

# *Oxford City Council*

## Collection Fund

Internal Audit Report  
2014/2015  
November 2014

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### For action


**Anne Harvey-Lynch (Revenues Manager)**  
**Nick Gibb (Recovery Team Leader)**  
**Anna Winship (Financial Accounting Manager)**  
**Adrian Wood (Finance Technical Officer)**



### For information

**Tanya Bandekar (Service Manager- Revenues and Benefits)**  
**Helen Bishop (Head of Customer Services)**  
**Nigel Kennedy (Head of Finance)**  
**Jackie Yates (Executive Director – Organisational Development & Corporate Services)**  
**Peter Sloman (Chief Executive)**

# 1. Executive summary

Report classification	Total number of findings					
 <b>Medium risk (9 points)</b>	Critical	High	Medium	Low	Advisory	
	Control design	0	0	1	0	0
	Operating effectiveness	0	0	1	3	0
	Open prior year findings	0	0	0	0	0
	<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>0</b>

## Summary of findings:

This review considered controls and processes over council tax and business rates (NNDR). We identified two medium risk issues:

- Debt recovery process:** in 7 of the 25 randomly selected cases tested, we found that no active attempts had been made to recover the debt for long periods of time; 2 years or more. The status on 6 of the 7 has been set to 'closed', indicating that the debts have already gone through a recovery processes and have been returned from the bailiffs as uncollectable. One of the seven is an NNDR debt which has been open since 1991. The Council is currently obtaining and reviewing further information relating to the aged "closed" arrears, if appropriate, one last attempt at recovery will then be made, or else the debts will be written off.
- NNDR reconciliation with the Valuation Office Agency (VOA) data:** regular reconciliations between NNDR data on the Council's system (Academy) and the VOA reports are not carried out. An annual reconciliation is performed however this is a standard control and one which should be in operation throughout the year to ensure any discrepancies between data are picked up and addressed as required.

In addition to the above we identified three low risk issues:

- NNDR and council tax collection rates:** at the end of September 2014 the collection rates for both council tax and business rates were below the profiled target for the year to date. Council tax collection rates have slightly improved compared to the same time last year, but the NNDR collection rate was 56.76%, down compared to 60.06% last year.

The lower collection rates for NNDR are driven primarily by the introduction of the option to pay over 12 instalments this year rather than 10 in the previous year. It is likely more ratepayers will utilise this option going forward therefore consideration should be given to the impact this may have on cash flow and other functions of the Council.

- Monitoring collection rates:** we found that council tax and NNDR collection rates were being monitored against incorrect year end targets of 97.3% and 98.4% respectively. The actual targets are 97.4% (council tax) and 99% (NNDR). Whilst the differences are small in percentage terms, it does mean

that profiled month end targets are not accurate, resulting in a slightly greater variance between target and actual performance.

- **Council tax - Paris to Academy reconciliations:** we found that these reconciliations were performed on a daily basis throughout the year but for one out of our sample of 25, the date on which the reconciliation was reviewed was not entered. We were therefore unable to confirm whether the reconciliation was reviewed in a timely manner. One issue was raised in this area during our last audit relating to the clearing of reconciling items; no similar issues were identified during the current audit.

Our review also covered the processes and controls for council tax and business rate discounts and exemptions including the new legislation for retail relief and flood relief. We found no issues as a result of testing performed in these areas.

