



Internal Audit Report
Corporate
Debt Recovery and Write Off
Assignment No 16-01
January 2017

Final Report

Finance Division
Corporate and Democratic Services
Council Building
2 High Street
Perth PH1 5PH

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016. Audit testing was carried out in the period September to November 2016.

The Financial Regulations state that the Head of Finance will determine the most appropriate course of action in cases of non-payment and write offs having considered the views of the relevant Executive Director.

Items for write-off are normally presented annually for approval to the Council’s Strategic Policy and Resources Committee (SP&R). The most recent SP&R report of 15 June 2016 states that, whilst the amounts are to be written off for accounting purposes, the debts have progressed through the debt recovery process using various legislative procedures. The amounts remain after the exhaustive recovery procedures have been undertaken. The above report states that debts can include amounts identified in respect of Sales Ledger; Council Tax (including Water & Waste Water charges); Non – Domestic Rates; Irrecoverable Rents; Housing Benefit Overpayments and the Car Park Trading Account Income. The report requested approval to write off £1,376,403.58 (excluding the Housing Revenues Account) in respect of bad debts.

Scope and Limitations

The audit considered the processes, systems of control and the consistency of approach within Services in respect of the recovery and write off of debt.

The review consisted of interviews with officers, the testing of information and of the systems in place to ensure the adequacy of arrangements.

The audit was not a wholesale review of processes in relation to the Sales Ledger, Housing Rents or Rent Arrears as these are separate audit assignments in the Internal Audit plan for 2016/17. The auditor ensured that there was no duplication with these audits.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure the consistency and adequacy of the approach across Services in relation to the recovery and write-off of debt.	
<p>Audit Comments: Audit testing confirmed the consistency and adequacy of the approach across Services in relation to the recovery and write-off of debt. Routines are in place that require invoices and debt reminder letters to be issued at predetermined intervals. Processes are also in place to ensure that monies recovered are promptly credited to the relevant account and that any bad debt provision is adjusted. Reminder letters were issued in respect of reviewed cases.</p> <p>Written procedures within Services document the routines regarding the recovery of debt. There is scope to ensure the consistency of approach for example, by updating and publishing the Sales Ledger write off routines on Eric to ensure that this information is available within all Services.</p> <p>Debt information such as the breakdown of debt and the value of the accounts requested for write off are presented to Service Senior Management Teams, although no corresponding write off report is presented in respect of Car Park Trading Account debt. The Service has indicated that such reports will be submitted in future.</p>	
Strength of Internal Controls:	Moderately Strong

Control Objective: To ensure the adequacy of the debt write-off process	
<p>Audit Comments:</p> <p>Audit testing confirmed the adequacy of the debt write-off process with some scope to enhance these routines, for example by updating authorised signatory lists to include a write off authorisation category. The processing of write offs is restricted to appropriate personnel, again there is some scope to enhance this routine.</p> <p>Written records support each of the tested write off entries. Write off certificates are signed by the respective Financial Controllers for Sales Ledger Debt. Whilst supporting information is provided for non-sales ledger debt, there is no corresponding certificate from the Financial Controller.</p> <p>All debt write-offs were detailed in a report by the Head of Finance for approval by the Strategic Policy and Resources Committee. Although the minutes of the June 2015 Committee resolved that the previous years' figures be included in future write off reports, the previous figures were not included in the 2015/16 report.</p>	
Strength of Internal Controls:	Moderately Strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each

'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point. Appendix 3 details matters identified during the audit, but are considered to be out-with the scope.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of all Services during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

S Devlin, Director (Education and Children's Services)

B Atkinson, Director (Social Work)

B Renton, Director (The Environment Service)

J Symon, Head of Finance

S MacKenzie, Head of Performance and Resources (The Environment Service)

L Brady, Revenues & Benefits Service Manager (HCC)

J Cockburn, Finance and Governance Manager (ECS Finance)

N Copland, Business & Resource Manager (HCC)

F Crofts, Finance and Resources Manager (TES)

