

## INTERNAL AUDIT REPORT

**FROM:** Audit and Risk Manager

**SUBJECT:** Collection of  
Council Tax

**TO:** Head of Finance  
Revenues Manager

**DATE:** 8 February 2013

**C.C.** Chief Executive  
Principal Revenues Officer

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### 1 INTRODUCTION

- 1.1. In accordance with the Audit Plan for 2012/13, an examination of the above subject area has been completed and this report presents the findings and conclusions for information and action where applicable.
- 1.2. Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

### 2 SCOPE AND OBJECTIVES OF AUDIT

- 2.1. The examination was undertaken using the CIPFA systems-based control evaluation models following a cyclical approach designed to cover all the model's relevant sub-systems over a 3-year period. On this occasion the examination concentrated on the billing and collection/refund sub-systems.
- 2.2. There are no recommendations in the previous audit report covering the above sub-systems.

### 3 FINDINGS

#### 3.1 General Notes

- 3.1.1. Council tax is a system of local taxation on domestic property based on a valuation banding structure reflecting what the property would have sold for at a fixed point in time (1<sup>st</sup> April 1991). The properties are valuation bands by the Valuation Office Agency (VOA).
- 3.1.2. As a 'billing authority', Warwick District Council sends out demand notices which include charges ("precepts") set by other authorities in the area, including the County Council, the Police Authority and the various town and parish councils within the district. The Council collects the amounts charges on behalf of all of these authorities and pays them their respective precepts in pre-agreed instalments.

3.1.3 Each dwelling is placed into one of eight bands (A to H) by the VOA, based on its valuation, with all bills being based on a proportion of what is being charged to a Band D property (e.g. Band A bills are 5/9ths of those for Band D, with Band H being 18/9ths of Band D). In qualifying circumstances, the charge is reduced under a scheme of discounts, disregards and exemptions.

3.1.4 The total gross amount chargeable in 2012/13 is in the region of £92m from just over 60,000 properties. After allowing for discounts, exemptions and council tax benefit, the residual sum collectable is in the region of £73 million.

3.1.5 Under the Local Government Finance Act 2012, certain changes to discount and exemption provisions and the introduction of a discretionary premium charge on long-term empty properties are due to come into force from April 2013.

## 3.2 Summary of Systems Evaluation and Key Findings

3.2.1 The findings are summarised below in the context of the areas of review covered under the modules categorised under:

- Procedures and Regulations
- Information Security and Compliance
- Billing
- Collection and Refunds.

## 3.3 Procedures and Regulations

3.3.1 The examination re-confirmed that Revenues staff have continuous access to appropriate information resources covering regulations and practice, including national updates. Much of the information is available from on-line central government sources.

3.3.2 Civica application manuals generally satisfy the requirement for internal procedural resources.

## 3.4 Information Security and Compliance

3.4.1 The Civica OPENRevenues application was last reviewed in depth in the 2010/11 and some of the findings of that review have been taken into account. General policies and procedures on information handling were covered under a corporate review of Information Governance in 2011/12.

3.4.2 Brief enquiries and checks have confirmed that critical information resources are duly safeguarded and comply with relevant legislation and nationally prescribed standards.

## 3.5 Billing

3.5.1 The evaluation model is concerned with the following processes:

- setting of council tax
- issuing of demands
- calculations and payments
- revisions and suppressions
- reconciliations.

3.5.2 Testing on the tax setting and annual billing processes for the year ending 31<sup>st</sup> March 2013 confirmed that the processes comply with relevant legislation. Notification of the tax base to the major precepting authorities was timely and precept payments have to date in the current year been made on the dates advised.

3.5.3 Various tests on bills produced confirmed the effectiveness of controls ensuring billing accuracy and completeness for all live liability accounts, including application of discounts, disregards and exemptions.

3.5.4 Although a facility exists to suppress bills for individual accounts, in practice it is used sparingly and any in suppressions place at the time of annual billing show up on the exception report produced. A report run during the examination showed only one account with the circumstances satisfactorily explained.

3.5.5 Examination of relevant documentation confirmed that appropriate reconciliations are performed to ensure that the total charge and the number of bills generated can be agreed back to the number of properties (as per the Valuation Office Agency listings) and the total amount of tax due, based on the number of properties within each band in each parish.

### 3.6 Collection and Refunds

3.6.1 The evaluation model is concerned with the following processes:

- income collection
- credits and refunds
- checks and reconciliations
- performance monitoring

3.6.2 An indicative analysis undertaken of annual council tax income due by payment method shows the following breakdown:

	<u>£m</u>	<u>%</u>
Direct Debit	62.0	84.9
Internet/Telephone	4.7	6.3
Allpay	4.1	5.5
Standing Order/Bank Giro	2.0	2.7
Postal Cheque	0.5	0.6
Salary Deduction	0.1	0.1

3.6.3 Effective separation of duties continues to operate whereby Revenues staff have no involvement in the handling of cash or bank income. The processes from receipt to credit of accounts and the ledger were tracked by walkthrough and found to be sound with clear trails.

- 3.6.4 Test examination on a sample of direct debit runs showed agreement of the number of items and total amount between internal and BACS reports in all cases.
- 3.6.5 Examination of the Civica suspense 'bin' confirmed that items posted there are cleared within a reasonable period and a current snapshot showed no excessive backlog.
- 3.6.6 A review of system reporting histories showed a review of credit balances on two occasions during the current 'tax' year to date. Examination of large credit balances shown on these reports confirmed that they were legitimate and most were subsequently cleared by refund.
- 3.6.7 In the previous year, refunds totalling £1.1 million were made. The process uses a creditor interface between Civica and the Total Financial Management system to produce cheque and BACS payments. Payment transactions outside this interface tended replacement payments for failed BACS refund and returned cheques. One notable exception was refund of almost £22,000 paid directly through the e-banking system as a result resulting of an internet debit card instalment received with the amount inflated one hundred-fold in error.
- 3.6.8 Testing on refunds (exception and sample) confirmed valid credit balances with appropriate supporting documentation in all cases. An exception report run did not reveal any refunds to banks due to bank error being made during the current year (such payments would have required completion of an indemnity form).
- 3.6.9 Examination of relevant documentation confirmed that reconciliations are duly undertaken to agree council tax benefit to the liability accounts and income collected to the Civica financial control and Total ledger.
- 3.6.10 Statistics are still collected showing council tax collection rates, although no formal reporting mechanisms or prescribed targets are now in place following the demise of Comprehensive Performance Management and National Indicators.

#### 4 CONCLUSIONS

- 4.1 Within the confines of the areas covered, the examination has shown the council tax collection functions to be highly robust. The findings are considered to give SUBSTANTIAL assurance that the Council is not overly subject to material risk exposures in the context of these functions.
- 4.2 There are no recommendations arising.

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