

**FROM:** Audit and Risk Manager                      **SUBJECT:** Council Tax  
**TO:** Head of Finance                                      **DATE:** 9 April 2021  
**C.C.** Chief Executive  
Deputy Chief Executive (AJ)  
Exchequer Manager  
Revenues & Recovery  
Manager  
Portfolio Holder (Cllr Hales)

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## 1 **Introduction**

- 1.1 In accordance with the Audit Plan for 2020/21, an examination of the above subject area has recently been completed by Nathan Leng, 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.
- 1.3 The audit was undertaken during the COVID-19 pandemic. This has meant a slightly different approach has been taken to complete the audit. Rather than observing staff members and meeting staff face to face, correspondence has been via email or Teams video calls.

## 2 **Background**

- 2.1 Council tax (CT) is a local tax charged on domestic properties. Properties are grouped into valuation bands based on domestic property values from April 1991. These bands are determined by the Valuation Office Agency (VOA).
- 2.2 Rates of council tax are calculated according to property value, personal circumstances and the level of funding required by the local council. People pay the fee related to the band in which their residence falls. Each dwelling is placed into one of eight bands (A to H) by the VOA. Bills are based on a proportion of what a Band D property is charged. For example, Band A bills are 5/9ths of those for Band D.
- 2.3 CT is collected by local authorities to help pay for local services. The Council is responsible for setting the annual budget and determining how much will be met through CT.

2.4 Being a billing authority, the Council sends out bills which include charges ('precepts') set by other authorities in the area. These include Warwickshire County Council (WCC), the Police & Crime Commissioner (PCC) and various town and parish councils within the district. The Council collects money on behalf of these authorities and pays each body a percentage as appropriate. The Civica Open Revenues system is used for processing and administering CT.

### 3 **Scope and Objectives of the Audit**

3.1 The controls identified within the systems-based audit programmes are covered on a rolling basis to reflect the current evaluation of risk, as well as available resources. As set out below, this audit has concentrated on the controls in place regarding billing and collections and refunds.

3.2 An extensive examination has been undertaken using the CIPFA systems-based control evaluation models. Detailed testing was performed to confirm that the identified controls have been successfully implemented, with documentary evidence being obtained where possible.

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

- Revenues staff are aware of and have access to relevant legislation and procedural documentation.
- The recovery of all Council tax liabilities for the year.
- Council tax charges have been formally approved.
- Payment has been enforced through the processes prescribed by legislation.
- The identification and writing off of irrecoverable debts has been managed and controlled.
- Billing amendments have been documented, made for appropriate reasons and the supporting evidence has been retained.
- Refunds have been documented, requested and checked against outstanding liabilities before being processed.
- Bill suppressions have been documented, applied and reviewed appropriately.

3.4 The expected controls under the relevant matrices are categorised into the following areas:

Billing:

- (1) Procedures & regulations
- (2) Setting of council tax
- (3) Issuing of demands
- (4) Calculations & payments
- (5) Revisions & suppressions
- (6) Reconciliations
- (7) Security of data

#### Collection & Refunds:

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

3.5 Some specific tests were not performed as they were either considered not relevant to the operations at the Council or are covered under separate audits (e.g. data security is covered under a specific IT audit of the Civica Open Revenues system).

## 4 Findings

### 4.1 Recommendation from Previous Report

4.1.1 The current position in respect of the recommendation from the previous audit of these subsystems, undertaken in February 2018, was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
1 Details of the cases checked as part of the write off authorisation process (including the high value authorisations) should be recorded on the batch authorisation sheets	Agreed – an instruction will be issued to appropriate staff.	Complete – The batch authorisation sheets contain details of cases checked as part of the write-off authorisation procedure.
2 Documentation should be produced and retained to support all debts written off.	Agreed – a reminder will be issued to appropriate staff.	Complete – All sampled write-off cases contained the appropriate documentation and authorisation records.

