



**Internal Audit Report
2016 - 2017
Estates – Rent Arrears**

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Audit: Estates – Rent Arrears
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1 Introduction

- 1.1 The Estates department is part of the Support Services & Economy Directorate. They are responsible for the management of the Council's non-operational property portfolio, as well as acquisitions and disposal of property owned or to be acquired by the Council.
- 1.2 The Estates Portfolio generates income for the Council. The revenue for 2015/16 was £2.1 million. Invoices are raised for rents and services due, payable on receipt. Figures fluctuate but at the time of this report the Estates service have 187 outstanding invoices totalling £321,816 and is made up as follows:
- 103 invoices over 40 days old with the value of £199,440
 - 53 invoices over 25 days old with the value of £91,605 and
 - 31 invoices under 21 days old with the value of £30,771.
- 1.3 If an invoice has not been paid after 21 days a first reminder is sent on day 22, a second reminder is then sent 14 days after the 1st reminder, 22 to 35 days old. If payment has not been received a letter before action is sent after 42 days.

2 Scope

- 2.1 This review looked at the Estate Services debt management report for May and June 2016. The audit review was carried out to identify procedures and test controls to ensure that:
- all rent arrears are identified,
 - arrears are monitored and appropriate action taken to reduce the debt.
 - there is a procedure in place for writing off aged debts
 - income reconciliations are completed and up to date

3 Findings

- 3.1 A Debt Management Report is available to all services on the council's finance system, Civica. The report along with procedures was put in place in December 2015. The procedures state that reports must be downloaded monthly on the 1st of each month and to investigate/chase invoices that are between 21-35 days. Services are also required to make notes of conversations or contacts with the debtors, in column 'U' of the report and return it to Exchequer service by the 10th of each month. However, there is no control in place to ensure that this is carried out. Internal Audit was informed by the Exchequer Manager that there was only one service across the council that follows this procedure, by completing and returning the report on a monthly basis. Exchequer and the Recovery Service are currently reviewing the monitoring procedures so that services are aware of their responsibilities and controls are identified to ensure that these are being followed.
- 3.2 At the time of the audit the procedures mentioned in 3.1 were not being followed by the Estates services. Instead, Estates had implemented their own spreadsheet to monitor their debt as they found that the debt management report produced by Civica does not hold and roll forward comments previously made. The Valuation & Estates Manager is knowledgeable on the situation of their current debt, however, testing found there to be little or no written evidence of review or action taken by the service to show the position of each debtor on their monitoring spreadsheet.
- 3.3 At the time of testing 15 out of 15 invoices on the Estates spreadsheet were found not to be up to date with the current position of each debt and actions that had been taken. The column headed 'previous comments' on the spreadsheet contained no date and audit found that all 15 entries tested, comments were either out of date (some more than 6 months) or there were no comments at all. The service needs to ensure that they have a clear written audit trail on the position of each outstanding debt, including the date on which it was reviewed and any actions taken.
- 3.4 The Estates monitoring spreadsheet is saved on the x: drive so that it can be shared with the councils Recovery Team. However, audit testing found that this team was unable to access this section of the x: drive and subsequently the spreadsheet. The Recovery team is in contact with services on a regular basis either verbally or via email, however they need to agree how this is to be formally documented. This will ensure that both parties know what actions have been taken and any contact that has been made between the Council and the debtor.
- 3.5 The Recovery Team review the Estates Service Debt Management Reports bi-monthly and is responsible for administering letters before action for invoices over 42 days old. Actions taken by the Recovery team is noted on the relevant accounts on CIVICA. Any investigation is discussed with the relevant Estates Case Officer, who is advised of the debtor's position and if the debt is

recoverable. At the time of audit the service believed it was their responsibility to take further action for example, refer to the legal department or request for write off. However, a report to cabinet in October 2014 stated that with the exception of car parking fines, all types of debt owed to the council will be managed through the Revenues Recovery Team dedicated to debt collection.

- 3.6 From the Estates Debt Management report the service has £199,440 of debt that ranges from 44 days to 4,426 days old. The service informed internal audit that the reason they do not put forward debts for write off is so that they can pursue the outstanding debt, in the event of a tenant being found at a later date. As there is a 6 year time limit to recover old debts once all avenues have been exhausted the debt should be written off; otherwise the council is overstating an asset on the balance sheet. If new information does lead to further payments being received at a later date, debts previously written-off can be resurrected and credits applied. To ensure that debts are timely written off the council needs to have a Write Off Policy in place with procedures to ensure that all services have an understanding of their responsibilities.
- 3.7 The audit also reviewed the services income reconciliation and found that the quarterly reconciliation from January to April 2016 had been reviewed, dated signed off by the Valuation & Estates Manager. However, this did not include service charge income which is treated differently but will be reviewed under a separate audit review.

4 Conclusion

- 4.1 Whilst the service is in regular contact with their tenants, a written position of each debtor to provide a clear audit trail and ensure that the debt is continuously monitored and pursued.
- 4.2 Internal audit have highlighted a particularly high level of 'aged' debts outstanding which should have been written off. However, Estates have not received any advice/instruction to ensure this was done. Financial Services are currently reviewing their procedures to improve the process and the treatment of invoices over 42 days. Once completed, confirmation and clarification will be rolled out to services with up to date procedures, for all services to follow to ensure that they know what is expected of them.
- 4.3 Since the audit was completed services including Estates, Exchequer, Legal, Finance and Recovery have been in consultation to improve the process across the council. As recommended during the audit they are going through the process of producing a Write Off Policy that will be linked to the council's Corporate Debt Recovery Policy. This should ensure that services understand their responsibilities and aged debts are actioned and at the appropriate time.

5 Recommendations




- 5.1 An Action Table has been produced, see Appendix. In order to prioritise actions required, a traffic light indicator has been used to identify issues raised as follows:

Red – Significant issues to be addressed



Amber – Important issues to be addressed

Green – Minor or no issues to be addressed

6 Action Plan – Appendix 1

Paragraph Ref	Recommendation	Officer	Priority	Agreed?	Comments	Implementation Date
3.1, 3.4 and 3.7	Exchequer /Recovery complete the review and update procedures for the monitoring of debt and write off of bad debt. These should then be rolled out to all services.	Carol Anderson-Towner & Paula Robinson	Red  Significant	Yes	None	31 March 2017
3.2 and 3.3	A written position of each debt is recorded, the review dated and any actions taken are shown, thus providing a clear audit trail.	Vicki McKay	Amber  Important	Yes	None	31 March 2017
3.6	A write off policy and procedures is put in place and made available to all staff.	Helen Belenger	Red  Significant	Yes	None	31 March 2017

Traffic Light Key

Significant Issues to be addressed  Important Issues to be addressed  Minor/No issues to be addressed 