)

Sundry Debtors follow the undernoted recovery process:

- Invoices are raised within the SD system by departmental staff, requesting payment within 14 days
- First reminder sent 14 days after issue of invoice
- A final reminder is sent after another 14 days, stating that the debt will be passed to Legal Services if no payment is received within 7 days
- Some services have agreed alternative recovery processes depending on the nature of the debt e.g. Social Work/Commercial rent
- Where payment is not received 21 days following issue of final reminder, debts are automatically passed to Legal Services via a daily system report
- Legal Services follow standard process (below)

The SD system shows a full audit trail of debtor transactions including when notices and reminders are sent, when the debt was written off in the system and by whom, however, there is no field to explain why a debt was written off. The system includes a field to facilitate input of notes to provide additional information where necessary; however, there is a general lack of use of this field.

It was found from the sample selected that the time lapse between final reminder stage and debts being passed to legal ranged from 21 days to 4 years. We are advised that this is now an automatic process where debts are passed to legal services 21 days after final reminder. This transfer of information happens automatically from the SD System on a daily basis. Our sample verified that this is the case. Prior to 2013/4 this was a manual process with no set timescale for passing to legal.

The final reminder states "If this sum is not received within the next 14 days this account will be passed to the Legal Department for the commencement of court proceedings." However, the Debtors manual states that the account will be referred to legal 7 days after the final reminder is issued. Although no account within the sample was passed to legal services prior to 21 days following final reminder, these documents do not promote consistent practice. (Standard process is 21 days; however, manual has not been updated to reflect this).

The Sundry Debtors Manual was issued in 2013 with no evidence of review or update.

From the sample selected, Internal Audit found that:

- 3 debtors' accounts were not passed to legal services prior to being written off and there were no system notes available to explain this. These were all Social Work (SW) debtors and it is understood that an informal arrangement is in place in terms of recovery activity. This arrangement includes the provision of aged debt analysis that is passed to relevant service managers, however, this is not formally documented and may be subject to inconsistency resulting in potential non-recovery.
- One account was written off without any recovery action noted on system. As this account was for rental debt, it was set up as 'issue only' so no automatic reminders were issued. Rental debt is dealt with by the department and follows its own reminder process using an access database. If no payment is received following reminders, debt will be passed to legal and follows the standard process.

- One debt was written off stating that the charge was included within another invoice which had already been paid. However, there was no evidence held within the relevant systems to support this comment from the department. As this was an invoice raised in error, it should have been cleared by a credit note and not written off. The department was unaware of this situation and felt that the debt remained outstanding. There were no extra notes placed on the system beyond the standard processing notes to advise of position.
- There is a general lack of use of the notes field within the Sundry Debtors system.

### Legal Services

Legal Services follow the undernoted recovery process:

- Standard letter issued to debtor upon receipt of list of outstanding debts where debtor is requested to contact Council within 14 days to arrange payment (in full or by instalment plan)
- Final reminder issued after 14 days
- Pre-Sue report is requested from the Sheriff Officers 14 days following issue of final reminder
- Sheriff Officer response received and debt is either referred to Head of Service for write off or referred to Legal Services for Court action as appropriate
- Write off list is approved and debts written off on debtors account
- General Ledger updated

Legal services use IKEN data management system to record activities undertaken in the pursuance of debt. This system provided documentation to support work undertaken, however, it was noted that one debt was added to the write off list at the request of management following a telephone conversation. There was no record of this request recorded within either the IKEN or debtors system.

The write-off schedules hold short descriptions as to why accounts have been written-off; e.g. "Prescribed" or "Account written off following discussion with issuing department". Management has deemed these descriptions to be sufficient as the full details are available within the Debtors and IKEN systems for further reference.

### Bad Debt Provision

There is a sound basis to the calculation of the value for the Bad Debts Provision as published in the Council's Annual Accounts. This is calculated using Aged Debt reports that are reviewed and percentages are agreed and applied to the balances according to the age of the debt e.g. over 3 years is 100%, 1 – 2 years is 60% reducing to 0% within one month. BDP for Sundry Debtors calculations were found to be accurate and figures were correctly reflected on the Council's Annual Accounts for 2015-16.

## **6. CONCLUSION**

This audit has provided a substantial level of assurance. Internal Control, governance and management of risk is sound; however, there are minor areas of weakness which put some system objectives at risk. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 4 actions that will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Council's debt recovery staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

## APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
<b>1. Service Management Recovery Action</b>		<b>High/ Medium</b>		
Social Work debtor accounts do not follow standard recovery protocol.	Failure to progress and document recovery action may lead to inconsistent treatment of debtors resulting in loss of income and reputational damage.	High	Discuss and agree a recovery protocol for Social Work debtor accounts.	Revenue & Benefits Manager 31 March 2017
<b>2. Corporate Debt Policy Review</b>		<b>High/ Medium</b>		
Corporate Debt Policy not reviewed since 2013.	Failure to update guidance may lead to obsolete practice resulting in ineffective service delivery.	Medium	Corporate Debt Policy will be reviewed and updated as necessary.	Revenue & Benefits Manger and NDR/Sundry Debt Administrator 31 March 2017
<b>3. Sundry Debtors Manual</b>		<b>High/ Medium</b>		
Sundry Debtors Manual not reviewed since 2013.	Failure to update guidance may lead to obsolete practice resulting in ineffective service delivery	Medium	Sundry Debtors Manual will be reviewed and updated as necessary	Revenue & Benefits Manger and NDR/Sundry Debt Administrator 31 December 2016

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
<b>4. Default in Instalment Plan</b>		<b>High/ Medium</b>		
HB/CTR recovery instalment plan not reviewed until final reminder stage	Failure to monitor recovery progress/ payment defaults may lead to increased bad debt levels.	Medium	<b>Management to consider alternative means of identifying defaults on payment instalments.</b>	<b>Revenue and Benefits Manager and Benefits Performance and Development Manager</b>  <b>31 December 2016</b>



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