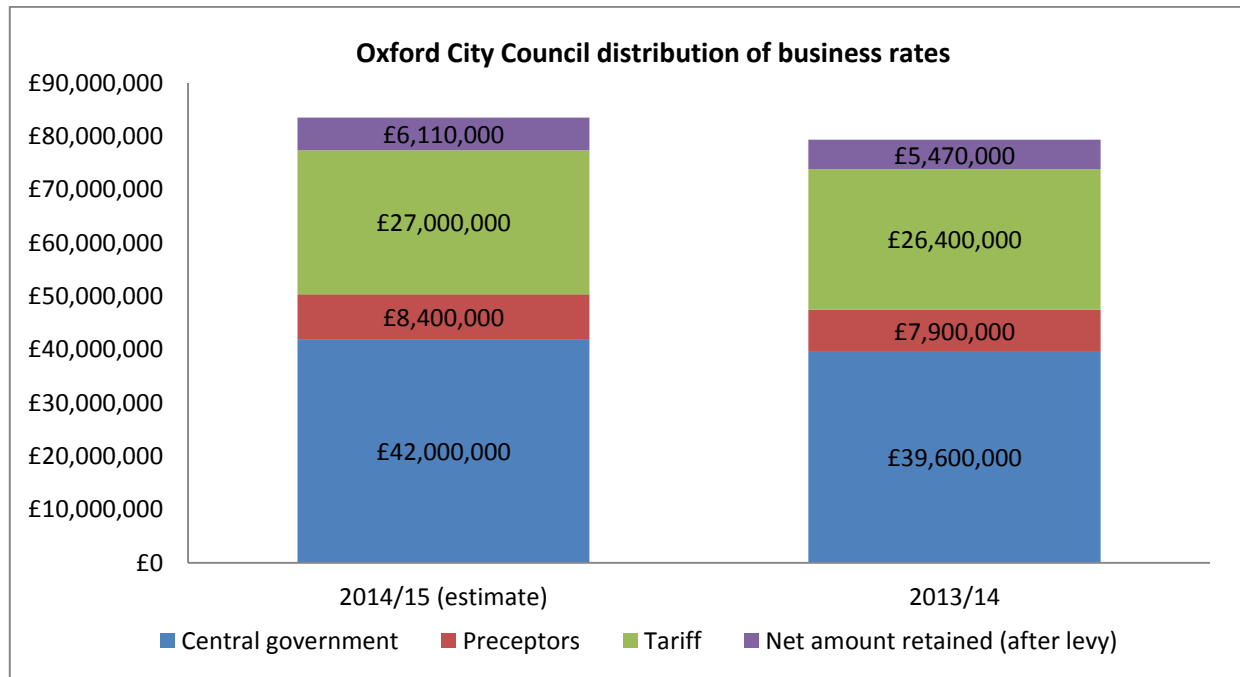
- In addition to the scope of work set out in Appendix 2, we also considered complaints which the Local Government Ombudsman received and found that there are two cases against the Council which have been upheld so far during 2014/15, both of which relate to council tax. In 2013/14 one was case upheld. The two cases upheld were not deemed to be significant, they were considered at departmental level and will be reported in the annual summary letter to the Chief Executive. The decisions upheld were: Failure by the Council to recognise an individual's request for an appeal in respect of his council tax deductions
- Mistakes in the administration of a council tax account, in recovery action taken against the individual and in the Councils response to complaints.

In summary, there are some weaknesses in controls for debt recovery and NNDR reconciliations. The overall report classification has been assessed as medium risk.

### ***Consideration of business rate retention***

In April 2013, the government introduced a provision for Local Authorities to keep a percentage of business rates income. Previously all income would be passed to central government for redistribution between authorities. Oxford City Council can now keep 40% of all business rates income collected; this gives the Council an increased incentive for maximising collection rates and promoting local business growth.

Because the Council has more business rates than their current level of spending, there is a requirement to make an additional tariff payment to government. The 'real' amount retained therefore is significantly less than 40%. The chart below shows the approximate share of NNDR income:



The Council's retained element is offset by central government with a reduction in the annual formula funding. It is expected that 25.2% of the Council's 2014/15 budget will be financed through the retained business rates. Whilst this poses challenges in terms of maximising collection rates it also provides the Council with an opportunity, as encouraging growth in the local economy can potentially lead to more locally retained business rate income as well as reduced welfare costs. Recent research by the Local Government Association however, has shown that many authorities fear that the risks arising from business rates appeals may outweigh the potential reward from retained growth. The £1.7 million NNDR appeals provision held by the Council provides some indication of the potential costs.

# 2. Detailed current year findings

## 1. Debt recovery procedures – Operating effectiveness

### Finding

At 30th September 2014, NNDR and council tax arrears totalled £8.4m compared to £7.3m at the same time last year. Total debt written off in the year to date is £478k compared to £174k at the same time last year. The council's debt recovery procedures include the following steps:

- First Reminder
- Final Notice
- Court Summons
- Liability Order
- 7 day letter
- Bailiffs secure the funds.

We tested the recovery procedures for a sample of 25 cases and considered the latest status of each case. For 7 of the 25 cases, there were long periods of time where there was no activity or contact with the debtor; in most cases this period was over 2 years. The status on 6 of the 7 has been set to 'closed', indicating that the debts have already gone through a recovery processes and been returned from the bailiffs as uncollectable.

One of the seven is an NNDR debt which has been open since 1991.

The Council has recently invested in additional resources and restructured the teams in order to strengthen the debt recovery processes. Further information relating to the aged "closed" arrears is currently being obtained and reviewed. If appropriate, one last attempt at recovery will be made, or else the debts will be written off.

## Risks

There is a risk of debt write off and loss of income if debts are not actively chased through a robust recovery process.

## Action plan

### Finding rating

Medium



### Agreed action

We are in the process of referring static Council Tax debt (closed accounts with no active enforcement action in place) up to 31/03/13 to a company named Akinika who will carry out tracing verification. The trace verification process should take no more than 3 weeks from when we provide data extracts. The Council has just received this information list and are in the process of getting the data sort done by the end of December.

An action plan will be put in place to deal with all aged debt in order to maximise recovery on a timely basis. Where recovery is not possible the debts will be processed for write off.

