

Hinckley and Bosworth Borough Council

Sundry Debt Recovery Internal Audit report

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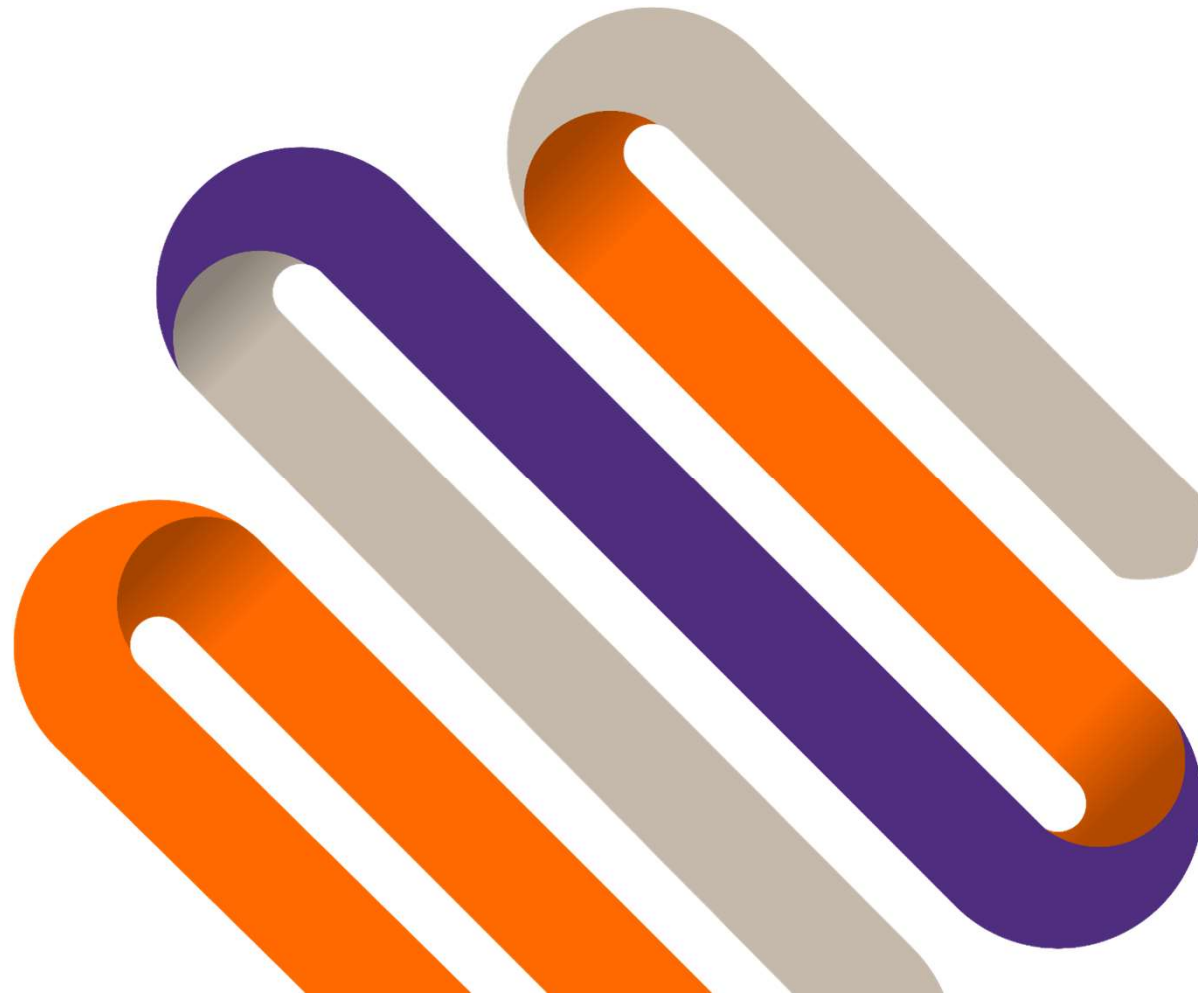
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Report distribution:

