



# Dacorum Borough Council

## Final Internal Audit Report

### Council Tax

January 2019

This report has been prepared on the basis of the limitations set out on page 10.

CONFIDENTIAL

**Distribution List:**

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Sally Marshall – Chief Executive (Final Report only)

**Key Dates:**

Date of fieldwork: December 2018

Date of draft report: January 2019

Receipt of responses: January 2019

Date of final report: January 2019

**Status of our reports**

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council 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.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and 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. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix C of this report for further information about responsibilities, limitations and confidentiality.

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# 1. Executive Summary

## 1.1. Background

As part of the agreed 2018/2019 Audit Plan, Mazars have undertaken a review of the controls in place for Council Tax to ensure that controls have been adequately designed and implemented.

Council Tax is a system of local taxation by local authorities. It is a tax on domestic property. Council Tax is paid by everyone in the UK that is over 18 and owns, or is renting their own house. There are some instances where reductions or exemptions of the council tax can occur and these are based on nationally set criteria. All homes are given a council tax valuation band by the Valuation Office Agency (VOA), each band has a different amount of council tax that is charged and it is the local authority's responsibility for the collection of council tax.

This report summarises the results of the internal audit work and, therefore does not include all matters that came to our attention during the audit. Such matters have been discussed with relevant staff.

## 1.2. Audit Objective and Scope

The overall objective of the audit was to provide assurance over the adequacy and effectiveness of current controls, and provide guidance on how to improve the current controls going forward. In summary, the scope covered the following areas:

- Policies, Procedures and Legislation;
- Council Tax Transactions and Records;
- Valuation and Tax Setting;
- Discounts, Exemptions, Allowances and Premiums;
- Billing;
- Receipts from the Tax Payers and Refunds;
- Suspense Account;
- Recovery and Enforcement;
- Write-Off;
- Management of Collections Rates;
- Follow-Up of previous audit recommendations; and
- Universal Credit

## 1.3. Summary Assessment

Our audit of DBC's internal controls in operation found that there is a sound system of internal control designed to achieve the system objectives. The controls are being consistently applied. 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	Full

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.

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 is shown in Section 3.

#### 1.4. **Key Findings**

We have raised one Priority 3 recommendation where we believe there is scope for improvement within the control environment. The recommendation raised has been set out below:

- Policies and Procedures (Priority 3)

All policies and procedures should be reviewed and updated on a regular basis to ensure they remain relevant and accurate.

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

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

We will include a summary of any management response 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. Background

As part of the agreed 2018/2019 Audit Plan, Mazars have undertaken a review of the controls in place in relation to Council Tax.

### 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:

#### **Policies, Procedures and Legislation**

Policies and procedures are in place to minimize the risk of staff non-compliance with legislative and management requirements and ensure that Council Tax functions are undertaken in an economic, effective and efficient manner.

#### **Council Tax Transactions and Records**

- Reliability, integrity, confidentiality and security of the Council Tax system and taxpayer records is maintained through the reliable operation of the system and its interface with the main accounting systems. Council Tax records agree to the Council's main financial accounts and also to the bank account.

#### **Valuation and Tax Setting**

- All relevant properties are set up on the Council Tax system with the correct charge, in accordance with data provided by the Valuation Office. New and structurally altered dwellings are notified to the Valuation Office Agency (VOA) promptly so that chargeable dwellings are included on the VOA valuation in a complete, accurate, valid and timely manner, and that these are also recorded on the Council tax system in accordance with legislative requirements. Chargeable amounts for each banding are correctly set up on the system in accordance with the approved rates.

#### **Discounts, Exemptions, Allowances and Premiums**

- Discounts, exemptions and allowances are only applied where applicants meet the set criteria, and they are applied promptly and accurately. Premiums on empty and unfurnished properties are applied promptly and accurately. Periodic reviews are undertaken to identify any taxpayers no longer meeting the criteria of the discounts/exemptions/allowances and actions are taken promptly to withdraw the reliefs where appropriate.

#### **Billing**

- Accurate rate of Council Tax is raised against all properties based on the property banding. All Council Tax payers are billed in a timely and accurate manner in order to help ensure timely receipt.

#### **Receipts from the Tax Payers and Refunds**

- All income due from tax payers has been received and recorded accurately. Only valid and authorised refunds are made. Refunds on closed credit accounts are made in a timely manner.

### **Suspense Account**

- Any unidentified receipts are coded to the suspense account. These are then investigated and correctly posted in a timely manner so as to avoid inappropriate recovery action.

### **Recovery and Enforcement**

- The Council promptly identifies all 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. Write-offs are accurate and are processed in accordance with the Council's Financial Regulations.

### **Management of Collections 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**

- To confirm that audit recommendations made during the previous audit visit have been implemented.

