



Final Internal Audit Report

Business Rates

May 2017

Distribution: Executive Director Resources (Final only)
 Director Customer and Corporate Services
 Head of Business Support and Customer Contact
 Strategic Collections Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	3
	Priority 3	4

Status of Our Reports

This report ('Report') was prepared by Mazars Public Sector Internal Audit Limited at the request of the 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 work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, we 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 set out 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 2016/17 the Council's budgeted income from Business Rates is £67.8m.
- 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. This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.
- 1.3 The audit was undertaken as part of the agreed Internal Audit plan for 2016/2017.

2. Key Issues

Priority 2 Recommendations
The declaration statement on the small business application form does not include the requirement to notify the Council of relevant changes in circumstances, or detail the consequences should false or misleading information be provided, (Rec. 1) .
Examination of the records for a sample of ten small business rate reliefs granted in 2016 found that in nine cases, the small business rate applications had not been completed, resulting in applicants not being bound to the declaration on the form, (Rec.2) .
No write offs had been processed yet for the financial year 2016/17 at the time of audit in December 2016, (Rec. 3) .

The priority 3 recommendations are detailed under item 4 below.

3. Actions and Key Findings/Rationale

<u>Control Area 5: Reliefs</u>							
Priority	Detailed Finding/Rational						
<p>2</p> <p>Recommendation 1</p> <p>Through liaison with the Council's Information Communication Technology Service, the declaration statement on the small business relief application form should be reviewed and:</p> <ul style="list-style-type: none"> Amended to require applicants to immediately notify the Council of any changes in circumstances; Amended to detail the actions the Council would take should false or misleading information be provided; and Moved to the first page of the form. 	<p>The Council's internet page on small business rates states that <i>'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'</i>.</p> <p>Examination of the small business relief application form found that it included the following declaration <i>'I confirm that the property (ies) detailed in this application is/are the only non-domestic property (ies) in England occupied by me or my company. The information provided in this application is true to the best of my knowledge and that I understand that it is a criminal offence to provide false or misleading information'</i>.</p> <p>However, the declaration did not:</p> <ul style="list-style-type: none"> Include a requirement to notify the Council of any changes in circumstances; and Detail the actions that the Council would take should false or misleading information be provided. <p>Furthermore, it is good practice for the declaration to be on the first page, rather than the last page of the form.</p> <p>It should also be noted that with the introduction of the General Data Protection Regulation 2016 in April 2017, the wording on the fair processing form will also need to be reviewed.</p> <p>Where the declaration on the small business relief application form does not include a requirement to update the Council in a timely manner of changes in circumstances and the actions that the Council would take should false or misleading information be provided, there is a risk that this may limit the Council's recourse should false or misleading information be provided.</p>						
	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Strategic Collections Manager</td> <td>30 June 2017</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Strategic Collections Manager	30 June 2017
Agreed/Disagreed	Responsible Officer	Deadline					
Agreed	Strategic Collections Manager	30 June 2017					
Management agree that these measures should be adopted moving forward in order to mitigate the risk of awarding SBRR where							

Business Rates 2016/17

businesses have another premises and are therefore not entitled to the relief.

By the end of quarter 1 2017-18, management will have amended the application form for the relief and amended the application process in order to meet the suggested recommendations.

Priority	Recommendation 2	Detailed Finding/Rational		
2	<p>No small business relief applications should be processed unless an appropriately signed application form is provided. (Where applications are e-mailed, a copy of the scanned signed application form should be attached).</p>	<p>The Council's internet page on small business rates states 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 downloadable form includes the following declaration, 'YOUR APPLICATION FOR RELIEF CANNOT BE ASSESSED UNLESS DATED & SIGNED I confirm that the property (ies) detailed in this application is/are the only non-domestic property (ies) in England occupied by me or my company. The information provided in this application is true to the best of my knowledge and that I understand that it is a criminal offence to provide false or misleading information.'</p> <p>Examination of the records for a sample of 10 cases where small business relief had been applied for and granted during 2016 established that:</p> <ul style="list-style-type: none"> • In seven cases, the application for small business relief had been received telephonically, as evidenced by the notes recorded on the system, and no signed applications were held; and • In two cases, the application for small business relief had received via e-mail and no signed applications were held. <p>Discussions with the Revenues Officer established that the Council does not currently require applicants to complete small business relief application forms.</p> <p>Where the required application forms are not completed and the declaration is not signed and dated, there is a risk that applicants may not feel obligated to declare all rateable properties and the Council's recourse may be limited should incorrect information be provided</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
<p>The process will be reviewed and amendments made so that business owners complete and sign a declaration confirming the award of SBRR.</p> <p>This will be done throughout the financial year 2017/18 when all accounts will be reviewed and signed declaration completed.</p>		Agreed	Strategic Collections Manager	Completed by March 2018

