



Internal Audit Confidential Report

Business Rates 2017/18

Date: January 2018
Report Status: Final

Internal Audit Opinion (see reverse for details)	
Control Environment	Substantial
Organisational Impact	Minor

Audit Team

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Definitions of Audit Assurance

Control Environment Assurance – The design and suitability of the current internal controls.		
Level		Definitions
1	SUBSTANTIAL ASSURANCE	There are minimal control weaknesses that present very low risk to the control environment.
2	GOOD ASSURANCE	There are minor control weaknesses that present low risk to the control environment.
3	ACCEPTABLE ASSURANCE	There are some control weaknesses that present a medium risk to the control environment.
4	LIMITED ASSURANCE	There are significant control weaknesses that present a high risk to the control environment
5	NO ASSURANCE	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance – The level of compliance with current internal controls.		
Level		Definitions
1	SUBSTANTIAL ASSURANCE	The control environment has substantially operated as intended although some minor errors have been detected.
2	GOOD ASSURANCE	The control environment has largely operated as intended although some errors have been detected.
3	ACCEPTABLE ASSURANCE	The control environment has mainly operated as intended although errors have been detected.
4	LIMITED ASSURANCE	The control environment has not operated as intended. Significant errors have been detected.
5	NO ASSURANCE	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact – The impact on the council should the risks identified materialise.		
Level		Definitions
1	MAJOR	The weaknesses identified during the review have left the council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
2	MODERATE	The weaknesses identified during the review have left the council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
3	MINOR	The weaknesses identified during the review have left the council open to low risk. This could have a minor impact on the organisation as a whole.

Report Recipients

The recipients of this audit report are:

Name	Title	Reason for receiving the report
Neil Evans	Director, Resources and Housing	Information
Doug Meeson	Chief Officer, Financial Services	Information
Bhupinder Chana	Head of Finance, Technical	Information
Mark Amson	Business Rate Manager	Information
Richard Ellis	Head of Finance - Financial Management	Information
Kevin Mulvaney	Head of Finance	Information
Naomi Eastwood	Senior Financial Manager	Information
Elizabeth Brooke	Senior Financial Manager	Information

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The final decision on what information is required to be disclosed will be made by Leeds City Council.

Audit Summary

The following table sets out the objectives we have covered as part of the audit, our assessment of the adequacy of the controls in place, the effectiveness of the controls tested and any resulting recommendations.

Objective Assessed	Control Environment	Recommendations Raised
1. All applicable non-domestic properties are accurately recorded in the Business Rates database.	Substantial	None
2. Amounts due in respect of each property have been correctly calculated and recorded, including any relief, and bills are issued on a timely basis.	Substantial	None
3. Secure arrangements are in place for the receipt of Business Rates payments, all payments received are accounted for and promptly posted to the correct Business Rates account.	Substantial	None
4. Procedures are in place to ensure recovery action is undertaken promptly and in line with legislation and reminder notices are issued on a timely basis.	Substantial	None
5. All refunds and write offs are valid, accurate and correctly authorised.	Substantial	None
6. Adequate and timely management information is produced and acted upon.	Substantial	None
7. Procedures are in place to ensure the accuracy of information in relation to the Pooling arrangement.	Substantial	None

Internal Audit Opinion

We are able to provide **substantial assurance** that all expected **controls** are in place to

mitigate the main risks associated with the Business Rates system.

Minor Organisational Impact has been assigned as the weaknesses identified during the review have left the council open to low risk. If the risk materialises it would have a minor impact on the organisation as a whole.

Audit Details

1. Introduction

As part of the annual Internal Audit Plan time has been allocated for undertaking fundamental reviews of Council key financial systems. This is to provide assurance to support the Head of Internal Audit's Annual Opinion on the control environment.

The previous three Business Rates audits received substantial assurance for the control environment. For systems that receive this level of assurance, testing of compliance with the control environment is carried out once every three years. The coverage for 2017/18 included an assessment of the control environment.

