

Carlisle City Council

Report to Audit Committee

Report details

Meeting Date:	17 March 2023
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – National Non-Domestic Rates
Report of:	Corporate Director Finance & Resources
Report Number:	RD71/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of National Non-Domestic Rates.

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

- 1.1. An audit of National Non-Domestic Rates was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix 1) provides reasonable assurances and includes 4 medium-graded recommendations.

2. Risks

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

- 3.1 Not applicable

4. Conclusion and reasons for recommendations

- 4.1 The Committee is requested to
i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

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Appendices attached to report:

- **Internal Audit Report – National Non-Domestic Rates– Appendix 1**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

Audit of National Non-Domestic Rates

Draft Report Issued: 16 January 2023

Director Draft Issued: 14 February 2023

Final Report Issued: 1 March 2023 (Re-issued 2 March 2023)



Audit Report Distribution

Client Lead:	Head of Revenues & Benefits Revenues Team Leaders
Chief Officer:	Corporate Director of Finance & Resources Chief Executive
Others:	Systems Support & Controls Manager Corporate Information Officer
Audit Committee:	The Audit Committee, which is due to be held on 16 th March 2023 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of National Non-Domestic Rates. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 15th March 2022.
- 1.2. National Non-Domestic Rates (NNDR) is a tax on the occupation of a non-domestic property. The local Government Act 1988 introduced business rates in England and Wales from 1990.
- 1.3. All non-domestic properties are rated by the Valuation Office Agency (VOA), which is a UK Government Executive Agency. Unless exempt, non-domestic properties are known as 'hereditaments' and given a rateable value. Tax liability is calculated by multiplying their rateable value by a 'poundage' set by Government. This usually varies annually as it increases in line with inflation. Several reliefs are available, such as for charities and small business.
- 1.4. The Service is managed through the Academy and Civica electronic document storage system by the Revenues and Benefits Team.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Leads for this review were the two Revenues Team Leaders and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
 - Failure to achieve business objectives due to insufficient governance.
 - Loss of or failure to secure sensitive personal information and comply with data protection legislation, resulting in sanctions and reputational damage.
 - Business rate reliefs decisions are not appropriately applied resulting in incorrect reliefs being awarded.
 - Fraudulent claims are not identified resulting in a financial loss to the Council.
 - System processes do not ensure that properties are correctly billed, and monies collected timely.

- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within National Non-Domestic Rates provide **Reasonable assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	2
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	2
4. Security - safeguarding of assets (see section 5.4)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
Total Number of Recommendations	-	4

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 Findings Summary (good practice / areas for improvement):

Good governance arrangements are in place, helping to ensure that the business rates operation runs smoothly. Robust reports are produced and used to challenge collection rates and team performance during regular management meetings.

Annual billing for 2022/23 was not printed and distributed in a timely manner by the company responsible and there were a few weeks delay until the Council identified the error. This has now been resolved and processes implemented to ensure it does not reoccur, however updated guidance has yet to be documented.

Controls are in place to ensure that personal information is secure. There are limitations within the current electronic document storage system, preventing deletion of files. This will be addressed as the service moves to one system following Local Government Reorganisation.

Updating application forms will further increase ratepayer awareness that their personal data may be shared with third parties.

Systems and processes are in place to ensure that properties are correctly billed, money is collected and where necessary recovered.

Reliefs are awarded in line with Council policies, procedures and relevant legislation.

Clarifying specified officer authorisation limits for refunds and write offs / ons will further enhance the existing scheme of delegation already in place.

There is a need for appraisals to be carried out across the team. Updating the structure and job descriptions will further increase reporting line and role accuracy.

Comment from the Corporate Director of Finance & Resources

A useful audit, with agreed recommendations, which will assist the service going forward.

