



INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Head of Finance
C.C. Chief Executive
Exchequer Manager
Revenues and Recovery Manager
Portfolio Holder (Cllr Hales)

SUBJECT: Council Tax
DATE: 16 November 2022

1 Introduction

- 1.1 In accordance with the Audit Plan for 2022/23, an examination of the above subject area has recently been completed by Emma Walker, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 Council Tax includes precept charges set by other authorities in the area, such as Warwickshire County Council, the Police & Crime Commissioner and various town and parish councils within the district. Warwick District Council collect the precepts on behalf of these authorities, and then pay them as appropriate. This is to help fund local services within the community.
- 2.2 Thus far, the current collection of Council Tax for 2022/23 amounts to £86,324,192.40, which is a collection rate of 65.09%. This has seen a slight decrease of 0.15% when compared to the collection rate figures for October 2021.
- 2.3 Council tax transactions and procedures are processed through the CIVICA Open Revenues management system. There are currently 67,978 domestic properties on the system with a total charge of £142,545,887.63. This figure does not take relief, discounts, or exemptions into account. The banding of each dwelling is determined by the Valuation Office Agency (VOA); bands range from A to H.

3 Objectives of the Audit and Coverage of Risks

- 3.1 The management and financial controls in place have been assessed to provide assurance that the risks are being managed effectively. The findings detailed in the following sections confirm whether the risks are being appropriately controlled or whether there have been issues identified that need to be addressed.

- 3.2 In terms of scope, the audit covered the following risks:
1. Write-offs incorrectly processed.
 2. Council Tax rebates incorrectly processed.
 3. Non-compliance with Council Tax legislation and internal procedural requirements.
 4. Reminder letters/court summonses not sent on time.
 5. Poor collection performance leading to loss of income for the Council.
 6. Failure to effectively communicate recovery updates.
 7. Provision of incorrect information/advice to stakeholders.
 8. Collusion in deliberate avoidance of charges or overriding recovery processes.
 9. Awarding Council Tax rebate despite customer ineligibility.
 10. Physical harm to collection agents/verbal abuse to Council officers.
 11. Loss of IT resulting in inability to bill customers/issue demands.
 12. Failure of BACS resulting in the Council taking unnecessary recovery action.
- 3.3 A 'risk-based audit' approach has been adopted, whereby key risks have been identified during discussions between the Internal Auditor and key departmental staff. The Finance and Significant Business Risk Registers have also been reviewed.
- 3.4 These risks, if realised, would be detrimental to the Council with regards to meeting the 'Money' theme of the Council's Fit for the Future Strategy.
- 3.5 It should be noted that the internal auditor allocated to this review had a previous role in the Revenues department nine months ago. As per the Internal Audit Standards, Standard 1130.A1 states that 'internal auditors should refrain from assessing operations for which they were previously responsible for at least one year after leaving the operation'. Although this situation is the inevitable consequence of having a small internal audit team, neither the Head of Finance nor the Audit & Risk Manager believed this to carry a significant risk if managed carefully. In order to avoid potential conflicts of interest wherever possible, the scope of the audit was agreed with the Principal Internal Auditor, Exchequer Manager and Revenues and Recovery Manager.

4 Findings

4.1 Recommendations from Previous Reports

- 4.1.1 The current position in respect of the recommendations from the audit reported in February 2020 was reviewed. The current position is as follows (overleaf):

Recommendation	Management Response	Current Status
The bulk write-off authorisation sheets should be checked for obvious errors and omissions post-scanning.	This is part of the process, and I will ensure this is done.	Write-off authorisations are now checked every 2-4 months. Random checks are performed by the Revenues and Recovery Manager. Any write-offs over £5000 are checked by the Exchequer Manager. All write-offs are checked by the Senior Court Recovery Manager and updated on the system accordingly by the Systems Officer. If there are any issues with the account, the write-off cannot occur until the issue is resolved.
Application of the threshold over which individual authorisation by the Exchequer Manager is required should be clarified in respect of account aggregation and consistently adhered to.	I will ensure that all authorisations in the future include any aggregated accounts that are above the threshold.	This procedure is now in place. Any accounts where the aggregated write-off amounts to over £1000 are monitored by the Exchequer Manager.

4.2 Financial Risks

4.2.1 Risk: Write-offs incorrectly processed.

As outlined in the Code of Financial Practice, the Revenues and Recovery Manager (RRM) authorises any write-offs over £1000. The Exchequer Manager (EM) authorises write-offs over £5000; all write-offs are checked by the Senior Court Recovery Officer (SCRO).

