

# Dacorum Borough Council - Internal Audit Final Report

## Business Rates

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### Key dates:

*Date of fieldwork: December 2011*

*Date of draft report: January 2012*

*Receipt of responses: January 2012*

*Date of final report: February 2012*

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

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# Contents

- 1. EXECUTIVE SUMMARY 3
- 2. SCOPE OF ASSIGNMENT 5
- 3. ASSESSMENT OF CONTROL ENVIRONMENT 7
- 4. OBSERVATIONS AND RECOMMENDATIONS 8
- APPENDIX A – REPORTING DEFINITIONS 11
- APPENDIX B – STAFF INTERVIEWED 12
- APPENDIX C - STATEMENT OF RESPONSIBILITY 13

# 1. Executive summary

## 1.1. Background

As part of the Internal Audit programme for 2011/12, we have undertaken an audit of the Council's systems of internal control in respect of Business Rates.

The purpose of the business rates function is to ensure the complete, timely and accurate receipt of National Non-Domestic Rates (NNDR). This includes maintaining the Council's records with regular updates from the Valuation Office and changes in the NNDR multiplier. Additionally, the Revenues department is responsible for the calculation of discounts such as for small businesses and void properties.

When rates are not paid in a timely manner, the team is responsible for recovering the debt. This includes sending reminders, arranging court hearings and, if required, transferring the debt to the bailiffs.

The Revenues and Benefits department monitors the collection rate for Business Rates. These are collected each month and uploaded to CorVu for management review.

## 1.2. Objectives and Scope

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

In summary, the scope covered the following areas; NNDR Transactions and Records; Organisational Structure; Reconciliation between Debits and the Valuation List; Discount and Reduction Applications; Billing; Receipts from the rate payers; Clearing of Suspense Accounts; Recovery Action; Writing Off Irrecoverable Debt; Monitoring of Collection Rates; Reconciliation with the General Ledger; Refunds; Void Allowance; Policies, Procedures and Legislation; Amendments to Standing Data; and Follow Up 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 Business Rates found that whilst there is basically a 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.

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 Business Rates is shown in Section 3.

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

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

- Accounts where recovery is on hold should be reviewed regularly;
- The Write Off Policy should be updated to reflect changes in policy; and
- Amendments to standing data should be reviewed on a regular basis.

Four recommendations were raised in the previous audit report; these related to the following: Updates from Valuation List; Inspections completed three times a year; Direct Debit Reconciliations; and the regular review of amendments to standing data. Whilst we confirmed that three of the recommendations had been implemented, we found that issues continued to be found in respect of the review of amendments to standing data and, as a result, it has been re-raised.

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 Business Rates, 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:

- *NNDR Transactions and Records*  
Reliability, integrity, confidentiality and security of the NNDR system and ratepayer records is maintained through the reliable operation of the system and its interface to the main accounting systems.
- *Organisational structure*  
There is appropriate segregation of duties between the officers involved in the collection of NNDR and the setting up of debits and writing off debts.
- *Reconciliation between debit and the Valuation Lists*  
An annual reconciliation between the gross debit and the valuation list to ensure that the debit set up is based on the most up to date information on the valuation list.
- *Discount and reduction applications*  
The Council has in place procedures for accurately and promptly processing all applications discounts and exemptions.
- *Billing*  
All NNDR bills are sent out by mid-March to enable taxpayers to enter into their preferred method of payment e.g. direct debit etc.
- *Receipts from the rate payers*  
All daily income collection reports obtained from the cash receipting system are reconciled with the Revenues Section's own records of income received.

