

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager

SUBJECT: Billing, Collection and Recovery (NNNDR)

TO: Head of Finance

DATE: 27 January 2015

C.C. Chief Executive
Deputy Chief Executive (AJ)
Exchequer Manager
Principal NNNDR Systems & Recovery Officer

1 Introduction

- 1.1 In accordance with the Audit Plan for 2014/15 an audit on the systems and procedures in place to manage the billing, collection and recovery aspects of National Non-Domestic Rates (NNDR) has been undertaken.
- 1.2 This report outlines the approach to the audit and presents the findings and conclusions arising.
- 1.3 The report is 'exception-based' rather than 'assurance-based' in that, on the whole, only those findings suggestive of weaknesses in control are reported.

2 Background

- 2.1 Non-domestic, or business, rates are the method in which businesses and other occupiers of non-domestic properties contribute toward the cost of local authority services.
- 2.2 The annual demands are issued by the Council based on figures provided by external bodies. The rateable value of each property is set by the Valuation Office Agency (VOA). A multiplier is then applied, set by the Department of Communities and Local Government (DCLG), that determines the percentage (expressed as pence in the pound) of the rateable value of the property that is due to be paid in business rates.
- 2.3 NNNDR is currently collected under the Business Rates Retention Scheme Regulations. In 2014/15 the Council acts as agent for:
 - i) Warwickshire County Council
 - ii) the Warwickshire local authorities who are members of the Coventry and Warwickshire local retention scheme and
 - iii) Department of Communities and Local Government.
- 2.4 Non-domestic net billing for 2014/15, after eligible relief from business rates, is verified as £67.1m as at the date of audit.

3 Scope and Objectives of the Audit

- 3.1 The audit reviewed the controls in place over the processes for billing, collection and recovery. The approach to the audit was to ascertain and evaluate the controls in place by applying the CIPFA Control Matrices for these subsystems on the NNDR System. These comprise Internal Control Questionnaires, known as ICQs, which are completed following a discussion with the main audit contact and are designed to identify any control weaknesses. These are followed by the completion of a set of compliance tests that are linked to the ICQs.
- 3.2 Detailed testing was performed to confirm that controls identified have operated, with documentary evidence being obtained where possible, while some reliance has been placed on verbal discussions with relevant staff.
- 3.3 There is a phased approach to the audit of NNDR with the aim being to cover all of the modules over a three year cycle. On this occasion the Billing, Collection & Refunds and Recovery & Enforcement modules of the CIPFA Matrices for Non-Domestic Rating were used.
- 3.4 The expected controls under these matrices are categorised into the following areas:

Billing:

- (1) Procedures and regulations
- (2) Issuing of demands
- (3) Calculations and payments
- (4) Revisions and suppressions
- (5) Reconciliations
- (6) Security of data

Collection & Refunds:

- (7) Procedures and regulations
- (8) Contributions and grants
- (9) Income collection
- (10) Credits and refunds
- (11) Checks and reconciliations
- (12) Performance
- (13) Security of data

Recovery & Enforcement:

- (14) Procedures and regulations
- (15) Recovery action
- (16) Bailiff action
- (17) Suppressions
- (18) Performance
- (19) Write-offs
- (20) Security of data

3.3 The objectives that have been considered as part of this audit comprise:

Bills issued are accurate and contain appropriate details.
Bills are only amended when there is a valid reason to do so.
The council pays the expected amounts to the Warwickshire local authorities who are members of the Business Rates Retention Scheme.
Income is collected appropriately and is credited against the correct account.
Refunds are paid to the correct ratepayer and only when there is a valid reason to do so.
The council monitors the NNDR collection rate and takes appropriate steps to ensure that all income due is received.
Appropriate recovery action is taken by the council.
Bailiffs are used appropriately.
Debts are written off only when all reasonable recovery measures have been taken.

4 Findings

4.1 Billing

- 4.1.1 The annual billing cycle was completed in March 2014. Audit testing of the billing parameters in compliance with DCLG guidance confirmed that the actual controls in place were operating effectively in accordance with the expected controls.
- 4.1.2 The NNDR Business Rates Retention Scheme is managed by the council on behalf of various local government authorities. As a result of annual billing, these authorities receive a substantial amount of their funding for services to business ratepayers under the NNDR Business Rates Retention Scheme.

