



Item: 6

Monitoring and Audit Committee: 3 April 2025.

Internal Audit – Council Tax.

Report by Chief Internal Auditor.

1. Overview

- 1.1. The internal audit plan 2024/25 includes a review of processes and controls relating to Council Tax. This audit has been completed and is attached as Appendix 1 to this report.
- 1.2. The Council Tax bills in 2023/24 generated over £11.5 million of income to help pay for services provided by the Council.
- 1.3. The objective of this audit was to review whether the Council has effective and robust procedures in place that ensure billing for Council Tax is accurate and comprehensive, payments are securely received, and processes are well defined and adhered to.
- 1.4. The audit provides Adequate assurance that the processes and procedures relating to Council Tax are well controlled and managed.
- 1.5. The internal audit report, attached as Appendix 1 to this report, includes 4 medium priority recommendations regarding reconciliations, turnaround times, and user access. There are also 5 low priority recommendations regarding document management, controls around discounts and exemptions, and procedure documents. There are no high priority recommendations made as a result of this audit.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to controls and procedures in place to ensure billing for Council Tax is accurate and comprehensive, payments are securely received, and processes are well defined and adhered to, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

Andrew Paterson, Chief Internal Auditor, Extension 2107, email andrew.paterson@orkney.gov.uk.

Implications of Report

- 1. Financial:** None directly related to the recommendations in this report.
- 2. Legal:** None directly related to the recommendations in this report.
- 3. Corporate Governance:** In terms of the Scheme of Administration, consideration of Internal Audit findings and recommendations, and review of actions taken on recommendations made, are referred functions of the Monitoring and Audit Committee.
- 4. Human Resources:** None directly related to the recommendations in this report.
- 5. Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit Reporting.
- 6. Island Communities Impact:** An Island Communities Impact report is not required in respect of Internal Audit Reporting.
- 7. Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
- 8. Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
 - Improving Population Health.
- 9. Environmental and Climate Risk:** None directly related to the recommendations in this report.
- 10. Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
- 11. Procurement:** None directly related to the recommendations in this report.
- 12. Health and Safety:** None directly related to the recommendations in this report.
- 13. Property and Assets:** None directly related to the recommendations in this report.

- 14. Information Technology:** None directly related to the recommendations in this report.
- 15. Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2024/25.

Appendix

Appendix 1: Internal Audit Report – Council Tax.



Internal Audit

Audit Report

Council Tax

Draft issue date: 12 March 2025

Final issue date: 21 March 2025

Distribution list:

**Corporate Director Enterprise and Sustainable
Regeneration**

Head of Finance

Service Manager Revenues and Benefits

Contents

Audit Opinion	1
Executive Summary	1
Introduction	2
Audit Scope.....	2
Audit Findings	3
Action Plan.....	9
Key to Opinion and Priorities.....	13

Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

This review was carried out to provide assurance that the Council has effective and robust Council Tax procedures, to ensure that billing is accurate and comprehensive, payments are securely received and recorded and that processes are defined and adhered to.

Some areas of good practice were identified during this audit including:

- Procedures are comprehensive and well written.
- Discounts and exemptions applied are accurate in respect of both amount and relevant dates.
- Staff have good knowledge of their areas of operation with some good examples of collaborative working.
- Refunds are well-controlled with proper authorisation and evidence.
- Updates to billing are processed with a high degree of accuracy.
- Recovery enforcement procedures are operating satisfactorily.

The report includes 9 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Ideagen Risk Management.

Total	High	Medium	Low
9	0	4	5

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

Council Tax is a form of local taxation set by the Council to help to pay for the services it provides. There is only one bill for each house based on the value of each property relative to others in the local area. Council Tax is normally paid on domestic property by the people who are living in the property, whether it is privately owned or rented. Over £11.5 million was generated by Council Tax in financial year 2023/24 making it a key source of funding for the provision of services by Orkney Islands Council.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Scope

The scope of this audit included a review of the following:

- Billing and collection procedures and controls.
- Identification and recording of taxable properties.
- Controls around discounts, exemptions, allowances and surcharges.
- Accuracy of income recording and reconciliation.
- Arrears management procedures.
- Refunds and write-offs authorisation process.
- Database management.

