

Oxford City Council

Collection Fund (Council Tax & National Non Domestic Rates)

Internal Audit Final Report 09/10 1.6-7



Assurance rating this review	Moderate Assurance
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Distribution List

Peter Sloman - Chief Executive
Tim Sadler – Executive Director City Services
Penny Gardner / Sarah Fogden - Heads of Finance
Anne Harvey-Lynch – Revenues Manager
Nigel Pursey – Interim Executive Finance Director
Helen Bishop – Head of Customer Services
Performance Board



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Background and scope

Introduction

This review was undertaken as part of the 2009/10 Internal Audit Plan agreed by the Audit and Governance Committee.

This report has been prepared solely for Oxford City Council in accordance with the terms and conditions set out in our letter of engagement. 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

The Authority uses an in house team for the administration of National Non Domestic Rates and Council Tax, using the Academy system for the calculation and billing of liabilities. During 2008/09 the Authority collected £75m of National Non Domestic Rates and £60m of Council Tax.

Approach and scope

Approach

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

Scope of our work

In accordance with our Terms of Reference (Appendix 1), agreed with the Revenues Manager we undertook a limited scope audit of the Collection Fund

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
Anna Winship – Chief Accountant
Anne Harvey-Lynch – Revenues Manager

Our opinion and assurance statement

Introduction

This report summarises the findings of our review of the Collection Fund.

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

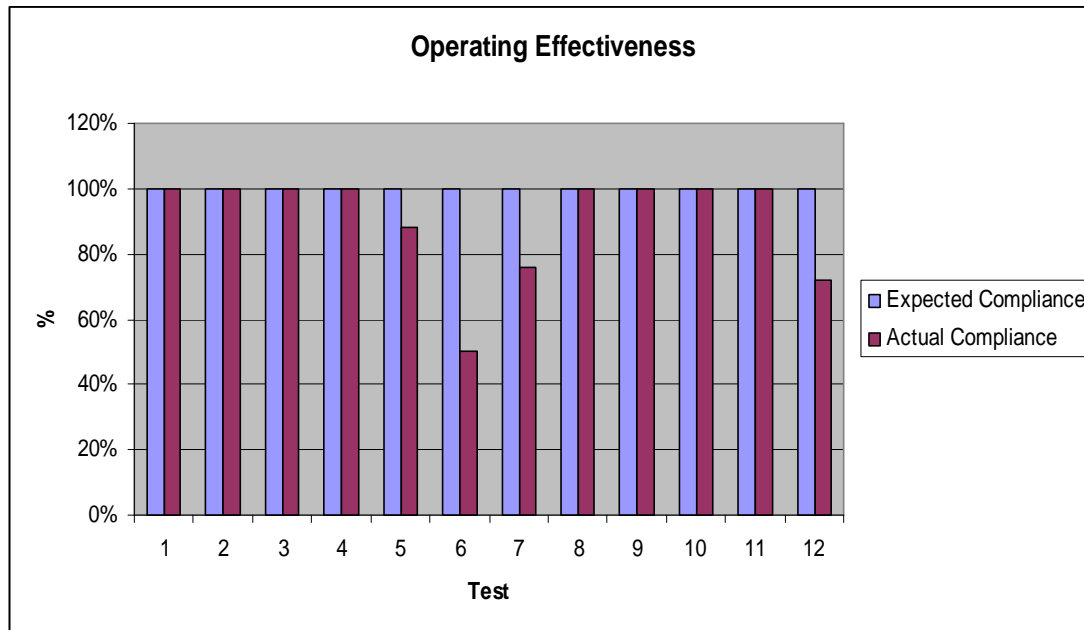
Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the authority's objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources; • the safeguarding of assets; • the preparation of reliable financial and operational information; and • 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; and • 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.

