



Dacorum Borough Council

Final Internal Audit Report

National Non-Domestic Rates (NNDR)

April 2016

This report has been prepared on the basis of the limitations set out on page 12.

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Key Dates:

Date of fieldwork: February / March 2016

Date of draft report: April 2016

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Date of final report: April 2016

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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2015/16, we completed a risk based audit of the processes in place for National Non-Domestic Rates (NNDR).

NNDR, or business rates, is collected by local authorities from those that occupy non-domestic property which contributes towards the cost of local services. The money, together with revenue from council tax payers, revenue support grant provided by the Government and other income streams are used to pay for the services provided by residents of the Borough. Each hereditament (property) is given a 'rateable value' by the Valuation Office Agency which determines the amount of NNDR to be charged. The Council is responsible for the billing, collection and recovery of NNDR income. The NNDR team operate within the Revenue and Benefits section of the Council which is managed by the Group Manager for Revenues, Benefit and Fraud.

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; reconciliations; discounts and reduction applications; billing; receipt from rate payers; clearing of suspense account; recovery action; writing off irrecoverable debt; monitoring of collection rates; refunds and void allowances and retrospective reliefs.

1.3. Summary Assessment

Our audit of the Council's internal controls operating over NNDR found 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 NNDR is shown in Section 3.

1.4. **Key Findings**

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

- Where all options to investigate long standing suspense account items have been exhausted, the balances within the NNDR suspense account should be reviewed by finance and appropriate remedial action taken (Priority 3).
- All applications for empty property relief should be validated by inspection (or other applicable method) and evidence of this retained on file (Priority 2).
- All updates to debt recovery cases should be included in the case notes on Northgate (Priority 3).
- All authorisation documentation, or a link to where the documentation is stored, for write-offs should be stored as part of the account notes on the Info@Work system (Priority 3).

Full details of the audit findings and recommendation 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 NNDR, with regards to 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:

























- **Policies, 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, effective and efficient manner. The Council complies with statute by offering convenient methods of payment to the rate payers. Planning regulations have been considered and/or amended in order to promote business growth and maximise business rate income under the Localism Act 2011.
- **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 with the main accounting systems.
- **Reconciliations**
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. Regular reconciliations take place between the NNDR and Main Accounting (general ledger) systems.
- **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.
- **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 (empty) properties before a void allowance is given to a particular rate payer. Reliefs are authorised prior to being applied retrospectively.

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			
NNDR Transactions and Records			
Reconciliations			
Discounts and Reduction Applications			
Billing			
Receipts from Rate Payers			
Clearing of Suspense Account			Recommendation 1
Recovery Action			Recommendation 2
Writing-off Irrecoverable Debt			Recommendation 3
Management of Collection Rates			
Refunds			
Void Allowances and Retrospective Reliefs			Recommendation 4

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: High Amount of Uncleared Historic Suspense Account Items (Priority 3)

<p>Recommendation</p> <p>Where all options to investigate long standing suspense account items have been exhausted, the balances within the NNDR suspense account should be reviewed by finance and appropriate remedial action taken.</p>
<p>Observation</p> <p>Suspense accounts should be regularly cleared and historic items removed to ensure income is maximised and accurate financial reporting is maintained.</p> <p>Discussion with Systems Development and Finance Lead Officer and Revenues and Benefits Support Team Manager identified that the NNDR suspense account on Northgate is monitored monthly. Items in this account enter the Northgate system but are posted to the wrong account for example. A further suspense account operated by finance stored payments with no account number for example.</p> <p>Examination of all NNDR suspense account transactions since 2004 identified the most recent item to be posted to this suspense account was 27 February 2013 indicating that other compensating controls within the finance suspense account were operating effectively. It was noted however that the total amount outstanding in the account was £39,597.24 with the oldest item being from 2004. The suspense account spreadsheet consists of both debits and credits where items are matched and removed from suspense.</p> <p>Where long standing suspense items which cannot be re-allocated remain in the suspense account, there is a risk that the Council is not utilising available income and that the final accounts are misstated.</p>
<p>Responsibility</p> <p>Revenues and Benefits Support Team Leader</p>
<p>Management response / deadline</p> <p>Agreed.</p> <p>The suspense account records will be reviewed in order to re-allocate outstanding suspense items as appropriate. Initial review shows that the most recent outstanding item dates from 2010, so these investigations may take some time.</p> <p>Deadline: end of September 2016.</p>

Recommendation 2: Failure to Update Debt Recovery Notes (Priority 3)

