



Council Tax and NNDR

City of York Council

Internal Audit Report 2019/20

Business Unit: Customer and Corporate Services Directorate
Responsible Officer: Assistant Director, Customer Services and Digital
Service Manager: Head of Customer, Resident and Exchequer Services
Date Issued: 23 September 2020
Status: Final
Reference: 10310/011

	P1	P2	P3
Actions	0	2	3
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

Council tax and national non-domestic rates (NNDR) are key sources of funding for the provision of services by the council. For 2019/20, the council tax requirement was set at £90 million and retained NNDR income is projected at approximately £32.8 million. In 2019/20, the council will process bills for approximately 6,900 businesses and 90,000 homes.

Following its participation in a 100% NNDR retention scheme in 2018/19, the council is participating in a 75% NNDR retention pilot scheme as part of the North and West Yorkshire Pool for 2019/20.

The council has also introduced the Govtech system to enable residents and businesses to inform the council of changes to their circumstances. This has allowed the automation of some administrative processes within the council tax section.

As a fundamental financial system, Council Tax and NNDR is audited regularly to provide assurance that risks are managed and controls are operating effectively.

The draft report was issued in March 2020, but was not finalised due to the Covid-19 pandemic. Audit testing had been completed prior to the pandemic, so the report does not discuss the council's response. The report and its findings have since been revisited and reviewed with officers as part of the preparations for the 2020-21 audit. Officers have confirmed the issues are still relevant and outstanding. Given the current circumstances, it was agreed to revise the action timescales to 31 March 2021 to give the service time to complete them.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- The council maintains an accurate database of taxable properties and liable persons.
- Bills and demand notices are calculated and issued correctly, in a timely manner and apply legitimate discounts, exemptions, disregards and reliefs.
- Council tax and NNDR income is correctly accounted for and income is correctly recorded.
- Arrears are promptly and effectively pursued.
- Refunds and write-offs are legitimate, correctly processed and authorised.

Key Findings

The council maintains an accurate database of taxable properties and liable persons. Reconciliations between the Land Registry, Valuation Office Agency and council databases are performed on a regular basis with systems updated accordingly. However, it was found that records of newly identified NNDR properties not yet on the council's database were being held by individual staff, meaning the council did not have oversight of all new properties in one central area. A new centralised repository was created during the audit and the process and expectations communicated to the relevant staff.

Bills and demand notices were calculated and issued correctly for both council tax and NNDR with discounts, disregards, exemptions and reliefs being applied where appropriate. A small number of council tax accounts with reductions did not have end dates applied. These were provided to the service and corrected prior to the end of the audit.

It was found that not all reliefs and discounts were being reviewed regularly. Single person discounts were reviewed by a third party contractor. Other reviews were performed where the relief or discount was known to the council to be a risk area (deceased persons and probate applications) or of high volume (student discounts). No plan was in place for the prioritisation and review of other reductions.

Overall, refunds and write-offs were legitimate, correctly processed and authorised. However, the refund reconciliation process had not been completed for the 2019/2020 billing period due to the retirement of the staff member responsible for this activity. A review of the reconciliation process is due to be undertaken to establish whether the existing process is fit for purpose and whether any improvements could be made before conducting the 2019/2020 reconciliation.

An improved quality assurance (QA) process was introduced early in 2019/20 and QA work has been completed regularly throughout the year. The service is currently deciding on other areas to be included in QA work and some suggestions for further improvements have been provided.

Online application forms provided by Govtech for council tax reductions were found to have declarations making applicants aware of the provision of correct information but did not explicitly contain wording relating to the detection and prevention of fraud.

Council tax and NNDR income is generally accounted for correctly. Customers are promptly notified if direct debit payments are rejected. The suspense account is routinely reviewed and items moved to the correct accounts.

Finally, pursuit of arrears is prompt and effective. While procedure documents exist for arrears, refunds and write-offs, it was found that version control was inconsistent. Some documents did not contain a date when they were reviewed or updated and one was still awaiting sign off.

Overall Conclusions

The arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Reviews of discounts, disregards, exemptions and reliefs

Issue/Control Weakness

Discounts, disregards, exemptions and reliefs are not actively managed across all categories.

Risk

Some discounts, disregards, exemptions or reliefs may be applied for too long or inappropriately, causing a loss of income to the council.

Findings

It was found that while some council tax discounts and disregards are periodically reviewed to ensure they are still valid, many council tax reduction categories are not subject to such reviews. Areas currently reviewed include student disregards, grant of probate and single person discounts. The last of these is outsourced to a third party and carried out biannually.

NNDR exemptions and reliefs are not currently subject to periodic review, although the council is introducing data matching software that should enable reviews of Small Business Rate Relief.

It was also noted that a small number of council tax accounts (ten) subject to discounts did not have end dates applied. . These were provided to the service for review and corrected prior to the completion of the audit.

