

Item: 6.3

Monitoring and Audit Committee: 17 February 2022.

Internal Audit Report: Non-Domestic Rates.

Report by Chief Internal Auditor.

1. Purpose of Report

To consider internal audit on procedures and controls relating to Non-Domestic Rates.

2. Recommendations

The Committee is invited to note:

2.1.

That Internal Audit has undertaken an audit of governance arrangements, processes and controls in place within the Council in relation to Non-Domestic Rates.

2.2.

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to governance arrangements, processes and controls in place within the Council in relation to Non-Domestic Rates.

It is recommended:

2.3.

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

Non-Domestic Rates are taxes paid on non-domestic properties. The Scottish Government is responsible for the policy and legislative framework and set the tax rates, but individual councils administer and collect the tax.

3.2.

Rates are collected from owners or occupiers of non-domestic properties by the Council and paid into the national pool. The national pool then redistributes the income to authorities on the basis of factors including population and need within the area.

3.3.

The objective of this audit was to confirm that there are policies and procedures in place to ensure that all relevant data from the valuation roll is promptly and correctly transferred to the assessment roll, bills are correctly calculated for all relevant properties, payments received are promptly processed and arrears follow up procedures are properly controlled.

4. Audit Findings

4.1.

The audit provides adequate assurance that the processes and procedures relating to Non-Domestic Rates are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes seven medium and two low priority recommendations within the action plan. There are no high-level recommendations made as a result of this audit.

4.3.

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officers

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

Peter Thomas, Internal Auditor, extension 2135, email peter.thomas@orkney.gov.uk.

9. Appendix

Appendix 1: Internal Audit Report: Non-Domestic Rates.



Internal Audit

Audit report

Non-Domestic Rates

Draft issue date: 14 December 2021

Final issue date: 26 January 2022

Distribution list:	Revenues Manager Manager (Strategic Finance) Interim Head of Finance Interim Executive Director of Finance, Regulatory, Marine and Transportation Services
---------------------------	--

Contents

Audit Opinion	1
Executive Summary	1
Introduction	3
Audit Scope.....	3
Audit Findings	4
Statistical Analysis	6
Action Plan.....	7
Key to Opinion and Priorities.....	9

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

The Council administers the billing, collection of monies and application of Non-Domestic Rates relief to 2,600 properties within Orkney.

Our audit opinion is based on the finding of our review of the above activity.

Several areas of good practice for Non-Domestic Rates processes and controls were identified during the audit. For example:

- Billing activity and receipt of monies are comprehensively and accurately recorded.
- The team is proactive in advising non-domestic rate payers to apply for various reliefs to non-domestic rate charges that are available.
- A professional and helpful level of customer support was observed during the audit.

In addition to the processing of Non-Domestic Rates the team also administer the processing of Council Tax to over 11,000 domestic properties.

The establishment size for this team is 4 full time equivalent staff. Throughout the financial year, the number of staff in the team has not reached this level of staffing. For most of the financial year the number of staff in the team has been at a level of 2 full time equivalents.

Despite this shortfall in staff numbers, staff have worked diligently and with high endeavour to ensure that the day-to-day activity of billing, collection and application of reliefs are performed timeously and accurately.

Inevitably, due to the challenges from reduced staff numbers the team has had to prioritise the activity which can be performed. At the time of our audit work during November 2021, reminders for payment had not been issued and no recovery action had been carried out within the financial year to date.

At the time of the audit work, the Revenues Manager had identified a number of system developments where efficiencies in processes could be introduced. However, to implement these would require additional human resources.

Comprehensive verifications and reconciliations are performed regularly resulting in a high level of accuracy being achieved.

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. There are no high-level recommendations from our review.

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

Total	High	Medium	Low
9	0	7	2

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

Introduction

Non-Domestic Rates, also called Business Rates, are taxes paid on non-domestic properties. The Scottish Government is responsible for the policy and legislative framework and set the tax rates, but individual councils administer and collect the tax.

Non-Domestic Rates are based on the rateable value of a property, which is determined by the independent Scottish Assessors of which the local offices are in Kirkwall.

The amount paid is calculated by multiplying the property's rateable value by a pence in the pound tax rate known as the poundage. Reliefs such as the Small Business Bonus Scheme may reduce this amount. The Council also grants some discretionary reliefs.

