

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 1 December 2015

**BY:** Depute Chief Executive – Resources & People Services

**SUBJECT:** Internal Audit Report – Bad Debt Write-offs

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Bad Debt Write-offs.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

## **3 BACKGROUND**

- 3.1 A review of Bad Debt Write-offs was undertaken as part of the audit plan for 2015/16.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

|                      |                        |
|----------------------|------------------------|
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| <b>DESIGNATION</b>   | Internal Audit Manager |
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| <b>DATE</b>          | 16 November 2015       |

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT BAD DEBT WRITE-OFFS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of Bad Debt Write-offs was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- Adequate arrangements are in place for the write-off of debts – for debts less than £10,000 that were written off in 2014/15, appropriate approval had been given.
- Appropriate documentation was held on file to support the reasons for the debts being written off.

#### **1.3 Areas with Scope for Improvement**

- The revised draft Bad Debt & Credit Balance Write-off Policy was updated in February 2014, however the Policy has yet to be formally approved. *Risk – an inconsistent approach may be adopted.*
- For debts under £10,000 that had been written off, there was a failure to submit regular reports to the Members' Library in line with the existing Policy. *Risk – non-compliance with policy.*
- Debts greater than £10,000 had been identified for write-off in 2014/15, however the write-off list was not submitted to Cabinet for approval – these debts have yet to be written off. *Risk – failure to write-off debts timeously.*
- In some cases, service areas had failed to retain sufficient back-up documentation to substantiate the original invoices raised, resulting in the Council being unable to pursue these debts successfully. *Risk – loss of income to the Council.*
- There was a failure to ensure that a consistent approach had been adopted by staff recommending prescribed debts for write-off. *Risk – inconsistent treatment of prescribed debts.*
- For Council Tax, Non-Domestic Rates and Housing Rents, there was a lack of reconciliation between the approved write-off list and the debts written off in the main systems. *Risk – errors and irregularities may occur and remain undetected.*
- The existing arrangements in place for dealing with multiple debts (i.e. individuals with debts in more than one service area) require review – in some cases the individual's Council Tax debt had been identified and written off, however other debts due to the Council (e.g. Housing Rents) had remained outstanding. *Risk – failure to adopt a consistent approach.*

#### **1.4 Summary**

Our review of Bad Debt Write-offs identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**November 2015**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
BAD DEBT WRITE-OFFS**

**ACTION PLAN**

| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b> | <b>AGREED ACTION</b>  | <b>RISK ACCEPTED/<br/>MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|---|--------------|----------------------------|---|-----------------------------------|----------------------------------|
| 3.1.1           | Management should ensure that the draft Bad Debt & Credit Balance Write-off Policy is finalised and formally approved.  | Medium       | Service Manager – Revenues | Agreed  |                                   | April 2016                       |
| 3.2.1           | Management should ensure that debts over £10,000 recommended for write-off are submitted timeously to Cabinet for approval.   | Medium       | Service Manager – Revenues | Agreed  |                                   | April 2016                       |
| 3.2.2           | Management should ensure that details of all debts below £10,000 that have been written off are submitted to the Members' Library in line with the current Policy.                          | Medium       | Service Manager – Revenues | Agreed – details to be provided to Elected Members via Members' Library.      |                                   | April 2016                       |
| 3.3.1           | Management should ensure that the 'Write Off Recommendation' form is updated to accurately reflect the main systems that are currently checked, prior to recommending a debt for write-off. | Medium       | Service Manager – Revenues | Agreed – a new electronic form is to be devised and used across all services. |                                   | April 2016                       |

| <b>PARA REF</b> | <b>RECOMMENDATION</b>   | <b>GRADE</b> | <b>RESPONSIBLE OFFICER</b> | <b>AGREED ACTION</b>  | <b>RISK ACCEPTED/ MANAGED</b> | <b>AGREED DATE OF COMPLETION</b> |
|-----------------|---|--------------|----------------------------|---|-------------------------------|----------------------------------|
| 3.3.1 (cont)    | Management should ensure that the 'Write Off Recommendation' form is fully completed to evidence that checks have been carried out to identify other debts owed to the Council by the individual or business. | Medium       | Service Manager – Revenues | Agreed – other debts will be identified, but may not always be included as a write-off recommendation.    |                               | April 2016                       |
| 3.3.2           | Management should ensure that for all invoices raised key documentation is held by the service area to enable the Council to pursue the debt in the event of a dispute.                                       | Medium       | All Service Managers       | Agreed – all managers to be advised of requirements.  |                               | December 2015                    |
| 3.4.1           | Management should ensure that a consistent approach is adopted for identifying prescribed debts recommended for write-off.  | Medium       | Service Manager – Revenues | Agreed – management to provide training for relevant staff.   |                               | February 2016                    |
| 3.5.1           | For Council Tax, Non-Domestic Rates and Housing Rents, a reconciliation should be undertaken between the approved write-off list and the total amounts written off in the main systems.                       | Medium       | Service Manager – Revenues | Systems routines have been developed to reconcile the write-off list to debts written off on the systems. |                               | April 2016                       |

| PARA REF     | RECOMMENDATION  | GRADE                       | RESPONSIBLE OFFICER                       | AGREED ACTION  | RISK ACCEPTED/ MANAGED | AGREED DATE OF COMPLETION |
|--------------|---|-----------------------------|---|--|------------------------|---------------------------|
| 3.5.1 (cont) | <p>All differences identified should be fully investigated and appropriate action taken.</p> <p>Management should ensure that a reconciliation is undertaken between the write-off list and the amounts posted to the Council's General Ledger.</p> | <p>Medium</p> <p>Medium</p> | <p>Service Manager – Business Finance</p> | <p>Any differences will be identified as part of this work. Testing of these routines still to take place.</p> <p>Agreed</p> |                        | <p>June 2016</p>          |

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

| Level         | Definition  |
|---------------|---|
| <b>High</b>   | Recommendations which are fundamental to the system and upon which Management should take immediate action.                                     |
| <b>Medium</b> | Recommendations which will improve the efficiency and effectiveness of the existing controls.   |
| <b>Low</b>    | Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency. |