



Internal Audit Report 2019/20

Council Tax and Business Rates

January 2020

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Distribution List

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For information	Audit Committee Jeff Membery - Assistant Director, Customer Fulfilment Andrew Small – Director & Section 151 Officer

This report has been prepared only for Aylesbury Vale District Council in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation.

1. Executive summary

Report classification*	Total number of findings					
	Critical	High	Medium	Low	Advisory	
	Control design	-	-	-	1	-
Low Risk (4 points)	Operating effectiveness	-	-	1	-	-
2017/18 – Medium (14 points)	Total	-	-	1	1	-

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as low risk and we identified one medium and one low risk finding. The purpose of the review was to assess the control design and operating effectiveness with regards to AVDC's discount arrangements, refunds and recovery processes for Council Tax and Business Rates.

We tested a sample of ten Council Tax single person discounts and ten Business Rates accounts with discounts or exemptions. This demonstrated that the Council applied these according to policy, and only after receiving all required documentary evidence. There are also procedures in place to ensure that all discounts and exemptions are reviewed. However, there is still a level of risk in this area, as no checks were documented to demonstrate that the work of the contractor who performed the single person discount review had been reviewed by the team.

The Council recently updated the refund process as a result of an increasing number of frauds involving refunds across Local Authorities. Our testing identified that this process was not yet being consistently applied.

Our review also assessed the robustness of the interfacing between Tech1 and Northgate systems. As has previously been reported in the 2018/19 General Ledger audit, there had been issues in the file upload resulting in Northgate accounts holding inaccurate data on account balances. Over the last 18 months, there has been a large scale data exchange project to update this transfer process. The previous method used Unix scripts and Repliweb software to transfer data from Tech1 to Northgate. The new method will use OptiFLOW cloud-based software instead. There are two remaining files using Unix scripts which will be decommissioned by the end of January 2020 which should resolve the previous issue.

Our findings are summarised as follows:

- There were instances of refunds being processed via cheque despite original payments being made by batch BACS and bank details being taken via the phone. These actions are not in line with the Council's new policy. (Finding 1 – Medium).
- The Council contracted a third-party company to undertake a review of the Council's active cases with a single person discount granted, however did not document the action that was taken to gain assurance over the accuracy of the review (Finding 2 – Low)

Good Practice Noted

A number of areas of good practice were noted during our review as set out below, these have been reflected in the overall “low” risk classification of this report:

- Supporting documentation had been provided and reviewed before the relevant Council Tax or Business Rates discount or exemption had been granted
- A review had been undertaken of Business Rates accounts with exemptions within the quarterly on-going inspections
- Sufficient, timely and appropriate recovery action had been undertaken for a sample of Council Tax and Business Rates accounts in arrears, in line with the Council’s Corporate Debt Management Policy
- A sample of debts had been written-off after sufficient recovery action had been attempted, with the reasoning for write-off being in-line with Council guidelines and authorisation within approval limits
- In order to combat the recent cash posting failings between Northgate and Tech1, daily reconciliations are completed between the two systems by a Finance Officer. The data transfer failure will be rectified through the use of a different software. The initial planned completion date of November 2019 has been postponed to the end of January 2020
- Monthly reconciliations are completed between Tech1 and Northgate. These are reviewed and approved by an independent officer.

2. Background and Scope

Background

AVDC is responsible for the billing and collection of Council Tax and Business Rates.

Reliefs and exemptions are available for both Council Tax and Business Rates based upon set criteria. There have been no amendments to the existing discounts available for either revenue stream, however a new Business Rates discount has been recently introduced. This means that retail businesses can obtain a 33% discount for a two year period. New working guidance has also been recently introduced for both services to support staff with the process.

All discounts applied should be reviewed regularly, preferably on an annual basis, to assess the continued eligibility of the claimant. Business Rates claimants are reviewed on an ongoing basis, with approximately 10% of Business Rates customers receiving some form of discount or exemption. Council Tax has a calendar for reviews, with the most recent review of all claims being completed between June and December 2018, with the exception of the single person discount which was completed in May 2019 by an external party.

Additional resources have now been committed to the recovery team which has seen a drop in court dates from 20% to between 3-5%. This has been supported by the introduction of a new process which better connects the various teams together.

The refunds process has also been amended recently to tackle potential fraud risks inherently present in the issuing of refunds. This new process means refunds for payments originally made by card should only be processed into the original bank account. There are also authorisation checks at set points and only a senior case worker can raise a refund over £500 with the Finance Team.

Across a number of months there have been issues with the interfaces between Tech1 and Northgate resulting in incorrect or incomplete cash postings. This can mean payments are cancelled which the teams are unaware of and so unable to take the necessary action, or they may be following up with a customer for payments which have in fact been paid, but not recorded in Northgate. Various attempts to rectify this have been made by the Systems Admin and Finance teams. We assessed the robustness of the processes now in place and future plans to mitigate the risks completely.

Scope

The scope covered the key risks set out in the Terms of Reference (see Appendix 2). Our testing included:

- Verifying the process of granting discounts and exemptions and the continuing review of these
- Reviewing the process of recovering overdue debt balances and the subsequent appropriateness of write-offs
- Verifying compliance with the new refunds process to tackle potential fraud risks
- Determining whether cash postings between Northgate and Tech1 were operating effectively and whether appropriate steps were being taken to mitigate future failings.

This does not represent a comprehensive list of tests conducted.

3. Detailed findings and action plan

1. Updated refund process not consistently applied – Control effectiveness

Finding

There are certain circumstances in which the Council may have to refund Council Tax or Business Rates amounts to the payee, for example on vacation of premises or commercial properties being removed from VOA ratings lists.

