

# Dacorum Borough Council - Internal Audit Final Report

## Council Tax

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### **Key dates:**

*Date of fieldwork: December 2011*

*Date of draft report: February 2012*

*Receipt of responses: March 2012*

*Date of final report: March 2012*

This report has been prepared on the basis of the limitations set out in Appendix C.

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# 1. Executive summary

## 1.1. Background

As part of the Internal Audit programme for 2011/12, approved by the Audit Committee in February 2011, we have undertaken an audit of the Council's systems of internal control in respect of Council Tax.

Council Tax is payable in respect of all domestic dwellings. Dacorum Borough Council is a billing authority and is therefore responsible for the setting, levy, collection and recovery of Council Tax. Dacorum Borough Council maintains a collection fund. This receives and distributes all of the Council Tax income received by the Authority to relevant agencies. The Council Tax team operates as part of the Revenues and Benefits section of the Council, managed by the Group Manager Revenues and Benefits.

In 2010/11 the Authority's yearly outturn target for collection rates was 98.5%. At year end they had achieved 97.9%. The yearly outturn target for collection rates in 2011/12 remains 98.5% and the Council is currently on track to meet this target.

## 1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Council Tax, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas; Organisational structure, reconciliations, discounts exemptions and reductions, amendments to standing data, billing, receipts and tax payers, suspense account, refunds, void allowances, debt recovery action, write off, management of collection rates and follow up of previous audit recommendations.

Further detail on the scope of the audit is provided in Section 2 of the report.

## 1.3. Summary assessment

Our audit of DBC's internal controls operating over Council Tax found that whilst there is basically a sound system of internal control there are weaknesses in design which may place some of the system objectives at risk. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

Evaluation Assessment	Testing Assessment
Substantial	Substantial

Management should be aware that our internal audit work was performed according to UK Government Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for Council Tax is shown in Section 3.

#### **1.4. Key findings**

We have raised two priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- General procedure notes should be updated;
- Write off policy should be updated; and
- Outstanding credits on accounts should be investigated.

Full details of the audit findings and recommendations are shown in Section 4 of the report.

#### **1.5. Management Response**

*We received the management responses in a timely manner and these have been included in the main body of the report.*

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

## 2. Scope of assignment

### 2.1 Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Council Tax, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

### 2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner

### 2.3 Areas covered

The audit was carried out to evaluate and test controls over the following areas:

- *Organisational Structure*

Tasks are allocated to appropriate teams and that there is segregation of duties between crediting of invoices/write-offs and the debiting/setting up of accounts.

- *Reconciliations*

All relevant properties are set up on the Council Tax system with the correct charge, in line with data provided by the Valuation Office. In addition, Council Tax records agree to the Council's main financial accounts and also to the Council Tax bank account.

- *Discounts, Exemptions and Reductions*

Discounts, reductions and exemptions are only applied where applicant meets the criteria for reduction or exemption, and that they are applied promptly.

- *Amendments to Standing Data and Underlying System Data*

Only valid, appropriate and accurate amendments are made to standing data (billing accounts) and underlying system data (band parameters).

- *Billing*

Council Tax monies owed to the Council are billed in a timely, accurate and valid manner in order to help ensure timely receipt.

- *Receipt from Tax Payers*

All income due from tax payers has been received and recorded in an accurate and timely manner.

- *Suspense Account*

Any unidentified receipts are safeguarded through being banked in full and coded to the suspense account, and are then identified and correctly posted in a timely manner so as to avoid commencing inappropriate recovery action.

- *Refunds*

Only valid and accurate refunds are made.

- *Void Allowance*

Only accurate and appropriate allowances are made for void properties on an ongoing basis.

- *Debt Recovery Action*

The Council promptly identifies all Council Tax accounts where the amount due is not received, and for each outstanding debt, recovery actions is undertaken in a prompt, consistent and effective manner.

- *Write-off*

Debts are only written-off after all investigation and appropriate recovery actions have been exhausted and write-offs are accurate, valid, and are processed in accordance with the Council's Financial Regulations.

- *Management of Collection Rates*



























Collection targets are met and management are provided with sufficient, accurate and timely information on debt collection rates to allow for effective decision making.

- *Follow Up Previous Audit Recommendations*

Recommendations raised in the previous audit report have been implemented.