Rates are collected from owners and/or occupiers of non-domestic properties by the Council and paid into the national pool. The national pool then redistributes the income to authorities on the basis of factors including population and need within the area. This income contributes to the Council's budget in paying for local services.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Audit Scope

The scope of this audit was to review the following:

- All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll.
- Bills are correctly calculated (including discounts and reliefs etc) for all relevant properties.
- Only valid amendments are made to the billing system.
- Payments received are promptly processed and correctly posted to rate payers' accounts.
- Write offs, cancellations and refunds are properly controlled.
- Arrears follow up procedures are properly controlled.

Audit Findings

1.0 Billing

- 1.1. Our review found that billing is carried out timeously, comprehensively, accurately and is reconciled to the Assessor's records.
- 1.2. One relatively small point of detail is that for businesses within the intermediate poundage rate, i.e. a business with a rateable value between £51,001 and £95,000, the correct rate of 50.3 pence had been used in the calculation of the amount of non-domestic rates charged, however the demand refers to the basic property rate of 49 pence being applied.
- 1.3. It is recommended that the software supplier is advised of this anomaly.

Recommendation 1

2.0 Collections

- 2.1. Similarly, payments are collected and recorded timeously, comprehensively and accurately and reconciled to financial ledgers.
- 2.2. However, it was observed that the process to record monies received involved the manual keying in of reference numbers and amounts from the banking system into the non-domestic rates software system.
- 2.3. Efficiencies from potential system development had already been identified by the Revenues Manager by the time of our audit, however there are also control implications from the potential of keying in errors or from any attempted fraudulent activity.
- 2.4. The banking system already interfaces to the software module recording domestic taxpayers accounts, (where accurate references are provided), it is recommended similar scripts are developed to facilitate the interfacing of non-domestic rate payments.

Recommendation 2

- 2.5. The team's activity includes the taking of debit card payments directly. Ideally, from an anti-fraud perspective, the collection of payments should not be performed by persons who also have access to amend client records. We believe that the reason why the team were provided with the facility to receive debit card payments into Council bank accounts was because people making payments may require information relating to their account before making a payment.
- 2.6. It should be considered whether processes could be introduced which would allow enquiries to be answered and then the process of receiving debit card payments be carried out by an automated method.

Recommendation 3

- 2.7. Reminder statements to Non-Domestic Rates payers who have not made payment by the date due have not been issued in the financial year by the time of our review. This being due to a lack of capacity. The percentage of Non-Domestic Rate payments collected by the end of November is similar to previous years. This may partly reflect the number of organisations or persons receiving 100% relief from Non-Domestic Rates. The collection

rate of Non-Domestic Rates in Orkney has been high, by the end of March 2021, the collection rate for the 2020/21 financial year was 98.3%.

- 2.8. It is recommended that reminders, where payment schedules are not being met, are issued when capacity allows for this to take place.

Recommendation 4

- 2.9. No recovery actions had been instigated in the financial year by the time of our review. This again being due to a lack of capacity. Recovery activity carried out in a fair manner and where appropriate should recommence when capacity allows for this to take place.

Recommendation 5

- 2.10. There have been no write offs of non-domestic rate balances within this financial year or previous financial year.

3.0 Data and Data Governance

- 3.1. Our review identified that regular reconciliations are carried out for Non-Domestic Rates. One example is that the software system is reconciled to totals from the Assessor's database on a weekly basis. Checking of ad hoc samples however have not been carried out in the financial year by the time of our review.

- 3.2. It is recommended that ad hoc sample testing is reintroduced, over data entry into the non-domestic rates module.

Recommendation 6

- 3.3. Data relating to Non-Domestic Rates is being held outwith the Council retention and disposal policy, both on the Council's network and within the software system used.

- 3.4. Recommendation and management response to data held on the network has previously been addressed as part of the housing benefit and Council Tax reduction internal audit.

- 3.5. One of the system development initiatives from the Revenues Manager's project list is to use the data scrambling utility of the software system. It is recommended that data on the software system is reviewed to ensure that data is not retained for longer than needed and in compliance with the Council's retention and disposal policy.

Recommendation 7

- 3.6. The current version of the Revenues and Benefits Access Control Document is marked as having been reviewed on 6 October 2017. There are some changes that are needed to this document.

- 3.7. It is recommended that the Revenues and Benefits Access Control Document is updated.

Recommendation 8

- 3.8. The Revenues Manager advises that passwords held within the revenues and benefits system are not encrypted.

- 3.9. Passwords held on the revenues and benefits system should be encrypted.

Recommendation 9

Statistical Analysis

On 1 June 2021 the number and rateable value of properties within Orkney on the Valuation Roll was 2,600 and £29.2 million respectively.

