



Council Tax and NNDR

City of York Council

Internal Audit Report 2020/21

Business Unit: Customer and Communities
Responsible Officer: Director of Customer and Communities
Service Manager: Head of Customer and Exchequer Services
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	P1	P2	P3
Actions	0	2	1
Overall Audit Opinion	Reasonable Assurance		

Summary and Overall Conclusions

Introduction

Council tax and national non-domestic rates (NNDR) are key sources of funding for the provision of services by the council. For 2020/21, the council tax requirement was set at £93.8 million from a total base of 67,813 and retained NNDR income was projected at £33.4 million.

As a fundamental financial system, Council Tax and NNDR is audited regularly to provide assurance that risks are managed and controls are operating effectively.

In March 2020, the council responded to the Coronavirus (Covid-19) pandemic by implementing unprecedented measures to alleviate the financial impact on residents and businesses. The council provided grants to local businesses using funding from central government, provided business rates relief to retail, hospitality and leisure sector businesses, and suspended all debt recovery procedures.

With the exception of the collection of arrears, all core processes continued operation, albeit initially in a reduced capacity. The council is now in its recovery and renewal phase.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system would ensure that:

- The council maintains an accurate database of taxable properties and liable persons.
- Bills and demand notices are calculated and issued correctly, in a timely manner and apply legitimate discounts, exemptions, disregards and reliefs.
- Council tax and NNDR income is correctly accounted for and income is correctly recorded.
- Arrears are accurately recorded and arrangements are in place to resume recovery activity.
- Refunds and write-offs are legitimate, correctly processed and authorised
- Suitable post-payment assurance activity in relation to the Covid-19 grant payments is undertaken.

The audit included a review of changes made to processes or controls as part of the Covid-19 response.

Key Findings

The Coronavirus pandemic had an unprecedented impact on the council's capacity to maintain its core activities, with team members required to work remotely from home. Many staff members were reallocated to implement Covid-19 financial support packages provided by central government. This took them away from performing their usual duties and in addition, some processes had to be re-engineered

to accommodate the national state of emergency. The demand upon the service area to maintain its core activities was severely challenged. Nevertheless, we found that controls largely continued to operate effectively. However, there were several issues identified, some of which were partly the result of the demands placed upon the service by the pandemic.

The council's database of taxable properties and liable persons is generally well maintained. However, the Covid-19 pandemic has meant that some processes for identifying new taxable properties have been replaced with electronic alternatives. For example, site visits to domestic properties were halted due to Covid-19. A list of properties was compiled from building control completion reports and site visits resumed in April 2021 so that council tax completion notices could be provided to the Valuation Office Agency (VOA). Since the end of the audit, site visits have been conducted and completion notices issued.

Reconciliations between VOA data and council data are usually performed quarterly, with discrepancies investigated and resolved. However, due to the pandemic, reconciliations were not performed in quarter 4 2019/20 or quarter 1 2020/21. The VOA also experienced a data corruption issue in July 2020 which impacted upon the council's ability to perform accurate reconciliations for council tax properties. The issue has now been resolved, and reconciliations were completed for council tax and NNDR.

Bills and demand notices were issued and calculated correctly for both council tax and NNDR. Disregards, discounts, exemptions and reliefs are entered correctly onto the system, detailing the reduction applied for correctly, and evidence is retained.

The council regularly reviews discounts known to be a high risk area, for example student discounts and probate, and single person discounts are currently under review. Data matching software to assist with small business rate relief reviews has not yet been utilised due to the Covid-19 pandemic. This was identified in the 2019/20 audit and the software will form part of the future periodic review process for NNDR.

Quality assurance checking has not been conducted regularly throughout the year for neither NNDR nor council tax, due to the Covid-19 pandemic. Where it has been conducted it has shown a high accuracy rate for both NNDR and council tax. Whilst the demand on resources is recognised, inconsistent operation of this control increases the risk that erroneous transactions are not identified in a timely manner.

Income is recorded and accounted for correctly. Where customer direct debit payments had been rejected in the system, checks were made and corrective action taken, with letters and revised bills being sent to customers. However, we found that customer records were not updated with copies of letters, but revised bills had been stored on customer accounts. Following a change to processes, copies of letters are now stored on customer accounts.