- *Clearing of suspense accounts*  
All unidentified remittance are promptly investigated, monitored and authorised before being transferred to appropriate taxpayers' accounts.
- *Recovery action*  
All debts are followed up in a timely manner and in accordance with the Council's recovery procedures.
- *Writing off irrecoverable debt*  
No amounts are recommended for write off as irrecoverable unless detailed investigations are undertaken to establish that there is no possibility of recovering the amounts in question. All write offs comply with the procedures laid down in Financial Regulations.
- *Monitoring of collection rates*  
Periodical monitoring of collection rates against the targets takes place to ensure that the expected income is being received.
- *Reconciliation with the general ledger*  
Regular reconciliations takes place between the NNDR and Main Accounting (general ledger) systems.
- *Refunds*  
Refunds are only made where they are due.
- *Void allowance*  
There is a proper and independent arrangement for verifying void properties before a void allowance is given to a particular taxpayer.
- *Policy and procedures and Legislation*  
Policies and procedures are in place to minimise the risk that staff act unilaterally and independently of legislative and management requirements and ensure that NNDR functions are undertaken in an economic, efficient and effective manner. The Council complies with statute by offering convenient methods of payment to the taxpayers.
- *Amendments to standing data*  
Amendments to standing data are correctly performed.
- *Follow Up*  
All recommendations raised in previous audit reports 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
NNDR Transactions and Records			
Organisational Structure			
Reconciliation between Debit and the Valuation Lists			
Discount and Reduction Applications			
Billing			
Receipt from the Rate Payers			
Clearing of Suspense Accounts			
Recovery Action			<b>Recommendation 1</b>
Writing off Irrecoverable Debt			<b>Recommendation 2</b>
Monitoring of Collection Rates			
Reconciliation with the General Ledger			
Refunds			
Void Allowance			
Policies, Procedures and Legislation			
Amendments to Standing Data			<b>Recommendation 3</b>
Follow-up Previous Audit Recommendations			<b>Recommendation 3</b>

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: Accounts where recovery is on hold (Priority 2)

#### **Recommendation**

Monthly reports of accounts with recovery action on hold should be printed off and marked to evidence that each account has been reviewed to verify if it should still be pending. This should then be reviewed by a senior officer and signed off to confirm it has been reviewed.

#### **Observation**

On a monthly basis, a report is produced by Northgate which details the accounts which are in arrears and their current stage of recovery action. This report is monitored by the Revenues Officers and appropriate action is taken. Where the NNDR team are waiting on further clarification and information for disputes of liability, the accounts may be pending (for instance, the account holder cannot be traced). Reports of all pending accounts are run on a monthly basis and checked by the Revenues Lead Officer.

Audit were informed that although reports are printed off, there is no evidence that they are actually being reviewed by officers as there are no markings on the report nor are they initialled or signed off.

Where there is no clear indication that accounts with recovery action on hold are being reviewed, there is the risk that some accounts which no longer justify its pending status are not being actively pursued for payment.

#### **Responsibility**

Peter Capper (Revenues Lead Officer)

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

Agreed. A system of evidencing account reviews was implemented from January 2012.



## Recommendation 2: Write Off Policy (Priority 3)

### Recommendation

The Write Off Policy should be updated to reflect any changes in policy.

### Observation

In order for the Business Rates 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.

A copy of the Business Rates Write Off Procedures was 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.

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.

### Responsibility

Group Manager (Revenues, Benefits & Fraud)

### Management response / deadline

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.

**Recommendation 3: Amendments to standing data (Priority 2)**

**Recommendation**

Changes made to the Northgate NNDR system should be reviewed by a responsible officer on a regular basis.

**Observation**

When amendments are made to information on the Northgate system, checks should be made by management to verify the accuracy and legitimacy of the amendment. Information such as: rate payer account details, billing addresses, rate payer names and payment plans should be subject to review. On a regular basis a sample of these changes should be double checked by a second officer.

It was confirmed that amendments to standing data are not reviewed by management.

Where amendments are not checked for accuracy there is a risk that errors may not be promptly identified and addressed.

**Responsibility**

Group Manager (Revenues, Benefits & Fraud)





**Management response / deadline**

Agreed. Dacorum Borough Council was piloting performance management software but this was discontinued following an offer from Liberata to introduce a full scheme with anticipated savings. A process for quality checking has been agreed and implementation will follow once the Liberata business case has been received (due mid April 2012) so that the performance improvement and quality assurance processes can be implemented together.

## 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 & Fraud)
Chris Baker	Revenues and Benefits Support Team Leader
Jake Seabourne	Revenues and Benefits Support Officer
Teresa Canning	Revenues Lead Officer
Peter Capper	Revenues Lead Officer
Stephen Wilson	Revenues Officer
Andrew Rowe	Revenues Officer
Chris Pope	Business Systems Developer
Clare Dempsey	Sundry Debtors Lead 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**

**February 2012**

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