

Final Internal Audit Report

Council Tax

May 2018

Distribution: Executive Director Resources (Final only)
 Director of Governance
 Head of Customer Contact and Revenue & Benefits
 Strategic Collections Manager
 Head of Finance, Corporate and Governance

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	3
	Priority 3	2

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

Contents

Page

Executive Summary

1. Introduction.....	2
2. Key Issues.....	2

Detailed Report

3. Actions And Key Findings/Rationale.....	3
4. Priority Three Issues.....	6

Appendices

1. Terms Of Reference
2. Definitions For Audit Opinions And Recommendations
3. Statement Of Responsibility

1. Introduction

- 1.1 Council Tax is administered by the Council Tax Team and uses the Northgate Revenues System application for identification, collection and accounting.
- 1.2 Council Tax is payable on all domestic dwellings with certain exemptions for classes of property. Dwellings are placed in one of eight bands reflecting valuations at 1st April 1991.
- 1.3 The Council approved a 1.99% increase in the Council Tax for Croydon Services and a 3% increase in the Council Tax for Adult Social Care levy at the 20 February 2017 Council meeting. It is forecast that Council Tax income will consequently be £164m in 2017/18.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

2. Key Issues

Priority 2 Issues

Property amendments to Northgate (CTAX system) from information provided from the Valuation Office (VO) schedules were not consistently made in a timely manner. **Issue 1)**

Reconciliations for property banding updates were not undertaken between the Valuation Office (VO) schedules and Northgate on a timely basis for four out of the 10 instances sampled. **(Issue 2)**

Examination of a sample of 10 discounts identified one instance where a disablement discount was inappropriately awarded to a tenant. **(Issue 3)**

Priority 3 issues are highlighted under area 4 below.

3. Actions and Key Findings/Rationale

Control Area 1: Valuations		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	
2	<p>Property changes are made as a consequence of working through the schedules. Therefore if there is a delay in processing a schedule there is a delay in updating a property.</p> <p>At the end of the last financial year there was an imbalance between Northgate the VOA records which meant that we had a reconciliation issue to resolve. We therefore made a decision not to proceed with any further schedules until the imbalances was resolved. This resulted in a small backlog of schedules which were not processed within the usual 28 day target. The back log occurred during April and May 2017, which is Revenues busiest period due to annual billing. The reconciliation imbalance was rectified and we then caught up with processing schedules within the 28 day target in June 2017.</p>	<p>Changes to Council Tax charges as noted by the Valuation Office (VO) should be updated on Northgate (the system use by LBC to record property and Council Tax information) within 28 working days.</p> <p>A sample of 10 property amendments via the VO were sampled to verify if Northgate had been updated in a timely manner. For three out of 10 of the property amendments sampled it was identified that the property amendments had not been updated within the 28 days target.</p> <p>Where a property amendment is not made in a timely manner, there is a risk that taxpayer's pay the incorrect Council tax charges according to their property banding. This could lead to a loss to the Council's income. There is also a possibility that there are taxpayers paying too much tax based on their property value, this would have a detrimental effect on the Council's reputation.</p>
Responsible officer	Deadline	
Head of Customer Contact and Revenue & Benefits	Complete	

Control Area 1: The Valuation List (VO) is regularly reconciled with the CTAX system (Northgate)	
Priority	Action Proposed by Management
2	<p>Issue 1 & Issue 2 are intrinsically linked, i.e. they are the same issue.</p> <p>At the end of the last financial year there was an imbalance between Northgate the VOA records which meant that we had a reconciliation issue to resolve. We therefore made a decision not to proceed with any further schedules until the imbalances was resolved. This resulted in a small backlog of schedules which were not processed within the usual 28 day target. The back log occurred during April and May 2017, which is Revenues busiest period due to annual billing. The reconciliation imbalance was rectified and we then caught up with processing schedules within the 28 day target in June 2017.</p>
	<p>Detailed Finding/Rational – Issue 2</p> <p>Reconciliations between the VO schedules and Northgate bandings are undertaken to ensure that the correct rate of Council Tax is being charged for properties where occupants are paying Council Tax.</p> <p>A sample of 10 reconciliations between the VO schedules and Northgate were selected. There were four identified instances where the reconciliations were completed after the Council's 28 working days target. The reconciliations were with respect to VO schedules; 925, 931, 934 & 938, with the number of days between the schedule and reconciliation dates being 73, 63, 59 & 40 days respectively. All reconciliations had been undertaken by one officer and checked by a manager.</p> <p>Where the Valuation Schedule is not reconciled against Northgate in a timely manner, there is a risk that taxpayers' will not be paying their correct Council Tax rate.</p>
Responsible officer	Deadline
Head of Customer Contact and Revenue & Benefits	Complete