Consideration should be given to determining the priority, frequency and timing of reviews to ensure that reductions to council tax and NNDR liabilities are not applied for too long or inappropriately.

Agreed Action 1.1

A schedule of reviews for discounts, disregards, exemptions and reliefs will be created with consideration being given to the type, timing and priority of the reviews across both council tax and non-domestic rates.

Priority

2

Responsible Officer

Revenues and
Benefits Senior
Technical Officer

Timescale

31 March 2021

2 Refund reconciliations

Issue/Control Weakness

Refund reconciliations have not been performed during the 2019/20 financial year.

Risk

Refunds made erroneously may not be identified such that corrective action can be taken.

Findings

Periodic refund reconciliations have not been completed during the current financial year because the process is due to be reviewed.

The reconciliations were completed for 2018/19, but due to the retirement of the member of staff responsible for performing the reconciliation, they have not been completed for 2019/20. Officers stated their intention to review and update the process to ensure it is still fit for purpose before carrying out the 2019/20 reconciliations. However, at the time of the audit this had not been completed.

Agreed Action 2.1

The refund reconciliation process will be reviewed and, where appropriate, revised to ensure reconciliations are performed and risk minimised.

Priority

2

Responsible Officer

Revenues & Benefits
Subsidy Manager

Timescale

31 March 2021

3 Quality assurance process

Issue/Control Weakness

A standardised approach to the selection of samples for quality assurance (QA) work had not been agreed and documented. QA work for recovery processes has not been implemented.

Risk

There is a risk that quality assurance for management is inconsistent resulting in potential errors on some customer accounts.

Findings

Quality assurance work is undertaken on a regular basis with issues being fed back to management for information and resolution. A new process was introduced in 2019/20 for council tax and NNDR accounts.

A pragmatic approach was taken to the sample sizes and method of selection for checks to be performed. However, the number of accounts checked varied each month, with more checks generally being carried out on NNDR accounts than on council tax accounts. Furthermore, the service area was considering extending quality assurance work to additional processes, such as recovery of arrears, but this had not been fully determined. The QA process and sampling method had not been documented, but the QA checks were being undertaken by two of the Technical Officers.

It may be beneficial to consider standardising the approach to the type and number of checks being performed for QA purposes and documenting the process so that other staff are able to carry it out if required.

Agreed Action 3.1

A documented approach will be created for the quality assurance process and consideration given to standardising sample sizes and types across both council tax and NNDR.

Priority

3

Responsible Officer

Revenues and Benefits Senior Technical Officer

Timescale

31 March 2021

4 Customer declarations on Govtech forms

Issue/Control Weakness

Declarations on Govtech forms for council tax reductions are not robust enough to deter fraudulent activity.

Risk

The council may be unable to prove intent during fraud investigations leading to a loss in income for the council by fraudulent activity.

Findings

Review of the online declaration for single person discount and discussion with Veritau's counter fraud team found that the declaration wording may not be robust enough to prove intent during fraud investigations.

The declarations on the online forms do not explicitly contain wording relating to the detection and prevention of fraud, although a declaration is in place advising customers of the requirement to provide correct information and that the council may need to verify the information provided.

Controls could be enhanced by the addition of wording about the council's approach to fraud prevention.

Agreed Action 4.1

The declaration on Govtech forms will be reviewed and improved with support and advice from Veritau's counter fraud team.

Priority

3

Responsible Officer

Revenues & Benefits
Manager

Timescale

31 March 2021

5 Version control for policy and procedure documents

Issue/Control Weakness

Procedure documents for recovery, refunds and write-offs did not have appropriate version control. The recovery procedures and corporate debt policy are awaiting approval.

Risk

There is a risk that officers might not follow correct procedures resulting in erroneous transactions.

Findings

The following policies and procedures were reviewed during the audit: corporate debt policy 2014, recovery team procedure notes, NNDR refund, council tax refund, refunds in excess of £10K, credit write on and write off policy, and write off procedure notes for small balances.

The corporate debt policy was under review at the time of the audit, pending finalisation. During the audit, it was found that the version control of the documents stemming from the corporate debt policy was inconsistent. The recovery team procedure notes document was version numbered and dated. However, others were dated but not version numbered and some were neither version numbered nor dated.

It may be beneficial to have a procedure documentation review timetable with responsible officers identified, and to annotate reviewed, updated and authorised procedures with the review and sign off date, even where changes are not made. This would provide visibility that the latest version is being used and align to the corporate debt policy April 2014 (pending the November 2019 version being approved).

Agreed Action 5.1

The corporate debt policy 2019 is pending finalisation therefore version controls for procedure notes stemming from this revised policy will be considered and implemented across both council tax and non-domestic rates once it is finalised.

Priority

3

Responsible Officer

Revenues & Benefits
Manager

Timescale

31 March 2021

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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