For action:

- Section 151 Officer
- Finance Staff

Responsible Executives:

- Director (Corporate Services)

This report is confidential and is intended for use by the management and directors of Hinckley & Bosworth Borough Council. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the Council's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

Executive Summary

Background

The Council's approach to debt recovery is a crucial element of its overall financial managements arrangements and strategy. It is vital that management have a clear oversight of the debt position to enable appropriate and timely decision making. Failure to effectively recover debt or identify balances for write off can impact on budget setting and available reserves. If arrears are not managed effectively using timely, accurate information, it can lead to unforeseen impacts on the Council's overall financial position.

Furthermore, the Council's approach to rent recovery is a key element of its overall relationship with stakeholders. Failure to set and correctly apply a reasonable and realistic policy on debt recovery which is in line with Council's overall Credit Policy can impact on public perception of the Council's activities.

Therefore, it is crucial that the Council ensures that there is adequate policies and procedures in place in respect of the recovery of debts, that there are effective debt recovery actions carried out which are in accordance with Council policies and procedures and that there is accurate and effective communication between stakeholders regarding debt recovery activity, information on outstanding debts and upcoming planned activity to recover them.

Objectives

The objective of the review is to provide an independent assessment of the key risks, the design and operational effectiveness of the Council's debt management arrangements.

Our review focused on the potential risks:

- Information on debt arrears and recovery is not appropriate or timely, so management may not have a good understanding of performance, risks and actions being taken;
- Policies and procedures are not clear, are not understood, are not being appropriately or consistently applied;
- There is inadequate differentiation between debts so that the most appropriate debt recovery strategy is not being applied, or debts are inappropriately prioritised.
- There is inadequate management of disputes.

Further details on responsibilities, approach and scope are included the Audit Planning Brief issued in August 2018. Furthermore, it should also be noted that our review focusses on sundry debtors. Issues around debt recovery in other areas of the Council's operations (such as revenues and benefits) will be considered in separate reports in line with our delivery plan.

Limitations in scope

Please note that our conclusion is limited by scope. Our findings and conclusions will be limited to the risks outlined above. The scope of this audit does not allow us to provide an independent assessment of all risks and across the entire debt recovery process.

Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing. Please note that there is a risk that our findings and conclusions based on the sample may differ from the findings and conclusions we would reach if we tested the entire population from which the sample is taken.

This report does not constitute an assurance engagement as set out under ISAE 3000.

Executive Summary

Conclusion

Significant assurance with some improvement required

We have reviewed the Council's processes and controls around recovery of sundry debtor balances. The controls tested are set out in our Audit Planning Brief.

We have concluded that the processes provide **SIGNIFICANT ASSURANCE WITH SOME IMPROVEMENT REQUIRED** to the Committee.

Good practice

1. The Council's debt recovery policy is clear, concise and makes provision for proportionality, allowing the Council to differentiate between vulnerable or financially struggling individuals and other debtors.
2. The Council was consistent in its application of incremental reminders and legal notices.
3. The Council provides regular reports to members and is performing in line with its stated performance indicator.

Areas for development

1. The Council should reconsider whether its bad debt provision is in line with the stated policy.
2. The Council should enhance narrative and time limited element of its reporting budget holders on above 90 day debt.
3. The Council should increase regularity and level of write offs.
4. The Council should increase legal and finance team input to write off or similar recovery activity decisions.
5. The Council should be proactive in seeking alternative solutions in cases where cessation of services to non-paying customers is not deemed desirable.
6. The Council should provide a further analysis between disputed and non-disputed balances in order to add additional context to its reports to members.

Recommendations

As we have concluded that the processes provide significant assurance with some improvement required, we have raised only low level recommendations and improvement points with one medium level recommendation to address the weaknesses identified.