Executive Summary

<p>Department: Customer Services</p> <p>Audit Owner: Anne Harvey-Lynch – Revenues Manager</p> <p>Date of last review: -</p>	<p>Overall Opinion: Moderate Assurance</p> <p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the Collection Fund processes. However, either their impact would be less than significant or they are unlikely to occur.</p> <p>A number or implementation dates have been agreed as 31st March 2011. An overall management response has been obtained from the Head of Service regarding these dates:</p> <p><i>“In the current financial year there has been a strong focus on the administration processes that underpin the council tax system and the performance management of the service. This is part of a planned approach to reviewing and improving the administration, billing, collection and enforcement of council tax, which will continue to be implemented in 2010/11.”</i></p>	<p>Direction of Travel</p> <p>No previous review has been conducted by PwC. Follow up on previous auditors recommendations has been detailed below.</p>	<p>Number of Control Design issues identified</p> <p>0 Critical</p> <p>1 High</p> <p>8 Medium</p> <p>0 Low</p>	<p>Number of Controls Operating in Practice issues identified</p> <p>0 Critical</p> <p>1 High</p> <p>1 Medium</p> <p>0 Low</p>
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Follow up from prior year recommendations			Other Considerations		Scope of the Review
Rating	Implemented or no longer relevant	Outstanding or Partially implemented	Use of Resources-related	Corporate Plan-related	
Critical	0	0	Financial reporting issues may impact on Use of Resources scores	None noted	To ensure that all properties are identified, correctly valued and billed so that collection tax income is maximised. To ensure that Council Tax and Business Rate income is reflected accurately in the Authority's accounts.
High	0	0	VFM-related	Financial Reporting related	
Medium	0	0	None noted	Debtor balances may be overstated if write offs are not actioned on a timely basis.	
Low	0	2			

Compliance Summary



Tests Performed:

1. Weekly reconciliations between Valuation Office listings and Collection Fund system completed without exception
2. Properties within correct banding
3. Final billing runs authorised
4. Council Tax refunds granted in reasonable circumstances and agreed paid by finance
5. Council Tax exemptions with supporting documentation
6. Weekly suspense accounts cleared on a timely basis
7. Council Tax recovery action undergoing (exceptions relate to those accounts marked for write off)
8. Agresso to Academy reconciliations performed without exception
9. Council Tax management information produced on a timely basis
10. Business Rates exemptions with supporting documentation
11. Suppression performed appropriately
12. Business Rates recovery action undergoing (exceptions relate to those accounts marked for write off)

Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of the Collection Fund, 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 Collection Fund 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 – Council Tax

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
1	Reliefs may no longer be applicable. The Council may not be maximising their income streams.	The Council has not undertaken a review of all single person discount accounts to ensure that the relief is still applicable.	● Medium	A review of all single person discount accounts should be undertaken. All individuals should be requested to confirm that they are still eligible for the discount. Where confirmation has not been provided, the relief should be suspended.	Agreed A data matching exercise with NFI records has just been completed and highlighted accounts where single person discount may no longer be applicable. Consequently, an ongoing review of single person discounts is now scheduled to start in the next financial year.	Anne Harvey Lynch 31st March 2011
2	Overpayments and refunds may not be identified on a timely basis.	The Council does not review credit balances held on Council Tax accounts. At the time of audit credit accounts totalled £750k	● Medium	Efforts should be made to investigate all accounts in credit and issue refunds and overpayments if necessary. Going forward, reports should be run on a periodic basis to identify credit balances.	Agreed A process will be drawn up to ensure that all accounts in credit are followed up on a timely basis. This will involve active communication with account holders.	Anne Harvey Lynch 31st March 2011

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating Effectiveness						
3	Officers may be unaware of their roles and responsibilities leading to an increased risk of error.	Upon inspection of the Council Tax procedure notes it was noted that a number of the procedures were missing from the shared drive.	● Medium	Procedure notes should be put in place for all aspects of the Council Tax process. All documents should be held on the shared drive for reference.	Agreed Going forward a responsible officer will be charged with reviewing the procedure notes to ensure that they are up to date.	Anne Harvey Lynch 31st March 2011
4	Reliefs may be awarded inappropriately. The Council is not maximising their income streams.	Students are entitled to a Council tax relief upon submission of proof of study to the Council. In 3/25 cases of reliefs tested, evidence was not retained on file to evidence entitlement to student discounts. In 2 of these cases, the relief was awarded following a telephone call.	● Medium	Student relief should not be awarded without presentation of evidence to confirm their position. This should be in the form of a declaration from their University/College.	Agreed There are often inconsistencies in the approval of student relief. Going forward it is hoped that the Council will have access to student data for the large Universities in the city. This will be cross referenced to evidence eligibility. Students of other institutions will be expected to provide supporting evidence from a third party.	Anne Harvey Lynch 31st March 2010