Non-Domestic Rates reliefs benefit many Orkney business and community groups. 2,210, or 85%, of the overall number of non-domestic properties received one or more reliefs. The comparable value for the whole of Scotland was 68%. However, the total value of reliefs as a proportion of the total gross bill for all properties on the valuation roll, for Orkney was 36%, compatible to the Scottish national average of 37%.

The number of properties in Orkney receiving 100% relief was 2,140. This number includes both mandatory and discretionary reliefs which includes both the Scottish Government's and the Council's contributions.

The number of properties in Orkney receiving 100% Small Business Bonus Scheme relief (SBBS) or less than 100% SBBS in Orkney was 1,510 and 60 respectively. The total of 1,570 properties is 61% of the overall total, which compares to 47% for Scotland as a whole.

A summary of reliefs, by property class, at 1 June 2021, is shown in the table below:

Funding for the Small Business Bonus Scheme relief is set annually by the Scottish Government.

Orkney	Number of Properties				Value
	Valuation roll	Receiving Relief	Receiving 100% relief	Properties in receipt of SBBS	Reliefs awarded £ thousands
Care Facilities	20	10	10	-	264.5
Communications	20	10	10	0	10.7
Cultural	40	40	40	20	100.6
Education and Training	30	10	10	0	57.9
Garages and Petrol Stations	70	70	60	60	139.3
Health and Medical	40	10	10	10	47.4
Hotels	60	60	60	30	552.3
Industrial Subjects	530	420	390	320	904.4
Leisure, Entertainment, Caravans etc.	510	500	500	460	928.2
Offices	170	110	100	50	324.1
Other	130	100	90	70	161.1
Public Houses	10	10	10	10	42.7
Public Service Subjects	200	140	140	20	553.4
Quarries, Mines, etc.	20	20	20	10	15.0
Religious	90	90	90	0	193.6
Shops	270	250	240	170	881.8
Sporting Subjects	400	380	380	350	150.4
All	2,600	2,210	2,140	1,570	5,327.5

Following publication of the Scottish Budget 2022/23 on 9 December 2021 it was confirmed that the Budget will continue to fund, amongst others, the Small Business Bonus Scheme Relief.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1) The software supplier should be advised that demands show an incorrect intermediate property rate.	Low	Support call logged with software supplier January 2022	Revenues and Benefits Manager	April 2022
2) An automated interface facility should be developed between the banking system and the account records of non-domestic rate payers.	Low	This is in our service development plan as medium priority This will require support from the Finance and Corporate Systems team and I intend to progress this once we appoint to the Systems and Support officer post.	Revenues and Benefits Manager	April 2023
3) It should be considered whether processes could be introduced which would allow enquiries to be answered and then the process of receiving debit card payments be carried out by an automated method.	Medium	We have considered options our software suppliers have for the automated receiving of debit card payments and consider the cost to this, in terms of licensing to be prohibitive. We have however reviewed and reduced the number of staff members who may take card payment details over the phone. We are also continuing to consider ways of directing customers to online payment options where possible.	Customer Service Manager / Revenues and Benefits Manager	Completed January 2022
4) Reminders should be sent to non-domestic rate payers when payment is not made on time.	Medium	Part of existing policy but not carried out in 2021 due to staff shortages.	Revenues and Benefits Manager	April 2022

5) Recovery activity should be carried out where non-domestic ratepayers continue not to make payment.	Medium	Part of existing policy but not carried out in 2021 due to staff shortages.	Revenues and Benefits Manager	April 2022
6) Ad hoc sample testing to data entry into the non-domestic rates software system should be carried out.	Medium	Part of existing policy but not carried out in 2021 due to staff shortages.	Revenues and Benefits Manager	April 2022
7) It should be ensured that data is not retained on the software system for longer than needed.	Medium	<p>This is in our service development plan as having critical priority due to data protection implications.</p> <p>Software is available from our suppliers to anonymise data on the rates system but also anonymises data on the Council Tax and Benefits systems.</p> <p>I intend to begin initial scoping once the new Systems and Support Officer is appointed.</p> <p>This is a complex project and will take some time.</p>	Revenues and Benefits Manager	April 2024
8) The Revenues and Benefits Access Control Document should be reviewed	Medium	This is in our service development plan as medium priority and will be reviewed during 2022.	Revenues and Benefits Manager	April 2023
9) Passwords held on the revenues and benefits system should be encrypted.	Medium	This is in our service development plan as medium priority and I intend for the new Systems and Support officer to carry out this upgrade	Revenues and Benefits Manager	Sep 2022

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 high 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.