### **Universal Credit**

- To confirm that appropriate plans/procedures have been put in place for the introduction of universal credit









The audit approach was developed by an assessment of risks and management controls operating within each area of the scope. The following procedures were adopted:




- Identification of the role and objective of each area;
- Identification of risks relating to the auditable area and the controls in place that enable the control objectives to be achieved;
- Evaluation and testing of controls within the system.

### 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
<p><b>Policies, Procedures and Legislation</b></p> <p>Policies and procedures are in place to minimize the risk of staff non-compliance with legislative and management requirements and ensure that Council Tax functions are undertaken in an economic, effective and efficient manner.</p>			<b>Recommendation 1</b>
<p><b>Council Tax Transactions and Records</b></p> <p>Reliability, integrity, confidentiality and security of the Council Tax system and taxpayer records is maintained through the reliable operation of the system and its interface with the main accounting systems. Council Tax records agree to the Council's main financial accounts and also to the bank account.</p>			
<p><b>Valuation and Tax Setting</b></p> <p>All relevant properties are set up on the Council Tax system with the correct charge, in accordance with data provided by the Valuation Office. New and structurally altered dwellings are notified to the Valuation Office Agency (VOA) promptly so that chargeable dwellings are included on the VOA valuation in a complete, accurate, valid and timely manner, and that these are also recorded on the Council tax system in accordance with legislative requirements. Chargeable amounts for each banding are correctly set up on the system in accordance with the approved rates.</p>			
<p><b>Discounts, Exemptions, Allowances and Premiums</b></p> <p>Discounts, exemptions and allowances are only applied where applicants meet the set criteria, and they are applied promptly and accurately. Premiums on empty and unfurnished properties are applied promptly and accurately. Periodic reviews are undertaken to identify any taxpayers no longer meeting the criteria of the discounts/exemptions/allowances and</p>			

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
actions are taken promptly to withdraw the reliefs where appropriate.			
<b>Billing</b> Accurate rate of Council Tax is raised against all properties based on the property banding. All Council Tax payers are billed in a timely and accurate manner in order to help ensure timely receipt.			
<b>Receipts from the Tax Payers and Refunds</b> All income due from tax payers has been received and recorded accurately. Only valid and authorised refunds are made. Refunds on closed credit accounts are made in a timely manner.			
<b>Suspense Accounts</b> Any unidentified receipts are coded to the suspense account. These are then investigated and correctly posted in a timely manner so as to avoid inappropriate recovery action.			
<b>Recovery and Enforcement</b> The Council promptly identifies all accounts where the amount due is not received, and for each outstanding debt, recovery action is undertaken in a prompt, consistent and effective manner.			
<b>Write-Off</b> Debts are only written-off after all investigation and appropriate recovery actions have been exhausted. Write-offs are accurate and are processed in accordance with the Council's Financial Regulations.			
<b>Management of Collection Rates</b> Collection targets are met and management are provided with sufficient, accurate and timely information on debt collection rates to allow for effective decision making.			
<b>Follow Up</b> To confirm that audit recommendations made during the previous audit visit have been implemented.			
<b>Universal Credit</b> To confirm that appropriate plans/procedures have been put in place for the introduction of universal credit			

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: Policies and Procedures (Priority 3)

<p><b>Recommendation</b></p> <p>All Policies and Procedures should be reviewed and updated on a regular basis to ensure they remain relevant and accurate.</p>
<p><b>Observation</b></p> <p>Clear and comprehensive policies and procedures should be regularly reviewed to ensure compliance with Council and legislative requirements.</p> <p>From observation of the Council's SharePoint, where all staff have access to the policies and procedures, it was observed that this page states the date in which the policies were last updated. With this it also states when the policies should next be reviewed.</p> <p>In 4 out of 13 cases tested, the review date had been passed without the policies being updated.</p> <p>Where staff do not have access to policies and procedures, there is a risk that ineffective or inefficient working practices may be adopted leading to non-compliance with legislative or regulatory requirements.</p>
<p><b>Responsibility</b></p> <p>Revenues Team Leader</p>
<p><b>Management response / deadline</b></p> <p>It is frequently the case that policies &amp; procedures do not need to be changed when they are reviewed, but this has not always been noted when a review has taken place. We will ensure that we both carry out and record a review of all relevant documents. Deadline – 31 August 2019</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
<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:

Audit sponsor: Nigel Howcutt – Assistant Director, Finance & Resources

Audit Contacts: Chris Baker – Group Manager, Revenues, Benefits and Fraud

Anna Elliot – Revenues Team Leader

Stuart Potton – Revenues & Benefits Support Team Leader

Jake Seabourne – Systems Development Officer

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

## Appendix C Statement of Responsibility

We take responsibility to Dacorum Borough Council 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.

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