### 3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Organisational Structure			Recommendation 1
Reconciliations			
Discounts, Exemptions and Reductions			
Amendments to Standing Data and Underlying System Data			
Billing			
Receipt from Tax Payers			
Suspense Account			
Refunds			Recommendation 3
Void Allowances			
Debt Recovery Action			
Write-off			Recommendation 2
Management of Collection Rates			
Follow Up Previous Audit Recommendations			Recommendation 3

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

## 4. Observations and Recommendations

### Recommendation 1: General Procedure notes should be updated (Priority 3)

#### **Recommendation**

The Revenue General Procedure notes should be periodically reviewed and updated. Following recent appointments, job titles and responsibilities should be updated where necessary.

#### **Observation**

General Procedure notes for the Revenues and Benefits team are in place and available within the Financial Regulations and via ROBO, a document management system which contains all policies, procedures and guidance relating to Revenues and Benefits. They detail arrangements, roles and responsibilities of staff members within the team.

The notes were last updated in February 2008. Whilst the majority of the notes are up to date, audit has identified that the General Procedures, which identify officers by name, should be updated to include details of the new Group Manager for Revenues and Benefits at the next review and is therefore currently out of date.

Where procedure notes are out of date, working practices may be inappropriate which could lead to uninformed and inappropriate decision making and / or the Authority not achieving its objectives.

#### **Responsibility**

Group Manager, Revenues, Benefits and Fraud

#### **Management response / deadline**

Agreed. To be updated by 1 April 2012.



**Recommendation 2: Write off policy should be updated (Priority 2)**

<p><b>Recommendation</b></p> <p>The Write Off Policy should be updated to reflect any changes in policy.</p>
<p><b>Observation</b></p> <p>In order for the Council Tax function to operate efficiently and effectively, policies and procedures regarding all aspects of the function should be up to date, accurate and available to all necessary staff.</p> <p>A copy of the Council Tax Write Off Procedures were obtained and reviewed by audit. These were last updated in February 2010 and it was found that changes have since taken place in respect of the authorisation of write offs. No longer are individual write offs signed off by the Head of Service and S151 Officer but instead it is now performed in one batch at the end of the month. This has not been reflected in the Write Off policy.</p> <p>Without clear up to date policies regarding write offs, there is the risk that Officers do not follow the correct procedures and contravene the Council's policy towards write offs.</p>
<p><b>Responsibility</b></p> <p>Group Manager, Revenues, Benefits and Fraud</p>
<p><b>Management response / deadline</b></p> <p>Agreed. Actual procedures for write-offs follow the requirements set out in Financial Regulations. The procedure notes are to be updated as part of a wider review of procedures relating to arrears management. The review is scheduled to take place during 2012/13, although the procedure notes will be updated by 30 June 2012</p>

**Recommendation 3: Outstanding credits on accounts should be investigated (priority 2)**

**Recommendation**

Outstanding credits on accounts should be regularly reviewed and every effort made to contact former account holders with credits.

**Observation**

Outstanding credits on accounts should be reviewed regularly. Every effort should be made to contact former account holders with credits. Outstanding credits should be reviewed with action taken to refund them where appropriate. A minimum credit amount should be decided upon and all credits totalling this amount or more should be monitored and refunded where possible. Where the credit is of particularly low value, and the cost of performing the refund would exceed the credited amount, a decision should be made regarding what to do with the credit amount. Once finalised, the new process should be detailed within the Refund Policy.

This recommendation was agreed in the 2010/11 audit but it has not yet been implemented. At the time of the Audit, outstanding credits on former accounts totalled £806,965.26 and spanned back to 2001. Audit were informed that a tool was to be procured in order to perform this control last year, however it has subsequently not been purchased. As a result, a manual review process must now be developed and implemented or further IT support given to the Council Tax function.

Not allowing for outstanding credits can result in the misstatement of accounts. Furthermore, holding onto liable party money unnecessarily could lead to adverse publicity for the authority.

**Responsibility**

Group Manager, Revenues, Benefits and Fraud





**Management response / deadline**

Agreed. This problem will be addressed during 2012/13 as part of a wider review of processes for managing balances relating to previous years. The target date for the completion of this review is 31 March 2013.

## Appendix A – Reporting definitions

### Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited</b>		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
<b>Nil</b>		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

### 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>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B – Staff interviewed

The following personnel were consulted:

Nicola Ellis - Group Manager, Revenues, Benefits and Fraud.

Chris Pope - Northgate Systems Administrator, Revenues, Benefits & Fraud

Jake Seabourne - Systems and Administration Officer

Theresa Canning - Revenues Officer

Peter Capper - Revenues Officer

We would like to thank the staff involved for their co-operation during the audit.

## Appendix C - Statement of responsibility

### Statement of Responsibility

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

The matters raised in this report are only those which came to our attention during the course of our internal audit 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 internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

### **Deloitte & Touche Public Sector Internal Audit Limited**

**London**

**March 2012**

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