Control Area 7: Recovery and Enforcement							
Priority	Recommendation 3						
2	<p>Management should ensure that the write off of business rates bad (irrecoverable) debts is carried out on a quarterly basis.</p>						
	<p>Detailed Finding/Rational</p> <p>The Croydon Council Income Procedure dated August 2016 states that <i>'when debt recovery procedures have been exhausted, the debt must be submitted for write off by the appropriate officer, recording the value reason for each write off.'</i> It is recognised as best debt management for designated bad debts deemed irrecoverable to be written off on a quarterly basis.</p> <p>No write offs had been processed yet for the financial year 2016/17 at the time of audit in December 2016.</p> <p>Where write offs are not processed on a quarterly basis, there is a risk that unnecessary recovery actions may be continued, where it has already been established that the debt is irrecoverable.</p>						
Management Response							
Write offs will be completed quarterly during 2017/18.	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Strategic Collections Manager</td> <td>June 2017</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Strategic Collections Manager	June 2017
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Agreed	Strategic Collections Manager	June 2017					

4. Priority 3 Recommendations

Recommendation	Findings
<p>a) Procedure notes to staff should be regularly reviewed, and the date of last review noted on guidance to help ensure that up to date best practice is adhered.</p> <p>Management response: Guidance notes are reviewed each year. We will ensure that we mark the date of the review going forward.</p>	<p>Examination of a sample of five of the procedure notes in place found that four had not been dated with last review date and thus audit could not verify that procedure notes were regularly reviewed and updated.</p> <p>Where guidance notes are not regularly reviewed, updated and made available to staff, there is a risk that staff may adopt in consistent and incorrect working practices which could result in inefficiencies.</p>
<p>b) New Property occupiers should be added to the Northgate system within the 10 days turnaround period.</p> <p>The 10 days turnaround target should be communicated on in the Business Rates Liability guidance notes.</p> <p>Management response: Guidance notes will be updated to reflect the 10 day target.</p>	<p>Discussions with the Revenue Officer established that team has a target to add new property occupiers on the system within 10 days of receiving a notification, however examination of Liability guidance notes found that this target was not defined in the staff guidance notes. Additionally, examination of a sample of 10 notifications identified two cases where new occupier's accounts had not been uploaded on Northgate within the 10 days target.</p> <p>Where new property occupiers are not uploaded on Northgate in a timely manner, there is a risk that the ratepayers liability may not be calculated correctly which could result in financial loss to the Council.</p>
<p>c) Review the decision not to require annual applications for small business rate relief.</p> <p>Management response: See recommendation 2 above.</p>	<p>The Council's internet page on small business rates states that, "The scheme started 1 April 2005 and, initially, customers had to apply for relief annually. However, since 1 October 2006, and for the financial years 2007 to 2009, only one application was needed.</p> <p>With effect from 1 April 2010 no new application is required for current claimants and new claims will be valid for the life of the scheme'</p> <p>With a proportion of the business rates collected now being retained by the Council, with an intention that this proportion be increased to 100% in future years, the decision not to require annual applications for small business rate relief should be reviewed.</p>
<p>d) The identified instance should be followed up and actions taken to ensure that in all future instances the customers are contacted.</p>	<p>Informing clients about rejected debits and returned cheques will help ensure that alternative payment arrangements are made in a timely manner by debtors.</p>

Recommendation	Findings
<p>Management response:</p> <p>The standard practice is to contact the customer by telephone to take a payment when a direct debit is reversed or a cheque returned.</p> <p>This will be followed up.</p>	<p>A sample of five rejected direct debits and two returned cheques were examined. It was confirmed in each case that the customer's account had been debited with the value of the rejected direct debit and returned cheques. However, evidence was not available for one of these instances to demonstrate that the customer had been contacted and informed about the returned cheques/rejected direct debits.</p> <p>Where clients are not informed that their cheques and direct debits have been rejected by the bank, there is a risk that delays may occur in clients making alternative payment arrangements which may have an adverse effect on the Council's cash flow position.</p>

AUDIT TERMS OF REFERENCE

Non-Domestic Rates (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. For 2016/17 the Council's budgeted income from Business Rates is £67.8m.
- 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. This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

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 NDR.
- 2.2 The audit will for each area included in the scope:
- Document and evaluate the risks and controls for each process to consider the key controls;
 - Undertake sufficient testing of controls operating, on a sample of transactions; and
 - Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE





- 3.1 This audit examined the Councils NDR procedures and included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements;	0	0	1
Valuation;	0	0	0
Liability;	0	0	1
Billing;	0	0	0
Reliefs;	0	2	1
Collection and refunds;	0	0	1
Recovery and enforcement;	0	1	0
Accounting and system reconciliations.	0	0	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

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 recommendations 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.

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