### 4.2 Procedures & Regulations

4.2.1 Revenues staff are guided in the billing, collection and refunding of Council Tax (CT) by the Institute of Revenues, Rating & Valuations (IRRV) Council Tax Law & Practice document (2018). This document is maintained centrally by the Department for Communities and Local Government (DCLG). The IRRV document is available online and a copy is also held in the Revenues & Benefits system drive.

4.2.2 There is no dedicated system manual covering the billing or the collection and refund processes. However, there is a Civica manual

that provides procedural details on specific system functions and processes.

- 4.2.3 Revenues staff are trained to a proficient level upon joining the department. Internal training documents are maintained and made available to all Revenues staff through the Revenues & Benefits system drive.

#### 4.3 **Billing**

##### 4.3.1 **Setting of Council Tax**

- 4.3.1.1 The precepting authorities were notified of the proposed CT base in December 2019 by the Strategic Finance Manager (SFM). The proposed base was announced during the full Council meeting on 20 November 2019 and the proposal was recommended for approval during the full Council meeting on 26 February 2020.
- 4.3.1.2 The base rates were published on the Council website on 5 March 2020. The rates were also published via an advertisement in the Leamington Courier on 13 March 2020.
- 4.3.1.3 A referendum on the base rates was scheduled for 8 May 2020. However, due to the COVID-19 pandemic, the referendum was cancelled and substitute Council tax charges were applied. The Council website was updated and a new advertisement was placed in the Leamington Courier on 15 May 2020.
- 4.3.1.4 A comparison of the precept instalment schedule and records of payments made revealed that all payments were made within the agreed timescale.

##### 4.3.2 **Issuing of Demands**

- 4.3.2.1 The CIPFA internal control evaluation model establishes criteria that CT bills must adhere to. Examination of a sample CT bill revealed that it contained all relevant details set out in the legislation (Council Tax Regulations 1992) along with various other pieces of information that enable the liable person(s) to identify how their charge has been calculated and to raise queries where necessary.

##### 4.3.3 **Calculations & Payments**

- 4.3.3.1 There are several payment methods available to taxpayers. Cash and cheque payments made directly to the Council or via a Council hub have not been accepted since 2016. However, payment by cash and cheque is accepted via PayPoint outlets.
- 4.3.3.2 The standard billing cycle charges the annual tax liability over ten monthly instalments running from April to January. Taxpayers can request a 'special arrangement' whereby their annual liability is spread over twelve monthly instalments. Special arrangements can be made

for a range of reasons including: debt, low income, exceptional circumstances and unusual pay schedules.

- 4.3.3.3 When tax liability is calculated part way through the year, instalments are automatically calculated to end in January. If the liability begins on or after 1 January or was calculated after the end of the relevant financial year, the taxpayer is issued a bill for their outstanding liability. This is paid as a lump-sum or a special arrangement can be made.
- 4.3.3.4 The annual billing run is an automated process. Before bills are generated for the new tax year, checks are carried out to confirm the accuracy of the billing parameters, that discounts and exemptions are awarded as appropriate and that the correct relief and rebates have been calculated. These checks are carried out by the Systems Officer and Exchequer Manager.
- 4.3.3.5 Bills are generally produced before the start of the relevant tax year during the annual billing run. For the tax year 2020-2021, bills were issued on 29 February 2020, more than 30 days before the first scheduled payment period 1 April 2020.
- 4.3.3.6 A sample of Civica accounts of new properties that became liable for CT during 2020-2021 was analysed. Testing revealed that the initial bill was raised 14 days or more before the first payment instalment date. All bills included the names of individuals liable for paying tax at a property. The Civica system holds copies of the bills, details the amount of council tax due, the bill reference and date each bill was raised and despatched.
- 4.3.3.7 Analysis of the precept notification letters from WCC and PCC revealed that the values contained in these documents match the figures from the financial report presented to the full Council meeting on 26 February 2020. However, these values do not match the figures contained on the Civica system. This is because Civica was updated using the substitute CT charge figures after the CT referendum was cancelled.