The Council have recently implemented a new refund process in order to better address the inherent risk of potential fraud, whereby payments can be made from a stolen account and refunds paid out to a different (legitimate) account. Therefore, where an original payment was made by card, the refund must be processed into the same bank account. All refunds must be authorised by two officers, which is documented within the system.

We tested a sample of 10 Council Tax and 10 Business Rates refunds that were processed between April and September 2019. We found that:

- In instances where the original bank details are not available or have not been retained on Council systems, we would expect appropriate attempts to be made to gain these before using an alternative refund method. The refund procedure notes have not been updated to include the required process when original details are not available.
- For one Council Tax refund of £199.77 (processed 24 June 2019), the original payment was made via Batch BACS. In these instances the bank details are not held on the Council’s finance systems, however they are available through a file that the Finance Team request from Lloyds Bank. This method was not utilised and instead a Refund Claim Form was sent to the occupier. The form was not returned and an officer then subsequently received the bank details via a phone call from the customer. Whilst all calls are recorded by the Council, there is a risk the Council cannot accurately verify the customer by phone, or may mishear the information resulting in the incorrect bank account being debited. This was discussed with the Council Tax Senior Caseworker who confirmed this was not an appropriate method. Therefore, post-audit testing, officers have been informed that this method of recording bank details is no longer viable and a Refund Claim Form should always be used
- For three Business Rates cases, refunds of £24.46, £1,453.28 and £31,086.69 were initially processed via cheque. For the refund of £1453.28, the cheque was returned by the payee with a request that the refund is paid directly to their account. We would expect an adequate attempt to be made to gather bank details before processing a refund via cheque, including requesting bank details via the Refund Claim Form, as this could lead to the cheque being issued to incorrect payees. There was no evidence of such an attempt for the remaining two cases.

Risks / Implications

If refunds are not processed in the same manner as the original payment, there is an increased risk of fraud occurring.

Finding rating Action Plan

Medium

a) The Council should update the refund

Responsible person / title



procedure notes to provide specific guidance on the step-by-step actions that staff should take to obtain bank details if they are not already available, before processing a refund via cheque.

- b) All officers who are authorised to process Council Tax and Business Rates refunds should be reminded of the new refunds process in place.

Gary Wright – Rating and Recovery Manager/Lorraine Marshall – Senior Caseworker

Target date

31 January 2020

2. Lack of assurance over third party Single Person Discount review – Control design

Finding

All Council Tax discount types are to be reviewed on a regular basis, ideally annually, to ensure that the claimant is still eligible and no changes in circumstances have occurred. Due to a lack of resources, only Single Person Discount (SPD) cases had been reviewed at the time of our testing, with all other exemptions last reviewed in December 2018. As per the limitations of scope in the Terms of Reference, the audit did not cover the review of exemptions, other than for SPD.

It should be noted that the team are in the process of beginning the remaining discount reviews; a plan is in place with a scheduled completion of January 2020.

The SPD review was outsourced to an external provider, Datatank, who began this work in October 2018. A listing of all current SPD cases was reconciled to the electoral register in order to identify those who had more than one occupant registered. For those matched occupants, a letter was sent out for them to confirm their continuing eligibility for the discount. A reminder letter was also issued two weeks later. If no response was received, the discount was removed from 1 April 2019 and a new updated bill was sent out to occupants. Discounts were also removed retrospectively if the response indicated that the property no longer had a sole occupier at an earlier date. Datatank were also given the responsibility of updating the Council's systems accordingly.

Once the review was completed by Datatank, we would expect the Council to have taken measures to gain confidence over the work, for example doing sample testing to ascertain that the discounts had been correctly continued or removed on Northgate. The Customer Relationship Senior Caseworker confirmed that a review of a sample of cases was undertaken, however this review, including a list of accounts reviewed and the outcomes of each, was not documented.

A sample of ten accounts reviewed by Datatank were tested and it was confirmed the discount on Northgate was in line with the returned postal forms or online responses.

Risks / Implications

Single person discount review process was inaccurate, and therefore additional discounts could have been granted to occupants who are no longer eligible.

Finding rating Action Plan

Low



For all future reviews undertaken by a third-party contractor, formal monitoring procedures should be implemented. This should include how the sample size will be determined, how the sample should be selected and the expected recording of the cases reviewed and the outcomes for each.

Responsible person / title

Lorraine Marshall – Senior Caseworker

Target date

28 February 2020

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation’s operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of reference

The key risks agreed in the Terms of Reference are set out below. Each finding in the report is linked to a key risk from the Terms of Reference.

Sub-process	Risks	Objectives
Discount and exemptions	Council Tax and Business Rates discounts and exemptions are issued incorrectly or not reviewed sufficiently regularly, resulting in reduced income collection	<ul style="list-style-type: none"> Discounts and exemptions are only granted after the relevant supporting documentation is provided Discounts and exemptions are reviewed on an annual basis, with the relief removed if the criteria is no longer met.
Recovery	Reduced income, debts are not recovered	<ul style="list-style-type: none"> Consistent and timely action is taken, in line with procedures, to recover any outstanding balances Debts considered non-recoverable are marked for write off and approved in line with procedures.
Refunds	Refunds can be fraudulently claimed	<ul style="list-style-type: none"> The refunds process is followed meaning these can only be processed in the same manner as which the payment was originally received, using the same details.
Posting failings	Inefficient processes. Customers contacted to incorrectly chase for payment	<ul style="list-style-type: none"> Cash postings between Northgate and Tech1 are operating effectively to ensure accurate and complete financial records Reconciliations between Northgate and Tech1 are performed; reconciling items are cleared on a timely basis.