During testing conducted by the auditor, it was found that the write-off transactions sampled, were appropriately recorded, and substantiated by supporting information. The supporting evidence in each case was consolidated into an 'irrecoverable' form, generated from the system with additional notes on any recovery action taken. The sampled write-offs had been checked by the SRCO and authorised either by the RRM or the EM depending on the amount. Only one sample was found to have no write-off form held on file.

Advisory - Consideration should be given to reminding staff to ensure that all write-off forms and diary notes are evidenced appropriately on the account.

4.2.2 **Risk: Council Tax rebates incorrectly processed.**

In order to recognise the growing cost-of-living pressures, the government announced an energy bill rebate scheme in February 2022. Eligible households in England, in Council Tax bands A-D, received £150. On top of this discount, discretionary funding was also awarded to provide support to vulnerable people and individuals on low incomes that do not pay Council Tax, or that pay Council Tax for properties in Bands E-H. For all eligible accounts, the £150 energy rebate was manually loaded onto the Council Tax account through CIVICA. The rebates were loaded onto the account according to payment groups, so that payments could be closely monitored. The £150 could only be loaded onto the account if the account met the eligibility criteria. If the account did not meet these criteria, it was put into an exception category to ensure that CIVICA did not include ineligible accounts in the bulk payment runs. For those taxpayers paying via Direct Debit, the Revenues team were able to automatically award the rebate in batches. Taxpayers not on Direct Debit, were required to send in bank statements to verify that their sort code and account numbers were legitimate, before the payment was awarded.

During testing, it was found that all eligible accounts had had the £150 appropriately awarded onto the account. Five accounts were in receipt of local council tax reduction (LCTR) and therefore had been given the discretionary £50 as a result of this. One sample was found to be in receipt of an exemption and therefore was not eligible for the rebate. The liability on two further accounts ended before 1 April 2022 and were also not eligible. Two other properties found during testing were void and did not qualify for the rebate.

The discretionary scheme qualifying criteria was aimed at properties in Bands E-H in receipt of LCTR, disabled person reduction, severely mentally impaired disregard, or Council Tax carers disregard. Council Tax Bands A-H in receipt of full LCTR received a £50 top-up payment in addition to the £150. In this instance, full LCTR was defined as 85% for working age claimants or 100% for pensioners. Four of the samples tested were correct at the time that the rebate was awarded, as the LCTR amounted to 85% of the charge.

Certain accounts had the £150 loaded on, removed, and then subsequently loaded back onto the account. The EM confirmed that this was due to a number of factors: either the rebate had been reversed under the incorrect code or the taxpayer chose to have the rebate deducted from their Council Tax charge. In most cases, however, it was because the account had experienced an issue with a Direct Debit or special arrangement (SPAR). In order to solve these issues, the rebate payment needed removing from the account. It could only be loaded back onto the account once the issue had been dealt with. In three cases, the Direct Debit had been rejected, as the taxpayer had cancelled the instruction and the rebate was therefore deducted from the Council Tax charge.

4.3 **Legal and Regulatory Risks**

4.3.1 **Risk: Non-compliance with Council Tax legislation and internal procedural requirements.**

The latest copy of the Institute of Rating, Revenues and Valuation (IRRV) Manual (updated in June 2018) is held on the shared drive for all Revenues officers to access. The Rating Law and Practice covers banding, liability, new dwellings, completion notices, exemptions, discounts, reductions, billing, collection, and valuations. There are also specific chapters dedicated to enforcement, insolvency, and debt administration. There are many examples of Court cases throughout the document, which are used by the RRM for benchmarking purposes. Council Tax bills also contain explanatory notes and refer to relevant legislation regarding Council Tax valuation and appeals.

4.3.2 **Risk: Reminder letters/court summonses not sent on time.**

Reminder letters are not physically available to view on CIVICA, as the software does not save these in letter format. This is purely down to the vast number of reminders that are distributed per week. It was, however, possible to view the accounts that had received reminders on certain dates. The SCRO confirmed that there are no set timescales in which the Council are expected to send first, second and final reminders. Under the regulations, the duty to serve a reminder notice is a duty without time limit, and therefore a reminder may be served at any time after the sum has fallen due.