Audit Findings

1.0 Billing and Collection

- 1.1 Council Tax bills are generated from the NEC Revenue and Benefits database system (NEC). The system logs information on all aspects of Council Tax including details such as properties, occupier details and payments made.
- 1.2 A sample of accounts were selected and examined to ensure that the information on the system was accurate to allow bills to be correct. Testing indicated that information was up-to-date and accurate for our sample.
- 1.3 Council Tax payments are made in various methods including direct debit, cash payments, card payments and standing orders.
- 1.4 Payments from different sources were selected at random for audit testing. All transactions were able to be sourced, payment was promptly entered onto the system and amounts were accurate.
- 1.5 Payments may be rejected under certain scenarios, for example if the reference is missing a digit from the Council Tax account. Payments that cannot be linked to a specific account are held on the suspense account where a member of the Revenues team will assess and allocate the payment to the appropriate account.
- 1.6 Recent suspense accounts were reviewed, and we found appropriate evidence showing the suspense accounts had been cleared quickly and the account where the payment was allocated was clearly indicated.

2.0 Refunds

- 2.1 In certain circumstances refunds may need to be paid to customers. Refunds may not always be a reversible transaction and can require ad hoc payments. These payments can represent potential risk; it is important there are adequate controls in place to protect employees and taxpayer funds.
- 2.2 This area has been highlighted in recent events. In 2023, Aberdeen City Council discovered an employee had fraudulently transferred over £1 million of Council Tax payments to their own bank account through refunds.
- 2.3 In light of this issue an in-depth review of controls around refunds was carried out.
- 2.4 The review found that there are suitable controls in place including separation of duties, where different personnel are required to certify and authorise the refund. The Payments team also check the transaction prior to the refund being paid.
- 2.5 A sample of refunds were selected for evaluation and in all cases appropriate forms were fully completed and supporting evidence was available.

3.0 Reconciliation

- 3.1 Payments for Council Tax are reconciled both daily and monthly.

- 3.2 A staff member was observed completing the daily reconciliation. The staff member was knowledgeable of the task and dealt with any issues that arose. The daily reconciliation forms for February 2025 were reviewed, all forms were reconciled, signed off by a staff member and were completed promptly.
- 3.3 We requested to review monthly reconciliations for 2024/25 but were advised these had not yet been completed due to figures not reconciling.
- 3.4 Monthly reconciliations should be brought up to date as a matter of priority.

Recommendation 1

4.0 Liability

- 4.1 Liability for Council Tax usually falls to the occupier, however in certain circumstances it may fall to owners of the property. Given that the occupier may not always be liable, it is important there are robust guidelines in place to determine who is liable.
- 4.2 Procedure notes for liability were reviewed and found to be clearly laid out with hierarchies to identify who is liable.
- 4.3 Correspondence relating to changes in property liability is held on file each year. A sample of forms were examined, we found that updates to liability were correct with supporting evidence available.
- 4.4 The time taken to process liability updates has increased. In the previous Council Tax audit carried out in 2019/20, the average change for liabilities for the sample was under half a day, the average process time for the 2024/25 sample was over 16 days.
- 4.5 When queried on increased time to process forms across the board, the Service Manager (Revenue and Benefits) advised there were resource pressures on the team.
- 4.6 A structured plan with targets and timescales should be put in place to address increases in turnaround times.

Recommendation 2

5.0 Surcharges, Discounts and Exemptions

Surcharges

- 5.1 With effect from April 2024, the Council applied a 100% surcharge for properties listed as a second home. Properties could be classed as second homes prior to April 2024 so the surcharge was not a new classification. A list of properties potentially eligible to receive the surcharge was extracted from NEC Revenues and Benefits, checked to confirm the property status and, where applicable, the surcharge applied manually to each relevant account.
- 5.2 Sample testing of the list of properties noted above confirmed that where the charge had been applied, this was appropriate. Several properties on the list did not receive the surcharge, but for each case sampled, there were supporting reasons, for example, a tenant had moved in or the property no longer fulfilled the criteria for a second home.