Pleasing that the service has been assessed with a reasonable assurance rating given the pressures placed on both the Revenues and Systems & Controls teams during 2022/23. This is a credit to members of both teams, the team Leaders and the Head of Revenues and Benefits.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** The latest service plan in place covers 2021/22. Due to the impending Local Government Reorganisation (LGR) and increased workloads, a plan has not been developed for the current year. Review of the 2021/22 service plan confirmed it remains relevant for the current service.
- 5.1.2** There is a good understanding of operational risk and escalation of high level issues to the corporate risk register. Risks and mitigating actions are regularly monitored in a timely manner. New and emerging risks are added to the risk register when appropriate.
- 5.1.3** Staffing structures are in place. Work is in progress to fill vacancies and once completed, further review and update of the structure will be required.
- 5.1.4** Job descriptions (JDs) are in place although the Revenues Team Leader's has not been reviewed since April 2014. As an example, it refers to the shared Revenues and Benefits service (partnership), although that part of the service is now back in house. Several JDs refer to out of date reporting lines and this was raised in the previous audit review. Review and update to reflect current practice would be prudent, particularly as staff are expected to TUPE to the new Councils on existing terms and conditions which will include job descriptions.
- 5.1.5** The Corporate Director of Finance & Resources Scheme of Sub-Delegation to Officers (SOD) dated September 2022, details delegated responsibilities for the Revenues & Benefits function to the Head of Revenues & Benefits and team leaders.
- 5.1.6** Local procedures/ system controls help to raise awareness of officer roles and responsibilities and ensure a consistent approach to both rate relief and write offs. However, audit testing highlighted that there is no documented operational SOD clarifying specified officer authorisation limits for refunds and write offs/ ons.
- 5.1.7** Training and support is provided to the team. Management confirmed that further training is planned as cover for the Rating Officer's role.
- 5.1.8** Regular appraisals, 1 to 1's and formal team meetings have not taken place due to LGR and increased workloads. At the time of the audit, the new Revenues Team Leader confirmed that team 1 to 1's are planned. A recommendation was made in the previous audit report for appraisals to be completed and this remains outstanding.
- 5.1.9** Regular management team meetings are in place and minutes are issued.

5.1.10 Reports are regularly discussed at management team meetings. The information is used to challenge the collection rates and team performance. Performance information is displayed within the office for the attention of all officers.

5.1.11 Performance is also reported quarterly in the Council's performance report. At September 2022, the collection rate was 57.32%, an increase of 7.22% on the previous year. Monetary value was £24.5M compared to £18.5M in the previous year. The figures from the weekly revenues performance update spreadsheet agreed to the figures reported in the Q1 performance report (31.8%).

5.1.12 Financial monitoring is in place and controls ensure issues are flagged promptly. At the time of the audit, there were no issues of concern.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 A service privacy notice is published on the Council's website. It states that information will be retained in accordance with the Council's Retention Schedule.

5.2.2 A review of the Council's Retention Schedule confirmed inclusion of business rates.

5.2.3 Current business rates legislation is available to officers in both the Rating Law and Practice Manual and online.

5.2.4 Some officers have not completed GDPR and Cyber Security training in the required timescales.

Recommendation 1 – All officers should complete the Skillgate GDPR and Cyber Security trainings within the required timescales.

5.2.5 Officers have access to local procedures on the shared drive. A sample of these procedures were reviewed and highlighted that they did not contain the date, author, version, or review date.

5.2.6 A Service Level Agreement is in place with the Debt Collection Agency which covers GDPR.

5.2.7 Information within various application forms may be shared with a third party and include personal information such as a client's name. None of the forms reflect this or reference the privacy statement.

Recommendation 2 – All application forms should state that information provided may be shared with a third party. The forms should refer to the privacy statement for more information.

5.2.8 Business rates information is available on the Council's internet page and on the reverse of business rate bills.

5.2.9 A number of business rate reliefs are available and detailed on the GOV.UK website.

5.2.10 The Council has a Discretionary Rate Relief Policy, dated 2017/2018. This policy was presented to the Executive on 29/8/2017 and approved by Council on 12/09/2017. The Discretionary Rate Relief is granted under this policy in accordance with legislative provisions within Section 47 of the Local Government Finance Act 1988 and subsequent amendments.

