

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Collection of NNDR
TO: Head of Finance **DATE:** 2 November 2017
C.C. Chief Executive
Deputy Chief Executive (AJ)
Exchequer Manager
Portfolio Holder – Cllr Whiting

1 Introduction

- 1.1 As part of the 2017/2018 Audit Plan an audit has recently been completed on the systems and procedures in place to manage certain aspects of the collection of National Non Domestic Rates (NNDR).
- 1.2 NNDR is audited on a cyclical basis such that all aspects are covered over a three-year cycle. This year the audit examined billing, collections and refunds and recovery and enforcement.
- 1.3 This report outlines the approach to the audit and presents the findings and conclusions arising.

2 Background

- 2.1 NNDR is managed by members of staff in the Revenues Division in Finance. The team is also responsible for the management of NNDR on behalf of Stratford on Avon District Council.
- 2.2 There are currently 5,071 chargeable properties with a total rateable value of £169,055,937.
- 2.3 The net charge for 2017/2018 is currently £69,454,063. The collection rate as at the end of September was 55.10% which represents an increase of 0.87% on September 2016.
- 2.4 Most NNDR transactions and routines are processed by a management system called Civica Open Revenues. This has been in place for several years and while the basic functions remain broadly unaltered it has undergone a number of revisions in response to regular changes in legislation.

3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken in order to establish and test the management and financial controls in place over billing, collections and recovery. The approach undertaken was to apply the CIPFA Control Matrices. These require the completion of Internal Control Questionnaires (ICQs) which are designed to identify any control weaknesses. Then follows the completion of a series of compliance tests that are linked to the ICQs.

3.2 Wherever possible the detailed testing, to confirm the existence of controls, was supported by documentary evidence but in some cases reliance had to be placed on verbal assurance. Not all of the testing required by the schedules was undertaken as in some cases it forms part of other audits e.g. system access and security.

3.3 The expected controls under the 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.

3.4 The control objectives that have been considered during the audit include:

Bills issued are accurate and contain appropriate details.

Bills are only amended when there is a valid reason to do so.

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 Recommendations from previous report

- 4.1.1 The last report on NNDR, which covered valuation and liability, was issued on 9 November 2016 and it contained one recommendation. The response at the time and the current position are detailed below.

Recommendation	Management response	Current Status
Applications for exemption on listed building grounds should be verified for valid listed building status.	Verification of Listed buildings has always been via a listing from a team within Development Services however it has since been established that Historic England are the oracle on listed buildings therefore we have started an exercise to cross reference the listed buildings we hold with Historic England.	It has not been possible to data match the council's records with those of Historic England as they are not able to provide a total record of all listed buildings in Warwick District. The only option is to carry out a manual exercise tracing individual properties to their records. This is ongoing and should be completed over the next twelve months.

4.2 Billing

- 4.2.1 The annual process of billing over 5,000 customers for their NNDR payment for the year is probably the most crucial aspect of the whole system not only because it must be carried out accurately, comply with legislation and be carried out in a timely manner but because it almost establishes the workload for the year ahead. Almost any inaccuracies in the bulk issue of bills would cause untold embarrassment for the council.
- 4.2.2 Accordingly it has long been a feature of annual billing to carry out test billing to ensure that parameters have been entered accurately, council data reconciles with the Valuation Office Agency data, total figures generated by the process are as expected and that sample individual bills from the various categories of bills e.g. voids, various reliefs, small business relief supplement etc. are as expected.
- 4.2.3 All of the evidence to support this process is retained on file and it was clear from examination that a number of staff are involved and that information produced by one person or by the system is checked and agreed by another.
- 4.2.4 Legislation requires that certain basic information must appear on the bill and that bills must be issued well in advance of the new year to enable customers to meet the first instalment date. Testing found that bills contained all of the required information and that for the current year they were raised on 9 March 2017.

4.2.5 Part of the billing process is to inform customers of payment options and to offer as many options as possible in line with current practices. The reverse of the bill and the WDC website contain details of the various options available. In line with WDC policy and commercial practice payments in person and by cash or cheques in the post are discouraged. So far this year only around £27,000 has been processed via the DMC from a total collected of over £44 million.

4.3 **Collections and refunds**

4.3.1 A government return, NNDR1, must be submitted to the DCLG by 31 January each year setting out the amount of NNDR to be collected in the following year so that the amount to be retained by the collecting authority can be calculated. Basically, from the data in the NNDR1, the government calculate the amount due to them and then send a payment schedule to the council. For 2017/2018 the payment to the government is around £2.5 million a month.

4.3.2 An examination of the records confirmed that the NNDR1 had been submitted by the required date and that payments to the government were being made in accordance with the schedule.

4.3.3 NNDR payments are received through a number of different routes i.e. Allpay, Hexagon (the banking system), the internet, DMC (rarely) and the council's bailiffs Bristow and Sutor. Files for these payments are uploaded to Civica and the individual payments are allocated to the respective account. The total of all payments is reconciled on a daily basis to the amount of payments listed in the Financial Control Report produced by Civica.

4.3.4 The processing of refunds is largely an automated procedure with the reason for the payment being retained within the system in the clipboard. The total value of refunds in 2017 is slightly less than at this stage in 2016.

4.3.5 The key performance measure for NNDR is the collection rate which has no specific target but is rather to maintain the existing high level of collection. The collection rate is consistently high and for the last three financial years it has been 98.72%, 99.20% and 98.69%.

4.4 **Recovery and enforcement**

4.4.1 Recovery is a largely automated process and overseen by staff who have no involvement in other aspects of NNDR and very little access to the system other than being able to view accounts and their history.

4.4.2 If customers have genuine and legitimate reasons for falling into arrears and will be able to make good given time and, in order to avoid the court process, a mutually agreed payment schedule, a special payment arrangement, can be entered into. These arrangements are monitored and if customers fail to keep to the terms then the concession is removed. A small sample of special arrangements was examined and all were found to be duly authorised with a payment plan in place.

- 4.4.3 When all of the routine recovery stages have been exhausted without success then cases are referred to the council's bailiffs. The council uses the same bailiffs as the other Warwickshire Districts and they operate under terms and conditions that are set out in a contract that runs until 30 September 2019.
- 4.4.4 If payment is not received or agreement reached after all of the usual options have been exhausted then cases come before the court. At the beginning of each year a number of court days are booked sufficient to meet the likely number of cases reaching that stage.
- 4.4.5 When there is no prospect of receiving payment from a business, e.g. liquidation or abscondment, then the debt will be considered for write-off. So far this year 50 write-offs (including some credit balances) totalling £156,104 have been written off. Of the 50 items around half have been for sums in excess of £1,000.
- 4.4.6 The write-offs have all been finally authorised by the Exchequer Manager having previously been checked and approved by other members of staff. The Code of Financial Practice states that amounts over £1,000 may only be written off with the approval of the Head of Finance and accordingly the Exchequer Manager has delegated authority to write off up to that amount.

Risk

Non-compliance with the Code of Financial Practice.

Recommendation

NNDR write-offs greater than £1,000 should be authorised by the Head of Finance or his representative.

5 Conclusion

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of the collection of NNDR are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

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

6 **Management Action**

- 6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Collection of NNDR – November 2017

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.4.6	NNDR write-offs greater than £1,000 should be authorised by the Head of Finance or his representative.	Non-compliance with the Code of Financial Practice.	Medium	Head of Finance / Exchequer Manager	We are to undergo an internal review of our write-off arrangements and document a new policy as the existing arrangements are no longer appropriate in terms of the different levels of authorisation that now occur and the amounts involved.	January 2018

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.