



# Dacorum Borough Council

## Final Internal Audit Report

### National Non-Domestic Rates (NNDR)

January 2019

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

CONFIDENTIAL

**Distribution List:**

Chris Baker – Group Manager (Revenues, Benefits & Fraud)

Nigel Howcutt – Assistant Director (Finance and Resources)

James Deane – Corporate Director (Finance and Operations) (Final Report Only)

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.

## Contents

1. Executive Summary .....	1
2. Scope of Assignment .....	3
3. Assessment of Control Environment.....	5
4. Observations and Recommendations .....	7
<b>Recommendation 1: Policies and Procedures (Priority 3).....</b>	<b>7</b>
Appendix A - Reporting Definitions .....	8
Appendix B - Staff Interviewed.....	9
Appendix C Statement of Responsibility.....	10

# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Plan for 2018/19, we completed a risk based audit of the processes in place for NNDR.

NNDR is the charge that is given on most non-domestic properties such as shops, offices, pubs, warehouses and factories. It is calculated through the properties Rateable Value, which is an open market rental value, which is calculated by the Valuation Office Agency (VOA). Some non-domestic properties will be exempt or eligible to claim for Business Rate Relief,

It is the Borough's responsibility to make sure that each non-domestic property is being charged the appropriate rate and that all monies are collected.

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

- Policies, Procedures and Legislation;
- NNDR Transactions and Records;
- Valuation, NNDR Multiplier and Rate Setting;
- Liability and Reliefs;
- Billing;
- Receipts from the Rate Payers and Refunds;
- Suspense Account;
- Recovery and Enforcement;
- Write-Off; and
- Management of Collections Rates.

## 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 NNDR.

### 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. Scope of the Audit

The review focused on providing an independent and objective opinion on the degree to which the Council manages the risks associated with IT asset management, and assessed whether the current arrangements are robust and sufficient relative to the risk identified in relation to 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 NNDR functions are undertaken in an economic, effective and efficient manner.

#### **NNDR Transactions and Records**

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

#### **Valuation, NNDR Multiplier and Rate Setting**

- New and structurally altered hereditaments are notified to the Valuation Office Agency (VOA) promptly so that chargeable hereditaments are included on the VOA rating list and these are recorded on the NNDR system in a complete, accurate, valid and timely manner. NNDR base is updated on the system in accordance with the central government notification.

#### **Liability and Reliefs**

- Chargeable hereditaments, liable occupiers (corporate bodies / organisations / persons), empty property rates and other relief (mandatory, discretionary and transitional) are identified and applied in a complete, accurate, valid and timely manner and recorded in the authority's accounts in line with regulatory requirements. There is a proper and independent arrangement for verifying void properties (including retrospective void claims) before a void allowance is given to a particular rate payer. Reliefs are authorised prior to being applied retrospectively and evidence of verification is retained.

### **Billing**

- 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. All NNDR income due to the Council are billed in a timely and accurate manner in order to help ensure timely receipt.

### **Receipts from Rate Payers and Refunds**

- All daily income collection reports obtained from the cash receipting system are reconciled with the Revenues Section's own records of income received. Only valid and authorised refunds are made and approved refunds are processed in a complete and accurate manner.

### **Suspense Accounts**

All unidentified payments are promptly investigated, monitored and authorised before being transferred to appropriate accounts.

### **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-Offs**

- 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 Collection Rates**

- Periodical monitoring of collection rates against the targets takes place to ensure that the expected income is being received.

### **Follow Up**

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

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 minimise the risk of staff non-compliance with legislative and management requirements and ensure that NNDR functions are undertaken in an economic, effective and efficient manner.</p>			<b>Recommendation 1</b>
<p><b>NNDR Transactions and Records</b></p> <p>Reliability, integrity, confidentiality and security of the NNDR system and taxpayer records is maintained through the reliable operation of the system and its interface with the main accounting systems. NNDR records agree to the Council's main accounting systems and also to the bank account.</p>			
<p><b>Valuation, NNDR Multiplier and Rate Setting</b></p> <p>New and structurally altered hereditaments are notified to the Valuation Office Agency (VOA) promptly so that chargeable hereditaments are included on the VOA rating list and these are recorded on the NNDR system in a complete, accurate, valid and timely manner. NNDR base is updated on the system in accordance with the central government notification.</p>			
<p><b>Liability and Reliefs</b></p> <p>Chargeable hereditaments, liable occupiers (corporate bodies / organisations / persons), empty property rates and other relief (mandatory, discretionary and transitional) are identified and applied in a complete, accurate, valid and timely manner and recorded in the authority's accounts in line with regulatory requirements. There is a proper and independent arrangement for verifying void properties (including retrospective void claims) before a void allowance is given to a particular rate payer. Reliefs are authorised prior to being applied</p>			

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
retrospectively and evidence of verification is retained.			
<b>Billing</b> 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. All NNDR income due to the Council are billed in a timely and accurate manner in order to help ensure timely receipt.			
<b>Receipts from Rate Payers and Refunds</b> All daily income collection reports obtained from the cash receipting system are reconciled with the Revenues Section's own records of income received. Only valid and authorised refunds are made and approved refunds are processed in a complete and accurate 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 Offs</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.			

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 4/13 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 and Finance Lead 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.

This report is confidential and 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 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 by any third party is entirely at their own risk.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom.  
Registered in England and Wales No 0C308299.