

South Ribble Council &  
Chorley Council

Final  
Internal Audit Report

# Unrecoverable Debt Write Offs

2023/24

Audit Assurance: Adequate  
Auditor: David Holgate/James Spiers  
Date Issued: 8<sup>th</sup> May 2024



WORKING TOGETHER

<b>Reason for the Audit &amp; Scope</b>	
1	<p>The Council endeavors to recover all debt and as such must ensure that all reasonable steps have been taken to secure income. When recovery action is unsuccessful, not possible, or practical, the debt is deemed non-recoverable and is written off following the process outlined within the Council's Write Off Policy.</p> <p>This review will focus on the procedures in place for writing off debt across the Council to ensure that irrecoverable income is correctly identified in a timely fashion, and appropriately approved before it is ultimately written off as per the requirements of the Write Off Policy.</p> <p>The review is included in the 2023/24 Annual Audit Plan approved by the respective Governance Committees on the 26th September 2023 and 27th September 2023.</p>

<b>Audit Objectives</b>	
2	The objective of the audit is to provide assurance that the Council has embedded processes in place to ensure that irrecoverable sums are written off in compliance with the Write Off Policy. This includes Business Rates, Council Tax and Sundry Debts.
3	The audit also assessed the effectiveness of the various other sources of assurances using the three lines of defence methodology.
4	The audit will focus on specific risks where the controls in place mitigate a gross red / amber risks to a residual green risk. In addition, all fraud risks and performance management data will be included within our work.

<b>Audit Assurance</b>	
5	A full risk-based review of Sundry Debtors, Council Tax and Business Rates has been undertaken regularly over the last 5 years. This review will focus solely on debts that have been identified for write off and adherence to the Write Off Policy to provide assurance or otherwise that write off procedures are being adhered to.
6	The Head of Internal Audit is required to provide the Governance Committee with an annual audit opinion on the effectiveness of the overall control environment operating within the Council and to facilitate this each individual audit is awarded a controls assurance rating. This is based upon the work undertaken during the review and considers the reliance we can place on the other sources of assurance.
7	<p>A Fair Collection Charter was formally approved by Full Council at each authority in February 2022 to ensure an ethical approach to debt collection including a more supportive recovery process and a reduction in the use of debt collection agencies. The Debt Write Off Policy 2019 (SRBC)/Debt Management Policy 2020 (CBC) are complementary to the Charter and provide guidance to officers when all avenues of debt recovery have been explored and a debt needs to be written off. During our review of Council Tax 2021/22 it was agreed that the write off policies would be reviewed however, despite this audit action reported as completed, no evidence of review was apparent, and these policies continue to be utilised.</p> <p>The Council's Financial Procedure Rules state the need for write offs to be carried out on a timely basis however, our review of Sundry Debtor - Aged Debts 2022/23 completed in August 2023 identified that a large number of aged debts had accumulated across multiple services with the likelihood that many of these debts should have been identified as irrecoverable and written off years before.</p> <p>An agreed action from this review sought to address stalled cases with additional action to be taken by service areas or debts to be written off as appropriate, this was timetabled for completion by December 2023. Testing identified that the exercise was undertaken by the Revenues and Benefits Team and Services were asked to provide details of all their irrevocable debts for write off by January 2024. Due</p>

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to this exercise, it is evident that the number and amount of write offs has significantly increased over the last financial year at both Councils, however the volume processed at South Ribble (21 entries totalling £4706) is measurably less than Chorley (201 entries totalling £57,514), which appears inconsistent with the amount of post final reminder aged date for each Council (SRBC £1,773,994 and CBC £2,367,310 as at 31/01/24). In addition, it was evident that in year sundry debtor write offs are still not being completed on an ongoing basis with appropriate authorisations taking place before the end of the financial year, therefore outstanding debt requires a review alongside service areas.

For Council Tax a proportion of the 2023/24 write offs were sampled and it can be confirmed that unrecoverable debt is written off on a quarterly basis and the appropriate level of authorisation is sought and retained. Sample testing of Business Rate write offs for the same period identified two instances where the appropriate authorisation evidence for Category 2 (£1000-24,999) write offs were not available for review.

For these reasons, an **Adequate** assurance rating has been awarded for this review. There are a number of improvements to be made to strengthen the current operational arrangements which are detailed in the action plan at Appendix B.