The Council has recruited two additional temporary staff members to assist with reviewing and improving the debt collection processes. The impact of these 2 additional resources, focussing on debt recovery and process changes, has been immediate, with more cases going through the Courts quickly. Process changes where complaints and appeals are received in high volumes have also led to improved customer service.

The recovery team will ensure that going forward cases are reviewed regularly to avoid similar issues occurring.

### Responsible person / title

Nick Gibb (Recovery Team Leader)

### Target date:

January 2015

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## 2. NNDR reconciliation with the Valuation Office – Control design

### Finding


The Valuation Office Agency (VOA) provides the Council with a weekly report which outlines all amendments made to existing properties and highlights new properties. The list is used to process adjustments into Academy, the main council tax and business rates system.

We found that there is no regular reconciliation performed between NNDR data held on Academy and the VOA reports. An annual reconciliation is performed, this is due to take place in December 2015 for the current year. The reconciliation is a standard control and one which should be in operation throughout the year to ensure any discrepancies between data are picked up and addressed as required.

### Risks

Business rates may be billed incorrectly, or properties omitted if the Council's records do not agree with VOA data.

### Action plan

Finding rating	Agreed action	Responsible person / title
74 Medium 	Reconciliations will be performed on a weekly basis between VOA listings and Academy reports and any differences will be investigated and addressed.  All documentation will be retained to ensure there is a clear audit trail.  Planned procedures for the above actions have already been established.	Anne Harvey-Lynch (Revenues Manager)  <b>Target date:</b>  December 2014



### 3. Council tax and NNDR collection rates – Operating effectiveness

#### Finding

Collection rate targets for NNDR and council tax are not being achieved.

#### **NNDR**

The NNDR collection rate at 30th September 2014 is 56.76%, this is down compared to 60.06% at the same time in 2013/14. The end of year target is 99% and performance is currently behind the month end profiled target.

The variation is in part due to new legislation that now allows ratepayers to pay over 12 instalments compared to previous years when it was paid over 10 instalments. As expected, many ratepayers have taken advantage of this change. Thus, the Council has less money coming in compared to last year but anticipates it will get considerably more in the last two months of the year. The Council estimates that approximately 2.53% of the reduction in the collection rate is as a result of the increased number of instalments. The remaining fall is however considered to be a 'real' fall.

It is likely that the number of ratepayers taking up the option to pay over 12 instalments will increase going forward. The impact of this on cash flow and treasury management will require consideration.

At the end of September 2014, NNDR arrears totalled £2.8m compared to £2.2m at the same time last year, representing 3.2% of net collectable debt, compared to 2.6% in the prior year. Total NNDR debt written off in the year to date amounts to £213k, compared to £14k at the same time last year.

#### **Council tax**

The council tax collection rate at 30th September 2014 was 57.04%, this is up compared to 56.66% at the same time in 2013/14. However, the current collection rate is behind the month end profiled target, therefore the Council is not currently on track to achieve the end of year target.


At the end of September 2014, council tax arrears had increased to £5.6m (7.7% net collectable debt) compared to £5.0m (7.2% net collectable debt) at the same time last year. Total amounts written off in the year to date have also increased; £264k compared to £159k at the same time last year.

#### Risks

There is a risk that the Council will fail to meet internal collection targets resulting in budgetary pressures and increasing arrears.

The option for ratepayers to pay in 12 rather than 10 instalments needs to be factored into treasury forecasting or else there is a risk it may lead to cash flow issues.

## Action plan

Finding rating	Agreed action	Responsible person / title
Low 	<p>The Council will continue to monitor collection rates and ensure that any continued fall in rates against the profiled target is looked into and actioned.</p> <p>The impact of the increased instalments will be incorporated into cash flow planning and the potential impact on treasury management will be monitored. Any issues will be flagged up to ensure appropriate action can be taken.</p>	<p>Anna Winship (Financial Accounting Manager)</p> <hr/> <p><b>Target date:</b> March 2015</p>

## 4. Monitoring of collection rates – Operating effectiveness

### Finding

Year to date council tax and NNDR collection rates are monitored against profiled month end targets, the targets are set as part of the corporate planning process.


We found that council tax and NNDR collection rates were being monitored against incorrect year end targets of 97.3% and 98.4% respectively. The actual targets are 97.4% (council tax) and 99% (NNDR).

Whilst the differences are small in percentage terms, it does mean that profiled month end targets used to monitor performance are not accurate and consequently there is a slightly increased variance between actual performance and target.

### Risks

There is a risk that issues are not addressed appropriately if management information provided on collection rates is not accurate.