Reminder progressions are run every week and the parameters identify any account that is in default eleven days prior to the date that they are run. If an account has not been brought up to date within the required time after the issue of the reminder, a summons is the next automatic stage of recovery. Under the regulations, a summons cannot be issued until after the fourteenth day from the issue of the reminder and the right to instalments are lost. The full amount becomes payable at the expiry of a further period of seven days. If two such reminders are served on the liable person during a financial year, the taxpayer will become liable for the whole of the outstanding amount following a third failure to pay, without the need for another reminder. If the ratepayer brings themselves up to date on the reminder, a further reminder will only be issued if there is further default on the instalments demanded.

The total summons costs for the financial year are produced prior to the Court hearing. CIVICA also produces a report which outlines the Council Tax financial controls for the year. As well as the net totals, this lists both the accounts in credit and in debit; this allows the service to monitor the number of accounts in arrears. Currently, the accounts in debit amounts to £44,654,975.99.

A sample of reminder letters was interrogated to ensure that they contained relevant information and had been issued promptly. During testing, it was found that four accounts had started to pay the charge in full at the summons or liability order stage, and so the recovery process was ceased. Two samples had not paid the 2021 charge in full and so immediately received summons in 2022. All samples were appropriately diary-noted.

The recovery team maintain a spreadsheet detailing the reminder letter statistics for each financial year and record how many summons and liability orders have been applied.

4.4 **Reputational Risks**

4.4.1 **Risk: Poor collection performance leading to loss of income for the Council.**

A contract is in place with the enforcement agents, Bristow & Sutor. The most recent contract was signed in October 2019 and will not expire until October 2023. The contract sets out the specifications required of the enforcement agents. All letters, notices, and other documentation sent to debtors by the Contractor is subject to approval by the Council. It is also a requirement that the Council have access to Bristow & Sutor's online software system. All Revenues staff have basic level access to the Bristow & Sutor client portal. However, only the EM and SRCO have full access.

Regular case reports are received from the enforcement agents. Bristow & Sutor rarely seize goods, as they must obtain 'lift approval' either from the EM or from the SRCO in order to physically take control of goods. If this is given, the system will detail the value of goods of which they have taken control. However, this does not mean that the goods will be removed, as this is seen as a last resort. In the majority of cases, the value of the goods is less than the debt and therefore goods can rarely be removed. Where the debtor's goods are sold at public auction, the debtor must be provided with a full statement of the goods sold, the amount realised, a breakdown of the costs incurred and a statement of the amount subsequently outstanding or overpaid, as appropriate.

As outlined in the contract, the EM has regular account management meetings with Bristow & Sutor, wherein performance is discussed and any issues or concerns are highlighted. These take place approximately four times a year. This is to ensure that the correct fees have been charged, visits have taken place and necessary actions have been taken. The number of accounts that have progressed to Bristow & Sutor are monitored through a spreadsheet which is updated monthly; this was last completed 24 October 2022. CIVICA automatically progresses accounts through the recovery stages, without the need for manual input. Where taxpayers have contacted the Council to set up a SPAR, a letter is issued to confirm the repayment schedule.

Whilst refunds are created by Revenues staff, the actual processing of the refunds is undertaken by the SO, who has no valuation, liability, billing, or recovery duties. Revenues staff are not involved in the physical receipting of income relating to Council Tax. Cash posting files are placed on the network by Finance on a daily basis and these are then uploaded to the relevant accounts on CIVICA. Cash posting reports are generated from the system and a cash book spreadsheet is also maintained; this is reconciled to the financial control reports on a weekly basis. The SO also monitors the suspense account and receives a weekly report of any outstanding payments from Treasury.

Summonses are only issued to taxpayers when all other routes of recovery have failed. Contact is made with the enforcement agents on a daily basis in order to update changes to the account recovery. Additional reports can be run from Bristow & Sutor's website, and all Revenues staff are able to generate reports from this system as required. Summonses must be served at least fourteen

days before the date of the Court hearing. Moreover, reminder letters must be served on every person listed on the account. A sample of accounts in arrears was interrogated to ensure that the amount on the summons corresponded to the amount of debt on the account. The accounts were also checked to ensure that the summons had been issued prior to the Court date. All twenty samples had the correct amount of debt contained on the summons and the period of debt this related to was clearly indicated. The stages of recovery had been appropriately communicated to the ratepayer and in nine cases, where the accounts were in joint names, summons had been sent to both parties. In eight cases, the summons had been issued one month in advance of the court date; in five cases the summons had been issued two months in advance. In seven cases, the court date had not yet been decided and so this could not be tested.