**Control Rating Key**

- Full** – the Authority can place complete reliance on the controls. No control weaknesses exist.
- Substantial** - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
- Adequate** - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.
- Limited** - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.

Risk and Controls	Control Evaluation
<b>Risk 1 – Council has failed to set out its approach to the management of debts that cannot be recovered.</b>	
Fair Collection Charter introduced and approved	Working as intended
Write Off Policy in place	Action 1
Adherence to policies and procedures	Action 2, 3, 5 & 6

Chorley Council

Type of Write Off	Value of Write off £		Evidence of pursuance of debt	Reason for write off in accordance with Policy	Correct Level of Authority Obtained	Debt Written Off in Good Time
<b>Sundry Debtor</b>	CAT 1	0-100	✓	✓	✓	Action 4
	CAT 2	100-999.99	✓	✓	✓	
	CAT 3	1000 – 24999.99	✓	✓	✓	
	CAT 4	25,000+	No samples identified			
<b>Council Tax</b>	CAT 1	0-100	✓	✓	✓	✓
	CAT 2	100-999.99	✓	✓	✓	Historic case
	CAT 3	1000 – 24999.99	✓	✓	✓	✓
	CAT 4	25,000+	No samples identified			
<b>Business Rates</b>	CAT 1	0-100	No samples identified			
	CAT 2	100-999.99	✓	✓	✓	✓
	CAT 3	1000 – 24999.99	✓	✓	✓	✓
	CAT 4	25,000+	✓	✓	✓	Historic case

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## South Ribble

Type of Write Off	Value of Write off £		Evidence of pursuance of debt	Reason for write off in accordance with Policy	Correct Level of Authority Obtained	Debt Written Off in Good Time
<b>Sundry Debtor</b>	CAT 1	0-999.99	✓	✓	✓	Action 4
	CAT 2	1000 – 24999.99	✓	✓	✓	
	CAT 3	25,000+	No samples identified			
<b>Council Tax</b>	CAT 1	0-999.99	✓	✓	✓	✓
	CAT 2	1000 – 24999.99	✓	✓	✓	✓
	CAT 3	25,000+	No samples identified			
<b>Business Rates</b>	CAT 1	0-999.99	✓	✓	✓	✓
	CAT 2	1000 – 24999.99	✓	✓	Action 7	✓
	CAT 3	25,000+	✓	✓	✓	Historic case

**SRBC Sundry Debtors:**

- CAT 1 sampled from 2023/24.
- CAT 2 sampled from 2021/22, no CAT 2 write offs were undertaken in 2022/23 or 2023/24.
- CAT 3 no samples available from 2021 onwards.

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## AUDIT ASSURANCE

### Three Lines of Defence

Audit Area	1 <sup>st</sup> Line	2 <sup>nd</sup> Line	3 <sup>rd</sup> Line	Internal Audit opinion
Write Offs	Revenues Team/Service Areas	Finance	Internal Audit	It can be evidenced that the first and second line of defence are operating and write offs are being processed and authorised as per the policy/procedures, however further work is required to ensure that the backlog of aged debts are assessed and written off as appropriate.

### Risk and Control Evaluation

Risks Examined	Full	Substantial	Adequate	Limited
Risk 1 – Council has failed to set out its approach to the management of debts that cannot be recovered.			✓	
<b>OVERALL AUDIT OPINION</b>				

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<b>MANAGEMENT ACTION PLAN</b>
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NO.	FINDING	AGREED ACTION	OFFICER & DATE
<b>Joint Findings</b>			
1	<p>During the Internal Audit Review of Council Tax 2021/22 the following action was agreed in relation to each Council's debt write off policy:</p> <p>The Debt Write Off Policy will be reviewed ensuring that the debt write off arrangements match operational arrangements clearly identifying:</p> <ul style="list-style-type: none"> <li>• Debt write off category i.e. Council Tax, Business Rates, Sundry Debtors;</li> <li>• Reason for write-off;</li> <li>• Approval requirements and financial limits;</li> <li>• Documentation required.</li> </ul> <p>Our testing identified that the policies provided for review and utilised by the team are the same versions provided in 2021/22. No evidence of subsequent policy review was available for either Council.</p> <p>Consideration should be given to reviewing/aligning the debt write off policies across both Councils.</p>	<p>The Head of Customer Services will meet with the Director of Finance to decide an agreed approach to reviewing the current policies in place for write offs. Consideration will be given to aligning the debt write off procedures and a shared Debt Management policy which will consider:</p> <ul style="list-style-type: none"> <li>• Debt write off categories i.e. Council Tax, Business Rates, Sundry Debtors.</li> <li>• Aligning terminology for write-offs.</li> <li>• Review of approval requirements and financial limits;</li> <li>• Standardising documentation requirements.</li> </ul> <p>Once formalised the policy will be approved through the appropriate channels and relaunched via The Loop and 'All Staff Email' to increase awareness throughout the Council.</p>	<p>Alison Wilding</p> <p>September 2024</p>

