

Oxford City Council

Collection Fund

FINAL

Internal Audit Report
2011/2012

January 2012
9



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Distribution List

For action	Anne Harvey-Lynch (Revenues Manager) Anna Winship (Accountancy Manager)
For information	Helen Bishop (Head of Customer Services) Nigel Kennedy (Head of Finance) Jackie Yates (Corporate Director – Finance and Efficiency) Peter Sloman (Chief Executive)

Executive summary

Report classification	Trend	Total number of findings																														
 Medium risk (13 points)	 There has been an improvement in performance since prior year	<table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>0</td> <td>3</td> <td>0</td> </tr> <tr> <td>Open prior year findings</td> <td>0</td> <td>1</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>1</td> <td>0</td> <td>3</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	0	0	3	0	Open prior year findings	0	1	0	0	0	Total	0	1	0	3	0
	Critical	High	Medium	Low	Advisory																											
Control design	0	0	0	0	0																											
Operating effectiveness	0	0	0	3	0																											
Open prior year findings	0	1	0	0	0																											
Total	0	1	0	3	0																											

Summary of findings:

We have noted improvements in controls around exemptions and credit balances. The Council is in the process of sourcing a partner to perform a review of Single Person Discounts and no issues were noted with the existence of documentation to support exemptions. A process of reviewing credit balances has been introduced and is performed on a weekly basis.

No control design issues were noted in year which indicates that the controls in place are effectively designed to address risk. However, operating effectiveness issues were noted in relation to:

- Arrears not being chased in line with policies and procedures;
- Academy users no longer being employed by the Council;
- Out of date supporting documentation for exemptions; and
- Completeness and timely performance of reconciliations.

Compliance issues were noted in these areas in prior year .

A high risk issue has been rolled forward from prior year in relation to aged debt. The Council continues to have large debt balances over 1 year old for both Council Tax and Business Rates. Efforts should be made to review this debt to ensure it is recoverable and the need for write offs should be considered.

Background and scope

Background

Oxford City Council is responsible for the collection of Council Tax and Business Rates on behalf of Central Government. Both rates are billed and collected in house by the Customer Services department using the Academy system. In 2010/11, the Council collected £63million of Council Tax and £76million of Business Rates. Collection of Council Tax have increased to 96.8% in year but were below the 97.3% target.

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.

Scope and limitations of scope

Scope

We will review the design and operating effectiveness of key controls relied on by the Audit Commission 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:

Sub-process	Control objectives
Valuation	All properties are identified, correctly valued and billed to ensure maximum revenue is received
Billing	Billing is accurate and complete
Overpayments and refunds	Overpayments and refunds are granted accurately and with prior authorisation
Discounts, reliefs and exemptions	Discounts, reliefs and exemptions are granted accurately and in line with guidance
Collection	Revenue due from Council Tax and Business Rates is maximised and collected accurately. Accounts are updated on a timely basis
Recovery and enforcement	Outstanding income is collected and action taken against non-tax payers

Accounting for Council Tax and Business Rates	Information transferred from the Council Tax and Business Rates system is complete and accurate Reconciliations of the Council Tax and Business Rates system to the General Ledger and Cash Collection system are performed
Access to the Council Tax and Business Rates systems	Access to the Council Tax and Business Rates systems is appropriately controlled and restricted
Follow up of prior year issues	Agreed action plans regarding prior year issues have been implemented

Limitations of scope

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

Detailed current year findings

1. Academy Users - Operating effectiveness

Finding	Testing of access to Academy highlighted that 1/25 active users on Academy system no longer worked for the Council.	
Risks	Unauthorised personnel may be able to gain access to the system and make amendments to data.	
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	Responsibility for informing the Academy system administrator of leavers lies with individual departments. A reminder will be sent to all departments with users to reinforce that they must communicate all leavers on a timely basis.	System administrator
104		Target date: 31 st January 2012