2. Risks and links to key priorities

The review has links to the following risks in the Corporate Risk Register:

- Council's financial position goes into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves policy.

3. Scope and Work Completed

The scope of the work was to document, evaluate and validate the systems and procedures in place for the above objectives.

4. Audit Findings

4.1 Objective 1: All applicable non-domestic properties are accurately recorded in the Business Rates database

- 4.1.1 There are controls in place to ensure that non-domestic properties are correctly recorded in the Business Rates database, Academy. These controls include regular reconciliations with the Valuation Office Agency (VOA), the prompt and accurate updating of amendments (including new growth) and regular visits to ensure that all property details are accurate.

4.2 Objective 2: Amounts due in respect of each property have been correctly calculated and recorded, including any relief, and bills are issued on a timely basis

- 4.2.1 There are appropriate controls in place for the annual billing process. Data analysis work undertaken by Internal Audit verified that all bills for 2017/18, including BID

and any reliefs, had been correctly calculated according to the information within the business rates database.

- 4.2.2 Validation sample testing of reliefs and discounts confirmed that they had been applied in line with procedures and appropriately authorised, and evidence of eligibility could be provided for each one.
- 4.2.3 A low level recommendation had been made in the 2016/17 action plan to include additional checks at the annual billing stage to ensure that all exception reports provided by the owners of the business rates database, Capita, have been run and the results retained. We have confirmed that this has now been introduced.
- 4.3 Objective 3: Secure arrangements are in place for the receipt of Business Rates payments, all payments received are accounted for and promptly posted to the correct Business Rates account
- 4.3.1 Secure arrangements are in place for the receipt of business rates payments. We validated that two daily and two monthly cash and refund reconciliations had been undertaken promptly between Academy, the Income Management System (IMS) and the Financial Management System (FMS); that these reconciliations had been reviewed by another officer; and that any variances identified had been investigated and resolved.
- 4.3.2 Testing of a sample of 2 items which had been allocated to the suspense account confirmed that this account is monitored and actioned regularly. Further testing was undertaken on a sample of 2 accounts in credit. Again, this demonstrated that these accounts are monitored regularly and action taken as appropriate.
- 4.4 Objective 4: Procedures are in place to ensure recovery action is undertaken promptly and in line with legislation and reminder notices are issued on a timely basis
- 4.4.1 The correct recovery procedures were being followed in a timely manner and the appropriate notes recorded within the Academy system for our sample of 5 accounts in arrears. Where appropriate, the process for obtaining Liability Orders against defaulters was undertaken.
- 4.4.2 A validation of two accounts in place in relation to significant court actions was also undertaken. These actions are undertaken in conjunction with legal advice to minimise the current and future losses to the Council.
- 4.4.3 An overview of the procedures in place to identify: potential fraud / avoidance cases; the processes for undertaking any investigation; the decision processes around taking action / pursuing cases through the courts; and the reporting process was undertaken. Business Rates obtains advice, as appropriate, in these cases from Legal Services and from the Council's debt management solicitors, Weightmans.
- 4.4.4 Validation testing was undertaken to review the actions taken in relation to 2 cases, to gain assurance that losses to the Council had been mitigated. The processes were operating as expected and actions were taken, in conjunction with legal advice as appropriate, to minimise the loss of Business Rates income to the Council.

4.5 Objective 5: All refunds and write offs are valid, accurate and correctly authorised

4.5.1 Sufficient controls are in place for the processing of refunds and write-offs. This was verified by testing a sample of 2 refunds and 2 write-offs. In all instances the refund/write-off had been correctly processed and appropriately authorised.

4.5.2 We also tested a sample of 2 insolvency cases to ensure they had been correctly recorded, processed and included on the insolvency database. No concerns were identified.

4.5.3 As part of the review reports were prepared to identify potential cases where money laundering may be occurring. There is a detailed refund process in place which requires several levels of checking and authorisation which should be sufficient to identify any frequent or unusual overpayments or refunds. In all potential cases tested, there was no evidence to suggest that any money laundering activity had occurred.

