

Final Internal Audit Report

Business Rates

July 2019

Distribution: Executive Director Resources & Monitoring Officer (Final only)
 Director of Finance, Investment and Risk and s151 Officer
 Head of Payments, Revenues, Benefits & Debt
 Head of Finance (Resources)

Assurance Level	Identified Issues	
Substantial Assurance	Priority 1	0
	Priority 2	5
	Priority 3	1

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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1. Introduction

- 1.1 Business Rates are collected by local authorities from those who occupy non-domestic properties, as a contribution to the cost of local services. For 2018/19 the Council's budgeted income from Business Rates was £90.771m (Business Rates Top Up Grant of £12.746m and Business Rates Income of £78.025m - Source Croydon Council 26th February 2018 Cabinet papers).
- 1.2 In April 2013, the Government reformed the way in which local government is funded through the introduction of the business rates retention scheme. The Enterprise Act 2016, provides for the introduction of business rates appeals reform, including modifying the Valuation Tribunal powers to consider ratepayer appeals. The Act also allows for the Valuation Office Agency to share further information with local authorities.
- 1.3 Every five years properties are revalued and multipliers are revised, the most recent revaluation was 1st April 2017.
- 1.4 This audit was undertaken as part of the agreed Internal Audit Plan for 2018/19.

2. Key Issues

Priority 2 Issues
Officers authorising refunds were not on the Council's Scheme of Delegation, (Issue 1) .
The Billing Authority (BA) log should be reviewed on a quarterly basis. Since the 1 st of April 2018, the BA log has been reviewed once on the 21 st September 2018, (Issue 2) .
Small business reliefs are not always formally requested, (Issue 3) .
Batch write-offs are not completed on a quarterly basis as per the recommendation raised in the 2017-18 Business Rates audit report. (Issue 4) .
Monthly reconciliations between Northgate and General Ledger are not undertaken, (Issue 5) .

The Priority 3 issue is highlighted under area 4 below.

3. **Actions and Key Findings/Rationale**

Control Area 7: Collections and Refunds		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	<p>Payments made out of the Council's funds are required to be authorised in line with the Council's Scheme of Delegation. This includes refunds.</p> <p>Testing of a sample of 10 refunds made to NNDR ratepayers confirmed that these were all initially requested by staff within the Business Rates team and then separately authorised by someone in the Quality and Service Improvement team. However, none of the staff within the Quality and Service Improvement team were on the Council's Scheme of Delegation (and nor was there an exemption for these refunds within the Council's Scheme of Delegation).</p> <p>Where refunds are made by staff not included on the Council's Scheme of Delegation, this is in breach of Council's financial regulations.</p>
2	<p>Head of Payments, Revenues, Benefits & Debt to speak to Governance regarding an exemption from Scheme of Delegation for authorisation of refunds. Audit are satisfied that there are adequate controls in place in relation to security and segregation of duty.</p>	
Responsible officer	Deadline	
Head of Payments, Revenues, Benefits & Debt	July 2019	

Control Area 3: Valuation		Detailed Finding/Rational – Issue 2
Priority	Action Proposed by Management	
2	This will be input into service operational plans so that a review takes place quarterly going forward.	<p>The Billing Authority (BA) log details all new properties to be passed on to the Valuation Office for valuation. The spreadsheet is updated to record which valuation schedule the inspection will be included on and whether or not it has been reviewed. The BA log should be reviewed on a regular basis and passed to the Valuation Office notifying them of any changes to properties, which may affect the rateable value of properties.</p> <p>Examination of the two BA logs provided, both pre and post 13th September 2018 when the spreadsheet changed, found that these for each property change recorded a unique 'BA number', 'date issued', 'address', 'user', 'schedule number', 'action/no action' and 'reviewed'. It was, however, noted that the 'reviewed' date for most of these was the 21st September 2018.</p> <p>There is a risk that where the BA log is not reviewed and passed to the Valuation Office regularly, the rateable value for properties will have changed and there may be over or undercharges to businesses, resulting in reputational damage to the Council.</p>
Responsible officer	Deadline	
Council Tax Collection Manager	July 2019	

