Corporate Debt Recovery 2019/20

FINAL REPORT

Louise Northcott

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1) Executive Summary

i) Introduction

This audit was carried out as part of the agreed audit plan for 2019/20 financial year. Audit testing has been restricted to areas that have been assessed as high risk by Internal Audit.

Audit testing has been carried out on the following objectives to ensure that:

- Invoices are set up correctly in the first instance to prevent erroneous data from appearing in the aged debt figures
- There are clear procedures in place that set out debt recovery responsibilities for Income & Payments, Service Areas, and the Corporate Debt Recovery Team
- Outstanding debts are monitored as a matter of course across the authority
- Working practices aid effective debt recovery
- Payment arrangements are monitored and action taken if they are not adhered to

ii) Overall audit opinion

The overall audit opinion is based solely on testing carried out and discussions held during the course of the audit.

	Levels	Description/Examples
	No Assurance (Critical Risk Exceptions)	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit
➔	**Limited Assurance (High Risk Exceptions)**	Control weaknesses or risks were identified which pose a more significant risk to the Authority
	Reasonable Assurance (High or Medium Risk Exceptions)	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
	Assurance (Low Risk/Improvement Exceptions)	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority

iii) Summary of findings

Objective 1: To ensure that invoices are set up correctly in the first instance to prevent erroneous data from appearing in the aged debt figures – Reasonable Assurance

1 medium risk exception was raised as a result of audit testing under this objective.

A report was run on all credit notes raised between 3/12/18 and 9/12/19, of which there were 242. For the same period there were 43,240 invoices raised so the proportion of credit notes raised is very low (0.56%). A sample was chosen to try and establish trends across the Authority. The highest number of credit notes were raised by Garden Waste (77), Estates (59), Trade Waste (33) and Licensing (32). A sample of credit notes for these sections (10 Estates, 5 Trade Waste, 5 Licensing and 10 Garden Waste) was tested and it was found that 12 were raised to correct incorrectly raised invoices. See EX 1 for the detailed findings.

Objective 2: To ensure that there are clear procedures in place that set out debt recovery responsibilities for Income & Payments, Service Areas, and the Corporate Debt Recovery Team - Limited Assurance

1 high risk exception was raised as a result of audit testing under this objective.

A review of the Corporate Debt Recovery (CDR) procedures 2017 confirmed that they did not set out responsibilities for debt recovery. Therefore there has historically been a lack of clarity over who should be doing what during the debt recovery process. The Income & Payments Manager drew up an Invoice, Recovery and Aged Debt document which did set out responsibilities, however this is not being followed by all services.

A new CDR policy has been written which was approved by Cabinet to be brought into force on 1/3/20. The policy clearly sets out responsibilities for Income & Payments, services and Corporate Debt Recovery. Administration and recovery action for sundry debtors should be dealt with by the Income & Payments team and the Taxation (CDR) team. However, historic practice noted in EX 4 - 8 such as information being held outside of Civica instead of in the notes, and action being taken by services rather than the Income & Payments team or the Taxation team still appear to be occurring which is not in line with the aims of the policy.

The debt recovery procedures followed by the Corporate Debt Recovery team were found to be out of date. See EX2 for full details of the findings.

Objective 3: To ensure that outstanding debts are monitored as a matter of course across the authority - Reasonable Assurance

1 medium risk exception was raised as a result of audit testing under this objective.

A requirement of the Debt Management report guidance is that services should run a monthly debt management report and investigate invoices 21 - 35 days old with notes made on Civica of action taken or conversations held. This should be emailed to the Income & Payments team by the 10th of the month. The Income & Payments Manager confirmed that she only receives an email from 1 service each month confirming that they have reviewed the aged debt report.

As at 5/12/19 the top 3 services with the most amount of debt were, in order, Estates, Trade Waste and Housing. 1 of these 3 services confirmed that they do not run the aged debt report in order to monitor levels of outstanding debts.

Objective 4: To ensure that working practices aid effective debt recovery - Limited Assurance

5 high risk exceptions were raised as a result of testing under this objective.

Testing under this objective covered:

- Timeliness of automated debt reminders from Civica
- Agreement of payment arrangements
- Handover of debt to the Corporate Debt Recovery team
- Timeliness of action taken by the Corporate Debt Recovery team
- Recording of action taken on debts

Issues were found relating to all of the areas tested. Full details are contained within EX 4 – 8.