The controls review has two vital parts:

- a) The underlying control – to demonstrate that, for example, the billing reconciliation is valid and correct.
- b) The sign-off control – evidenced and dated by senior NNDR staff, so that robust management arrangements can be demonstrated for the billing process.

Risk

Although the finding from the annual billing cycle did not identify any control weaknesses the future risk is that Civica controls and manual controls completed by staff may not be reviewed and certified by service managers as correct, so that the controls cannot be subsequently independently confirmed.

Recommendation

To strengthen control the annual NNDR Civica billing audit evidence file should document clearly the:

- i) Project time-lines
- ii) Billing project processes

- iii) Guidance from DCLG and Civica software support
- iv) Valuation Office reports
- v) Civica billing test report control checks
- vi) Hereditament reconciliations and
- vii) Controls review.

4.1.3 A reconciliation of the annual billing as at March 2014 between the Civica records and the Valuation Office Agency records had been correctly completed.

4.1.4 Audit testing of notifications from the Valuation Office Agency for changes in business property rateable value confirmed that the notifications had been actioned correctly by the NNDR staff.

4.2 Collection & Refunds

4.2.1 NNDR cash received totalled £52.4m as at 28th November 2014. Audit testing of cash collection confirmed that the daily control reconciliation is being completed by NNDR staff who are not involved in the principal HSBC bank reconciliations.

4.2.2 The outstanding NNDR credit balances totalled £72k at the date of audit. An audit sample test of five credit balances confirmed that the balances due were supported by documentation e.g. Valuation Office Agency notifications of changes in rateable value that resulted in reducing the annual NNDR billing demands, and that these were correctly stated.

4.2.3 2014/15 NNDR refunds to the date of audit totalled £2.6m. An audit sample test for five confirmed that the refunds were supported by VOA notifications and that refunds had been reviewed and authorised by the appropriate senior NNDR staff.

4.2.4 Audit testing confirmed that the NNDR collection rate is monitored on a daily and monthly basis with the objective of monitoring performance. As at 18 December 2014 NNDR cash collection was 82.75% of the billing demands raised. This is in line with target.

4.3 Recovery & Enforcement

4.3.1 As at 22 December 2014 there were 133 NNDR accounts with special payment arrangements with a total of £689k outstanding. Audit testing was undertaken on a sample of accounts which had been given Special Payment Arrangements (known as 'SPARs') to ensure that the account had been correctly authorised by NNDR staff and that a payment plan was in place to clear the outstanding debt by 31 March 2015. For all ten accounts tested, appropriate justification was established for the SPAR and a payment plan found to be in place.

4.3.2 As at 22 December 2014 there were eighty four NNDR accounts with arrears totalling £236k. An audit sample of five accounts in arrears totalling £72k was tested at various recovery stages to verify that the arrears had been subject to the NNDR procedures for settlement.

4.3.3 Audit testing confirmed that:

- i) One account in arrears had already been referred to the bailiff, and
- ii) Four accounts with arrears were in the process of being referred to the bailiff.

The testing therefore confirmed that arrears accounts were appropriately actioned for recovery and enforcement.

4.3.4 As at 22 December 2014 there were 57 arrears accounts totalling £129k for the 2014/15 fiscal year that had been passed to bailiffs. An audit sample of six accounts, totalling £73k, established:

- i) Three accounts are due to be reviewed for write off
- ii) Two accounts had settled arrears in full and
- iii) One account was subject to further enquiries to contact the debtor.

4.3.5 As at 28 November 2014 a total of £221k arrears had been written off in the year. Debt write-offs occur as a result of unsuccessful actions taken to obtain settlement for the debt. A sample of ten debt write-offs was reviewed for justification. In all cases there were source documents verifying reason for write off e.g. company liquidation. Segregation of staff duties for the debt write-off was demonstrated from the write-off proposal, through authorisation, to the processing of the debt write-off.

5 Summary & Conclusion

5.1 Following our review we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for the collection of national non-domestic rates with regards to the billing, collection & refunds and recovery and enforcement functions are appropriate and are operating effectively.

6 Management Action

6.1 The recommendation to address the issues raised is reproduced in the Action Plan together with the management response.

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