

Northampton Borough Council Internal Audit Report 2007-08 Council Tax Review

Report No. 07_08 NBC 03 – *Final Report*



Assurance rating this review	Limited Assurance
Assurance rating previous review	Limited Assurance

Distribution List

Ian Tyrer – Revenues and Benefits Manager
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Timetable

Action	Planned date	Actual date
Agreement of terms of reference	July 2007	July 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

This 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

This report is intended to inform management of the results of our review of Council Tax. This review has been undertaken as part of the Core Financial Systems audit work included within the 2007/08 Internal Audit Plan. This report reflects our findings over the controls and processes in place as at the time of our internal audit fieldwork which took place during July 2007.

Approach and scope

Approach

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

- All properties are identified and correctly valued
- Discounts and exemptions are justified and supported by appropriate supporting documentation.
- Billing and collection of Council Tax, including accounts in arrears is working effectively
- Management Information is accurate and appropriate to support analysis of the council tax function
- Amendments to liability are processed correctly

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 in (Appendix 1), agreed with the Director of Finance and Revenues and Benefits Manager, we undertook a limited scope audit of the Council Tax Function.

This limited scope audit involved a review of the design of the key controls 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 and Benefits Manager
Sarah Tyrer – Training, and Technical Performance Manager
Maggie Denham – Council Tax Team Leader
Paul Willmott –Council tax Team Leader

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of the Council Tax Function

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 this review	Prior year issues brought forward	Total
Critical	0	0	0
High	0	1	1
Medium	4	2	6
Low	2	3	5
Total	6	6	12

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 6 weaknesses in the design of controls in relation to the Council Tax Function, all of which have been assessed as medium or low risk. In our opinion, these weaknesses are not likely to have a significant impact on the achievement of the key objectives of the Council Tax Function.

Operation of the controls under review

We identified 6 instances where the controls were not operating as designed in practice at the time of our audit. 1 of these control weaknesses has been assessed as high risk. Based upon the sample testing performed, in our opinion these control weaknesses are likely to have a significant impact on the achievement of the key objectives of the Council Tax Function.

Value for Money

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

Assurance statement

Limited assurance

There are some weaknesses in the design and 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 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 as follows:

- The authority is aware of all properties and their correct valuations
- Bills are accurately raised
- Compliance with relevant legislation
- Access to council tax system is appropriately restricted

In arriving at this level of assurance we also took into account progress made in implementing prior years recommendations. Of the 9 recommendation made, 6 had not been fully actioned, although 2 of these recommendations were not due to be implemented at the time of the audit.

Follow-up

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

Risk Rating	Number of findings	Implemented or no longer relevant	Partially implemented	Outstanding
Critical	0	N/a	N/a	N/a
High	1	0	0	1
Medium	3	1	0	2
Low	5	2	0	3
Total	9	3	0	6

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 the Council Tax Function, 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 Council Tax Function 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

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating effectiveness of controls						
1	If the valuation dates entered are incorrect and the banding has changed, the council tax payer may be under or over paying council tax.	For 2 out of 10 new properties tested, the valuation date had been entered incorrectly on the system. This did not affect the liability as that commenced when the council tax payer moved into the property which was after the valuation dates recorded on the system. As such this is considered a controls issue as in other circumstances incorrect recording of the dates could affect the liability.	● Low	The valuation dates on the system should reflect the dates in the Valuation Office Agency report.	Agreed. A new process has been introduced since the audit inspection.	Paul Willmott 1 September 2007

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
2	Prompt action is not being taken to amend council tax liabilities upon receipt of information in relation to change of circumstances.	For 1 out of 5 long term empty properties tested, it was found that the council tax department had been informed that an owner of a property had applied for a House in Multiple Occupancy License. As of March 2007 the property had 15 individuals living in it. However despite this being noted on the file, no correspondence had taken place with the Owner and the long term empty discount of 50% continued to be applied up to our audit in July 2007.	 Medium	The authority should ensure that discounts are removed as soon as they are made aware of any changes to circumstances.	Agreed. Procedures changed to reflect that following notification to the authority, the change in discount is monitored whilst any further investigation is completed, prior to the correct entitlement is applied.	Paul Willmott 1 September 2007