Discounts

- 5.3 Testing on the discounts applied to Council Tax confirmed that discounts were correctly identified and applied to accounts.
- 5.4 Audit work highlighted that although the Council Tax Discounts Guidance used by the Revenues team requires a confirmation letter to be sent out, in some cases we were unable to find evidence that this had happened. See paragraph 5.7 below.
- 5.5 Whilst supporting information in emails was available when requested during testing, this information was not always filed in the relevant paper files for the account. This may be because it is felt that the information is available from staff computers if required. Best practice would be to have all information, e.g. correspondence, screen shots of the NEC system and scans of paper forms received, centrally stored and accessible via an Electronic Data Records Management system (EDRM), which would be searchable for property name, taxpayer name or account reference. We understand that such a system is available.
- 5.6 In addition, at present, it is only the files in respect of the current and prior financial year that are available for reference. Prior year paper files are stored at Hatston or may have been destroyed in line with the document retention policy. In the audit sample of 28 exemptions, 11 transactions were in respect of arrangements set up prior to financial year 2023/24 for which we were not able to check supporting evidence.
- 5.7 The available electronic document management system should be adopted for Council Tax records.

Recommendation 3

- 5.8 Testing in respect of void properties showed that evidence provided supported both the classification of the property as 'void', and the timescale and discount applied. However, whilst the relevant procedures require that a confirmation letter is issued, this was the case for only 6 of the 10 properties sampled. For the balance, 2 were noted as confirmed by email, (although copies of the emails were not on file), one was noted as confirmed by telephone and the last had no evidence that confirmation had been issued.
- 5.9 Confirmation letters in respect of discounts and exemptions should be issued by letter in line with current guidance, or the guidance updated to reflect confirmation by email. Confirmation by phone should be followed up by confirmation in writing with copies being added to the relevant file.

Recommendation 4

- 5.10 For both properties that are deemed to be 'void' and where an application is received for Disablement Band Relief, the procedures note the involvement of the Assessor and Valuation Office in confirming that the relevant criteria have been fulfilled. There was previously a Service Level Agreement in place which expired in 2024 and included the void properties visits. Audit work revealed that visits had ceased during the COVID-19 pandemic, but to date no requests for void property confirmations had been issued to the Assessor. One request for a disablement band relief confirmation had been issued to the Assessor very recently.
- 5.11 It is recommended that void property inspection requests to the Assessor are reinstated.

Recommendation 5

- 5.12 In addition, although the taxpayer initially applies for a discount or exemption and is required to notify any changes to circumstances, there is no requirement for them to confirm annually that the exemption or discount remains valid. At the previous audit in 2019/20, there was a schedule in place for the Revenues team to review these cases, but since the COVID-19 pandemic these reviews have not been taking place.
- 5.13 There is ad hoc sampling each month of 5 'changes' which include exemptions and discounts as well as new occupations, band changes, and changes in the taxpayer (approximately 2% of total changes), but this appears to be focussed on the administration of the change rather than the underlying validity of any claims made.
- 5.14 As a result, there has been an increased dependency on the initial taxpayer's claim, and a reduction in confirmation of the validity of that claim.
- 5.15 Sample testing of the validity of exemptions and discounts applied should be introduced as the schedule of reviews performed in the past is not being undertaken at present.

Recommendation 6

- 5.16 Hard copy or online application forms contain a signed declaration by the claimant that the information provided is correct. Where staff complete an application form as part of a phone call, there is no evidence of the claimant's declaration. It is recommended that as a minimum, confirmation letters are issued which refer to the information provided in the phone call, the verbal declaration made and any consequences of misrepresentation (See para. 5.9 and Recommendation 4 above).
- 5.17 Audit work in respect of death notification confirmed that all notifications were inputted correctly but highlighted that there had been a substantial increase in the average time to add notifications to the system. At the previous audit of Council Tax in 2019/20, notifications were being added within 2 days of being received. Currently, audit work showed that 90% of the 25 notifications sampled were updated within 23 days. See paragraph 4.5 above.