K McNamara, Head of Strategic Commissioning and Organisational Development

G. Taylor, Head of Democratic Services

L Simpson, Head of Legal and Governance Services

E Sturgeon, Chief Exchequer Officer

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was D McCreadie. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 11 January 2017

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Timescales - Sales Ledger	Low
2	Sales Ledger Procedures	Low
3	Authorised Signatories	Low
4	Write Off Report	Medium
5	Purpose of the Write-Off Report	Low
6	Car Park Trading Account	Medium
7	Council Tax & Non Domestic Rates Separation of Duties	Low
8	Integra	Low
9	Write Off Information	Low

Appendix 2: Action Plan

Action Point 1 - Timescales - Sales Ledger

Since April 2014 the Council's commercial rents have been included within Sales Ledger. The timescales regarding the issue of invoices and any subsequent reminders for commercial rents differ to the timescales for invoices detailed in Sales Ledger routines.

An Appendix to the annual Strategic Policy and Resources Committee write off report quotes the timescales for the debt recovery process but doesn't detail the above differences.

The Auditor accepted that there are currently valid reasons for the differing timescales, but there is scope for the Service to include the differences in timescales in the Finance Transformation Corporate Debt work stream.

Management Action Plan

a) The Service will review the Council's Sales Ledger routines and update them to detail the timescales in respect of collecting monies due in respect of Commercial Rents.

b) The next write off report presented to the Strategic Policy and Resources Committee will also refer to the above timescales.

c) The Chief Exchequer Officer will arrange for any differences in Sales Ledger timescales to be reviewed as part of the Finance Transformation Corporate debt work stream review.

Importance:	Low
Responsible Officer:	a) & b) L Law, Financial Systems Team Leader c) E Sturgeon, Chief Exchequer Officer
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	a) March 2017 b) June 2017 c) March 2018
Required Evidence of Completion:	a) Updated procedures b) Annual write-off report c) Outcome of corporate debt workstream

Auditor's Comments

Satisfactory

Action Point 2 - Sales Ledger Procedures

Sales Ledger Write Off procedures including the recovery actions to be taken when an invoice remains unpaid were issued to Services by email in 2013. However at the date of audit testing these procedures were not published on Eric. Whilst the Auditor was satisfied that Service staff were aware of the arrangements, neither the Education and Children's Services (ECS) nor Housing and Community Care (HCC) procedures referred to these requirements.

The Auditor also noted that the ECS Request for Write Off form contains a statement that debts in excess of £1,000 cannot be written off without the prior approval of the Council. The Service advised that this was an out of date statement.

Management Action Plan

- a) The Service will upload the Sales Ledger Write Off procedures to the relevant SharePoint site on Eric and also contact the ECS and HCC Financial Controllers to ensure that they are aware of this.
- b) The ECS Financial Controller will arrange for the statement which states that debts in excess of £1,000 cannot be written off without the prior approval of the Council to be removed from the ECS Request for Write Off form.

Importance:	Low
Responsible Officer:	a) L Law, Financial Systems Team Leader b) J Cockburn, Finance & Governance Manager (ECS)
Lead Service:	a) Corporate and Democratic Services b) Education & Children's Services
Date for Completion (Month / Year):	a) March 2017 b) Completed
Required Evidence of Completion:	a) Uploaded procedures and confirmation relevant Financial Controllers made aware. b) Updated form

Auditor's Comments

Satisfactory

Action Point 3 - Authorised Signatories

The Sales Ledger Management Guidelines produced by the Financial Systems Team refers to authorised signatories by stating it is the responsibility of Executive Directors to maintain such a register.

The "Certificate of Sales Ledger Account Write Off" form also includes a statement that "I am a registered authorised signatory for that purpose". Whilst audit testing revealed that these were authorised by the Financial Controllers, there is no category on the authorised signatory lists on Eric for Sales Ledger write offs, nor were the Sales Ledger Team able to provide such a list.

The debt write off limits referred to in the Housing and Community Care Housing Benefit Overpayment Write Off sheet are also not detailed on any Sales Ledger Team authorised signatories list.

