



Internal Audit Report
Housing & Community Care
Non-Domestic Rates
Assignment No.13-06
October 2013

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Background and Introduction

This audit was carried out as part of the audit plan for 2013/14, which was approved by the Audit Committee on 27 March 2013.

All the Non-Domestic Rates (NDR) collected by Scottish local authorities is paid into a national pool. It is redistributed to local authorities in proportion to the resident population in each authority's area which bears no direct relationship to the amount collected by each authority.

NDR constitutes the Council's third-biggest source of funding, after Scottish Government grants and Council Tax. It accounts for almost a fifth of the Council's total income (£47.17 million in 2012/13 from PKC's audited financial statements).

Acknowledgements

Internal Audit acknowledges with thanks the co-operation received during this audit from staff in the Revenues & Benefits service of Housing & Community Care.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To verify via service self-assessment, the adequacy of controls in place over NDR for ensuring compliance with statutory regulations on collection, refunds, recovery and enforcement.	
Auditor's Comments: The audit verified that the Council's procedures comply with statutory regulations and are effective. The Scheme of Administration does not allocate responsibility for all NDR-related legislation to the Executive Director tasked with implementation, however in practical terms this does not detract from the overall opinion of the strength of internal control in this area.	
Strength of Internal Controls:	Strong

Control Objective 2: To verify the adequacy of procedures in place regarding the granting and the reporting of discretionary reliefs.	
Auditor's Comments: Adequate procedures are in place over the granting of relief and the Service is pro-active at local and national level in addressing the risk of abuse of NDR relief. However, the Scheme of Administration does not refer to the delegation of discretionary authority to the Executive Director; and the Council's discretionary policies on relief have not been formally reviewed since 2000. In practical terms this does not detract from the overall opinion of the strength of internal control in this area.	
Strength of Internal Controls:	Strong

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Control Objective 3: To verify the adequacy of procedures in place regarding the pursuit and the reporting of NDR debt.	
Auditor's Comments: There are effective procedures in place for the pursuit of NDR debt, both within the Service and via the Council's contracted Sheriff's Officers. Audit found that the value of NDR debt written off annually has risen steadily since 2008. The Service attributes this rise to the current economic downturn, and to improved identification of irrecoverable debt by Sheriff's Officers. The findings of this audit are consistent with these explanations.	
Strength of Internal Controls:	Strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point. Appendix 3 identifies good practice by the Service.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Internal Audit Report

Distribution

This Report will be issued, as a minimum, to:

B Malone, Chief Executive

J Walker, Executive Director, H&CC

J Symon, Head of Finance

A Taylor, Head of Finance & Support Services, H&CC

L Brady, Revenues & Benefits Service Manager, H&CC

K Fraser, Revenues Manager, H&CC

A MacDonald, Revenues Manager, H&CC

G Taylor, Head of Democratic Services, Chief Executive's Service

P Dickson, Complaints & Governance Officer, Chief Executive's Service

External Audit

Authorisation

The auditor for this assignment was D Watt, supervised by M Morrison.

This report is authorised for issue:

Jacqueline Clark

Chief Internal Auditor

Date: 10 October 2013

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	The “core legislative framework” for NDR	Medium
2	Delegated power to grant NDR discretionary relief	Low
3	The Council’s discretionary policies on NDR	Low

Appendix 2: Action Plan

Action Point 1 - The “core legislative framework” for NDR

According to Scottish Government guidance the “core legislative framework” for Non-Domestic Rates is comprised of eight key statutes.
However, the Council’s Scheme of Administration refers to only two of these Acts.

Management Action Plan

The revenues manager will pass the appropriate information to Committee Services to ensure that the Scheme of Administration is updated appropriately to contain all relevant legislation.

Importance:	Medium
Responsible Officer:	K Fraser
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	December 2013
Required Evidence of Completion:	Approved amended Scheme of Administration

Auditor’s Comments

Satisfactory

Action Point 2 - Delegated authority to grant NDR discretionary relief

Report 13/70 entitled Granting of Non-Domestic Rates Relief to the Strategic Policy and Resources Committee states that the Executive Director (Housing & Community Care) has authority under the Scheme of Administration to award rates relief in accordance with legislation, however the Scheme of Administration does not specify this authority.

Management Action Plan

The revenues manager will pass the appropriate information to Committee Services to ensure that the Scheme of Administration is updated appropriately to include delegation of discretionary authority to the Executive Director (Housing & Community Care).

Importance:	Low
Responsible Officer:	K Fraser
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	December 2013
Required Evidence of Completion:	Approved Amended Scheme of Administration

Auditor's Comments

Satisfactory

Action Point 3 - The Council's discretionary policies on NDR

Report 13/70 entitled Granting of Non-Domestic Rates Relief to the Strategic Policy and Resources Committee states that the Executive Director (Housing & Community Care) is required to award relief in accordance with the Council's "agreed discretionary policies".

These discretionary policies have not been subject to formal review by Committee since 2000. In consequence, there is a risk that they may not be best suited to the Council's current objectives and/or current practices in the commercial property market.

Management Action Plan

The revenues manager will ensure that the regular review of NDR policies which takes place is formally reviewed by Committee.

Importance:	Low
Responsible Officer:	K Fraser
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	December 2013
Required Evidence of Completion:	Report on discretionary policies to SP&R

Auditor's Comments

Satisfactory

Appendix 3: Good Practice

Pro-active response by the Service to the risk of abuse of NDR relief

In consequence of the economic downturn, throughout the UK owners of retail premises have experienced difficulties in letting their shops to commercial tenants.

In some cases, property owners have secured non-commercial tenants who qualify for NDR relief. Such tenants might use only part of the premises, for part of the time but by law the property must be granted 80% mandatory NDR relief. Councils may grant relief on the remaining 20% liability, if they so choose.

The Service has taken the view that since such arrangements do not comply with the Council's discretionary relief objectives, so it follows that discretionary relief should not be granted.

Via the relevant professional body, the service manager responsible for NDR has been active in drawing the attention of the Scottish Government to such practices.