#### 4.3.4 **Revisions & Suppressions**

- 4.3.4.1 Inhibits are used to prevent recovery action on a specific account until after a certain date or outcome. Revenues staff are authorised to inhibit recovery on accounts for reasons such as extenuating personal circumstances or pending a decision on benefits or banding.
- 4.3.4.2 There are two main types of inhibit; a recovery inhibit and a benefit inhibit. Recovery inhibits are typically less common and may be applied for a range of reasons including; Individual Voluntary Arrangements (IVA) applications, write-off applications and Debt Relief Orders (DRO) applications. Benefit inhibits are more common and applied pending a possible benefit adjustment. Recovery inhibits generally take longer to resolve than benefit inhibits.

- 4.3.4.3 Recovery inhibit reports are carried out ad-hoc with no defined schedule. The most recent report was run on 19 August 2020. The benefit inhibit reports are run weekly.
- 4.3.4.4 A sample of inhibit cases was reviewed. In every case, the reasons an inhibit was applied are documented on the account. The inhibits were all applied for appropriate reasons and appropriate actions were taken in response to the removal of the inhibit. There were no cases where an inhibit had remained active after the expiration or review date. However, in some cases where an original issue was outstanding, a new inhibit was set up after the expiration date had passed.
- 4.3.5 **Reconciliations**
- 4.3.5.1 The number of bills produced is balanced against the number of liable properties as part of the trial billing run carried out before the start of each new financial year.
- 4.3.6 **Security of Data**
- 4.3.6.1 The Council are registered as information controllers (Reference. Z623925X) with the Information Commissioner's website.
- 4.3.6.2 Data is held for six years after an account is closed in adherence with the Council's data retention policy. Revenues staff receive training in the areas of data protection and retention through the corporate policy awareness resource (MetaCompliance).
- 4.3.6.3 All physical records have been scanned on to the revenue and benefits systems.
- 4.4 **Collection & Refunds**
- 4.4.1 **Income Collection**
- 4.4.1.1 There are a variety of independent payment methods available to taxpayers. This allows Revenues staff, who are involved in the valuation, liability and billing of CT, to maintain a separation of duty.
- 4.4.1.2 There are a total of 2,588 rejected direct debit (DD) payments for CT this year. The sum of these rejected payments amounts to approximately £800,000. This compares to 3,700 rejected DD transactions with an approximate value of £570,000 at the time of the last audit (2019).
- 4.4.1.3 The sum of rejected DD transactions represents 1% of the current tax collected by DD. This compares to 0.7% in 2018-2019, representing a 0.3% increase.
- 4.4.1.4 The Systems Officer does not review the BACS report to confirm whether the expected sum of CT for individual accounts has been paid.

However, requests are made to Finance to verify that the total sum received in the BACS transmission matches the total expected amount.

- 4.4.1.5 A sample of rejected DD transactions was analysed from the 10 February 2021 BACS report. In every case, the follow-up actions taken by Revenues staff were appropriate, timely and recorded in the account diary.
- 4.4.1.6 When a CT payment is made with an invalid payment reference, the payment is held in the Civica suspense account. The suspense account provides a record of all transactions that have passed through the account including; when a transaction was received, when and where it was transferred, and who processed the transfer.
- 4.4.1.7 The Civica system lists 14 users who have access to the suspense account. The majority of these users are only granted viewing access. There is a small group of 'core' users who are authorised, due to their job role, to make transfers from the account. The list also includes staff members who have left the Council. In these instances, access to the Civica system has been disabled.
- 4.4.1.8 A sample of recently cleared suspense transactions was assessed. In every case, the transaction was transferred to a legitimate account. All transfers sampled had been processed within 48 hours of being received in the suspense account.
- 4.4.1.9 At the time of testing, there were 23 outstanding suspense items that had yet to be transferred. The oldest of these transactions was received in April 2020. The Systems Officer confirmed that most of these items are contra debit/credits. There are also some instances where a reference could not be identified during phone transactions. In these instances, the Systems Officer has to wait for the person who made the payment to claim it before taking action.