4.4.2 **Risk: Failure to effectively communicate recovery updates.**

Testing confirmed that accounts facing recovery action had this correctly documented on the account. A sample of accounts at recovery stage were interrogated to ensure that they had been appropriately diary noted. Thirteen accounts had been appropriately diary noted and a reason for the recovery documented on the account. The remaining seven samples related to accounts that had been passed to the enforcement agents. These are not usually diary-noted, as the recovery stage is displayed on the account as a code. The recovery team monitor the number of accounts at different stages of recovery via a spreadsheet.

The timetable for hearings over the financial year is usually agreed with the Court by the end of March. However, since the COVID-19 pandemic, these have been booked on an ad-hoc basis. Court dates are, however, bookable every two weeks. For each Court hearing, the SCRO signs a complaint form that acknowledges how many persons have been summoned to appear before the Court. ICT are also required to submit a compliance signature which certifies that, at all material times, the computer was operating properly and that the statement of accounts for the persons summoned was accurate.

4.4.3 **Risk: Provision of incorrect information/advice to stakeholders.**

The Valuation Tribunal List for 2021/22 was investigated. It was found that just two cases had been heard regarding exemptions or discretionary relief. These were represented by the RRM and in both cases were dismissed in Warwick District Council's favour. Diary notes and evidence had been saved accordingly against the account. The appeal process regarding incorrect liabilities or band valuations is displayed on Council Tax bills. Ways in which to appeal the recovery process are also outlined to the customer through summonses.

4.5 **Fraud Risks**

4.5.1 **Risk: Collusion in deliberate avoidance of charges or overriding recovery processes.**

All Revenues officers have the authority to amend recovery action or set SPARS. Staff working in the Contact Centre also have the ability to create SPARS but

cannot reset recovery action. A sample of SPARS was interrogated to ensure that details of the arrangements were appropriately recorded on the account and confirmed to the taxpayer in writing. SPARS which are not upheld are cancelled by the SRCO. All twenty samples had been diary noted and confirmed to the taxpayer in writing. In two cases, the SPAR had not been maintained by the taxpayer; in both cases, these had been cancelled by the SRCO. On seven occasions, the first instalment was not yet due at the time of testing.

All Revenue officers and Contact Centre staff have been supplied with Council Tax liability court guidance. Alongside this, officers have been provided with training notes relating to write-offs and SPARS.

4.5.2 **Risk: Awarding Council Tax rebate despite customer ineligibility.**

Recovery inhibits may be awarded in cases of Individual Voluntary Arrangement, write-off applications or Debt Relief Orders. The SO runs reports which remove inhibits upon their expiry. Inhibits also appear as exceptions on all recovery progression reports and forecast recovery detail reports. Inhibits are mainly applied when a write-off is pending. If the taxpayer has been issued with a liability order, the SCRO can progress the account to the write-off stage and remove the inhibit. If a liability order has not been issued, the inhibit remains on the account for six months to allow time before the bulk write-off progression. Reasons as to why SPARS exist on accounts are documented in the diary notes. This is to ensure that any officer can see that the SPAR has been applied for appropriate reasons.

As aforementioned, taxpayers not on Direct Debit were required to send in bank statements to verify that their sort code and account numbers were legitimate, before the energy rebate was awarded. These taxpayers were also required to submit a formal energy rebate application form. During testing, it was found that in all relevant cases an application form was held on file. A sample of accounts which were awarded the energy rebate via BACS payments were interrogated to ensure that the rebate had been appropriately noted on the account.

Checks were also done to ensure that ineligible accounts were not refunded. All eligible accounts had £150 appropriately noted on the account, as well as an application form and bank evidence uploaded onto CIVICA. Thirteen accounts were in receipt of LCTR and therefore had the extra £50 awarded. One property was void and therefore not eligible; one sample was also a second home and therefore did not qualify under the scheme. Four properties tested were valued above Band E and did not qualify for the rebate; one account was in receipt of an exemption and therefore also ineligible. Properties on Bands E-H in receipt of severe mental impairment disregard (SMI) were only eligible for £150. Those in band A-H on full LCTR or 85% LCTR were in receipt of £150 and entitled to a further £50 discretionary top-up payment. CIVICA set parameters that ensured the rebate was not awarded against more than one property.