5.2.11 There is clear guidance for staff on qualifying areas for rural rate relief, based on rural settlement areas. An application form is completed which is checked and approved. These reliefs are rolled over from previous year if there are no changes to the relevant business; if there are changes a new application form is completed.

5.2.12 A sample of retail, public toilet and discretionary reliefs granted were chosen for audit testing and the following was noted:

- The relief granted, and value was correct.
- A relief application form had been completed where appropriate.
- The rateable value on Academy agreed to the current rate list as per the Gov.uk website.
- The calculation for the business rate was successfully reperformed using the correct Government multiplier.
- Relief parameters were all set by the systems team on all of the sample reviewed.
- All of the sample tested had a unique property reference.
- Actual bill value was correct for all the sample tested and agreed to reliefs granted, multiplier etc.
- No issues or concerns were raised from the above audit testing.

5.2.13 A daily report is produced which details the overnight bills run. This is checked and balanced daily prior to being sent for printing. Two random days were reviewed by audit and no issues were noted.

5.2.14 Refunds are processed and authorised on the system. A weekly report is produced detailing all refunds, which is approved by management prior to Creditor processing.

- 5.2.15** A sample of refunds tested were found to be calculated correctly and refunded to the liable account. They had all been processed and authorised by independent officers, demonstrating segregation of duties. Weekly refund reports tested were checked and approved by the Revenues Team Leader or the Recovery Team Leader. Due to a high refund value, one report included a second authoriser.
- 5.2.16** Audit testing highlighted that there is no documented operational scheme of delegation for processing or authorising refunds. It was noted that segregation of duties is maintained between the officer authorising the weekly refund report and the officer authorising the refund on the system.
- 5.2.17** The debt recovery guidance is set out within the Financial Procedure Rules. The team also have access to a number of recovery training documents on the shared drive. None of these training documents detailed the date, version number, author or review date.
- 5.2.18** The Council has an obligation to collect debts and will progress outstanding liabilities using the debt collection timetable and above processes. A recovery timetable is in place for 2022/23.
- 5.2.19** Outstanding debts are passed to the Revenue and Benefits Recovery team. Audit testing confirmed that debts tested were written off and on appropriately and approved by the Director of Finance and Resources. However, it was noted that there is no operational SOD for authorising write offs and write ons, or specified limits.
- 5.2.20** Audit testing highlighted that the Payment Problems page on the Council's website was showing an incorrect summons fee, this has now been amended by the Recovery Team Leader.

5.3 Information – reliability and integrity of financial and operational information

- 5.3.1** Paper correspondence with clients is scanned into the system, indexed and retained for three months prior to confidential destruction.
- 5.3.2** The electronic document retention and disposal process has not yet been undertaken and was subject to previous audit report recommendation. (Recommendation 3 in the Council Tax Audit - G2103). This is due to be picked up as part of LGR next year as the service moves to a single database.
- 5.3.3** The IT system is secure with restricted access based on user roles. The System Support Team are responsible for adding and removing users. Backups of the ICT system are taken daily.
- 5.3.4** During the audit review several staff were in the process of changing roles and temporarily covering two roles. As a result, it was not possible to confirm robustness of user access.
- 5.3.5** The service accepts the risk of reduced segregation of duties for certain officers. Controls have been implemented to reduce the level of risk. For example, staff are aware:
- of their obligations under the employee code of conduct;
 - that they must avoid a perception of impartiality;
 - that they must not handle service requests for themselves, their relatives or friends and, if requested to do so, must pass it to a colleague.
- 5.3.6** Officers are requested to complete a Register of Interest Declaration. The Systems Support Team can then restrict system access on all business accounts noted. The majority of the team last completed their declarations prior to the start of the Covid-19 pandemic.

