



CROYDON

Final Internal Audit Report

Debt Recovery – In-House

November 2020

Distribution: Executive Director of Resources and Monitoring Officer
Director of Finance Investment and Risk and S151 Officer
Head of Payments, Revenues, Benefits and Debt

Assurance Level	Issues Raised	
Substantial Assurance	Priority 1	0
	Priority 2	1*
	Priority 3	0

* Three of the issues identified as the result of this internal audit have all also been separately reported in the Staff Debt report 2019/20 and therefore have not been repeated in this audit report.

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

Contents

Page

Executive Summary

1. Introduction.....	3
2. Key Issues.....	3

Detailed Report

3. Actions And Key Findings/Rationale	4
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Appendices

1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

1. Introduction

- 1.1 Since May 2019 the Council's in-house Corporate Debt Recovery Team (CDR) has switched to the My Resources system to manage the debt recovery process. A Corporate Debt Collection and Recovery Policy is available on the Council's website.
- 1.2 Each collector in the team is assigned a portfolio of customer debts to recover. Each debt is assigned a profile class which should determine the collector's approach to recovery. The Dunning Strategies template provides collectors with a guideline recovery strategy for each profile class. However, ultimately a tailored approach to recovery should be taken, determined by the circumstances of the case. Recovery arrangements are agreed with the debtor and debts can be paid in instalments.
- 1.3 The Corporate Debt Write-Off Policy details that write-offs should be prepared on a quarterly basis. The CDR team updates shared spreadsheets when a debt requires write-off. The CDR Manager then checks each report using a sample testing method and passes it on to the CDR Services Manager for further review. Finally, the reports are reviewed by the S151 Officer for final authorisation. A new workflow based write-off process is on course to be developed, incorporating My Resources and streamlining the current process.
- 1.4 The objectives, methodology and scope of the audit are contained in the Terms of Reference at Appendix 1.

2. Key Issues

- 2.1 Three of the issues identified as the result of this internal audit, (relating to a lack of quarterly write-offs and properly sample checking of the debts proposed for write off; the discontinuation of the Income and Debt Board; and Corporate Debt Recovery Write off Policy and the Corporate Debt Recovery Write-off process not being updated to reflect the change to My Resources) have all already been separately reported in the Staff Debt report 2019/20 and therefore have not been repeated in this audit report. One further Priority 2 issue specific to this area has also been identified as follows:

Priority 2 Issue

It could not be evidenced in all cases that sufficient actions had been taken to recover outstanding debts. Furthermore, consistent records of customer developments were not being maintained. **(Issue 1)**

3. Actions and Key Findings/Rationale

Control Area 3: Recovery Actions						
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1				
2	<p>The Dunning Strategy produces reminders for different sites on the same day and what appears to be the same reminders being issued on the same dates is actually different reminders issued on different sites on the same day.</p> <p>Clear processes to be drafted and worked to record all actions and ensure records are up to date.</p>	<p>The Dunning Strategy template is used to provide a loose guide as to the treatment of debts as determined by the associated profile class. Discussion with the Corporate Debt Recovery Manager established that while the Dunning Strategy should be used as a guideline, it is ultimately the responsibility of the recovery officer to determine the most appropriate method of recovery. Most collection strategies will form a route of reminder letters, customer phone calls, enforcement action and, if appropriate, write-off.</p> <p>Sample testing of 15 invoices identified:</p> <ul style="list-style-type: none"> • One customer where the first and second reminder letters were issued on the same day in February 2020 whereas the invoices for the customer were due for payment on 29 July and on 9 and 25 November 2019 respectively. • The recovery actions taken after the issue of automated reminder letters could not be determined for three of the customers tested. The account notes on My Resources customer profiles are routinely used to keep track of communications and developments in collection cases, however, there was no evidence of up to date records being maintained in these cases. It therefore appears no further actions have been taken to recover these debts. • The statement of account for one customer detailed periodic matching payment instalments, suggesting that an agreement had been made with the customer to pay by instalments. However, there was no record on the customer’s My Resources account to suggest such an agreement was reached. 				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Debt Recovery Manager</td> <td>30/11/2020</td> </tr> </tbody> </table>	Responsible officer	Deadline	Debt Recovery Manager	30/11/2020	<p>Where sufficient recovery actions are not taken and adequately recorded, there is a risk that the stage of recovery cannot be identified and the debt becomes aged. This could increase the likelihood of debts being unrecovered and written off.</p>
Responsible officer	Deadline					
Debt Recovery Manager	30/11/2020					

TERMS OF REFERENCE

Debt Recovery – In-House

1. INTRODUCTION AND BACKGROUND

- 1.1 Since May 2019 the Council's in-house Corporate Debt Recovery Team (CDR) have switched to the My Resources system to manage the debt recovery process.
- 1.2 Each collector in the team is assigned a portfolio of customer debts to recover. Each debt is assigned a profile class which should determine the collectors approach to recovery. The Dunning Strategies Template provides collectors with a guideline recovery strategy for each profile class. However, ultimately a tailored approach to recovery should be taken, determined by the circumstances of the case.
- 1.3 Recovery arrangements are agreed with the debtor and can be paid in instalments or as a promise to pay.
- 1.4 It is recommended that write-offs are prepared on a quarterly basis. The CDR team update shared spreadsheets when a debt requires write-off. The CDR Manager then checks the reports using a sample testing method and passes it on to the CDR Services Manager for further review. Finally, the reports are reviewed by the S151 Officer for final authorisation. A new workflow based write-off process is on course to be developed, incorporating My Resources and streamlining the current process.
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to Debt Recovery – In-House.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate testing conducted.
- 2.3 The key findings, conclusions, and subsequent issues arising will be presented at an exit meeting and followed by the circulation of a draft report for consideration by management. This prior to agreement and issue of the final audit report.

3. SCOPE

This audit examined the Council's arrangements in relation to Debt Recovery - In-House, and include the following areas:





Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Operational, and Management Requirements	0	0	0
Raising & Issuing of Invoices	0	0	0
Recovery Actions	0	1	0
Payment Arrangements	0	0	0
Write-Offs	0	0	0
Performance Monitoring and Management Reporting	0	0	0
TOTAL	0	1	0

* Three of the issues identified as the result of this internal audit have all also been separately reported in the Staff Debt report 2019/20 and therefore have not been repeated in this audit report.

DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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