### Action plan

<u>Finding rating</u>	<u>Agreed action</u>	<u>Responsible person / title</u>
Low 	All month end profile targets will be re-calculated based on the Council's actual targeted collection rate.  This will provide the Council with a more accurate picture of performance compared to target.	Adrian Wood (Finance Technical Officer)  <u>Target date:</u> November 2014

## 5. Academy to Paris reconciliation – Operating effectiveness

### Finding

A reconciliation is performed on a daily basis between Academy and Paris (cash collection system). The reconciliation confirms that the systems have interfaced properly and any discrepancies will be investigated.


Clear segregation of duties is maintained by ensuring the reconciliation is prepared by one member of staff and reviewed by another. This is a function undertaken within the finance department.

We selected a sample of 25 reconciliations and found that for 1 of the samples the date on which the reconciliation was reviewed was not entered therefore we were unable to determine whether the reconciliation was reviewed on a timely basis.

### Risks

There is a risk that reconciliations are not reviewed on a timely basis therefore any issues are not addressed appropriately.

### Action plan

<u>Finding rating</u>	<u>Agreed action</u>	<u>Responsible person / title</u>
8 Low 	Staff involved in the review of the reconciliation will be reminded of the need to complete all details clearly to ensure a clear audit trail is maintained.	Ivana Ilic (Income & Payments Team Leader)  <u>Target date:</u>  November 2014

# Appendix 1: Basis of our classifications





## Individual finding ratings

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

## Report classifications

Findings rating	Points
<b>Critical</b>	40 points per finding
<b>High</b>	10 points per finding
<b>Medium</b>	3 points per finding
<b>Low</b>	1 point per finding

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

## Appendix 2: Terms of Reference

# ***Oxford City Council***

## ***Terms of reference – Collection Fund***

**To:** *Anne Harvey-Lynch, Revenues Manager*

**From:** *Kate Mulhearn, Internal Audit Manager*

This review is being undertaken as part of the 2014/15 internal audit plan approved by the Audit and Governance Committee.

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### **Background**

Oxford City Council is responsible for the collection of Council Tax and Business Rates. This review will evaluate the design and operating effectiveness of key controls in the Collection Fund process with the objective of ensuring that all properties are identified, correctly valued and billed so that Council Tax and Business Rates income is reflected accurately in the Authority's accounts. The review will also follow up prior year findings to ensure that agreed action plans have been implemented.

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### **Scope**

We will review the design and operating effectiveness of key controls relied on by External Audit relating to the Collection Fund and follow up issues noted during the prior year.

The sub-processes and related control objectives included in this review are:

<b>Sub-process</b>	<b>Control objectives</b>
Valuation	<ul style="list-style-type: none"><li>• All properties are correctly identified, valued and billed to ensure maximum revenue is received. The totals reconcile to the Valuation Office Directions.</li></ul>
Liability	<ul style="list-style-type: none"><li>• Properties are correctly banded and the liable person identified.</li><li>• An independent review of the accuracy of bandings (Council Tax) and the 2014-15 multipliers (NNDR) is evidenced.</li></ul>
Billing	<ul style="list-style-type: none"><li>• Billing is accurate and complete.</li><li>• Bills are processed accurately and on a timely basis.</li></ul>
Discounts and Exemptions	<ul style="list-style-type: none"><li>• Discounts are only applied where appropriate and in line with guidance.</li></ul>
Accounting for Council Tax and Business Rates	<ul style="list-style-type: none"><li>• Reconciliations between the Revenues system (Academy) and the Financials system (Agresso) are performed and reviewed.</li><li>• Reconciliations between the Revenues system and cash collection system are performed and reviewed.</li></ul>
Recovery, enforcement and collection	<ul style="list-style-type: none"><li>• Outstanding income is collected and action taken against non-tax payers.</li></ul>

	<ul style="list-style-type: none"> <li>• Revenue due from Council Tax and Business Rates is maximised and collected accurately.</li> <li>• Accounts are updated on a timely basis.</li> </ul>
Arrangements for changes in legislation	<ul style="list-style-type: none"> <li>• Retail and flooding reliefs are applied accurately and appropriately.</li> </ul>
Management of the Council's retained element	<ul style="list-style-type: none"> <li>• The process for managing the Councils retained element is reviewed and compared to best practice.</li> </ul>
Follow up of prior year issues	<ul style="list-style-type: none"> <li>• Agreed action plans regarding prior year issues have been implemented.</li> </ul>

## Limitations of scope

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

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## Audit Approach

Our audit approach is as follows:

- Obtain an understanding of the process through discussions with key personnel, review of systems documentation and walkthrough tests;
  - Identify the key risks relating to the Collection Fund;
  - Evaluate the design of the controls in place to address the key risks;
  - Test the operating effectiveness of the key controls.
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# Appendix 3: Limitations and responsibilities

## Limitations inherent to the internal auditor's work

We have undertaken the review of the Collection Fund, subject to the limitations outlined below.

### 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 judgment 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

Our assessment of controls relating to the Collection Fund review is for the 2014/15 year.

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 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.

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