2. Valuation Office Reconciliations – Council Tax - Operating Effectiveness

<p>Finding</p> <p>The Council updates Academy on a weekly basis following receipt of information from the Valuation Office on changes in property information. A reconciliation is subsequently performed. The following issues were noted when testing 5 reconciliations performed in year:</p> <ul style="list-style-type: none"> • Reconciliations are not currently reviewed; • 1 unreconciled property has existed on the reconciliation since the start of the year; and • For 1 reconciliation tested we were unable to trace the property values included in the reconciliation to Academy. This was because the information had not been scanned into Council's document management system. 		
<p>Risks</p> <p>Council tax information may not be accurate and complete resulting in incorrect billing. If reconciliations are not reviewed, errors and omissions may not be identified on a timely basis.</p>		
<p>Action plan</p>		
<p>Finding rating</p> <p>Low</p>	<p>Agreed action</p> <p>The Council are aware of the reconciling items and are investigating this with the valuation office. This should be rectified by the 12/13 billing run.</p> <p>In relation to scanning, this process was newly introduced in year and therefore some delays were encountered. All documents are now scanned.</p>	<p>Responsible person / title</p> <p>Anne Harvey-Lynch</p> <p>Target date:</p> <p>31st March 2012</p>

3. Key Control Account Reconciliations – Council Tax - Operating Effectiveness

Finding		
Monthly reconciliations are performed between Academy and Agresso (General Ledger system). It was noted during testing that the Council Tax reconciliation for April was not performed and reviewed until 16 th June 2011.		
Risks		
Errors and omissions in balances may not be identified on a timely basis.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	There was a delay in some of these reconciliations at the beginning of the year due to a hand over of tasks All systems reconciliations are now completed and reviewed up to date.	Anna Winship
06		Target date: Implemented

4. Prior year findings

1. Volume of Aged Debt – Council Tax and NNDR – Operating Effectiveness

Issue Noted

At the time of audit, 72% of Council Tax debt was over 1 year old (£3.3 million). £0.954 million of this debt is over 5 years old, with the oldest debt being raised in 1993/4. At the time of audit, 49% of Business Rates debt was over 1 year old (£1.257 million), with £0.161 million of this debt aged over 5 years old, with the oldest debt being raised in 1992/3.

The following issues were noted during testing of Council Tax arrears:

- 10/25 tested should be written off because they are over 4 years old.
- 3/25 tested should be referred to the bailiffs.
- 2/25 are below £1. This is not deemed to be efficient to chase these debts and should therefore be written off.
- 1/25 appears to be due a liability order but no action has been taken.
- 4/25 tested should be written off because they have been returned from the bailiff or moved property and no longer traceable.

10/25

Testing of NNDR accounts in arrears highlighted 1/25 accounts needed to be referred to the bailiffs per Authority procedures.

Original agreed action

This is due to resourcing issues and lack of knowledge in producing reports from Academy system/gap in skills when Business systems were transferred to County. This will be resolved when Academy moves to windows system. Timetable for move is January/February 2011.

In the interim monthly reports have been written to flag all defaults on attachment of earnings, attachment of benefits and special arrangements. Reports are actioned on agreed recovery frequency and appropriate follow up recovery action put in place..

Status update

At the time of audit, the aged debt position of the Collection Fund was as follows:

Levy	Total debt (£m)	Debt over 1 year old (£m)	% of debt over 1 year old	Movement since prior year
Council Tax	4.5	3.2	71%	-0.1million
NNDR	3.6	1.8	50%	+0.5million

It should be noted that of the total debt, £0.5million of Council Tax and £0.1million of NNDR debt are currently under charging orders/instalments and therefore will be recovered.

The Council has a collection procedure in place for both Council Tax and Business Rates debts. The following issues were noted when testing the a sample of debts:

- 6/25 Council tax and 9/25 Business Rates debts had not been pursued in line with policy. In each case, the debt should have been moved onto the next stage of collection;
- 4/25 Council Tax and 9/25 Business Rates debts were deemed to be valid for write off. In these cases the debts were either too small in value to recover or represent aged debts where no collection has been achieved to date.

Open prior year issue. To be used in calculation of overall risk rating.

Action plan

Finding rating Revised action

Responsible person / title

High

The current economic climate has meant an increase in debt relating to Business Rates. That said, the Council is performing well against their collection rate targets. Going forward there are plans to review debt on a quarterly basis to assess what cases can be moved to the next stage and to encourage attachment of earnings/benefits as a recovery solution.

Anne Harvey- Lynch

In relation to recovery action:

Revised target date:

30th September 2012

Council Tax:

108

Reports are now being run to show debts by recovery stage and age. These are to be reviewed on a risk basis going forward (i.e. with emphasis on large or excessively aged balances) to ensure that correct action is being taken.