#### 4.4.2 **Credits & Refunds**

- 4.4.2.1 Accounts are frequently monitored. As soon as an account goes into credit, a 'credit bill' is generated. Taxpayers receive a credit bill form which offers them the option of claiming the credit as a refund or transferring it to another account. If the account holder does not respond to the credit bill form, the Civica system automatically flags a 'workflow action' which is addressed by Revenues staff. Credit reports are run every six months to identify long-standing credits that haven't been claimed.
- 4.4.2.2 A sample of accounts with an end of year credit balance exceeding £1,000 was analysed. In every case, the credit was found to be appropriate. The majority were the result of backdated credit being refunded to an account after a change in the tax liability was processed. There was only one account that had an outstanding liability. In this case, the credit was transferred to offset the liability.

- 4.4.2.3 Refunds are processed upon receipt of an appropriately detailed refund form and where the credit balance cannot be offset against outstanding or future liabilities. Refunds with a credit balance exceeding £1,000 must be authorised by the Revenues & Recovery Manager. Refunds with a value exceeding £5,000 must be authorised by the Exchequer Manager. Refunds processed during December 2020 were reviewed and deemed compliant with the above procedures.
- 4.4.2.4 An analysis of the annual totals of CT refunds made over the last three years revealed that the total value of refunds has decreased each year from £1,460,000 in 2018/2019 to £1,410,000 in 2020/2021. When controlling for variations in the number of properties liable for CT each year, the percentage of refunds fell from 1.3% in 2018/2019 to 1.1% in 2020/2021. This reveals that while there has been a reduction in the total value of refunds when taken as a percentage of the property charge total, refunds remain at a relatively constant level.
- 4.4.2.5 A sample of credit transfers was selected from the Integrated Revenues Transaction Control Report run on 22 January 2021. All of the sampled transactions were processed by an authorised member of Revenues staff at the request of the account holder. The Civica system also documents the reason a transfer is made. In all cases, the credit was transferred to a legitimate account.

#### 4.4.3 **Checks & Reconciliations**

- 4.4.3.1 The Systems Officer runs a daily reconciliation between the CT and Housing Benefits (HB) systems. A Financial Control report is generated to show the benefits total and a CTS Balancing report is generated to reveal the total amount paid. These figures are entered into a spreadsheet that calculates whether there is any difference between the benefits posted and the benefits received. If a discrepancy is identified, it is investigated and the reason for the difference is recorded in the spreadsheet.
- 4.4.3.2 The Systems Officer maintains a Cashbook spreadsheet showing the tax income received from various sources. There is also a Refunds spreadsheet showing the refunds made. The figures from these spreadsheets are compared to the figures in the Financial Control reports.
- 4.4.3.3 CT account statements are periodically sent to taxpayers once per annum to inform residents of their tax liability for the next year.

#### 4.4.4 **Performance**

- 4.4.4.1 There are no performance targets for the collection of CT because the service aims to collect 100% of the anticipated tax income. However, collection rates are calculated on a daily basis and recorded in the annual collection rate spreadsheet.



4.4.4.2 The spreadsheet displays the collection rate in monthly intervals from the previous year. This reveals whether collection in the current year is ahead of or behind the previous year. The collection rate percentage for this year, as of 29 January 2021, stands at 92.9%. This compares to 93.4% at the same time last year.

## 5 **Conclusions**

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 billing, collection and refund processes for Council Tax are appropriate and are working effectively.

5.2 The assurance bands are shown below:

<b>Level of Assurance</b>	<b>Definition</b>
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.

5.3 No recommendations are arising from this review.

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