Objective 5: To ensure that payment arrangements are monitored and action taken if they are not adhered to - Limited Assurance

1 high risk exception was raised as a result of testing under this objective. See EX 5 for the detailed findings.

Overall assurance level – **Limited Assurance**

6 high risk and 2 medium risk exceptions have been raised as a result of testing carried out during the course of the audit. Therefore Internal Audit can give limited assurance that the area is of low risk to the Authority.

Prior to the occurrence of Covid-19 a new Debt Recovery team was due to be set up. The staff that would have been part of the team have been re-deployed as no enforcement action may take place during Covid-19 under 'The Taking Control of Goods and Certification of Enforcement Agents (Amendment) (Coronavirus) Regulations'. When the new team is able to operate, new processes and procedures will follow which will be reviewed by Internal Audit in a future audit.

Key for risk rating of exceptions:

Priority Level	Description
Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation's objectives in relation to: ▪ The efficient and effective use of resources ▪ The safeguarding of assets ▪ The preparation of reliable financial and operational information ▪ Compliance with laws and regulations And corrective action needs to be taken immediately.
High Risk	Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not "show stopping" but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.
Medium Risk	These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.
Low Risk - Improvement	Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.

EX 1 – Action taken to correct incorrect invoices **Risk rating: Medium**	
Findings	
A sample of credit notes was tested (10 Estates, 5 Trade Waste, 5 Licensing and 10 Garden Waste) to establish the reason for the credit note and to identify how many were to correct incorrectly raised invoices. It was found that: • For Estates 7 (70%) of these were recorded as the invoice being raised in error. • For Trade Waste 3 (60%) of these were recorded as the invoice being raised in error. • For Licensing 2 (40%) of these were recorded as the invoice being raised in error • For Garden Waste none were recorded as the invoice being raised in error	
Risks and consequences	
Invoices raised incorrectly in the first instance can lead to erroneous data being included in the aged debt figures and can skew the figures. It can also mean that if errors are not identified and corrected then the debts may be uncollectable and will have to be written off. This will have an impact on the Authority's finances.	
Agreed action	**Officer responsible and by when**
Divisional Managers to remind staff raising invoices that the details put onto Civica need to be as accurate as possible to reduce the potential need to raise credit notes at a later time.	Divisional Managers - Immediately

EX 2 – Currency of debt recovery procedures **Risk rating: High**	
Findings	
At the time the audit was being undertaken the debt recovery procedures followed by the Corporate Debt Recovery team were found to be out of date; there are a lot of steps in the procedure that are not relevant to current practices. For example: the procedure mentions contacting customers by phone and negotiating payments once the debt has come down from Income & Payments. The Senior Revenues Officer confirmed that this is not done.	
Risks and consequences	
If procedures are not current and do not reflect actual practices that should be followed then there is a risk that debts are not chased up in a consistent, effective or timely manner. This could result in debts not being paid which will have an impact on the Authority's finances.	
Agreed action	**Officer responsible and by when**
The debt recovery procedures are to be updated to reflect current practice.	Debt Recovery Team Leader – 15th September 2020

EX 3 – Reviewing of the aged debt report **Risk rating: Medium**	
Findings	
A requirement of the Debt Management report guidance on the Financials area of the Intranet is that services should run a monthly debt management report and investigate invoices 21 - 35 days old with notes made on Civica of action taken or conversations held. This should be emailed to the Income & Payments team by the 10th of the month. The Income & Payments Manager confirmed that she only receives an email from 1 service each month confirming that they have reviewed the aged debt report. An aged debt report was run on 5/12/19. The top 3 services with the most amount of debt were, in order, Estates, Trade Waste and Housing. 1 of these 3 services confirmed that they do not run the aged debt report in order to monitor levels of outstanding debts.	
Risks and consequences	
If a review of the aged debt report is not carried out then action may not be taken which could hasten payment of debts. Also, as services do not appear to be reviewing the aged debt report then issues such as debt recovery not occurring are not being picked up and addressed. This could lead to debts not being chased up which could also impact on the Authority's finances.	
Agreed action	**Officer responsible and by when**
Finance will send a reminder to Divisional Managers on a monthly basis reminding them of the requirements set out in this exception, including reviewing of the aged debt report for their service and making notes in CIVICA of debt related issues Finance are intending to put in place a dashboard system within Civica in approximately 12 months that Divisional/Operational Managers will be able to use to easily establish the debt information for their service and take action where required.	Group Accountant – from the date of the audit
Divisional Managers to ensure that regular monitoring of the debt situation is undertaken and any action taken recorded in Civica.	Divisional Managers – from the date of the audit