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	<p>Council tax information may not be complete. This may lead to incorrect billing.</p> <p>If reconciliations are not reviewed, management can have limited comfort over the completeness of Council Tax information.</p>	<p>Weekly reconciliations are performed between Academy and the Valuation Office listing of properties. It was noted when reviewing these reconciliations that the total has not reconciled by 1 property throughout the year.</p> <p>In addition, these reconciliations are not reviewed.</p>	<p>● Medium</p>	<p>Investigations should be undertaken to establish the reason for this reconciling item. Efforts should be made to rectify these differences and bill any income lost.</p> <p>Reconciliations should be reviewed by management to ensure that any errors and omissions are identified and rectified.</p>	<p>Agreed</p> <p>This reconciling item relates to a property which the Valuation Office reports as flats. The Council hold this as a single property on their records and has been making attempts to visit the property to validate their records. The owner of the property has not cooperated in this process and therefore the property has remained as a reconciling item. Plans have been put in place to withdraw this individual's benefits until the Council is permitted access.</p>	<p>Jacky Brown 30th November 2009</p>
6	<p>Debtor balances may be overstated if unrecoverable debt continues to be recognised as an asset.</p>	<p>The Council has not written off any bad debt in relation to Council Tax in year. At the time of audit, 65% of Council Tax debt was over 1 year old (£3.6m). £707k of this debt is over 5 years old, with the oldest debt being raised in 1993/4.</p>	<p>● High</p>	<p>Immediate efforts should be made to review all aged debt for write off. Any debts deemed as recoverable (e.g. where payment plans are in place) should be clearly highlighted on the Academy account.</p> <p>Going forward, all aged debt should be reviewed on a periodic basis to prevent a build up.</p>	<p>Agreed</p> <p>The Council has begun a review of all accounts marked for write off.</p> <p>Going forward a proactive process of reviewing aged debt on a periodic basis will be performed.</p>	<p>Anne Harvey Lynch 30th November 2009</p> <p>Adrian Wood 31st March 2011</p>

Findings and recommendations – Business Rates

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Operating Effectiveness						
7	Debtor balances may be overstated if unrecoverable debt continues to be recognised as an asset.	The Council has not written off any bad debt in relation to Business Rates in year. At the time of audit, 45% of Business Rates debt was over 1 year old (£907k). £205k of this debt is over 5 years old, with the oldest debt being raised in 1994/5.	● High	<p>Immediate efforts should be made to review all aged debt for write off. Any debts deemed as recoverable (e.g. where payment plans are in place) should be clearly highlighted on the Academy account.</p> <p>Going forward, all aged debt should be reviewed on a periodic basis to prevent a build up.</p>	<p>Agreed</p> <p>The Council has begun a review of all accounts marked for write off.</p> <p>Going forward a proactive process of reviewing aged debt on a periodic basis will be performed.</p>	<p>Anne Harvey Lynch 30th November 2009</p> <p>Adrian Wood 31st March 2011</p>
8	Revenue is not being optimised. The Council is not meeting their agreed targets.	The Council has a BVPI in place to ensure that 99.2% of Business Rates are collected on a timely basis. At the time of audit, this indicator was not being met (98.56%). This may be attributable to the economic downturn.	● Medium	An action plan should be put in place to outline what efforts will be made to ensure the year end collection target is met. Regular reports should be provided to Performance Board to monitor the position.	<p>Agreed</p> <p>The Collection Fund team has insufficient resources in place to maintain active recovery of debts. It is hoping that this will be rectified with the roll out of CRM and reorganisation of the department.</p>	<p>Anne Harvey Lynch 31st March 2010</p>

