

# GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

## COMMITTEE SUMMARY

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**Title of the Audit:** Financial Services – Non-Domestic Rates 2018/19

### 1. Introduction

1.1 As part of the agreed Internal Audit plan we have carried out a review of changes to Non-Domestic Rates (NDR), which were approved by the Scottish Government in its 2018/19 budget. This includes new reliefs for Day Nurseries, new build premises, an expansion of the existing Fresh Start relief, continuation of Transitional Relief which came into effect from 2017/18, and fixed term caps on the rates of properties which have been improved or expanded resulting in higher rateable values (which will eventually replace New Start relief). Additionally, the poundage rate (the pence in the pound tax rate used to calculate the amount payable) has been increased from 46.6p to 48p for 2018/19.

1.2 The purpose of the audit was to ensure that changes in NDR legislation for 2018/19 have been effectively implemented in the processes, systems and procedures used by the Council, that bills for properties which are affected by these changes are calculated accurately, and that monitoring is in place to prevent and detect erroneous or unauthorised application of reliefs. The scope of the audit included:

- Documented procedures and training available to all relevant staff;
- Performing a walkthrough of the process for calculating and applying updated charges and reliefs;
- Quality checking and controls;

- Reviewing the system process for calculating and applying new reliefs and charges;
- Sample checking cases to ensure the system has been configured to apply charges and reliefs correctly and issue accurate bills;
- Management sign-off of new or amended processes;
- State Aid considerations.

### 2. Audit Opinion

2.1 Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and three recommendations which management should address.

### 3. Main Findings

3.1 We are pleased to report that key controls are in place and generally operating effectively. From a sample of 10 Day Nursery Reliefs, 15 Transitional Reliefs and three Fresh Start Reliefs, we found reliefs were applied accurately in all instances and applications were held within the Document Imaging Processing System (DIPS) for all reliefs within the sample. The system has been configured to apply charges and reliefs accurately, and to produce accurate bills which consider other reliefs and payment schedules. User

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acceptance testing has been carried out for the new system release and management have signed off on system updates required to apply new reliefs or charges.

3.2 Based on a sample of 30 NDR bills, the new poundage rate has been applied correctly, and where applicable, the Large Business Supplement has been added to those properties which have a rateable value above £51,000.

3.3 However, we found some opportunities for improvement:

- Although there are documented procedures in place for some reliefs, these have not been updated to reflect the relevant changes which came into effect from April 2018.
- Whilst checks are being carried out by members of the NDR team in relation to State Aid, a robust process is not in place nor is the process documented.
- Arrangements are in place to identify and monitor erroneous or unauthorised input of reliefs however only 5% of NDR input is reviewed and higher risk transactions are not separately identified for scrutiny.
- Evidence of eligibility for Day Nursery relief is not required at the time of application; applications are taken at face value dependent on the information held within the Academy system.

3.4 An action plan is provided at section four outlining our observations, risks and recommendations. We have made three recommendations for improvement. The priority of each

recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	3
Low	Lower level controls absent, not being operated as designed or could be improved.	0

3.5 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.

3.6 We would like to thank officers involved in this audit for their cooperation and assistance.

3.7 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the actions contained in the attached Action Plan.

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### 4. Action Plan

No.	Observation and Risk	Recommendation	Priority	Management Response
<b>Key Control:</b> Documented procedures and training have been made available to relevant staff.				
1	<p>Although staff were able to verbally detail the process to be followed when applying reliefs, documented procedures have not been updated to reflect the changes which came into effect in April 2018. We were advised that management are currently in the process of drafting new updated procedures relating to Non Domestic Rates.</p> <p>Additionally, discussions with staff highlighted that checks are carried out before awarding reliefs which are subject to State Aid rules. However, the auditor noted that there is no documented procedure in place covering this process.</p> <p>A lack of documented procedures increases the risk that poor or inconsistent practices may develop.</p>	<p>Documented procedures should be updated to reflect the changes to NDR which came into effect this year. In addition, management should ensure that any State Aid checks required to be carried out by staff are fully documented.</p> <p>Thereafter, procedural documents should be communicated to the relevant staff.</p>	<b>Medium</b>	<p><b>Response:</b> The regulations from the Scottish Government were not confirmed until February 2018 and then our software supplier had to confirm any changes required. Advice was also sought from Legal Services on State Aid. With this information in place we can produce procedural documents.</p> <p><b>Officer Responsible for Implementation:</b> Service Delivery Manager Debt Management and NDR</p> <p><b>Timescale for Implementation:</b> 16 November 2018</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
<b>Key Control:</b> An application form and evidence of eligibility has been provided and reviewed for reliefs awarded.				
2	<p>Through discussion with FS management we found that supporting evidence for relief applications is not required at the time of application.</p> <p>We were advised that the NDR team rely on the information held within the Academy system which is often provided by the Assessor and Electoral Registration Office. For example should an applicant apply for a Day Nursery Relief, the application would be taken at face value as the building description supplied by the Assessor would confirm if the building is listed as a nursery or not.</p> <p>However, it was confirmed that if a building's usage were to change without the Assessor being made aware, there is risk that NDR officers would not be aware of the change.</p> <p>There is therefore a risk that reliefs are awarded to ineligible applicants.</p>	<p>FS management should develop a process to include desktop reviews, for example internet based searches, before processing relief applications and subsequently add notes within Academy where a review has taken place.</p>	Medium	<p><b>Response:</b> Desktop reviews being implemented for reliefs before and after award.</p> <p><b>Officer Responsible for Implementation:</b> Service Delivery Manager Debt Management and NDR</p> <p><b>Timescale for Implementation:</b> 16 November 2018</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
<b>Key Control:</b> Controls are in place to identify and monitor erroneous or unauthorised input of reliefs.				
3	<p>Reports are produced on a weekly basis by the Systems Admin Team and each report contains a random selection of NDR input. Thereafter, a 5% sample check is carried out in order to identify any incorrect or unauthorised input.</p> <p>We were advised that previously a 10% sample check was conducted however, it was explained that the sample size was reduced due to a reduction of staff in the Systems Admin Team.</p> <p>Furthermore, we found that any high risk transactions would not be separately identified as part of the process to ensure these are subject to more scrutiny.</p> <p>Carrying out smaller sample checks of random input may increase the risk that higher value fraudulent activity could go undetected.</p>	<p>FS management should conduct a review of the current checking process for NDR and consider implementing a more targeted approach when sample checking, specifically aimed at reviewing higher risk transactions such as the application of reliefs.</p>	Medium	<p><b>Response:</b> Targeted sampling process will be introduced.</p> <p><b>Officer Responsible for Implementation:</b> Service Delivery Manager Debt Management and NDR</p> <p><b>Timescale for Implementation:</b> 16 November 2018</p>