



Dacorum Borough Council

Final Internal Audit Report

National Non-Domestic Rates (NNDR)

January 2017

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

CONFIDENTIAL

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Key Dates:

Date of fieldwork: November 2016

Date of draft report: January 2017

Receipt of responses: January 2017

Date of final report: January 2017

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2016/17, we have undertaken an audit of the Council's systems of internal control in respect of National Non-Domestic Rates (NNDR).

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 Rate Payers and Refunds; Suspense Accounts; Recovery and Enforcement; Write-Offs; Management of Collection Rates; and Business Rate Retention.

1.3. Summary Assessment

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

1.4. Key Findings

We have raised one Priority 2 recommendation where we believe there is scope for improvement within the control environment. The recommendation raised has been set out below:

- Overdue Property Inspections (Priority 2).

The Revenues and Benefits department schedule property inspections on properties with empty property relief awards, to ensure that the relief award is still valid. Inspection of the NNDR overdue inspections list found that 72 inspections were over three months overdue. Attempts should be made to identify the cause of the backlog, and for the overdue work programme to be cleared.

A follow up of the recommendations raised in the 2015/16 NNDR internal audit report was also completed and of the four recommendations, two were implemented and two have yet to be fully implemented. The details of the follow up status are as follows:

Recommendation 1 - High Amount of Uncleared Historic Suspense Account Items (Priority 3)

Not Implemented - There are some historic balances remaining in the suspense account with some dating back to 2003. However, given that a recommendation has been raised in the Core Financial audit 2016/17 we have not repeated the recommendation as part of this work.

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

Implemented - Testing of a sample of ten debt recovery cases found that in all cases actions taken were included in the case notes on Northgate.

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

Implemented - Testing of a sample of ten debt write-offs confirmed that the appropriate supporting documentation had been retained in all cases.

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

Partly Implemented - Sample testing of twenty relief and exemption awards found that in all cases the award was independently validated. However, there is currently a backlog of void inspections. A recommendation has been raised to clear the overdue inspections.

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 NNDR, with regards to the areas set out in section 2.3, are adequate and 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 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 ratepayer 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 (general ledger) systems and also to the bank account.

Valuation, NNDR Multiplier and Rate Setting

New and structurally altered hereditaments are notified to the Valuation Officer Agency (VOA) 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;

New and structurally altered hereditaments are notified to the Valuation Officer Agency (VOA) 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.

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 the Ratepayers 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.























Business Rates Retention

Contributions to CLG are completely, accurately, validly and timely paid and recorded in the Council's accounts in accordance with regulatory requirements.

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 & Legislation			
NNDR Transactions and Records			
Valuation, NNDR Multiplier and Rate Setting			
Liability and Reliefs			Recommendation 1
Billing			
Receipts from the rate payers and Refunds			
Suspense Accounts			*
Recovery and Enforcement			
Write-Offs			
Management of Collection Rates			
Business Rates Retention			

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

*A recommendation relating to historic balances in the suspense account has been raised in the Core Financial audit 2016/17.

4. Observations and Recommendations





Recommendation 1: Overdue Property Inspections (Priority 2)

<p>Recommendation</p> <p>Management should identify the cause of the inspections backlog. An action plan could then be formulated to clear the overdue inspections.</p>
<p>Observation</p> <p>The Council inspects properties which have been awarded empty property relief at least every three months, to ensure the status of the property has not changed.</p> <p>Examination of the NNDR overdue inspections listing held on Northgate found that the scheduled inspection of 72 properties with empty property relief awards was overdue by more than 3 months.</p> <p>Where properties awarded empty property relief are not inspected on a regular basis, there is an increased risk that invalid relief awards are made. This would result in a financial loss to the Council.</p>
<p>Responsibility</p> <p>Revenues & Benefits Support Team Leader</p>
<p>Management response / deadline</p> <p>Initial investigations into the cause of the backlog have identified that the main factor was reduced capacity to carry out inspections due to a vacancy. During this period inspections were still carried out, but on a prioritised basis, meaning those linked to large rateable value properties with the biggest potential financial impact took place, but those for properties with lesser rateable values were left.</p> <p>The post in question has now been filled, and the overdue inspections are being cleared – at the end of January 2017 there were only 12 properties where the inspection request is more than 3 months old.</p> <p>Deadline: inspections to be brought up to date by the end of June 2017.</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:

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

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

January 2017

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