

Northampton Borough Council Internal Audit Report 2007-08 NNDR

Report No. 07_08 NBC 01 – Final Report



Assurance rating this review	High assurance
Assurance rating previous review	High assurance

Distribution List

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Timetable

Action	Planned date	Actual date
Agreement of terms of reference	June 2007	June 2007
Fieldwork start	July 2007	July 2007
Fieldwork complete	July 2007	July 2007
Draft report to client	August 2007	August 2007
Response by client	August 2007	August 2007
Final report	September 2007	September 2007

Background and scope

Introduction

The NNDR review was undertaken as part of the 2007/08 Internal Audit plan agreed by the Audit Committee.

This report has been prepared solely for Northampton Borough Council in accordance with the terms and conditions set out in our contract dated 1st January 2007. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

Northampton Borough Council is in partnership with the Borough Council of Wellingborough for the provision of its business rates service. This partnership is run under the name Consortium Business Rates (CBR). As such the majority of transaction processing for National Non Domestic Rates (NNDR) is undertaken by staff based out at Wellingborough. The partnership was entered into in August 2003 by the two authorities as a means of amalgamating the administrative, billing and collection processes involved in NNDR. Whilst a number of processes operated by the partnership are generic for both authorities, our field work purely focussed on Northampton Borough Council. A project board is also in place that oversees the partnership arrangements with key members of staff from both authorities represented on this.

Approach and scope

Approach

In agreement with the Revenues and Benefits Manager, we agreed that our work would focus on the following areas:

- Identification and valuation of properties
- Relief's and exceptions are appropriately calculated and applied
- Billing & collection
- Recovery and enforcement
- Accounting for NNDR
- Compliance with legislation

Our work is designed to comply with the Government Internal Audit Standards [GIAS] and the CIPFA Code.

Scope

In accordance with our Terms of Reference (Appendix 1), agreed with the Revenues and Benefits Manager, we undertook a limited scope audit of NNDR system.

This limited scope audit involved a review of the design of the controls across the whole process together with detailed testing to determine whether the controls are operating in practice.

Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.

Staff involved in this review

We would like to thank all client staff involved in this review for their co-operation and assistance.





Name of client staff
Ian Tyrer – Revenues & Benefits Manager
Richard Watson – Consortium Business Rates Manager
Steve Marks – Technical Accountant
Tracey Howarth – Accounts Payable Supervisor
Sarah Tyrer – Systems Team

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of National Non Domestic Rates (NNDR).

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the authority's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> • has a low impact on the achievement of the key system, function or process objectives; • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Summary of Findings

Our detailed findings and recommendations are set out in the findings and recommendations section of this report. The table below summarises the number of findings raised and the priority rating assigned.

Risk Rating	Number of findings
Critical	0
High	0
Medium	1
Low	3
Total	4

Opinion

We are required to provide an opinion on the adequacy and effectiveness of internal control in relation to the area under review. Our opinion is based on the work performed as set out in the agreed terms of reference and is subject to the inherent limitations set out in the limitations and responsibilities section of this report. We also provide an assurance statement for the area under review.

Design of the controls under review

We identified one weakness in the design of controls in relation to the NNDR system, which has been assessed as low risk. In our opinion, this weakness is not likely to have a significant impact on the achievement of the key objectives of the NNDR system.

Operation of the controls under review

We identified three instances where the controls were not operating as designed in practice at the time of our audit, all of which have been assessed as medium or low risk. Based upon the sample testing we performed, in our opinion these weaknesses are not likely to have a significant impact on the achievement of the key objectives of the NNDR system.

Value for Money

During our review we did not identify any specific value for money issues.

Assurance statement

High Assurance

Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the NNDR system.

Follow-up

The table below summarises the recommendations made during our 2006/07 review of the NNDR system and their current status.

Risk Rating	Number of findings	Implemented or no longer relevant	Outstanding or partially implemented
Critical	0	N/a	N/a
High	0	N/a	N/a
Medium	2	1	1
Low	5	3	2
Total	7	4	3

Where issues have been identified as outstanding these have been raised once again in the main body of the report and a revised management response requested.

A follow-up review of all the agreed actions should be undertaken as part of the 2008/09 internal audit plan.

Detailed findings and recommendations

Our detailed findings and recommendations are set out in the findings and recommendations section of this report. Management responses are included which identify actions to be taken, responsibility and timeframe.

Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of National Non Domestic Rates (NNDR), subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to the NNDR system is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.


Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.


We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.


Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Findings and recommendations


Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
1. Control Design – Review of suspended accounts					
The checking of suspended accounts cannot be evidenced as occurring.	All properties with suspensions on them are reviewed by the Recovery Officer as part of the reminder reports process and the details of each property will be checked. The status of suspensions is updated in the notes on the case however there is no formal printed record of these investigations into the circumstances for properties with suspended bills.	Low 	A monthly listing of suspended accounts should be run with the report signed to confirm that the accounts have been checked.	<p>Suspended accounts are checked three times each month when the reminders, finals and summonses are run. The cases are reviewed by either the Recovery Officer, or Business Rates Manager using an on-line, secure login. This generates an individual audit trail.</p> <p>Each reviewed account will have a notebook as to the action taken, even if no action is required, and the reason noted.</p> <p>A printout will be retained each time the job is run, which will be signed and initialled. Although the intention is to store these electronically.</p>	Richard Watson 1 September 2007


Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
2. Operating effectiveness – Inspection of void properties					
Property may have become habited yet business rates not charged.	<p>The Business Rates Procedure Notes state that it is policy that empty properties in Northampton Borough are inspection four times per year. However it was established that the recent and planned periods of inspections are: April 2006, September 2006, December 2006-January 2007, May 2007, September 2007, December 2007, February 2008.</p> <p>This timetable, if met, would provide four inspections in the financial year 2007/08 however there were only three inspections periods in the financial year 2006/07 and the calendar year 2006.</p> <p>Testing of ten empty properties identified nine properties which have been empty since 1 January 2006 or earlier. Of these nine, four properties did not receive four inspections in the calendar year 2006, of which three received only two.</p>	<p>Medium</p> <p style="color: orange; font-size: 24px;">●</p>	The authority should ensure that adequate resources are made available so that inspection of void properties is carried out four times per year, as required by the Business Rates Procedure Notes.	<p>Void properties are reviewed on a rolling review and the majority of properties receive four visits each year.</p> <p>It is agreed that it is appropriate for four visits to be done per year and to ensure this resource is managed effectively, the officer concerned has now reverted back to the Revenues & Benefits Management structure.</p> <p>A new inspection timetable is also to be implemented.</p> <p>A few ratepayers do notify us late, which may result in an unoccupied property not being selected for a visit until a later inspection process. These cases will therefore not meet the target.</p>	Richard Watson 1 September 2007



Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
3. Operating effectiveness – Review of daily interface reports					
Review of suspense accounts cannot be immediately confirmed.	Testing of five daily cash posting interface reports found that while items had been resolved satisfactorily, four reports had not been signed by their reviewer to confirm that this process had taken place.	Low 	Daily cash posting reports should be signed by the Billing Assistant reviewing the items in order to confirm this review has taken place.	The on-line audit trail on the Academy system shows who reviews the cash postings via the individual's secure login and the actions taken. In response to the audit, a report is now printed out on a daily basis, initialled and dated, with actions taken. Although the intention is for these to be stored electronically.	Richard Watson 1 September 2007


Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
4. Operating effectiveness – Service Level Agreement with Valuation Office					
Organisational responsibilities may not be clearly assigned.	<p>It was noted that the 2007/08 Service Level Agreement between the Valuation Office and Consortium Business Rates has not yet been signed by both parties.</p> <p>It is recognised that this is potentially out of the control of the Council but it should strive to ensure that the agreement is completed as early as possible.</p>	<p>Low Risk</p> 	The Consortium should ensure that as a matter of good practice SLAs are signed and agreed prior to the commencement of the financial year.	<p>The service level agreement is drawn up by the Valuation Office each year. This financial years agreement was not distributed by the Valuation Office until the 29th May 2007 and completed and signed by the Borough Council within three weeks of receipt.</p> <p>Whilst the Consortium is committed to engaging with our fellow service providers at the earliest opportunity, the drivers for this process are outside our control.</p>	<p>Ian Tyrer.</p> <p>No further action required.</p>