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
3	The authority is not crediting the full re-banding effect to council tax payers accounts.	<p>It was noted that the council tax system only goes back to 1 April 1999 even though council tax came into effect during the 1993/94 financial year.</p> <p>As such in cases where a re-banding has been performed and it is decided that a property should have been in a lower banding the system will only calculate back to 1999 and as such the customers account is not correctly credited.</p> <p>Out of the 10 re-bandings tested, 2 accounts were found that should have been adjusted prior to the 1 April 1999.</p>	 Medium	The authority should undertake a review of all properties that have been re-banded to ensure that council tax payers accounts have been credited appropriately.	Agreed. New processes are now in place to ensure future properties are amended in accordance with requirements. Review of existing cases to be undertaken in November.	Paul Willmott 1 November 2007
4	Empty property exemption might be claimed in cases where the claimant is not eligible.	It was noted that at present the Council does not have a rolling programme in place to inspect empty properties to ensure they are eligible for empty property exemption.	 Medium	The Council should introduce a robust programme of inspections as soon as possible.	Agreed.	Cheryl Doran 1 October 2007

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	The suspense accounts do not give a true indication of balances held in suspense.	<p>Through testing of large credit balances it was noted that one account was a dummy account with a balance of £5,069. This account in effect acts as an extension of the suspense accounts but is not reviewed as part of the daily or weekly process. Transfers can't be made directly from the suspense account so the dummy account acts as a buffer account between the suspense account and the account to which payments should go to.</p> <p>However there should be a small balance on this account which should just be a few days old but elements of this balance appear to go back to previous years.</p>	 Medium	This account should be reviewed by management regularly as it is in effect a suspense account and balances investigated and cleared down promptly.	Agreed.	Paul Willmott 1 October 2007

Ref	Specific Risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
6	Given that the matching liability no longer exists in the authority's accounts there is an increased risk that these funds may be misappropriated.	Further review of large credit balances identified an account with a balance of £24,333 entitled 'Archived balance payments'. This account is for payments that have been made by former council tax payers whose debt has been written off as uncollectible, thus they no longer have an account with the council and therefore payments are credited here.	 Medium	This account and all transactions within it should be reviewed by management on a regular basis and action taken to allocate income appropriately.	Agreed.	Paul Wilmott 1 October 2007

Outstanding prior year issues brought forward

Ref	Control weakness found	Risk rating	Recommendations	Original Remedial Action agreed	Original Deadline for Action and accountable officer	Updated Management response	Officer responsible & implementation date
1	<p>Our testing of 30 properties for which either an exemption or discount was being claimed identified the following:</p> <ul style="list-style-type: none"> For 1 out of 15 property exemptions tested there was no documentation held to support the empty property exemption claimed. For 1 out of 15 discounts tested there was no documentation held to support the disablement discount claimed. <p>It was also noted that continued eligibility to discounts was not being regularly reviewed or checked.</p>	<p>● Medium</p>	<p>The authority should ensure that all discounts and exemptions are supported by documentary evidence and existing discounts and exemptions granted should be reviewed on a periodic basis to ensure that the discounts and exemptions are still applicable.</p>	<p>Agreed. Timetable to be created to review all discounts and exemptions.</p>	<p>1st October 2007 Paul Willmott</p>	<p>See Council Tax action plan.</p>	<p>Paul Willmott 1st October 2007</p>

Ref	Control weakness found	Risk rating	Recommendations	Original Remedial Action agreed	Original Deadline for Action and accountable officer	Updated Management response	Officer responsible & implementation date
2	<p>We noted that council tax bills raised prior to April 2006 that went back as far as 1999 came to approx £6,088,645.</p> <p>Only £5,441 of debt has been written off in 2006/07 and therefore it is likely that a significant amount of debt may have to be written off in the future due to it being uncollectible.</p> <p>We were informed that approx. £2.1 million of the oldest debt has been sent to a tracing agency and the majority of the remainder is currently with bailiffs. The success of the tracing agency is likely to be known by the start of 2007/08 and it is envisaged that a considerable amount of this debt will have to be written off at this stage.</p>	<p>●</p> <p>High</p>	<p>The authority should ensure that appropriate levels of bad debt provision are in place and assess the overall level of debt that is unlikely to be collected so that steps can be taken to write off.</p> <p>Going forward it should continually strive to improve on its annual collection targets so that level of aged debt is minimised.</p>	<p>Agreed. The mechanical write-off process has been put in place since the audit.</p> <p>Further work needs to be undertaken to analyze the impact on the NBC accounts, and following this work, a strategy needs to be developed to bring this process to the levels expected.</p>	<p>1st June 2007</p> <p>Ian Tyrer and Bill Lewis</p>	<p>Process now agreed to proceed, and will commence on 28 August 2007</p>	<p>Ian Tyrer</p> <p>28 August 2007</p>



