Council Tax and NNDR

City of York Council

Internal Audit Report 2017/18

Business Unit: Customer & Corporate Services Directorate
Responsible Officer: Director, Customer & Corporate Services
Service Manager: Head of Customer, Resident & Exchequer Services
Date Issued: 17/8/2018
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	P1	P2	P3
Actions	0	1	1
Overall Audit Opinion	Substantial Assurance		

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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 2017/18, the council tax requirement (excluding parish precepts) was set at approximately £81 million. Projected NNDR income is approximately £100 million, of which the council will retain £49 million. In 2017/18, the council will process bills for approximately 6,600 businesses and 89,000 homes.

A council tax bill is made up of the amount levied by City of York Council, as well as precepts for the North Yorkshire Police & Crime Commissioner, the North Yorkshire Fire and Rescue Authority and, for properties in a parished area of the city, the individual Town or Parish council.

In the last 18 months, the council has introduced an online service provided by Govtech so that residents and businesses can notify the council of changes to their circumstances. The aim was to automate some processes, reducing workloads for staff and saving money for the council.

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 authority 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.

The audit has also reviewed the online forms and automated processes provided by Govtech.

Key Findings

Maintaining an accurate database of properties and liable parties is important to ensure that the right people are billed the correct amounts. The database of taxable properties and liable persons in SX3 (the council's revenues system) is largely accurate, with only a small number of discrepancies identified. Updates are sent to and received from the Valuation Office Agency (VOA) and also received from other council departments to help ensure that the database is correct.

Bills and demand notices also need to be accurate and contain relevant information, including discounts, disregards, exemptions and reliefs. It was found that bills contained relevant and correct information and were posted within a reasonable timescale. Discounts and other reductions are supported by suitable evidence or declarations and have end dates where appropriate.

Discounts and other reductions should be reviewed periodically to ensure that they remain appropriate and the council is collecting any monies owed to it. Officers explained that they used to be reviewed annually, but due to reductions in resources this is no longer possible. The service now focuses on particular areas each year instead, but a review of small business rate relief had to be abandoned in 2017-18 due to other work pressures.

Spot checking of discounts and other account changes is now carried out more frequently (111 accounts checked in 2017-18 against 38 in the 12 months checked during the 2016-17 audit). Long-term empty properties now have end dates entered so they will enter the 'premium' window after 2 years when an additional 50% will be added to the council tax bill. These issues were both raised in the 2016-17 audit.

The council has an up to date Corporate Debt Recovery Policy (November 2016), but the Debt Recovery Procedure Notes in use by officers processing council tax and NNDR were last reviewed in August 2009. Officers felt, however, that procedures remain relevant. Analysis of accounts in recovery found that appropriate action was being taken. Accounts with Attachment of Earnings (AOE) had appropriate supporting evidence. However, not all Special Payment Arrangements (SPAs) had supporting documentation. Officers explained that the SPAs process is changing with the introduction of a new online form. Completed forms will be automatically indexed to Anite (one of the council's document management systems) thus resolving this issue.

Write offs are made appropriately, for valid reasons, and receive sufficient authorisation. Review of a sample of refunds found that they had been made for valid reasons and had received suitable authorisation. There is a refunds procedure, but this does not appear to be documented. Furthermore, during the audit a fraud case involving an NNDR refund was referred to the council's counter fraud team for investigation. The refund was made back to a different bank account from that which the payment originated, which is in contravention of the usual procedure. Ensuring that there are documented procedures and guidance for refunds, that officers are trained on them, and are aware of possible fraud schemes and indicators is therefore essential to reduce the likelihood of recurrence.

In August 2016, the council introduced online forms provided by Govtech. These forms enable customers to provide the council with up to date information. The forms draw upon real-time data and can be automatically processed and indexed, thus reducing the workloads of officers. A review of performance found that currently around 40% of these forms are completed automatically without intervention from officers. The other 60% require some level of manual intervention. This is partly due to officers setting tight parameters initially to ensure that data entered into SX3 is accurate. Currently, certain forms also have automatic processing disabled, but they are still included in performance figures. The introduction of the forms has had a notable impact on the Customer Centre, where the number of calls relating to council tax has dropped from over 63,000 in 2015-16 to 41,000 in 2017-18. Officers are working with Govtech to increase the automatic completion rate, whilst also ensuring that the information is accurate.

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 Refunds Procedure Notes & Training

Issue/Control Weakness	Risk
The council was defrauded of NNDR income through a refund scam. The council does not have documented procedures and guidance for refunding council tax or NNDR.	Refunds are made inappropriately or the council may lose council tax or NNDR income due to fraud.

Findings

During the audit, it was found that there are no written procedures for refunds, although discussion with officers established that there is a process for raising and authorising them. If there is a change on an account, any credits due will be automatically calculated by SX3. A refund is raised and then authorised by an appropriate officer for payment. Payments should be made back to the originating bank account if the account details are held.

In January 2018, a fraud case was reported to the council's counter fraud team in which the council had been defrauded of over £3,000 of NNDR income. The individual paid on a stolen credit card and then shortly afterwards asked for a refund to a different bank account. The bank of the stolen card blocked the initial transaction, but by the time the council was informed, the refund had been paid. The original payment of £6,000 was reversed by the bank.

In the case referred to above, the individual was successful partly because the money was refunded to a different account in contravention of the usual procedure. The counter fraud team referred the case to ActionFraud and the Police and have also provided some advice to the NNDR team. Ensuring that the council has clearly documented procedures, officers are trained on them and are aware of possible fraud schemes is essential to reduce the likelihood of recurrence.

Agreed Action 1.1

Procedure notes and guidance on refunds will be produced, approved by the Revenues & Benefits Manager, and made available to officers. Officers will also be trained on the procedures.	**Priority**	2
	Responsible Officer	Revenues & Benefits Manager
	Timescale	October 2018

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2 Reviews of accounts with discounts, disregards, exemptions and reliefs

Issue/Control Weakness	Risk
Reviews of discounts, disregards, exemptions and reliefs are carried out less frequently and have been stopped due to resource pressures.	Discounts, disregards, reliefs and exemptions may be applied for too long or inappropriately and the council may not collect all money owed to it.

Findings

Accounts with discounts, disregards, exemptions and reliefs should be reviewed periodically to ensure that the reductions remain appropriate and are not applied for too long.

A review of a sample of accounts identified two where reviews had not been followed up. One was for an NNDR exemption and the other for a special payment arrangement where the customer was paying less than the £15 minimum amount.

Discussion with officers found that reviews of council tax and NNDR discounts, disregards, reliefs and exemptions used to be carried out on an annual basis. Reductions in resources over the last few years have meant this is no longer possible. Reviews are now carried out in particular areas; for example, single person discounts are reviewed every 2 years by Datatank on the council's behalf.

Officers are planning to review small business rate relief in 2018-19. This was started in 2017-18 but was not finished due to work pressures. Officers are also planning to review care home disregards for council tax in 2018-19 having reviewed accounts listed as 'deceased - awaiting probate' in 2017-18.

Agreed Action 2.1

The new Revenues & Benefits Technical Team will run regular reports to identify discounts, disregards, exemptions and reliefs for review starting in autumn 2018. A business plan will be produced setting out targets and deadlines for each review type.	Priority	3
	Responsible Officer	Revenues & Benefits Manager
	Timescale	December 2018

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Audit Opinions and Priorities for Actions

Audit Opinions
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks 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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