NNDR

The Council is looking to roll out Council Tax recovery processes into the Business Rates section in 12/13. This will ensure that processes are followed consistently and will improve the collection rates for this levy.

2. User List - Academy

Issue Noted		
Testing of access to Academy highlighted that 7/25 users still active on the Academy system no longer worked for the Council.		
Original agreed action		
6 of the 7 users identified were all given access to the system following a request from the Benefits systems team. Regrettably no request was received to remove access once the temporary users had left the Council. A procedure will be put in place to ensure this oversight does not recur		
Status update		
A sample of users was tested for 2011/12 and exceptions have been detailed in issue #1		
Action plan	Finding rating	Responsible person / title
	Low	Jacky Brown / Tracey Thompson / Anne Harvey Lynch
	See issue #1 above for revised current year recommendation.	Revised target date:
		-

3. Performance and Timeliness of Reconciliations – Council Tax and NNDR

Issue Noted		
During testing of monthly Council Tax reconciliations between Academy and Agresso, the following issues were noted:		
<ul style="list-style-type: none"> • The August reconciliation was not reviewed until 18/11/2010; and • The September reconciliation was not performed or reviewed until 18/11/2010. 		
Also, no reconciliations had been performed between Academy and Agresso for NNDR.		
Original agreed action		
The Council were behind on reconciliations but are now up-to-date. This was due to an upgrade to the system which meant the previous reports used to perform the reconciliation were no longer available. However, this has now been amended and going forward reconciliations will be performed on a monthly basis		
Status update		
A sample of reconciliations was tested for 2011/12 and exceptions have been detailed in issue #5		
Action plan		
Finding rating	Revised action	Responsible person / title
Medium	See issue #3 above for revised current year recommendation.	Anna Winship
		Revised target date:
		-

4. Review of Single Person Discounts – Council Tax

Issue Noted	
The Council has not undertaken a review of all single person discount (SPD) accounts to ensure that the relief is still applicable.	
Original agreed action	
Agreed. A data matching exercise with NFI records has just been completed and highlighted accounts where single person discount may no longer be applicable. An overall review has not been performed due to resourcing issues. The Council is looking into going into partnership with neighbouring authorities and outsourcing the review	
Status update	
A joint project with Cherwell District Council is planned for November for a full review of SPD cases. A tender has been put out for this work.	
Action plan	
Finding rating	Revised action
Low	Recommendation Implemented.
	Responsible person / title
	-
	Revised target date:
	-

5. Credit Balances – Council Tax

Issue Noted	
Testing highlighted that the Council does not review credit balances which exist on Council Tax accounts	
Original agreed action	
With effect from April 2011 a review of accounts put into credit is to be introduced as a weekly admin function.	
Status update	
A review of accounts in credit is now completed on a weekly basis.	
Action plan	
Finding rating	Revised action
Low	Recommendation Implemented
	Responsible person / title
	-
	Revised target date:
	-

6. Valuation Office Reconciliations – Council Tax

Issue Noted	
<p>Weekly reconciliations are performed between Academy and the Valuation Office listing of properties. However, it was noted when reviewing these reconciliations that the total has not reconciled (by one property) throughout the year. In addition, these reconciliations are not reviewed.</p> <p>In addition, testing of the weekly schedule of amendments highlighted that 2/5 weeks tested had not been reviewed until over one month following the receipt of the amendment schedule.</p>	
Original agreed action	
<p>The Authority is waiting for the valuation office to provide a listing of all band C properties; once this is received a reconciliation will be undertaken before any further changes to the Academy system are made.</p> <p>Files can be accessed on shared drive and the department is aware of the ongoing problems regarding the Academy and Valuation Office variance, therefore, formal review of the reconciliation is not necessary.</p> <p>of 53 changes.</p> <p>A full reconciliation of all 58,000 properties (data matching between the Valuation list and Academy database) was undertaken in 2010. Whilst the reconciliation was being effected, no Valuation schedules, which are received weekly, could be actioned as this would have distorted the reconciliation figures. All schedules had to be 'held' until the reconciliation was complete. The delay in clearing these schedules was exceptional and solely due to the reason given above. VO schedules are generally completed within the week they are received.</p>	
Status update	
<p>A sample of reconciliations was tested for 2011/12 and exceptions have been detailed in issue #4</p>	
Action plan	
Finding rating	Revised action
Low	See issue #2 above for revised current year recommendation
	Responsible person / title
	Jacky Brown
	Revised target date:
	-