Findings and recommendations – Academy

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
Control Design						
9	Information is not provided on a timely basis.	<p>The Council outsourced its IT functions to the County Council in year. All reports must be requested from the County Council.</p> <p>It was noted during audit that the lead time for these reports is often up to a week. Regular reports are not sent to the department for reference.</p>	<p>● Medium</p>	A timetable indicating all reports required by the Council should be drawn up and communicated to ICT to ensure that information is received on a timely basis.	<p>Agreed</p> <p>A timetable will be put in place.</p>	<p>Anne Harvey Lynch</p> <p>31st March 2010</p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
10	Collection fund accounts may be misstated if cash is not posted correctly. Procedures may be carried out incorrectly if procedure notes are not kept up-to-date.	All cash received that cannot be identified is posted to the Collection Fund suspense account. It was noted during inspection that this account was not reviewed and cleared in August or September 2009. In addition, the procedure notes for this process are currently not up to date. The existing documents make reference to redundant reports and processes.	● Medium	Suspense accounts should be reviewed on a periodic basis to ensure that cash is posted to correct accounts. Up to date procedure notes should be drawn up to facilitate the correct operation of this control. These should be circulated to all collection officers to ensure that cover can be provided in the event of absence.	Agreed Suspense account issues have been raised as part of the General Ledger review and agreed that items will be cleared going forward.	Anna Winship 30th November 2009
11	Accounts may be suppressed inappropriately.	All Academy users have access to suppress accounts.	● Medium	User access should be reviewed to ensure that suppression access is restricted to essential users. If this process is not practical then periodic reports detailing suppressed accounts should be run and reviewed to ensure that actions have been taken appropriately.	Agreed Regular reports will be run from ICT displaying all accounts that have been suppressed. These will be reviewed by Team Leaders.	Anna Harvey Lynch 31st March 2011

Follow up of prior year recommendations

Recommendation		Risk Rating	Response to recommendation	Follow up 2008/09
1	Procedure notes for the calculation of the Council Tax base were not held by the authority	● Low	Agreed Head of Finance October 2009	Outstanding Raised in issue #3 above
2	A review of Single Person Discount should be undertaken on a cyclical basis (reraised from 2007/08 audit)	● Low	Not yet implemented. As per our testing this year, discounts and exemptions have not been reviewed. The Authority is still awaiting the results of the NFI matching exercise being undertaken by the Audit Commission.	Outstanding Raised in issue #1 above

Appendix 1 - Terms of Reference

Objectives and deliverables

Objectives

To ensure that all properties are identified, correctly valued and billed so that collection tax income is maximised. To ensure that Council Tax and Business Rates income is reflected accurately in the Authority's accounts.

Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over the Council Tax and Business Rates processes.

Listed below is the information that may be required at the commencement of the audit:

- Copies of procedure notes,
- Access to VO listings and reconciliations performed
- Listings of all accounts eligible for discounts
- Evidence of year end billing checks
- Copies of reconciliations performed to the General Ledger and Cash Collection systems
- Reports showing all refunds and overpayments in year
- Access to recovery reports
- Management information and exception reports produced,
- Listing of all new system users and leavers in year, and evidence that they have been authorised to be added/removed to access lists.

The list is not intended to be exhaustive. Evidence should be available to support all operating controls. Other information arising from our review of the above documentation may be requested on an ad hoc basis.

Scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- 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 the Collection Fund;
- Management/performance information; and
- Access to the Collection Fund system is appropriately restricted.

We will discuss our findings with the Revenues Manager or nominated representative to develop recommendations and action plans. A draft report will be issued to the Revenues Manager, Head of Finance and any other relevant officers for review and to document management responses.

Limitation of Scope

The scope of our work will be limited to those areas identified above.

Stakeholders and responsibilities

Role	Contacts	Responsibilities
Anne Harvey Lynch	Revenues Manager	<ul style="list-style-type: none"> ▪ Review draft terms of reference ▪ Review and meet to discuss issues arising and develop management responses and action plan ▪ Review draft report. ▪ Implement agreed recommendations and ensure ongoing compliance.
Heads of Finance	Penny Gardner Sarah Fogden	<ul style="list-style-type: none"> ▪ Receive agreed terms of reference ▪ Receive draft and final reports.
Interim Executive Finance Director	Nigel Pursey	
Chief Executive	Peter Sloman	<ul style="list-style-type: none"> ▪ Receive final report

Our Team and Timetables

Our team

Chief Internal Auditor	Chris Dickens
Audit Manager	Katherine Bennett
Auditor	George Hynds

Timetable

Steps	Date
TOR approval	September 2009
Fieldwork commencement	8 th October 2009 (T)
Fieldwork completed	T + 2 weeks
Draft report of findings issued	T + 5 weeks
Receipt of Management response	T + 7 weeks
Final report of findings issued	T + 8 weeks

Budget

Our budget for this assignment is 10 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

Terms of Reference Approval

These Terms of Reference have been reviewed and approved:

.....

Anne Harvey Lynch
Signature (Revenues Manager)

.....

Chris Dickens
Signature (Chief Internal Auditor)

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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