A corporate decision to pause debt recovery due to the pandemic meant arrears were not pursued in the first quarter of the financial year. In October 2020 the council resumed debt recovery activity for both council tax and NNDR. First reminder letters were sent out in bulk. Some debts, such as Council Tax Support arrears, were not included in the first tranche of reminders. Special Payment Arrangements continued to be agreed where appropriate.

On the whole, refunds and write-offs were legitimate, processed correctly and authorised by a suitable officer. A review of the refund reconciliation process (an action from the 2019/20 audit) has been delayed due to the pandemic. Write offs were also delayed until November 2020 due to the pandemic and included all write off amounts from April 2020.

Prior to payments being made, the council commissioned Veritau to assist with performing pre-payment checks to ensure applications for government Covid-19 business reliefs and discretionary reliefs were genuine. A post payment assurance plan has been completed by the council in conjunction with Veritau and a separate report of findings is being drafted for the council. The plan and risk assessment were completed with a documented approach detailed for each of the Covid-19 relief types. This included the approach to testing and what action would be taken in relation to erroneous payments or those found not to comply with scheme rules or conditions. Whilst proactive pre-payment checks had been conducted, the post payment plan activities and report will give additional assurance that Covid-19 pandemic reliefs and grants have been awarded appropriately.

Overall Conclusions

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1 Quality Assurance checks

Issue/Control Weakness

As of January 2021, quality assurance checks had only been carried out for three of the ten months of 2020/21

Risk

Erroneous transactions are not detected and corrected, leading to loss of income, increased re-work costs and customer dissatisfaction

Findings

To date, quality assurance checks have been performed for both NNDR and council tax for three out of the ten months of this financial year, with a high accuracy rate in both council tax and NNDR. However, quality assurance checking has not been completed in either area since December 2020 due to ongoing competing demands. Whilst it is recognised that demand on resources has significantly increased due to the onset and continued response to the Covid-19 pandemic, there is limited assurance that management controls are in place to regularly ensure the quality of the transactions being performed by the team.

It may also be beneficial to separately identify Govtech users on the quality assurance spreadsheets, to distinguish between council officers and contractor performance.

The quality assurance spreadsheets have been updated to include checks for debt recovery which was an action from the 19/20 audit. Due to the demands of the Covid-19 pandemic, quality checks have not yet started for this area yet. It may be beneficial to consider aiming towards a start date to undertake these checks, especially now that debt recovery activity has resumed following the corporate pause resulting from the Covid-19 pandemic.

Agreed Action 1.1

Quality assurance checks are to be resumed in July 2021.

Priority

2

Responsible Officer

Council Tax and Debt Recovery Manager

Timescale

31 July 2021

2 Valuation Office data corruption issue and reconciliations for council tax

Issue/Control Weakness

Reconciliations between the council's property database and VOA data for domestic properties have not been completed for quarter 4 2019/20 and quarter 1 2020/21.

Risk

Properties are incorrectly recorded on the council's property database resulting in erroneous charges or lost income.

Findings

Prior to the Covid-19 pandemic, quarterly reconciliations between Valuation Office data and the council's property database were performed, with discrepancies being investigated and resolved. As a result of the national lockdown in March 2020, resources were redirected to provide the council's response and reconciliations were not performed for quarter 4 2019/20 and quarter 1 2020/21.

In July 2020, Valuation Office data corruption issues were experienced for council tax properties. Despite the council highlighting this to the Valuation Office, the issues remained outstanding at the time of the audit.

Non domestic rates reconciliations have continued with the most recent one being undertaken in December 2020.

Agreed Action 2.1

Since the end of the audit, data corruption issues have been resolved for council tax properties and reconciliations conducted.

Priority	2
Responsible Officer	Council Tax and Debt Recovery Manager
Timescale	Completed

3 Direct Debit rejection letters

Issue/Control Weakness	Risk
There is incomplete customer information in the council's customer records.	Additional time and resources are needed to manage customer queries or debt recovery procedures.

Findings
Direct debit rejections are checked and actioned, with revised bills being sent to customers. Letters advising of the direct debit rejection and requesting payment are also sent to customers.
Whilst electronic files containing copy letters are sent to the Local Taxation and Business Rates email inbox, the letters are not stored against individual customer accounts. It may be beneficial for copy letters to be stored against customer accounts.

Agreed Action 3.1		
Direct debit rejections letters are now scanned and stored against customer accounts.	Priority	3
	Responsible Officer	Council Tax and Debt Recovery Manager
	Timescale	Completed

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

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