6.0 Recovery Enforcement

- 6.1 When Council Tax is not paid the liable party can go into arrears. The NEC Revenues and Benefits system is used to produce a list of accounts that are in arrears for Council Tax. Accounts in arrears are progressed along the steps of recovery.
- 6.2 Non-paying parties will receive at least 2 reminders of payment before an application is made to the Sheriff Court for a Summary Warrant and a Statutory Penalty of 10% is applied to the debt to cover the collection costs.
- 6.3 A sample of accounts that had been passed onto the Sheriff Officers was reviewed to ensure appropriate action had been taken and costs had been charged to the account. In all cases correct action and costs had been applied.
- 6.4 It is not always feasible to pursue debt; at times the Council will write-off debt.
- 6.5 For amounts that are £5 or under a printout of an account or bill that shows the amount is signed by an officer, dated and the reason for write-off is marked on the printout, this is then stored. For write-offs over the value of £5 an application for write-off is completed that has the reason and is signed off by the Head of Finance.

6.6 A sample of write-offs were examined. Testing found that appropriate documentation was available and correct for 13/14 of the sample. One write-off to the value £5.12, had a printout and signature from the officer and there was a note advising the Service Manager (Revenue and Benefits) had agreed to write-off the amount. Given the non-material amount of the write-off this decision was deemed appropriate.

7.0 Valuation

7.1 The amount of Council Tax charged is based on the Valuation Band of a property. Valuations are carried out by the Orkney and Shetland Valuation Joint Board (OSVJB). The OSVJB advise on any new properties to be charged Council Tax.

7.2 The Revenues team and the OSVJB do not use the same database of valuations. Updates to valuations are periodically sent from the OSVJB to the Revenues team every 1 to 2 weeks.

7.3 Updates include any changes, for example new properties requiring to be added or properties changing from Council Tax to Non-Domestic Rates. Part of the updates includes the total number of dwellings per band which allows a reconciliation between the separate systems used by the Revenues team and the OSVJB.

7.4 A sample of valuation update reports from 2024/25 were selected and reviewed. Testing indicated that changes were inputted accurately, reconciliations were carried out and if resource was available another member of staff would check the updates and the reconciliation. The updates were processed at varying rates with the shortest 4 days and the longest 48 days. When the previous Council Tax audit was carried out in 2019/20, all valuation updates were processed within 1 or 2 days. See paragraph 4.5 above.

8.0 Quality Assurance

8.1 The Council Tax team has a set of procedure notes for various processes. The notes are clearly laid out and technical actions are broken down into small steps making them useful documents for new members of staff or for less frequently done tasks. While some of the documents have been revised recently, several of the procedure notes were last reviewed over 5 years ago with one document last being revised in 2007.

8.2 Procedure notes should be updated and reviewed regularly to ensure they are up to date.

Recommendation 7

8.3 Bills and recovery notices are checked by a member of staff before sending.

8.4 The Council Tax team carries out ad hoc testing when resource is available. A sample of transactions from a given month are assessed to verify they are correct. This was last done in February 2024.

8.5 There is a review every 4 months of internal staff accounts to confirm there have been no unauthorised changes.

9.0 Information Systems

9.1 Council Tax information is held on a database system called NEC Revenues and Benefits. The system logs information on all aspects of Council Tax including properties, occupier details, and payments. The system is essential for collecting Council Tax payments making it valuable to the Council.

- 9.2 Access to the system is granted by the database administrator and the system can be accessed on the Council network.
- 9.3 There is currently not an up-to-date version of a User Access Control Policy for the NEC Revenues and Benefits system with the last version reviewed in 2017.
- 9.4 The User Access Control Policy should be updated for NEC Revenues and Benefits.

Recommendation 8

- 9.5 There is a list of users with current access to the system held by the database administrator. The list is updated to add new users or remove users who no longer require access. The user list is reviewed annually to ensure only those who currently require access have it.
- 9.6 Users can have varying access levels to NEC Revenues and Benefits depending on what they need to do on the system. Generally, users should only have access to what they require and no more. It was highlighted that 13 users currently have administrative access to the system. There is potentially significant risk while having users with administrative access that do not require it.
- 9.7 It is recommended that user access levels for NEC Revenues and Benefits are reviewed so that administrative access is only given to users that require it.