Control Area 6: Reliefs		Detailed Finding/Rational – Issue 3				
Priority	Action Proposed by Management					
2	<p>Management will revise the declaration of the on-line form so that it is more robust. We will also review the form to ask for unique ID (TBC), and also add a question around "are you acting on behalf of someone else and if so, ask who this is" and seek third party authorisation. Businesses will need to complete the form going forward.</p>	<p>Small business reliefs are available for properties with rateable values below £12,000. The Council's website details that, 'Customers must apply to us for the relief. You can download the form you need from the downloads section at the bottom of the page, please send this to the address shown on the form. The application can be submitted electronically to croyndr@croydon.gov.uk. Applications may be accepted up to either six months before or after the start of the financial year to which the application applies.' The application form includes a declaration that, 'I confirm that the information in this form is correct and the properties detailed above are the only business properties in England that I occupy.'</p> <p>Examination of the records for a sample of ten cases where small business relief had been awarded found that in 6 instances a record of the request for the relief was not available. Discussion established that most requests are telephonic and thus a record is not always held.</p> <p>It was also highlighted that it was intended going forward that the Enquiry officers would be inspecting the businesses.</p> <p>Where request for business relief are not received on the required form, applicants are not signing the declaration and there is risk that businesses may be awarded relief inappropriately.</p>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Council Tax Collection Manager</td> <td>July 2019</td> </tr> </tbody> </table>	Responsible officer	Deadline	Council Tax Collection Manager	July 2019	
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Control Area 8: Recovery and Enforcement		Detailed Finding/Rational – Issue 4
Priority	Action Proposed by Management	
2	<p>The Northgate systems is not intuitive to easily writing debt off, the process is manual and cumbersome. It is more realistic to target write offs to be completed 2 times per year as opposed to 4 times per year. Recommendations to we change the recommendations to write off debt 2 times per year.</p>	<p>The Croydon Council Income Procedure states that, 'When debt recovery procedures have been exhausted, the debt must be submitted for write-off by the appropriate officer, recording the value and reason for each write-off.' It is recognised as best practice that bad debts deemed irrecoverable should be written off on a quarterly basis. This was raised as a recommendation in the 2017/18 Business Rates audit.</p> <p>Discussion with the Strategic Collections Manager established that write-offs are targeted to be completed on a quarterly basis, however only one batch of write-offs had been completed for the 2018-19 financial year. The write-off was completed in November 2018.</p> <p>Where write-off batches are not undertaken on a quarterly basis, there is risk that the Council is failing to realise its bad debts appropriately and subsequently account for these. There is also a risk that resources are being inappropriately used to chase debts that are unlikely to be paid.</p>
Responsible officer	Deadline	
Council Tax Collection Manager	Commencing April 2019	

Control Area 9: Accounting and System Reconciliations		Detailed Finding/Rational – Issue 5
Priority	Action Proposed by Management	
2	These will be progressed as soon as possible.	<p>Monthly reconciliations should be undertaken between Northgate and the General Ledger to identify any variances where there could be accounting errors.</p> <p>Discussion with the Head of Finance, Resources & Accountancy established that the monthly reconciliation between Northgate and the General Ledger has not been completed since June 2018 as the member of his team who used to undertake the reconciliation left in July and had not been replaced. The only months for which reconciliations had been undertaken were June and November 2018 (although the reconciliation for November was incomplete). The reconciliation for June was selected for walkthrough. The report showed a £1.530m imbalance on NNDR income. Discussion with the Head of Finance, Resources & Accountancy established that he was not satisfied with the reconciliation and therefore had not signed it off. This effectively means that there have been no reconciliations during the year up to the point of audit.</p> <p>Where reconciliations between Northgate and the General Ledger are not completed on a monthly basis, there is an increased risk that accounting errors are not identified and corrected in a timely manner.</p>
Responsible officer	Deadline	
Head of Finance, Resources & Accountancy	July 2019	

4. Priority 3 Issue

Action Proposed by Management	Findings
<p>a) Reminders to staff that we must stay within the 10 day SLA. Work with training team to issue hints and tips to staff.</p>	<p>New occupiers normally send in notification via email. Once the Council has received notification of a new occupier, their details are required to be added onto the Northgate system in a timely manner (i.e. within 10 working days).</p> <p>Examination of the records for a sample of 10 new occupiers found that two were not added to the Northgate system in the required 10 days.</p> <p>Where new occupiers are not added to the system in a timely manner, there is a risk of bills not being sent out promptly which can result in payment difficulties for occupiers.</p>

TERMS OF REFERENCE

Business Rates

1. INTRODUCTION

- 1.1 Business Rates are collected by local authorities from those who occupy non-domestic properties, as a contribution to the cost of local services.
- 1.2 In April 2013, the Government reformed the way in which local government is funded through the introduction of the business rates retention scheme. The Enterprise Act 2016, provides for the introduction of business rates appeals reform, including modifying the Valuation Tribunal powers to consider ratepayer appeals. The Act also allows for the Valuation Office Agency to share further information with local authorities.
- 1.3 Every five years properties are revalued and multipliers are revised, the most recent of which happened on 1st April 2017.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes relating to Business Rates.
- 2.2 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.3 The audit will for each controls / process being considered:
 - Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE

- 3.1 This audit examined the Council's arrangements for the following areas relating to Business Rates (and number of issues identified):

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0
100% Business Rates Pilot	0	0	0
Valuations	0	1	0
Liability	0	0	1
Billing	0	0	0
Reliefs	0	1	0





Business Rates 2018/19

Collection and Refunds	0	1	0
Recovery and Enforcement (including Appeals)	0	1	0
Accounting and System Reconciliations	0	1	0

DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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