	High	Med	Low	Imp
Detailed findings	-	1	4	1

Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

Key Findings & Recommendations

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2

Risk Area	Findings and Recommendation	Action Plan
Information on debt arrears and recovery is not appropriate or timely, so management may not have a good understanding of performance, risks and action being taken.	<p>Key findings</p> <ol style="list-style-type: none"> 1. The Council provides quarterly reports to the Finance and Performance Scrutiny Committee, supported by monthly reports to budget holders containing all debts above 90 days with a brief narrative. We noted that these underlying reports did not provide a high level of narrative to budget holders and did not include deadlines for action to be taken. 2. The Council further uses these quarterly reports to report on its Key Performance indicator for sundry debts; that they should make up no more than 25% of the overall population of sundry debtors (when adjusted for homeless bonds and instalment plans). The KPI and related adjustments are adequately explained in the reports to members. 3. The reports also provide information on the level of the Council's provision for bad debts. As at the 30th September 2018 this stood at £59k against total bad debts of £1839k. Our analysis of the population of sundry debtors showed a total balance of £359k older than 1 year and £144k relating to homeless bonds greater than 90 days. The Council's debt recovery policy states that the provision is calculated in line with "factors known by budget holders affecting its recoverability". Taking the £144k above 90 day homelessness bonds as an example, collection rates are known to be very low on this type of debt and therefore a higher provision may be more appropriate. <p>Recommendations</p> <p>Issue identified: The Council does not take regular write offs to committee.</p> <p>Root cause: As detailed above, budget holder review process does not require a deadline to be set for debt recovery activity to be progressed. Budget holders are reluctant to agree write offs.</p> <p>Risk: In conjunction with a low provision, balances which are neither collectible nor provided for contribute to an overall overstatement of current assets and understatement of bad debt costs.</p> <p>Recommendations: The Council should perform more regular write offs of debtor balances. Finance staff should have more input into the process with the implementation of activity deadlines being used to hold budget holders to account on older balances.</p> <p>Overall conclusion: The combination of lower provision and lack of write offs can lead to an overstatement of current assets. However, this is not highly material to the user's understanding of the accounts.</p> <p>Therefore we consider this to be a low risk recommendation.</p>	<p>Actions:</p> <p>The Accountancy Manager will ensure the old debt are reviewed formally on a monthly basis.</p> <p>Any potential write offs will be discussed with the Head of Finance.</p> <p>Responsible Officer:</p> <p>Ilyas Bham</p> <p>Executive Lead: Cllr C Ladkin</p> <p>Due date: Mar 2019</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Information on debt arrears and recovery is not appropriate or timely, so management may not have a good understanding of performance, risks and action being taken.</p>	<p>Recommendations (continued)</p> <p>Issue identified: We noted approximately £359k of balances which were older than 1 year. 6 of 25 sundry debt accounts tested by the audit team were older than 5 years in age and in all these cases there were longstanding disputes.</p> <p>Root cause: 90 day debt reports to budget holders contain a low level of narrative on debtor balances and do not require budget holders to specify a deadline by which issues will be resolved or recovery activity will be progressed.</p> <p>Risk: Action on longstanding debtor balances with complex disputes involved could continue to be postponed as opposed to achieving a resolution (and collecting monies owed to the Council) or writing off the balance (resulting in a clearer picture of the Council's debt position). There is also a risk that individuals or companies may use protracted disputes to delay collection activity.</p> <p>Recommendations: The Council should enhance its reporting to budget holders on debt recovery to include more detailed narrative as well as setting deadlines for further recovery activity in order to encourage budget holders to be more proactive in seeking resolution to debt issues.</p> <p>Overall conclusion: Very old levels of debt are an issue from the perspective of equality within the Council's debt recovery policy (whereby individuals less willing to enter into lengthy disputes may be subject to more robust collection activity), recovery of funds which can be used for delivery of Council services and with regard to presenting a clear picture of current levels of debt</p> <p>Therefore, we consider this to be a medium risk recommendation.</p>	<p>Actions:</p> <p>Agreed. Appropriate action will be included in the monthly reports and deadlines will be set for a more proactive approach</p> <p>Responsible Officer: Ilyas Bham</p> <p>Executive Lead: Cllr K Ladkin</p> <p>Due date: March 2019</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Policies and procedures are not clear, are not understood, are not being appropriately or consistently applied.</p>	<p>Key findings</p> <ol style="list-style-type: none"> 1. The Council's policy is clear and concise. It also includes considerations around proportionality of response in dealing with vulnerable or otherwise in financial difficulty individuals. 