Any unclaimed rebate payments are due to be written off as credit. It was confirmed by the RRM that there was no need for an irrecoverable form to be

completed for these write-offs; the Principal Internal Auditor was consulted by the RRM in this decision.

Revenues officers are expected to put write-offs through CIVICA as pending transactions which will then be picked up by the SO in the bulk write-off process; this will occur as-and-when account liabilities need terminating. As of 26 October 2022, there were approximately 266 student accounts affected by this.

4.6 **Health and Safety Risks**

4.6.1 **Risk: Physical harm to collection agents/verbal abuse to Council officers.**

Bristow & Sutor are not directly made aware of customers on the Council's staff alert list, although it is outlined in the contract that 'enforcement agents should be trained to recognise and avoid potentially hazardous and aggressive situations and withdraw when in doubt about their own or others' safety.'

The Revenues team advise Bristow & Sutor if a customer has previously made threats of violence towards staff; these are recorded as severe diary notes on the account. There are no specific courses offered to staff regarding conflict management. However, if it was highlighted that specific training was needed, staff could be booked onto this through the Itrent system.

4.7 **Other Risks**

4.7.1 **Risk: Loss of IT resulting in inability to bill customers/issue demands.**

The EM confirmed that CIVICA will ensure that a system is available for the Council to use if the Council's own version is lost. This is outlined in the contract with CIVICA, where it is stated that 'the Processor shall ensure that it has in place Protective Measures which are appropriate to protect against a Data Loss Event, which the Controller may reasonably reject (but failure to reject shall not amount to approval by the Controller of the adequacy of the Protective Measures).'

It is also stipulated in Annex four of this contract that priority will be given to main server malfunction or failure. This contract was renewed on 15 August 2022 and is due to expire on 14 August 2024. The current contract value stands at £383,377.64. Ci Anywhere was reviewed by the auditor and it was confirmed that software expenditure has only reached £206,331.71 to date.

There is also an ICT Business Continuity Plan in place which outlines that IT would have a back-up system in place within twenty-four hours. 'The business continuity provider requires twenty-four hours from the point of invocation to 'build' the Council's recovery environment based on the equipment defined in the contract equipment schedule. After which ICT Services' Infrastructure team will recover all services within six days.'

4.7.2 **Risk: Failure of BACS resulting in the Council taking unnecessary recovery action.**

Bills clearly display the address of the relevant property, dates of issue, the current property Band, the account number, and the period of which the demand relates. The amount payable includes charges made by Warwickshire County Council, Warwick District Council and the Warwickshire Police and Crime Commissioner. The Council Tax attributable to Warwickshire County Council includes a precept to help fund adult social care. Any relevant exemptions are discounted from the charge and any previous payments or refunds are highlighted to the customer. Various methods of payment are included on the reverse side of the bill, including Direct Debit, e-payments via the Council website and telephone or barcode payments through the Post Office or Pay Point outlets. The website also lists all available payment options.

All Revenues officers are able to manually suspend reminders and bills. A sample of accounts on inhibits were interrogated to ensure that a valid reason for the inhibit had been recorded on the account. Testing by the auditor confirmed that all twenty samples had been diary-noted accordingly, and a reason supplied by the Revenues officer as to why recovery had been put on hold.

Closed accounts with live inhibits are acceptable, providing that the account balance is set to nil. Furthermore, inhibits do not affect credit payments and therefore inhibited accounts awaiting credit write-offs, do not carry a significant risk as these will be picked up as part of the bulk write-off reports; the inhibits will also terminate upon their expiry date. If it was found that, if an account in debit had been closed, the inhibit would remain in place until the date of expiry. This is to give the ratepayer a chance to pay any outstanding debts.

5 **Summary and Conclusions**

- 5.1 Section 3.2 sets out the risks that were being reviewed as part of this audit. Reassuringly, the review did not highlight any significant weaknesses against these risks.
- 5.2 Although a minor 'issue' was identified, no formal recommendation was warranted as there is minimal risk attached to it; instead, an advisory note has been reported.
- 5.3 In overall terms, therefore, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Council Tax are appropriate and are working effectively to help mitigate and control the identified risks.
- 5.4 The assurance bands are shown overleaf:

Level of Assurance	Definition
Substantial	There is a sound system of control in place and compliance with the key controls.
Moderate	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited	The system of control is generally weak and there is non-compliance with controls that do exist.

6 **Management Action**

6.1 There are no formal recommendations arising from this report.

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