Follow up of prior year recommendations

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed	Deadline for action and accountable officer	Current Status
1.	It was noted that the 2006/07 Service Level Agreement between the Valuation Office and Consortium Business Rates had not been signed at the start of the year. Instead a meeting had been arranged in September 2006 for this to happen.	Low Risk 	The Consortium should ensure that as a matter of good practice SLA's are signed and agreed prior to the commencement of the financial year.	<p>The Service Level Agreement was not drawn up and provided by the Valuation Office, in a hard copy until their review/consultation meeting on the 18th July 2006. This was subsequently e-mailed to all local authorities on 2nd August 2006.</p> <p>This was checked, signed and returned to the VO on the 8th August, before being returned to the Consortium on 1st September. It is agreed that we should endeavour to complete this process earlier and will take all opportunities to realise this target, however we reliant the Valuation Office to facilitate this happening.</p>	Richard Watson, 01.04.07	<p>Outstanding</p> <p>This issue has reoccurred in 2007/08. Refer to issue 4 in findings and recommendations.</p> <p>All cases on notebook where action required on not.</p>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed	Deadline for action and accountable officer	Current Status
2.	<p>It was noted that during the month of June 2006, no Summons or Revised Compliant reports had been run and approval sought from the clerk to the Magistrates so that appropriate recovery action could be taken.</p> <p>This was as a result of only 1 authorised person in post who could take the report to the Magistrates Court and the individual was on leave. Steps were being taken to recruit to the post of Recovery Officer.</p>	<p>Medium Risk</p> 	<p>The authority should ensure that appropriate arrangements are in place to cover any annual leave or staffing short falls so that recovery procedures are adhered to and performed in a timely manner.</p>	<p>Agreed, but as this was due extreme circumstances following a resignation, which has now been recruited to. A review of processes and responsibilities has been undertaken to ensure any risk is reduced further.</p>	<p>Richard Watson - already implemented.</p>	<p>Implemented</p>

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed	Deadline for action and accountable officer	Current Status
3.	During our testing of 11 void property inspections we noted that in 2 cases either the initial or second inspection was overdue as over 4 months had elapsed without the property being visited.	Medium Risk 	The authority should ensure that adequate resources are made available so that inspection of void properties is carried out in a timely manner.	Agreed, void checks are being completed on a rolling review and as a result there will be always be properties where a new check is imminent. We are currently up to date with void inspections plan this year.	Richard Watson - already in place.	Outstanding This issue has reoccurred in 2007/08. Refer to issue 2 in findings and recommendations.
4.	Testing of 5 partial occupancy relief granted found that in 1 case there was no evidence of an application having been made. Upon further investigation it was established that the client had sent an email but a copy had not been retained on file. All 5 cases tested had relevant assessment certificates from the Valuation Office.	Low Risk 	The authority should ensure that when granting partial occupancy relief, a copy of the original application is retained on file.	Agreed, a copy of the original applications should be retained in a format that will allow demonstration that due process has been followed and that a clear audit trail is maintained. Procedure manuals need to be amended to support this process.	Richard Watson - With immediate effect.	Implemented

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed	Deadline for action and accountable officer	Current Status
5.	Although transactions appearing in daily expense accounts appear to be cleared on a timely basis, we did note that in 2 out of the 5 cases tested these had not been signed and dated by the reviewer.	Low Risk 	The authority should ensure that all suspense account reports are signed and dated following review.	Agreed. Procedures are now in place and all are initialled.	Richard Watson - already in place.	Outstanding This issue has reoccurred in 2007/08. Refer to issue 3 in findings and recommendations.

Ref.	Control weakness found	Risk & assurance rating	Recommendation	Remedial action agreed	Deadline for action and accountable officer	Current Status
6.	<p>During the review it was noted that reconciliations between the ICON system and the Business Rates (Academy) system were not being performed in a timely manner.</p> <p>All monthly reconciliations for April - Aug 2006 were performed on 11/9/2006.</p>	<p>Low Risk</p> 	The authority should ensure that reconciliations are undertaken promptly to ensure that any discrepancies are identified and investigated in a timely manner.	Agreed, since audit procedures put in place to ensure this happens.	Sarah Tyrer, already in place.	Implemented
7.	<p>During our testing of refunds we noted an instance where a refund was showing as been given on the spreadsheet received from CBR, but the refund had not been processed as part of the batch it was included within.</p>	<p>Low Risk</p> 	The authority should ensure that all refunds given are supported by authorised documentation. If the refund has been withdrawn then records should be updated accordingly.	Agreed. Work is currently being undertaken and new procedures will soon be in place to export the refunds directly into the Agresso system, with an expected go live of 1st February 2007. This will remove any danger of files being corrupted.	Richard Watson, 1 st February 2007	Implemented

Appendix 1 - Terms of Reference

The objectives of our review were to ensure that adequate controls were in place over;

- Identification and valuation of properties
- Relief's and exceptions are appropriately calculated and applied
- Billing & collection
- Recovery and enforcement
- Accounting for NNDR
- Compliance with legislation

(Limited scope review; assess any changes made to the system and undertake testing to ensure controls are operating.)

Appendix 2 - Assurance ratings

Level of assurance	Description
High	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
Moderate	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
Limited	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
No	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>

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