<p>Recommendation</p> <p>All updates to debt recovery cases should be included in the case notes on Northgate.</p>
<p>Observation</p> <p>A standard process should be followed in an attempt to recover all outstanding debts. Each step should be documented and evidence retained on file.</p> <p>Examination of 15 NNDR accounts in debt selected from a list of Court Hearings on 11 December 2015 and 23 October 2015 identified one instance (sample number 10, outstanding debt of £2120.71) where the following actions were taken to recover debt:</p> <ol style="list-style-type: none"> 1. Occupier was billed on 30/06/2015 with the first instalment due on 01/08/2015. 2. A reminder letter was issued on 18/08/2015. 3. A summons sent on 29/09/2015. 4. Court hearing on 23/10/2015. 5. Account placed as 'Review' status on Northgate since the Court Hearing. It was noted the case had been reviewed on 28/01/2016 as part of a three monthly check of cases in 'Review' however notes were not updated on Northgate as to the next course of action. The three monthly check schedule states that the case is due for further review on 11/02/2016. However, audit could not ascertain whether appropriate action has been taken since the Court Hearing as notes on Northgate have not been updated. It was acknowledged that the Lead Officer responsible for this was on maternity leave at the time, however notes should be correctly recorded on the system. <p>All other instances were confirmed as having appropriate remedial action taken.</p> <p>Where case notes are not appropriately updated, there is a risk that sufficient debt recovery action is not taken which may lead to recoverable debts not being recovered.</p>
<p>Responsibility</p> <p>Revenues Team Leader</p>
<p>Management response / deadline</p> <p>Agreed.</p> <p>A reminder has been issued to officers to record reasons for decisions when reviewing cases.</p> <p>Deadline: completed.</p>

Recommendation 3: Authorisation Documentation Not Stored In Case File (Priority 3)

<p>Recommendation</p> <p>All authorisation documentation, or a link to where the documentation is stored, for write-offs should be stored as part of the account notes on the Info@Work system.</p>
<p>Observation</p> <p>The Council's Financial Regulations states, 'Depending upon the write-off thresholds, the write-off request may be supported with a minute/decision sheet relating to a Portfolio Holder or Cabinet Decision'.</p> <p>Examination of ten write offs selected from a list of write offs since April 2015 identified two instances (sample numbers 4 and 5 for amounts £29,277.70 and £25,924.84 respectively) where the amount for write off was over £20,000. Examination of a 'Debt Write-off Portfolio Holder Decision' document confirmed both write offs to be presented to the Portfolio Holder and this was signed. Therefore the write offs were appropriately authorised however it was noted that this authorisation document was not stored on the Info @ Work system.</p> <p>All other instances were appropriately authorised and retained on file.</p> <p>Where the necessary authorisation documentation is not available as part of case notes, there is a risk of authorisation documentation being mislaid. This may lead to unnecessary resources being required to locate the authorisation and/or re-process it.</p>
<p>Responsibility</p> <p>Revenues Team Leader</p>
<p>Management response / deadline</p> <p>Agreed.</p> <p>Links to the authorisation documents will be recorded on accounts in future.</p> <p>Deadline: end of April 2016</p>





Recommendation 4: Reliefs Awarded Without Independent Validation (Priority 2)

<p>Recommendation</p> <p>All applications for empty property relief should be validated by inspection (or other applicable method) and evidence of this retained on file.</p>
<p>Observation</p> <p>The 'Empty Properties - National Non Domestic Rates' policy states, 'In order to award an exemption we need to have received a request from the charge payer confirming the property is empty and the date it became empty - this can be in the form of writing or verbally. We will award the relevant exemption depending on property type and raise an inspection'.</p> <p>Examination of 15 empty property relief cases selected from a list of NNDR reliefs filtered into Empty Property Relief awarded since April 2015 identified one instance where an inspection or other means of independent validation had not taken place. The occupier notified the Council on 26/11/2015 that the property was empty, the relief was awarded on 27/11/2015 however no inspection has been completed since.</p> <p>Empty property status was confirmed in all other instances.</p> <p>Where an application for empty property relief is not independently validated, there is risk of reliefs being awarded invalidly leading to unnecessary loss of income to the Council.</p>
<p>Responsibility</p> <p>Revenues Team Leader</p>
<p>Management response / deadline</p> <p>Agreed.</p> <p>During the period in question, there was a vacancy for an inspector role and therefore a re-prioritisation of inspections. Recruitment to the vacant post started prior to the audit, and is currently ongoing. Following appointment to the post we will clear any outstanding inspections of vacant properties.</p> <p>Deadline: end of July 2016.</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:

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

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 2016

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