Recommendation 3 – All staff should be asked to update a Register of Interest Declaration.

- 5.3.7** Staff are aware of the risk of money laundering through business rate overpayments and refunds. The correct documentation is received, and bank accounts verified prior to payment refunds. No issues were raised during audit testing.
- 5.3.8** The main bill is produced by the Systems Support Team and checks are carried out on appropriate layout and compliance with legislation.

5.3.9 The business rate system Academy was closed down (with restricted access) by the Systems Support Team to allow the NNDR file to be issued to the mailing provider contracted mailing provider in time for bills to be printed and mailed on the agreed date (08/03/22). However, the provider failed to print the bills, and was only identified when recipients raised this with the Council. The Head of Revenues & Benefits confirmed that weekly and annual checks have been introduced as a result of this error (outside the Council's control) to reduce the risk of this happening again, although procedural guidance for this process has not yet been documented.

Recommendation 4 – Guidance should be documented for the weekly and annual checks undertaken to ensure that bills are promptly printed by the contracted mail provider.

5.3.10 Audit testing confirmed that the following checks are in place:

- The expected total is agreed to the total of the billing run after processing.
- The number of bills produced is reconciled to the number of liable properties from the valuation office.
- The debit control record and confirmation that the opening debit agreed with the rateable value from the valuation office.

5.3.11 Amendments to existing and new properties are identified and reported to the Valuation office. Reconciliations ensure that all changes are updated correctly on Academy. No issues were raised when a random sample of new properties and amendments were tested.

5.3.12 Suspense accounts are cleared daily, helping to ensure all information is posted on an accurate and timely basis.

5.4 Security – Safeguarding of Assets

5.4.1 The Revenues and Benefits service is operated from a secure office with restricted fob access. The Head of Revenues & Benefits reviews this access twice per year.

5.5 Value – effectiveness and efficiency of operations and programmes

5.5.1 Management ensure that the collection of rates is monitored with action is taken where necessary. Workloads are tracked and weekly updates are sent to the managers.

5.5.2 All the team are dedicated business rates officers with significant experience.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1: All officers should complete the Skillgate GDPR and Cyber Security trainings within the required timescales.	M	Sanctions, litigation and reputational damage could arise from non-compliance with relevant legislation.	Officers will be requested to complete outstanding training.	Revenues Team Leader	31/03/23
Recommendation 2: All application forms should state that information provided may be shared with a third party. The forms should refer to the privacy statement for more information.	M	Non-compliance with GDPR legislation and failure to advise ratepayers that their personal data may be shared.	This will be review with all documentation as part of LGR.	Head of Revenues & Benefits	31/10/23
Recommendation 3: All staff should be asked to update a Register of Interest Declaration.	M	Fraud and reputational damage to the Council due to impartiality.	This will be reviewed as part of LGR for the new Cumberland Council.	Head of Revenues & Benefits	30/09/23

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Recommendation 4: Guidance should be documented for the weekly and annual checks undertaken to ensure that bills are promptly printed by the contracted mail provider.	M	Loss of income and reputational damage to the Council if business rates are not billed and paid.	Guidance will be documented.	Head of Revenues & Benefits	31/03/2023
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Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.1	A new service plan should be undertaken in line with the new Cumberland Council's processes.
5.1.3	The service's structure charts should be updated once the vacant roles have been filled.
5.1.4	Job descriptions should be updated to reflect the current roles and reporting lines.
5.1.6 & 5.2.16 & 5.2.19	An arrangement should be documented to demonstrate which officers have operational responsibility for refunds and write off / ons.
5.1.8	Appraisals should be undertaken with all officers and the appraisal documents should be completed timely and processed in line with corporate requirements.
5.2.5 & 5.2.17	All procedures should contain the author, date, review date and version number.
5.3.4	Academy user access should be reviewed to ensure that all officers have the correct system access for their current role.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).