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2	Testing identified that authorisation for Sundry Debtor write offs is routinely sought from the appropriate Manager/Director prior to the write off being processed on the financial system, however, it was evident that the officer that creates the entry for write off (inputter) is often the same officer that verifies the entry for write off (verifier). Testing verified that authorisation is routinely sought via email from the appropriate officer and no unauthorised write offs were identified however, consideration should be given to introducing separation of duties to reduce the risk of fraud and ensure that write offs cannot be input and processed by the same individual.	The Revenues Manager will work with the Financial Systems Team to check if a segregation of duties within the Finance System is possible. If the system has capability, write offs will be input and verified by different officers and incorporated into the existing procedures.	Debbie Butterworth  June 2024
3	Our review identified that evidence and system notes to support write offs are not routinely retained within the financial system. Consideration should be given to uploading supporting evidence to the financial system to ensure a full audit trail is maintained.	The internal write off procedures will be updated to reflect the requirement of comprehensive system notes and uploading of evidence in order to maintain an audit trail.	Debbie Butterworth  June 2024
4	It was evident that in year sundry debtor write offs are not being completed on an ongoing basis with the appropriate authorisations taking place before the end of the financial year. A further review is required alongside service areas that have outstanding aged debt issues.	The Revenues Manager will ensure Service Areas with outstanding aged debt issues are reminded of their responsibility in the quarterly aged debt meetings. Directors will be invited to attend so the message is reinforced.  The Head of Customer Services will highlight Service Areas with significant aged debts in all future reports taken to SMT. This will be a standing item to monitor progress being made and escalated if improvements are not evident.	Debbie Butterworth / Alison Wilding  August 2024
5	Our review acknowledges that progress has been made since the review of Sundry Debtor - Aged Debts 2022/23 in August 2023, and the value of debt/number of outstanding invoices has decreased at	Service Areas currently receive weekly aged debt reports directly from the system and have quarterly meetings with the Revenues Team to discuss areas of concern.	Alison Wilding  September 2024

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	<p>both Councils with the following values applicable at the end of January 2024:</p> <p>CBC £4,658,009 to £2,367,310 SRBC £2,029,328 to £1,773,994</p> <p>As the number of outstanding invoices still remains high (CBC 1233 &amp; SRBC 702) the Head of Customer Services should continue to monitor the progress at each Council and the current model of operation to assess if a change of approach is required to ensure that aged debts are appropriately actioned, irrecoverable debt is identified in good time and write offs are actioned in a timely manner.</p>	<p>Despite this the Revenues Team do not currently have the capacity to further investigate invoices in the detail required. The Head of Customer Services will meet with the Director of Finance to consider reviewing the current model of operation and assess if a change of approach is necessary.</p>	
<b>Chorley Findings</b>			
6	<p>Testing identified that Chorley Customer Service Officers are authorised to write off unrecoverable debt under £100.</p> <p>Consideration should be given to introducing periodic supervisory checks of lower value write offs to ensure that they meet the requirements of the policy and help prevent fraud.</p>	<p>A review of authorisation levels will be undertaken as part of the write off policy review to ensure there is alignment across both councils as per action 1.</p>	
<b>South Ribble Findings</b>			
7	<p>Sample testing of Business Rate write offs for the same period identified two instances where the appropriate authorisation evidence for Category 2 (£1000-24,999) write offs were not available for review.</p>	<p>The Revenues Team will retain all information for Business Rate write-offs going forward, evidence in relation to the two highlighted issues will be sought and saved to the file.</p>	<p>Debbie Butterworth</p> <p>May 2024</p>

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