EX 4 – Civica automated debt recovery action **Risk rating: High**	
Findings	
A sample of 25 debts was tested to confirm that the automated reminders had been generated. Issues were found on 3 (12%) of the debts. • For 1 of the debts the recovery route had been set incorrectly and therefore the automated reminder was not generated, • For 1 of the debts there was no apparent reason why the automated reminder was not generated • For the other debt there was a delay of 2 weeks in authorising the invoice, resulting in the invoice being 2 weeks overdue before it was even received. This impacted on how timely debt recovery action appeared to take place.	
Risks and consequences	
If debt recovery action does not take place then there is a risk that outstanding debts are not paid which will have an impact on the Authority's finances. Also, as services do not appear to be reviewing the aged debt report then issues such as debt recovery not occurring are not being picked up and addressed. This could lead to debts not being chased up which could also impact on the Authority's finances	
Agreed action	**Officer responsible and by when**
Divisional Managers to ensure that regular monitoring of the debt situation is undertaken and any action taken recorded in Civica.	Divisional Managers – from the date of the audit
Finance are intending to put in place a dashboard system within Civica in approximately 12 months that Divisional/Operational Managers will be able to use to easily establish the debt information for their service and take action where required.	Finance – summer 2021

EX 5 – Payment plans agreed by services and the CDR team **Risk rating: High**
Findings
If services deal with payment plans then they tend to only consider the debt outstanding to the service as they may not be aware that there are other debts across the Authority. There are no payment plans in place for Housing debts. Testing of payment plans for Estates and Trade Waste found the following: • There are currently only 4 Trade Waste accounts with payment plans in place. Plans only cover trade waste debts and not any other debts that might be in existence. Testing found that all plans would repay the debts within 1 to 6 months. • There is no overarching list of payment arrangements agreed with Estates debtors other than those that have been moved over to monthly payments. Monthly payments do not pay off historic debts but make it easier for the debtor to pay future invoices. The Estates Surveyor who reviews the monthly aged debt report is only aware of 1 aged debt that has a payment plan in place, for £20 a month. The account balance as at 18/5/20 was £2,188. At this rate of payment it will take 9 years to clear the debt. Contact has been made with the debtor requesting an increase in the payment amount however no response was forthcoming. This debt is being monitored on a monthly basis. Civica has been updated to reflect the arrangement in place. The Taxation & Business Rates Officer confirmed that a comprehensive list of payment arrangements made by CDR is not kept by CDR. Instead Income & Payments are informed of all arrangements and these are recorded on Civica as 'Recovery Type - instalment'. The Taxation & Business Rates Officer monitors the agreements that she makes via reminders on her outlook calendar. No monitoring of instalments is currently done by Income & Payments but this is planned to be done once debt recovery is up and running. The Taxation & Business Rates Officer was able to provide details of 3 cases where she had agreed an arrangement. 2 of the agreements seemed reasonable and would pay off the debt within 12 months. The other arrangement was due for review after 6 months on the understanding that the instalment amount would need to increase as at the initial rate of payment the debt would not be paid off within 12 months. Payments had ceased before the debt had been paid off for all 3 arrangements, and no payments were actually received for one of the arrangements at all. This arrangement was due to start repayment 31/5/19 but no payments were received and there were no

notes on Civica showing that any further debt recovery action had been taken. For the other 2 arrangements payments were received up until Feb/March 2020. No outstanding payments are being chased at the moment due to Covid-19.	
Risks and consequences	
If payment arrangements are set too low then debts will take an excessive amount of time to repay the debt. The longer a payment arrangement is for then the higher the risk that the arrangement will be broken. If payment arrangements are not being monitored regularly then there is the risk that payments are not made or payments cease and this does not get picked up and further debt recovery action is not taken to ensure payments are made. These issues could lead to loss of income and an increased level of debt provision needed by the Council.	
Agreed action	**Officer responsible and by when**
The Revenues, Housing Benefits and Customer Services Divisional Manager and her managers have met with all Divisional Managers to clarify responsibilities between the service area and the Corporate Debt team. An SLA has been put in place which will reinforce this.	Revenues & Benefits Divisional Manager – end of August 2020
Divisional Managers to ensure that the SLA is being adhered to in terms of liaison with Income & Payments and the Debt Recovery team when agreeing payment plans to ensure that they are not being made in isolation and take into account all debts that the debtor may have across CDC.	Divisional Managers – from date of SLA implementation
Finance will investigate if a report listing exceptions to payment plans can be set up to support action by Corporate Debt Recovery.	Group Accountant – As needed
Corporate Debt team will monitor compliance with payment arrangements and will contact the debtor should non-payment occur.	Revenues & Debt Recovery Manager – from date recovery action recommences