Ref	Control weakness found	Risk rating	Recommendations	Original Remedial Action agreed	Original Deadline for Action and accountable officer	Updated Management response	Officer responsible & implementation date
3	Our testing of 10 Council Tax Liabilities that had been written off identified 5 instances where no explanation had been recorded.	● Medium	The reason for writing off any council tax liability should be clearly documented on the system.	Agreed.	1 st June 2007 Maggie Denham	As discussed with Council Tax Team Leader, there have been no individual write offs of Council Tax liabilities; Process now agreed to proceed, and will commence on 28 August 2007	Maggie Denham 28 August 2007
4	Although exception reports are being produced, there is no evidence that management review these. (Similar issue raised in prior year review)	● Low	The authority should ensure that exception reports are being reviewed on a regular basis and evidenced as such.	Agreed.	1 st June 2007 Paul Willmott	Agreed.	Paul Willmott 1 August 2007

Ref	Control weakness found	Risk rating	Recommendations	Original Remedial Action agreed	Original Deadline for Action and accountable officer	Updated Management response	Officer responsible & implementation date
5	<p>It was noted that precepting authorities were not informed of the Council Tax base between 1/12/06 and 31/1/07.</p> <p>It appears that the authorities were informed via e-mail prior to these dates but no formal letters were sent confirming the base between 1/12/06 and 31/1/07.</p>	<p>Low Risk</p> <p style="text-align: center;">●</p>	The authority should ensure that precepting authorities are informed of the council tax base in line with the statutory requirements.	Agreed.	<p>1st June 2007</p> <p>Bill Lewis</p>	See Council Tax action plan.	<p>Bill Lewis</p> <p>1 September 2007</p>
6	<p>Testing of 5 accounts showing credit balances between £600 and £1200 found 1 instance where the individual was still making regular payments by standing order of £15 per month and had a credit balance of £936 but had not been contacted by the authority.</p> <p>In the other 4 cases no refunds have been requested for the overpayments made.</p>	<p style="text-align: center;">●</p> <p>Low</p>	The council should periodically review credit balances and contact individuals who continue to make payments but accounts are in credit.	Agreed.	<p>1st October 2007</p> <p>Paul Willmott</p>	See Council Tax action plan.	<p>Paul Willmott</p> <p>1 October 2007</p>

Follow up of prior years recommendations

Ref	Control weakness found	Risk rating	Recommendations	Management response	Current status
1	<p>Our testing of 30 properties for which either an exemption or discount was being claimed identified the following:</p> <ul style="list-style-type: none"> For 1 out of 15 property exemptions tested there was no documentation held to support the empty property exemption claimed. For 1 out of 15 discounts tested there was no documentation held to support the disablement discount claimed. <p>It was also noted that continued eligibility to discounts was not being regularly reviewed or checked.</p>	<p style="text-align: center;">●</p> <p style="text-align: center;">Medium</p>	<p>The authority should ensure that all discounts and exemptions are supported by documentary evidence and existing discounts and exemptions granted should be reviewed on a periodic basis to ensure that the discounts and exemptions are still applicable.</p>	<p>Agreed. Timetable to be created to review all discounts and exemptions.</p> <p>Paul Willmott, 1st October 2007</p>	<p>Outstanding</p> <p>Agreed implementation date not yet reached.</p> <p>Issue re-raised within this report.</p>

Ref	Control weakness found	Risk rating	Recommendations	Management response	Current status
2	<p>It was noted that reconciliations between the council tax and housing benefit system are performed on a monthly basis but have not been reviewed in either September or October 2007.</p> <p>(Similar issue raised in prior year report.)</p>	<p>●</p> <p>Low</p>	<p>The authority should ensure that reconciliations are evidenced as completed and reviewed on a timely basis.</p>	<p>Agreed. These were brought up to date at the time of the audit. A timetable has now been agreed to ensure that this is done on a monthly basis.</p> <p>Sarah Tyrer, with immediate effect.</p>	<p>Implemented.</p>

