

Dacorum Borough Council

Final Internal Audit Report

Business Rates

April 2014

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

Distribution List:

Anna Elliott – Revenues Team Leader
Chris Baker - Group Manager (Revenues, Benefits & Fraud)
James Deane – Assistant Director (Finance and Resources)
Martin Hone – Corporate Director (Final Report only)
Sally Marshall – chief Executive (Final Report only)

Key Dates:

Date of fieldwork: February/March 2014
Date of draft report: April 2014
Receipt of responses: April 2014
Date of final report: April 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: Procedure Notes (Priority 3)	6
Recommendation 2: Discount and Reduction Application Form (Priority 2).....	7
Recommendation 3: Authorisation of Refunds (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 Business Rates.

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 Business Rates, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: policy, procedures and legislation; NNDR transactions and records; organisational structure; reconciliation between debit and the valuation list; discount and reduction applications; billing; receipts from the rate payers; clearing suspense account; recovery action; writing off irrecoverable debt; monitoring of collection rates; reconciliation with the general ledger; refunds; voids allowances and retrospective reliefs; amendments to standing data and follow up previous audit recommendations.

1.3. Summary Assessment

Our audit of DBC's internal controls operating over Business Rates 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 Business Rates 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:

- Procedure notes should be documented for the Business Rates function. Furthermore, the procedure notes should be reviewed on a regular basis and version controlled. *(Priority 3)*
- The Business Rates discount or reduction application form should be completed for all discounts and the forms should be retained. *(Priority 2)*
- All refunds should be authorised in line with Council authorisation levels. *(Priority 2)*

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

1.5. **Management Response**

We have received the management responses and have included them in our Final 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 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:

- *Policy, 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 rate payers.
- *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*
Annual reconciliations between the gross debit and the valuation list 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.
- *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 payments are promptly investigated, monitored and authorised before being transferred to appropriate 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*
Amounts are not 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 should 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*
Only valid and authorised refunds are made.
- *Void allowances and retrospective reliefs*
To confirm that there is a proper and independent arrangement for verifying void properties before a void allowance is given to a particular rate payer. Reliefs are authorised prior to being applied retrospectively.
- *Amendments to standing data*
Amendments to standing data are correctly performed.
- *Follow Up*
To ensure that 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.

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
Policies, Procedures and Legislation			Recommendation 1
NNDR Transactions and Records			
Organisational Structure			
Reconciliation between Debit and Valuations Lists			
Discount and Reduction Applications			Recommendation 2
Billing			
Receipts from the Rate Payers			
Clearing of Suspense Account			
Recovery Action			
Writing off Irrecoverable Debt			
Monitoring of Collection Rates			
Reconciliations with the General Ledger			
Refunds			Recommendation 3
Void Allowances and Retrospective Reliefs			
Amendments to Standing Data			
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: Procedure Notes (Priority 3)

<p>Recommendation</p> <p>Procedure notes should be documented for the Business Rates function. Furthermore, the procedure notes should be reviewed on a regular basis and version controlled.</p>
<p>Observation</p> <p>In order that the Business Rates staff are aware of their roles and responsibilities in relation to reconciliations, suspense accounts, refunds, voids and empty properties, detailed procedure notes should be documented and made available to all staff. Furthermore, the procedure notes should be reviewed on a regular basis and date version controlled.</p> <p>It was found that documented procedure notes were not available to Business rates staff in relation to reconciliations, refunds, voids and empty properties.</p> <p>Where there are no documented procedures notes in place there is a risk that staff are not working in line with current practises leading to inconsistencies in working practises.</p>
<p>Responsibility</p> <p>Revenues Team Leader</p>
<p>Management response / deadline</p> <p>Agreed. July 2014.</p>

Recommendation 2: Discount and Reduction Application Form (Priority 2)**Recommendation**

The Business Rates discount or reduction application form should be completed for all discounts and the forms should be retained.

Observation

In order that appropriate Business Rates discounts and reductions are applied and that there is an audit trail in place to support the discount or reduction made, an application form should be completed in each instance. Furthermore, the application form should be retained.

It was noted that from testing of a sample of twenty discounts and reductions, made during the period April 2013 to February 2014, that an application form had not been completed in three instances.

Where a Business Rates Discount or Reduction application form is not completed there is a risk that a discount is applied inappropriately and an error is not identified or rectified or that the decision to award the reduction or discount could not be substantiated should a challenge be made.

Responsibility

Revenues Team Leader

Management response / deadline

Agreed

Following a review of the Council's Discretionary Rate Relief (DRR) policy in 2013, all recipients of DRR were contacted in April 2013 and given notice that their existing allowance would end on 31 March 2014, and a fresh application would need to be made if they still wanted to be considered for DRR beyond this date. This replaced the previous process which did not require annual application.

Recommendation 3: Authorisation of Refunds (Priority 2)**Recommendation**

All refunds should be authorised in line with Council authorisation levels.

Observation

The Financial Regulations state that refunds over £30,000 are required to be authorised by the Section 151 officer or Deputy. In order that Business Rates refunds are appropriate the refunds should be authorised in line with the Council authorisation levels within the Financial Regulations. Furthermore, appropriate evidence of authorisation should be retained.

The refund pro-forma documents the authorisation of refunds and the financial regulation details the authorisation levels. A sample of twenty refunds awarded during the period April 2013 to February 2014 was tested during the audit. It was noted that in one instance refund had not been authorised by the Section 151 officer as the refund was over £30,000.

Where refunds are not appropriately authorised there is a risk that inappropriate refunds are processed which may result in a financial loss to the Council.

Responsibility

Revenues Team Leader

Management response / deadline





Agreed. Immediate.

The member of staff who authorised the refund related to a new staff member and has now been trained.

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 Manger (Revenues, Benefits & Fraud)
Anna Elliott	-	Revenues Team Leader
Nik Kordek	-	Revenues Lead Officer
Jake Seabourne	-	Systems Development and Finance Lead Officer
Stuart Potton	-	Revenues & Benefits Support Team Leader

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

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

April 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.