Management Action Plan

The Financial Systems Team Leader will contact each Service to confirm that only Financial Controllers are authorised to recommend a write off. The Authorised Signatory Lists will thereafter be updated to reflect these amendments.

Importance:	Low
Responsible Officer:	L Law, Financial Systems Team Leader
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	March 2017
Required Evidence of Completion:	Sample of updated Authorised Signatory List.

Auditor's Comments

Satisfactory

Action Point 4 - Write Off Report

The 2015/16 SP&R write off report details the proposed Sales Ledger Debt write off as £328,998.62. However, the report does not provide a breakdown of this total by Service.

Whilst the amounts making up the above SP&R amount agree with the relevant write off certificates, there are differences of £6,802.70 and £887.78 when testing the write off figures to the corresponding amounts of £253,676.42 and £15,015.12 presented to the respective HCC and ECS management teams.

Also, the write off certificates in respect of the Sales Ledger Debt were signed by the respective Financial Controller, but there were no such certificates for the other debts included in the SP&R report.

In addition, the minutes of the SP&R Committee on 17 June 2015, which considered the 2014/15 write off report, resolved that the previous years' figures should be included in future write off reports. The previous figures were not included in the 2015/16 report.

Management Action Plan

Write off certificates will be obtained from all Services in respect of all debt requested to be written off and included in the SP&R report.

The Service will arrange for future SP&R write off reports to include a breakdown of the Sales Ledger debt by Service. This will allow Services to carry out a further check of the write off totals to their records. The report will also include the previous years' figures. The Financial System Team Leader will advise Financial Controllers of these changes.

Importance:	Medium
Responsible Officer:	L Law, Financial Systems Team Leader
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	June 2017
Required Evidence of Completion:	Sample of Non Sales Ledger write off certificate and updated annual SP&R report

Auditor's Comments

Satisfactory

Action Point 5 - Purpose of the Write-Off Report

The “Purpose of Report” or abstract section of Report 15/251: “Authority to write off Debt and Obsolete Stock” presented to the SP&R Committee on 17 June 2015 made no reference to a proposal to write off a loan. Full details of the proposed write off were, however, included in the “Proposals” section of the report.

The report stated that the debts proposed for write off remained outstanding after exhaustive recovery procedures had been undertaken. However, a security charge was held in respect of the loan. The Head of Finance states that the narrative included in the report in respect of the loan clearly indicates that the purpose of writing off the loan was to allow the recipient to achieve revenue stability rather than reflecting the Council’s inability to recover the debt through appropriate diligence.

At the date of testing the charge was still in place, although it has subsequently been removed during the course of the audit.

Management Action Plan

The Service will ensure that the “Purpose of Report” section as well as the “Proposals” section of the next SP&R write-off will refer to any proposals to write off loans.

Importance:	Low
Responsible Officer:	L Law, Financial Systems Team Leader
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	June 2017
Required Evidence of Completion:	SP&R 2016/17 write off report

Auditor’s Comments

Satisfactory

Action Point 6 - Car Park Trading Account

The 2015/16 Authority to Write Off Debts of 15 June 2016 presented to the SP&R requested authority to write off £112,794 in respect of the Car Park Trading Account Income.

Audit testing revealed that no report had been presented to the Service Senior Management Team requesting their approval of the proposed write off and/or provided a breakdown of this figure.

At the date of audit testing, the relevant write off entries had not been posted to the individual accounts.

There are no written procedures that document or support the Car Park Trading Account Income write off routines.

Management Action Plan

- a) The Service will ensure that the relevant entries for the Car Park Trading Account write off of £112,794 approved by the SP&R in June 2016 will be posted to the individual accounts.
- b) The Service will add a procedure for the Car Park Trading Account write off to their current debt recovery and write off procedures. This will include reporting to SMT for authorisation and relevant completion dates for the various stages.