2. The Council's finance function clearly follows the incremental process of reminders and legal notices. In sample testing, we noted only 1 case out of 25 tested where the standard process did not appear to have been adhered to (this was in relation to a balance with another Local Authority). 3. However, the final stage of collection process, once balances are passed to legal services colleagues and budget holders for review, appeared less clear. During sample testing, we tested 10 cases which were older than 1 year and, of these 10, 9 were either disputed or otherwise had recovery held whilst budget holders, legal or senior Council staff entered into negotiations with debtors or reviewed cases. <p>Recommendations:</p> <p>Issue identified: In cases of very old debt, we found that very often these accounts were subject to lengthy disputes.</p> <p>Root cause: Current debt recovery process does not hold budget holders to account in cases of longstanding balances.</p> <p>Risk: Individuals or companies can use disputes to postpone recovery activity for long periods of time.</p> <p>Recommendations: The Council should look to increase legal and finance team input to the monthly monitoring of debtor balances with a view to developing a more proactive and objective response to writing off aged balances or resolving long running disputes and ensuring that all collection activity is consistent with the Council's policy aim of achieving a commercially aware yet consistent and fair approach to debt recovery.</p> <p>Overall conclusion: This is a complimentary recommendation to the enhancement of narrative reporting and introduction of time limits on budget holder level recovery activity.</p> <p>Therefore we consider this to be a low risk recommendation.</p>	<p>Actions:</p> <p>Agreed. Appropriate action will be included in the monthly reports and deadlines will be set for a more proactive approach</p> <p>Responsible Officer: Ilyas Bham</p> <p>Executive Lead: Cllr K Ladkin</p> <p>Due date: March 2019</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>Policies and procedures are not clear, are not understood, are not being appropriately or consistently applied.</p>	<p>Recommendations:</p> <p>Issue identified: In one of 25 cases sampled, the standard incremental recovery activity procedure did not appear to have been adhered to.</p> <p>Root cause: The debtor was another local authority and therefore considered a low risk of non payment.</p> <p>Risk: The application of alternative recovery procedures to local authorities may suggest that the Council provides preferential treatment to other local authorities.</p> <p>Recommendations: The Council should ensure that its incremental debt recovery strategy is followed on all accounts regardless of the nature of the debtor.</p> <p>Overall conclusion: Given the nature of the account and the balance it is understandable that the Council opted to enter into dialogue with the local authority as opposed to continuing to issue reminder notices. However, application of alternative procedures may suggest a lack of equality of treatment to other observers. .</p> <p>Therefore we consider this to be an improvement point.</p>	<p>Actions:</p> <p>For debts that are more than 3 months old, Deputy Section s151 officers for the relevant Council are being contacted requesting payments.</p> <p>Responsible Officer:</p> <p>Ilyas Bham</p> <p>Executive Lead:</p> <p>Due date: Actioned Oct 2018</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
<p>There is inadequate differentiation between debts so that the most appropriate debt recovery strategy is not being applied, or debts are not appropriately prioritised.</p>	<p>Key Findings:</p> <ol style="list-style-type: none"> 1. Generally, the Council was effective in differentiating between statutory and discretionary services, and identifying cases where service provision could be ceased or temporarily postponed in response to non payment of debt. 2. However we did note some instances, for example in the case of provision of trade waste services to a Council owned commercial area, where cessation of services was deemed an unsuitable response (in the instance noted, in order to preserve the overall aspect and therefore commerciality of the area). <p>Issue identified: In a small number of sample cases, we found instances where the Council continued to provide services to customers despite non payment of debts.</p> <p>Root cause: The Council took these decisions in order not to damage the overall aspect and commerciality of Council or other locally significant retail and commercial areas.</p> <p>Risk: Individuals or companies can use disputes to postpone recovery activity for long periods of time.</p> <p>Recommendations: In cases where the Council determine the cessation of service provision is not desirable, they should look to proactively implement alternative legal or similar recovery procedures in order to recoup problem debt balances.</p> <p>Overall conclusion: We consider that this recommendation should be implemented in conjunction with other recommendations on management of disputes and budget holder reviews. Therefore we consider this point individually to be a low risk recommendation.</p>	<p>Management Response</p> <p>This will be reviewed. Where this is happening, the query will be escalated to the relevant Director and a plan agreed with the Head of Finance.</p> <p>Responsible Officer: Ashley Wilson</p> <p>Executive Lead: Cllr K Ladkin</p> <p>Due date: April 2019</p>