Ref	Control weakness found	Risk rating	Recommendations	Management response	Current status
3	<p>We noted that council tax bills raised prior to April 2006 that went back as far as 1999 came to approx £6,088,645.</p> <p>Only £5,441 of debt has been written off in 2006/07 and therefore it is likely that a significant amount of debt may have to be written off in the future due to it being uncollectible.</p> <p>We were informed that approx. £2.1 million of the oldest debt has been sent to a tracing agency and the majority of the remainder is currently with bailiffs. The success of the tracing agency is likely to be known by the start of 2007/08 and it is envisaged that a considerable amount of this debt will have to be written off at this stage.</p>	 High	<p>The authority should ensure that appropriate levels of bad debt provision are in place and assess the overall level of debt that is unlikely to be collected so that steps can be taken to write off.</p> <p>Going forward it should continually strive to improve on its annual collection targets so that level of aged debt is minimised.</p>	<p>Agreed. The mechanical write-off process has been put in place since the audit.</p> <p>Further work needs to be undertaken to analyze the impact on the NBC accounts, and following this work, a strategy needs to be developed to bring this process to the levels expected.</p> <p>Ian Tyrer and Bill Lewis, 1st June 2007</p>	<p>Outstanding</p> <p>Issue re-raised within this report.</p>
4	<p>Our testing of 10 Council Tax Liabilities that had been written off identified 5 instances where no explanation had been recorded.</p>	 Medium	<p>The reason for writing off any council tax liability should be clearly documented on the system.</p>	<p>Agreed.</p> <p>Maggie Denham, 1st June 2007</p>	<p>Outstanding</p> <p>Issue re-raised within this report.</p>

Ref	Control weakness found	Risk rating	Recommendations	Management response	Current status
5	It was noted that council tax staff are not required to document on the system as to why a summons order has been suppressed. As such there is no audit trail that explains why the debt is not being chased via summons.	● Medium	The authority should ensure that an explanation as to why a summons has been suppressed is clearly documented on the system.	Agreed Maggie Denham, with immediate effect	Implemented.
6	It was noted that although reports of discounts and exemptions are being produced these do not appear to be reviewed by senior management. (Similar issue raised in prior year review.)	● Low	The authority should ensure that management regularly reviews the discounts and exemptions to council tax charges for reasonableness on a regular basis.	Agreed. To be part of the management reporting process. Kevin Whiteman, 1 st May 2007	Implemented.
7	Although exception reports are being produced, there is no evidence that management review these. (Similar issue raised in prior year review)	● Low	The authority should ensure that exception reports are being reviewed on a regular basis and evidenced as such.	Agreed. Paul Willmott, 1 st June 2007	Outstanding Issue re-raised within this report.

Ref	Control weakness found	Risk rating	Recommendations	Management response	Current status
8	<p>It was noted that precepting authorities were not informed of the Council Tax base between 1/12/06 and 31/1/07.</p> <p>It appears that the authorities were informed via e-mail prior to these dates but no formal letters were sent confirming the base between 1/12/06 and 31/1/07.</p>	<p>Low Risk</p> <p>●</p>	<p>The authority should ensure that precepting authorities are informed of the council tax base in line with the statutory requirements.</p>	<p>Agreed.</p> <p>Bill Lewis, 1st June 2007</p>	<p>Outstanding</p> <p>Issue re-raised within this report.</p>
9	<p>Testing of 5 accounts showing credit balances between, £600 and £1200 found 1 instance where the individual was still making regular payments by standing order of £15 per month and had a credit balance of £936 but had not been contacted by the authority.</p> <p>In the other 4 cases no refunds have been requested for the overpayments made.</p>	<p>●</p> <p>Low</p>	<p>The council should periodically review credit balances and contact individuals who continue to make payments but accounts are in credit.</p>	<p>Agreed.</p> <p>Paul Willmott, 1st October 2007</p>	<p>Outstanding</p> <p>Agreed implementation date not yet reached.</p> <p>Issue re-raised within this report.</p>

Appendix 1 - Terms of Reference

The objectives of our review were to ensure that:

- The authority is aware of all properties and their correct valuations
- Liability to pay is quickly identified
- Discounts and exemptions are justified and evidenced
- Bills are accurately raised
- Adequate controls of collection and enforcement in respect of unpaid bills
- Compliance with relevant legislation
- Accounting for council tax
- Management/performance information
- Access to council tax system is appropriately restricted

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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