



Dacorum Borough Council

Final Internal Audit Report

Council Tax

February 2014

This report has been prepared on the basis of the limitations set out on page 11.

CONFIDENTIAL

Distribution List:

Chris Baker – Group Manager, Revenues, Benefits and Fraud

James Deane – Assistant Director (Finance and Resources)

Martin Hone – Corporate Director (final report only)

Key Dates:

Date of fieldwork: January 2014

Date of draft report: January 2014

Receipt of responses: February 2014

Date of final report: February 2014

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 6 December 2013 between Dacorum Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Dacorum Borough Council. This report 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, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

Contents

1. Executive Summary	1
2. Scope of Assignment.....	3
3. Assessment of Control Environment	5
4. Observations and Recommendations.....	6
Recommendation 1: Reconciliation Procedure Notes (Priority 3).....	6
Recommendation 2: Discount Review Timetable (Priority 3).....	7
Recommendation 3: VOA Reconciliations (Priority 2).....	8
Appendix A - Reporting Definitions	9
Appendix B - Staff Interviewed	10
Statement of Responsibility	11

1. Executive Summary

1.1. Background

As part of the Internal Audit programme for 2013/14, we have undertaken an audit of the Council’s systems of internal control in respect of Council Tax.

1.2. Audit Objective 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 Allowances; Amendments to Standing Data and Underlying System Data; Billing; Collection and Refunds; Suspense Account; Debt Recovery Action; Write Offs; 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 there is a sound system of internal control designed to achieve the system objectives. However, 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
Full	Substantial

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

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 over Council Tax is shown in Section 3.

1.4. Key Findings

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

- The procedure note for reconciliations should be reviewed and updated. (Priority 3)
- The schedule outlining the planned review of discounts and exemptions should be maintained and monitored. (Priority 2)
- Valuation Office Agency (VOA) schedules should be reconciled to the Council’s records three times a year. (Priority 2)

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.

1.6. Acknowledgement

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 within the service 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, to confirm that the Council Tax records agree to the Council's main financial accounts and also to the Council Tax bank account.
- *Discounts, Exemptions and Allowances;*
Discounts, allowances and exemptions are only applied where applicant meets the set criteria, 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;*
All Council Tax monies owed to the Council are billed in a timely, accurate and valid manner in order to help ensure timely receipt.
- *Collection and Refunds;*
All income due from tax payers has been received and recorded in an accurate and timely manner. Only valid and authorised refunds are made.
- *Suspense Account;*
Any unidentified receipts are safeguarded through being banked in full and coded to the suspense account, and that these are then identified and correctly posted in a timely manner so as to avoid commencing inappropriate recovery action.

- *Debt Recovery Action;*

The Council promptly identifies all Council Tax accounts where the amount due is not received, and for each outstanding debt, recovery action 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 that 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.

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

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

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: Reconciliation Procedure Notes (Priority 3)

<p>Recommendation</p> <p>Procedure notes should be developed to assist staff with the reconciliation processes required to help ensure accuracy and completeness of records.</p>
<p>Observation</p> <p>In order to help ensure that staff follow correct working practices, procedure notes should be available within the Council Tax department.</p> <p>It was identified that procedural guidance is available to staff outlining the correct working practices to follow over Council Tax operations. Examination of these procedures identified that no procedure notes were available to support staff with the reconciliation requirements against the general ledger, housing benefits system and VOA schedules.</p> <p>Where up to date procedure notes are not available to staff, there is a risk that staff do not follow correct working practices. This may result in inconsistencies in decision making, leading to errors and damage to the reputation of the Council.</p>
<p>Responsibility</p> <p>Group Manager Benefits, Revenue and Fraud</p>
<p>Management response / deadline</p> <p>Procedure notes to cover reconciliation will be completed by the end of March 2014.</p>

Recommendation 2: Discount Review Timetable (Priority 3)

<p>Recommendation</p> <p>The Discount Review timetable should be maintained and monitored, ensuring that appropriate reviews are carried out in accordance with stipulated timescales.</p>
<p>Observation</p> <p>There are various types of discounts and exemptions offered to support residents with their Council Tax payments, including the following discounts; student, single person, repairs and alterations and armed forces. A Discount Review timetable has been developed which outlines the regularity of reviews required for each type of discount to confirm continued eligibility.</p> <p>Examination of the Discount Review timetables for 2011/12 and 2012/13 identified a number of instances where the date of next review had not been recorded and/or the review had not been recorded as having been completed within the stipulated timeframes. Therefore, confirmation that these reviews had been undertaken could not be obtained.</p> <p>Where regular reviews are not undertaken on the discounts awarded, there is a risk that changes in circumstances are not identified and claims that are no longer eligible continue to be paid. This may result in a loss of revenue from Council Tax, impacting upon the financial position of the Council.</p>
<p>Responsibility</p> <p>Group Manager Benefits, Revenue and Fraud</p>
<p>Management response / deadline</p> <p>Timetable for review of discounts and exemptions during 2014/15 will be created by end of March 2014 and monitored during the year.</p> <p>Single person discount applies to just under 20,000 council tax accounts (approx. 62,000 accounts in total), and this was reviewed during 2013/14.</p> <p>There are about 1,100 accounts with other discounts/exemptions and a decision was taken not to undertake reviews on most of these on the basis of risk. About 200 of these were reviewed during 2013/14: these are for students, and were considered to have the greatest risk.</p>





Recommendation 3: VOA Reconciliation (Priority 2)

<p>Recommendation</p> <p>Reconciliations between the Valuation Office Agency (VOA) schedules and Northgate should be carried out at least three times a year and any discrepancies investigated.</p>
<p>Observation</p> <p>The VOA submits schedules to the Council throughout the year, outlining the number of properties across the borough and the council tax banding that they fall under. Every four months, the schedules are reconciled to the Northgate system to verify that the Council has the correct bandings and are charging the correct council tax rates.</p> <p>It was identified that reconciliations had been carried out in March and November 2013; however no reconciliation had been performed in July.</p> <p>Where reconciliations are not carried out on a regular basis, there is a risk that any discrepancies are not identified and rectified in a timely manner which may result in longer periods of backdated / outstanding council tax due. This may have an impact on effective budget monitoring and have a negative impact on the reputation of the Council with affected residents.</p>
<p>Responsibility</p> <p>Group Manager Benefits, Revenue and Fraud</p>
<p>Management response / deadline</p> <p>The successful completion of the November 2013 reconciliation shows that the absence of the July 2013 reconciliation did not cause issues.</p> <p>However, I recognise the assurance that comes with regular reconciliation, and will ensure that future work takes place when planned. To support this, a record of key controls will be created and reviewed monthly, which will enable early identification and intervention in the event of any slippage.</p> <p>March 2014</p>

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
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		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.
Limited		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.
Nil		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
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	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:

- Chris Baker - Group Manager Benefits, Revenues and Fraud
- Anna Elliott - Revenues Team Leader
- Jake Seabourne - Systems Development and Finance Lead Officer
- Stuart Potton - Revenues and Benefits Support Team Leader

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 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. 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

February 2014

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.