Recommendation 9

- 9.8 Audit logs are enabled on the system meaning users' actions are tracked and can be reviewed.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 The monthly reconciliations should be brought up to date.	Medium	Agreed. The monthly reconciliations for 2024/25 will be brought up to date before the end of this financial year. Reconciliations will then return to being done routinely each month.	Team Manager (Revenues)	31 March 2025
2 A structured plan with targets and timescales should be put in place to address the increase in turnaround times.	Medium	<p>Agreed in part. The audit report mentions three areas where process times have increased in comparison with FY 2019/20, at paragraphs 4.4, 5.17 and 7.4.</p> <p>The Team acknowledges the findings of the report, however, would note that the 48 days referenced at 7.4 was an exception rather, than the norm.</p> <p>It should also be noted the global changes since the last audit of Council Tax: Covid, and Cost of Living Crisis, for example.</p> <p>In addition, further resourcing pressures have been experienced by the Team over recent years:</p> <ul style="list-style-type: none"> - Staff turnover, including management changes - Staff vacancies, protracted by multiple recruitment exercises - Staff sickness involving both short and long-term absence 	<p>Service Manager Revenues and Benefits</p> <p>Team Manager (Revenues)</p>	30 April 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
		<ul style="list-style-type: none"> - Multiple software updates - Introduction of 2nd Homes surcharge, and additional enquiries generated by this change in policy - Knock-on effect of Non-domestic rates revaluation - Introduction of a new Corporate Direct Debit system was trialled by Revenues Team, drawing officer time away from day-to-day tasks <p>These external and internal factors have impacted on the operation of the service by this small Team. Comparison with 2019/20 may not be a reliable indicator moving forward.</p> <p>However, the Revenues Team were generally aware of these performance issues and have already taken positive steps to improve turnaround times. An action plan will be prepared to help achieve this outcome.</p>		
3 The available electronic document management system should be adopted for Council Tax records.	Low	Agreed. Software system needs updated for the new Financial Year. Once complete, an assessment will be undertaken on how the Team can use the Electronic Document System for day-to-day processes.	Service Manager Revenues and Benefits	30 June 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>4. Confirmation letters in respect of discounts and exemptions should be issued by letter in line with current guidance, or the guidance updated to reflect confirmation by email.</p> <p>Confirmation by phone should be followed up by confirmation in writing, with copies being added to the relevant file.</p>	Low	<p>Agreed in part.</p> <p>The guidance will be updated to reflect that confirmation can be sent by email.</p> <p>The Council Tax Bill shows exemptions and discounts and the period they cover which we consider sufficient confirmation in writing.</p> <p>Where a more complex set of discounts have been applied, we will send a letter</p>	<p>Service Manager Revenues and Benefits</p> <p>Team Manager (Revenues)</p>	1 April 2025
<p>5. Void property inspection requests to the Assessor should be reinstated.</p>	Low	<p>Partially Agreed. Inspections for empty properties and for the Disabled Band reduction are not always required as information can be obtained direct from the customer using emails, photos etc.</p>	<p>Service Manager Revenues and Benefits</p> <p>Team Manager (Revenues)</p>	30 June 2025
<p>6. Sample testing of the validity of exemptions and discounts applied should be introduced if the historic review schedule is not being undertaken.</p>	Low	<p>Agreed. Reviews to ensure that exemptions and discounts have been correctly applied will be re-instated.</p>	<p>Service Manager Revenues and Benefits</p> <p>Team Manager (Revenues)</p>	31 May 2025
<p>7 Procedure documents should be:</p> <ul style="list-style-type: none"> updated where required to reflect how taxpayers are choosing to communicate with the team, and information from other Services. 	Low	<p>Agreed. Policies and procedures will be reviewed and updated, where required, to ensure that they remain correct and dated as such.</p> <p>These will then be saved in a central location and diarised for subsequent review.</p>	<p>Service Manager Revenues and Benefits</p> <p>Team Manager (Revenues)</p>	30 September 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<ul style="list-style-type: none"> • reviewed periodically in line with a timetable. • stored centrally. 				
8 The User Access Control Policy should be updated for NEC Revenues and Benefits.	Medium	Agreed. This will be updated	Service Manager Revenues and Benefits	31 May 2025
9 User access levels for NEC Revenues and Benefits should be reviewed so that administrative access is only given to users that require it.	Medium	Agreed. Discussions with NEC are underway to assess how this can be rectified. This recommendation is an NEC set up issue	Service Manager Revenues and Benefits	31 May 2025

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.