Key Findings & Recommendations

Risk Area	Findings and Recommendation	Action Plan
There is inadequate management of disputes.	<p>Key Findings:</p> <ol style="list-style-type: none"> 1. Our sample testing noted that 11 of 25 debtor balances reviewed were in dispute or other form of negotiation and of those 11, 9 were older than 1 year. 2. Overall, entering into a lengthy dispute, particularly from the perspective of larger companies, appeared to be an effective way of postponing Council collection activity. 3. This arguably resulted in less equitable application of the Council's debt recovery policy, particularly from the perspective of proportionality, as larger companies appeared to be able to leverage their status to receive less robust treatment in respect of larger balances than individuals. However, we also noted 2 much smaller (sub £100) balances which had gone uncollected for over 10 years as a result of a legal dispute suggesting that this issue is not limited to corporate accounts. 4. The overall level of accounts in dispute was not reported to members. <p>Recommendation:</p> <p>Issue identified: Overall level of disputed debt is not clear from the Council's quarterly reports.</p> <p>Root cause: The Council does not include this information in its analyses.</p> <p>Risk: The Council's KPI does not give a full picture of the collectability of older balances.</p> <p>Recommendation: The Council should further analyse older balances between disputed and non-disputed accounts. This would give additional context to members and may further have the effect of adding an additional incentive to budget holders, legal and finance staff to resolve disputes.</p> <p>Overall conclusion: This is a complimentary recommendation to the enhancement of narrative reporting and introduction of time limits on budget holder level recovery activity. Therefore we consider this to be a low risk recommendation.</p>	<p>Management Response</p> <p>The report process will be reviewed so additional context can be given for old disputed debts.</p> <p>Responsible Officer: Ilyas Bham</p> <p>Executive Lead: Cllr K Ladkin</p> <p>Due date: April 2019</p>

Appendices

Appendix 1 – Staff involved and documents reviewed

Staff involved

- Ashley Wilson – Section 151 Officer;
- Ilyas Bham - Deputy Section 151 Officer;
- Michelle Lockett – Controls Accountant
- Sheryl Wood – Income Officer

Documents reviewed

- Debt recovery policy
- Quarterly aged debt reports to members
- 90 day debt reports to budget holders
- Supporting working schedules for bad debt provision

Appendix 2 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
Significant assurance	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
Significant assurance with some improvement required	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
Partial assurance with improvement required	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
No assurance	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>

Appendix 2 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> ▪ Key activity or control not designed or operating effectively ▪ Potential for fraud identified ▪ Non-compliance with key procedures / standards ▪ Non-compliance with regulation
Medium	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> ▪ Important activity or control not designed or operating effectively ▪ Impact is contained within the department and compensating controls would detect errors ▪ Possibility for fraud exists ▪ Control failures identified but not in key controls ▪ Non-compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> ▪ Minor control design or operational weakness ▪ Minor non-compliance with procedures / standards
Improvement	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> ▪ Information for management ▪ Control operating but not necessarily in accordance with best practice