4.6 Objective 6: Adequate and timely management information is produced and acted upon

4.6.1 Business Rates collection targets have been set and are monitored and reported to Finance Performance Group (FPG) monthly.

4.6.2 Collection rate estimates and actual figures are also reported to Central Government on a regular basis.

4.7 Objective 7: Procedures are in place to ensure the accuracy of information in relation to the Pooling arrangement

4.7.1 Adequate governance arrangements are in place covering the operation of the Pool, returns are accurately completed from the information provided by member authorities, and budgeted / predicted revenue for the Pool is compared to actuals.

Detailed testing results are shown in the table below.

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Testing Summary

The sample for testing was selected from the period covering October 2016 – September 2017, unless otherwise stated.

Areas tested	Number of records retrieved	Number of records examined
Objective 1 - All applicable non-domestic properties are accurately recorded in the Business Rates database.		
1.1 Regular reconciliations occur between the business rates database and the VOA ratings list	2	2
1.2 Correct and prompt action has been taken where variances have arisen between the VOA ratings list and the business rates database	52 weekly schedules	5
1.3 Regular visits are undertaken where necessary to determine records of occupation are accurate	n/a ¹	5
<p>Results</p> <p>1.1 <i>The reconciliations completed were confirmed to supporting documentation and no issues were identified.</i></p> <p>1.2 <i>In the 5 cases tested, correct and prompt action was taken when any variances arose between the VOA ratings list and the business rates database.</i></p> <p>1.3 <i>In 4/5 accounts tested, the visit had occurred and was recorded in line with work instructions. In the remaining case, there was no visit undertaken as was scheduled to have taken place due to development not commencing within 3 years of approval. This made the planning approval invalid and the property rightly removed from the visit list.</i></p>		
Objective 2 - Amounts due in respect of each property have been correctly calculated and recorded, including any relief, and bills are issued on a timely basis		

¹ A random sample of 20 properties was selected from visit schedules, the query book, completion notices and the planning database.

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2.1	Recalculation of all annual bills <u>only</u> issued for 2017/18 up to 31st August 2017.	28,234	28,234
	Recalculation of Otley BID bills	571	571
	Recalculation of Leeds City BID bills	1,033	1,033
2.2	Reliefs/discounts awarded are supported with evidence of eligibility with the relevant criteria; have been actioned promptly; and the exemption has only been applied for the maximum allowance or eligible dates as per the evidence supplied.	1,339	1,339
Results			
2.1	<i>All bills have been correctly calculated according to the information held within the Academy database.</i>		
2.2	<i>Evidence of eligibility for the relief/discount could be provided in all cases tested, and these had been appropriately approved.</i>		
Objective 3 - Secure arrangements are in place for the receipt of Business Rates payments, all payments received are accounted for and promptly posted to the correct Business Rates account			
3.1	Monthly and daily reconciliations have been undertaken in a timely manner and that these have been reviewed.		
	- Monthly reconciliations	12	2
	- Daily reconciliations	262	2
3.2	Items in the suspense account are reviewed promptly and actioned appropriately	2	2
3.3	Accounts in credit are monitored and action taken as appropriate	321	2
Results			
3.1	<i>The sample of monthly and daily reconciliations had been undertaken promptly, these had been reviewed by a second officer and any variances were investigated and resolved. The cumulative figures used in the monthly reconciliations agreed to the 2016/17 year end reconciliation.</i>		
3.2			