EX 6 – Referral of debts to the Corporate Debt Recovery team **Risk rating: High**	
Findings	
The process within Civica is that 2 automated reminder letters are sent to debtors at day 21 and day 35. Once debts are over 42 days old they are referred down to CDR by Income & Payments. Income & Payments run a daily report of all invoices that have reached the Letter Before Action (DR3) or Referred to Debt Collection Agency stage (DR4) and e-mail CDR who take over debt recovery. However, services still seem to be taking their own debt recovery action outside of this process therefore it is not possible to say definitively that debts have been handed over to CDR even if they have been referred down by Income & Payments.	
Risks and consequences	
If services are dealing with debts as well as the CDR team then this is a duplication of effort and not a good use of resources.	
Agreed action	**Officer responsible and by when**
Divisional Managers to ensure that the SLA is being adhered to in terms of making sure that debts are referred to the Corporate Debt team in accordance with the SLA.	Divisional Managers – from date of SLA implementation

EX 7 – Timeliness of action taken by the Corporate Debt Recovery team **Risk rating: High**	
Findings	
The CDR procedures do not set out timescales for when the CDR team will chase debts once they have been referred down from Income and Payments. A sample of debts referred from Income & Payments was tested to see how quickly chasing letters were sent out. Letters for 19 of the 25 tested were sent on the same day. For the other six cases time to send the letters ranged from 1 day to 9 days. This is reasonably timely. A sample of 10 aged debts from Housing & Estates dating from April 2016 to July 2019 was tested to establish whether ongoing debt recovery by the CDR team was occurring on a timely basis. It was found that there were gaps between action noted in Civica ranging from 6 to 18 months, although there could be action going on by the service or CDR that is not being noted.	
Risks and consequences	
If debts are not monitored and continuous action not taken then the risk is that the prospect of recovery diminishes significantly leading to loss of income and an increased level of bad debt provision needed by the Council.	
Agreed action	**Officer responsible and by when**
The SLA sets out timescales for action by both the Corporate Debt team and the service areas. Service areas/Corporate Debt team to ensure that these timescales are adhered to on both sides.	Divisional Managers/Revenues & Debt Recovery Manager – from date of SLA implementation

EX 8 – Recording of action taken on debts **Risk rating: High**	
Findings	
During testing it was established that both Trade Waste and Estates are maintaining a separate spreadsheet outside of Civica detailing the situation with the debt and are not recording action taken on Civica. A sample of 3 Housing and 2 Estates debts dating from March 2017 to September 2019 found that for all of the debts notes were not made on Civica records by the services detailing what the situation with the debt was, requiring CDR to make contact with the service to establish exactly what was going on with the debt. CDR recorded notes once the situation with the debt was determined. A sample of 4 Trade waste accounts was also tested dating from May 2019 to March 2020. No notes had been made in Civica by the service for 2 of the accounts reflecting the payment arrangements in place. For the other 2 accounts notes had been made on Civica by the Income & Payments team and the CDR team.	
Risks and consequences	
Without one central repository of information relating to debts it is not possible for either the Income & Payments team or the CDR team to be able to tell at a glance what the situation is with the debt in terms of contact made, payment arrangements or any other pertinent information. This could lead to duplication of effort and resources needing to be used to speak to the service to establish what the situation is with the debt. This is not a good use of resources and could result in time being wasted which could be better used on debt recovery tasks.	
Agreed action	**Officer responsible and by when**
The SLA sets out that notes are to be added to Civica in all cases by the service area and are kept up to date to enable the Corporate Debt team to know the status of each referral they receive.	
Divisional Managers to ensure that staff are aware of the requirement to record any action taken by the service on Civica and to ensure that this is adhered to.	Divisional Managers – from the date of the audit
Corporate Debt team to feed back where this requirement has not been adhered to.	Revenues & Debt Recovery Manager – from date of SLA implementation