Importance:	Medium
Responsible Officer:	S Welsh, Finance & Governance Team Leader
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) Completed b) Completed
Required Evidence of Completion:	a) Confirmation of write off b) Procedures

Auditor's Comments

Satisfactory

Action Point 7 - Council Tax & Non Domestic Rates Separation of Duties

Within the Council Tax and Non Domestic Rates sections one member of the team, normally a Revenues Assistant, has systems access that requests progression of a write off. A second member of the team, normally a Revenues Officer has systems permission rights to thereafter authorise such requests.

Testing of 20 randomly selected cases confirmed that two differing members of staff were involved in the requesting and authorising of write offs. However, the system would allow a Revenues Officer to both request and authorise the same write off.

Management Action Plan

The Service will investigate the creation of a report that shows who requested and who authorised any Council Tax or Non Domestic Rates write off, such as via Business Objects. The Service will thereafter incorporate the checking of such reports into their monthly checking procedures.

Importance:	Low
Responsible Officer:	K Fraser, Assistant Revenues Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	January 2017
Required Evidence of Completion:	Extract from Business Objects Reports

Auditor's Comments

Satisfactory

Action Point 8 - Integra

Testing of 20 randomly selected items detailed on the record entitled “Integra Finance System Transactions Flagged for Write-Off” revealed inaccurate descriptions for 4 of these items.

Audit testing confirmed that each of above individual entries on Integra was correct and that the issue related to the formatting of the information on this record. The Auditor noted that additional entries on the record also detailed incorrect descriptions.

Management Action Plan

The Service will investigate the reasons for the incorrect descriptions in some of the “Integra Finance System Transactions Flagged for Write-Off” report and carry out sample testing to ensure the accuracy thereof.

Importance:	Low
Responsible Officer:	L Law, Financial Systems Team Leader
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	March 2017
Required Evidence of Completion:	Sample from next report

Auditor's Comments

Satisfactory

Action Point 9 - Write Off Information

As reported in Action Point 4, the Service has agreed to ensure that all proposed debt write offs are in future supported by a write off certificate and the corresponding reporting to the relevant Senior Management Team.

There is scope for the Finance Transformation Review Corporate Debt work stream to consider the information communicated to SMTs for outstanding debts to be written off.

There is scope to review the control environment in relation to the information presented to each SMT, for example for each report to be supported by an Appendix which provides the breakdown of the individual debts which make up the proposed write offs. This would ensure a consistent Corporate approach to debt write off.

Management Action Plan

The Chief Exchequer Officer will ensure that this action is completed within the Corporate Debt work stream.

Importance:	Low
Responsible Officer:	E Sturgeon, Chief Exchequer Officer
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	March 2018
Required Evidence of Completion:	Evidence of review from Corporate Debt work stream

Auditor's Comments

Satisfactory

Appendix 3

Action Point 10 - Awarding of a Loan

As a result of the review of the write-off of a loan, Internal Audit noted that the 30 November 2011 report to the SP&R which sought approval of the £200,000 loan stated that under the Council's approved Investment Strategy (permitted investments rules) all such third party loans require to be subsequently approved by full Council. However, the auditor could not trace any such approval by full Council.

Due to the passage of time, there is no specific action arising from this finding.

Action Point 11 - Non Declared Interest

As a result of the review of the write-off of a loan, and subsequent review of the Committee reports and minutes regarding the conditions of the loan, Internal Audit identified that there were occasions where elected members on the external board to whom the loan was granted did not declare their interest.

The Service stated that it is the responsibility of the Elected Member to declare their interests.

Management Action Plan

a) The requirement for Elected Members to declare their interests will form part of the training to be delivered to Elected Members following the election.

b) The Head of Legal and Governance Services will work with the Head of Democratic Services to develop a process for monitoring elected member declarations of interest and action to be taken.

Importance:	Medium
Responsible Officer:	a) G Taylor, Head of Democratic Services b) L Simpson, Head of Legal and Governance Services
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	June 2017
Required Evidence of Completion:	Training delivered to Elected Members

Auditor's Comments

Satisfactory