7. Retention of Evidence – Council Tax

Issue Noted	
<p>Testing of discounts and exemptions highlighted that in 1/25 properties, no evidence was retained to support the discount given; and in another 1/25 properties, discount continued to be applied despite the tenant no longer being eligible.</p> <p>In addition, testing of refunds highlighted that supporting documentation could not be found for 2/25 refunds given as the Council Tax system (Anite) is usually referenced using property number rather than account number which may have led to this discrepancy.</p>	
Original agreed action	
<p>Agreed. A review of disabled discounts is planned for next year and ideally every year afterwards. Previous resourcing issues mean that discounts have not been reviewed. although some exemptions, G, C, A are reviewed regularly and in some cases (Exemption A) the property is subject to an inspection before the exemption is awarded.</p> <p>In the first case identified above, the evidence is held on the Anite system but recorded under the property reference. In the 2 cases where refunds were issued, 1 was due to the evidence beign held in Anite and the second was due to an error made by a CSO in closing the account down and the account was subsequently re-opened</p>	
Status update	
Supporting documentation could be obtained for all discounts and exemptions tested.	
Action plan	
Finding rating	Revised action
Low	Recommendation Implemented
	Responsible person / title
	-
	Revised target date:
	-

8. Procedure Notes for unpaid bills- NNDR

Issue Noted		
Upon inspection of the NNDR procedure notes, it was noted that there were no procedure notes for 'Liaising with planning and utilising control'.		
Original agreed action		
Agreed. There is no procedure, however, the ACS procedure application is in a generic format and used by many local authorities. The headings for the procedures are given by ACS and do not always 'warrant' a procedure note from the local authority. All planning lists are sent to the Council Tax team, where the officer responsible for maintaining the Council Tax property database will review the planning list and issue an inspection record for any property under construction, for Council Tax or Business Rates.		
Status update		
Procedures notes have now been updated.		
Action plan		
Finding rating	Revised action	Responsible person / title
Low	Recommendation Implemented	-
		Revised target date:
		-



Appendix 1. Basis of our classifications

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

Report classifications

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

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 1: Terms of Reference

Oxford City Council

Terms of Reference –Collection Fund

To: Anne Harvey-Lynch, Revenues Manager

From: Katherine Bennett, Audit Manager

This review is being undertaken as part of the 2011/12 internal audit plan approved by the Audit and Governance Committee.

Background

Oxford City Council is responsible for the collection of Council Tax and Business Rates on behalf of Central Government. During 2009/10, the Council collected £76 million of Business Rates and £63 million of Council Tax.

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.

Scope

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

The sub processes we will review are:

Sub-process	Control objectives
Valuation	All properties are identified, correctly valued and billed to ensure maximum revenue is received
Billing	Billing is accurate and complete
Overpayments and refunds	Overpayments and refunds are granted accurately and with prior authorisation
Discounts, reliefs and exemptions	Discounts, reliefs and exemptions are granted accurately and in line with guidance
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Follow up of prior year issues	Agreed action plans regarding prior year issues have been implemented

Limitations of scope

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

Audit approach

Our audit approach is as follows

- Obtain an understanding of the Collection Fund 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

Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Katherine Bennett	Audit Manager
Charlotte Bilsland	Team Manager
Kaj Tank	Team Member

Key contacts – Oxford City Council

Name	Title	Role	Responsibilities
Anne Harvey-Lynch	Revenues Manager	Audit Sponsor	Review and approve terms of reference
Helen Bishop	Head of Customer Services	Head of Service	Review draft report
			Review final report
			Review and meet to discuss issues arising and develop management responses and action plan

Other Roles and Responsibilities – Oxford City Council

Name	Title	Responsibilities
Nigel Kennedy	Head of Finance	Receive draft and final reports
Jackie Yates	Corporate Director (Finance and Efficiency)	Receive final report
Peter Sloman	Chief Executive	Receive final report

Timetable

Fieldwork start	26/09/2011
Fieldwork completed	07/10/2011
Clearance Meeting	24/10/2011 (TBC)
Draft report to client	31/10/2011 (TBC)
Response from client	07/11/2011 (TBC)
Final report to client	14/11/2011 (TBC)

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation

Appendix 2. 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 2011/12 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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