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3.3	<p><i>For the items tested which had been allocated to the suspense account, action had been taken appropriately in a prompt manner to allocate the payment to the correct account. Accounts in credit are monitored regularly and appropriate action taken to refund, transfer or await further information before taking clearing the credit balance.</i></p>		
<p>Objective 4 - Procedures are in place to ensure recovery action is undertaken promptly and in line with legislation and reminder notices are issued on a timely basis</p>			
4.1	<p>Recovery action is appropriate and regular monitoring is undertaken. Reminder notices are issued promptly in line with the recovery timetable and agreed procedures.</p> <p>REM 1 – 15/11/2017</p> <p>REM 2 – 02/11/2017</p> <p>REM 3 – 16/11/2017</p>	n/a ²	1
4.2	<p>Stop Recovery Markers have been placed on accounts for appropriate reasons and length of time.</p>	446	2
4.3	<p>Appropriate court action has been taken.</p>	n/a ⁵	2
4.4	<p>Long term arrangements have been made on accounts for appropriate reasons and length of time.</p>	n/a ⁶	2
<p>Results</p> <p>4.1 <i>Reminders were issued promptly in line with the timetable and agreed procedures. Reminder stop recovery markers had been placed on the account appropriately.</i></p> <p>4.2 <i>Appropriate court action had been taken.</i></p> <p>4.3 <i>Long term arrangements on the accounts were appropriate.</i></p>			

² The sample was selected from hard copies of reports where the total number of records was not available.

³ The sample was selected from hard copies of reports where the total number of records was not available.

⁴ The sample was selected from hard copies of reports where the total number of records was not available.

⁵ The sample was selected from hard copies of reports where the total number of records was not available.

⁶ The sample was selected from hard copies of reports where the total number of records was not available.

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4.4	<i>Action taken in relation to pursuing potential fraud/avoidance cases has minimised the</i>		
4.5	<i>loss of business rates income to the Council.</i>		
Objective 5 - All refunds and write offs are valid, accurate and correctly authorised			
5.1	Refunds made are valid, for the correct amount, and paid to the correct person	1,248	2
5.2	There has been segregation of duties in the input and authorisation of refunds	1,248	1,248
5.3	Write-offs are valid, for the correct amount and have been appropriately authorised	874	2
5.4	Money laundering:		
	- any evidence of suspicious activity on accounts which potentially could have been overpaid with cash and subsequently refunded	40	4
	- any evidence of suspicious activity on accounts which potentially could have been overpaid with cash where there was a credit balance	29	4
<i>Results</i>			
5.1	<i>All refunds were valid, for the correct amount and paid to the correct person.</i>		
5.2	<i>For all refunds made during the period of review, there had been segregation of duties in the input and authorisation of refunds.</i>		
5.3	<i>In all cases tested, there was sufficient evidence that the write-off was valid, accurate and approved by an appropriate officer.</i>		
5.4	<i>No evidence of potential money laundering activity was identified.</i>		
Objective 6 - Adequate and timely management information is produced and acted upon			
6.1	Checks completed to confirm the accuracy of the figures for Business Rates in the monitoring statement for FPG.	12	2
6.2	Checks completed to confirm the accuracy of the figures relating to the Leeds element of the QRC1 and QRC2 forms.	2	2

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Results			
6.1	<i>The figures for Business Rates in the monitoring statement for FPG are accurate.</i>		
6.2	<i>The figures relating to Leeds in the QRC1 and QRC2 forms are accurate.</i>		
Objective 7 - Procedures are in place to ensure the accuracy of information in relation to the Pooling arrangement			
7.1	Checks completed to confirm the accuracy of the figures for Leeds in the monitoring statement for the LCR business rates pool to the NNDR1 form.	1	1
7.2	Checks completed to confirm the accuracy of the figures relating to the Leeds element of the NNDR3 form and overview checks on the figures provided by the other pool authorities.	1	1
7.3	Confirmation that the amounts paid in FMS agree to the planned usage of the levy, and that top ups have been paid and tariffs received.	6 payment 48 top-up 16 tariff	6 payment 48 top up 16 tariff
Results			
7.1	<i>The figures for Leeds in the monitoring statement for the LCR business rates pool are accurate.</i>		
7.2	<i>The figures relating to Leeds and the other pool authorities in the NNDR3 form are accurate.</i>		
7.3	<i>The amounts paid and received in FMS agree to the planned usage of the levy, and the scheduled top ups have been paid and tariffs received.</i>		