Control Area 5: Exemptions & Discounts	
Priority	Action Proposed by Management
2	<p>This was an officer error, where the officer did not end the exemption on the property when the Council Tax account was closed due to the property being sold. This was a temporary member of staff and the officer has been reminded to follow Council Tax procedures in the correct manner. A manager then carried out a random sample of quality checks and no further errors were identified. All Council Tax officers were reminded that exemptions apply to properties and not accounts.</p>
	<p>Detailed Finding/Rational – Issue 3</p> <p>Discounts for disablement and/or care home exemptions are only to be given to those who are either disabled or who have moved into a care home. These discounts should be supported by suitable documentation.</p> <p>A sample of 10 properties was selected where disablement and care home exemptions were awarded. For one property it was identified that the individual selected had been inappropriately awarded the Council Tax disablement exemption. When highlighted and further discussed with the Revenues Officer at the time of testing the officer then withdrew the discount by the end of the day.</p> <p>Where discounts are applied to non-applicable individuals there is a risk that the Council Tax collected is incorrect and a shortfall exists which cannot be subsequently recovered, resulting in a lower Council Tax revenue being generated.</p>
Responsible officer	Deadline
Head of Customer Contact and Revenue & Benefits	Complete

4. Priority 3 Issues

Action Proposed by Management	Findings
<p>a) All Council Tax processes and procedures are held in SharePoint. We will date stamp the procedure manuals at review so that we are aware of the most up to date and relevant processes and procedures.</p>	<p>Council Tax work instruction notes for exemptions and discounts should represent the most up to date procedures and figures to ensure that all tenants receive consistent correct exemptions and discounts.</p> <p>The Council Tax work instructions for both discounts and exemptions included no date of when these were produced and therefore it could not be verified that these were the most up to date versions and still relevant.</p> <p>When there is no date on the Council Tax work instructions for exemptions and discounts there is a risk that the instructions do not represent the most up to date methodology and subsequently may lead to inconsistencies in the way in which discounts and exemptions are applied to tenants which can lead to unhappy tenants and reputational damage to the Council.</p>
<p>b) These accounts are being investigated.</p>	<p>Suspense Account items are to be investigated and cleared by the Council Tax Team as soon as possible to ensure Northgate is up to date with the correct Council Tax payment status.</p> <p>As of 13 December 2017 it was identified that the Suspense Account balance was £8,937.09. In addition, there is a tab named 'old items to investigate' of which included two items which have been un allocated since October 2015 and November 2014. It should be noted that descriptions of progress made and actions taken have been documented.</p> <p>Where monies in the Suspense Account are not cleared/allocated in a timely manner there is a risk that tenants have paid their Council Tax but to the incorrect account and are therefore being inappropriately chased for arrears. In addition, there may be funds in the Council Tax Suspense Account that do not relate to Council Tax but instead relate to a different area of the Council – for example Housing Benefits.</p>

TERMS OF REFERENCE

Council Tax

1. INTRODUCTION

- 1.1 Council Tax is administered by the Council Tax Team and uses the Northgate Revenues System application for identification, collection and accounting.
- 1.2 Council Tax is payable on all domestic dwellings with certain exemptions for classes of property. Dwellings are placed in one of eight bands reflecting valuations at 1st April 1991.
- 1.3 For the financial years 2016/17 to 2019/20, local authorities with social care responsibilities will be able to increase council tax by up to 4% per annum, providing that 2% is specifically to fund social care. There is no Council Tax Freeze Grant applying to the same period.
- 1.4 The Council approved a 1.99% increase in the Council Tax for Croydon Services and a 2% increase in the Council Tax for Adult Social Care levy at the 29 February 2016 Council meeting. It is forecast that Council Tax income will consequently increase from £133.4m for 2015/16, to £160.2m for 2019/20.
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes relating to Council Tax.
- 2.2 The audit will for each area included in the scope:
 - Document and evaluate the risks and controls for each process to consider the key controls;
 - Undertake sufficient testing of controls operating, on a sample of transactions; and
 - Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE

- 3.1 This audit examined the Council's arrangements for the following areas relating to Council Tax (and number of recommendations made):

Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Valuations	0	2	0
Tax Setting	0	0	0
Liability	0	0	0





Billing	0	0	0
Exemptions and Discounts	0	1	1
Collections and refunds	0	0	1
Recovery, enforcement and write-offs	0	0	0
Accounting and system reconciliations	0	0	0
Performance review and reporting	0	0	0
Risk Register	0	0	0

3.2 The audit will, where appropriate, in the above areas incorporated compliance with relevant statutes.

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or reply for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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