

Final Internal Audit Report

Business Rates

May 2018

Distribution: Executive Director of Resources (Final report only)
Director of Governance
Head of Customer Contact and Revenues & Benefits
Strategic Collections Manager

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

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. 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, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk.

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 2017/18 the Council's budgeted income from Business Rates was £67.26m (Business Rates Top Up Grant of £31.956m and Business rates Income £35.306m) Source 20 February 2017 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 is being undertaken as part of the agreed Internal Audit Plan for 2017/18.

2. Key Issues

Priority 2 Issues
A sample of the Business Rates procedures and guidance notes tested had no latest review date nor information with respect to their creation or approval documented. (Issue 1)
There have been no write-off batches for Business Rates since June 2017. (Issue 2)

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management requirements		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	
2	Guidance notes have been reviewed in year unfortunately the date of the review was omitted. We will work with the learning and development team to ensure this task forms part of their forward plan.	<p>Procedure manuals and guidance for Business Rates should be regularly reviewed helping to ensure staff are undertaking their roles in line with the most up to date legislations and requirements in addition to acting consistently, fairly and transparently.</p> <p>A sample of five procedure and guidance notes in relation to Business Rates was sampled from SharePoint. Of the five sampled, it was identified that:</p> <ul style="list-style-type: none"> • Dates of last review were not documented on procedures and guidance, and • It was unclear as to who had written and subsequently approved the procedures and guidance documents. <p>This issue was also identified in the 2016/17 audit, where the management response was that, 'Guidance notes are reviewed each year. We will ensure that we mark the date of the review going forward.'</p> <p>Where it is unclear when procedures and guidance documents were last reviewed, there is a risk that these documents are not up to date with the latest legislative requirements, staff are following out of date procedures and subsequently performing their roles inconsistently.</p>
Responsible officer	Deadline	
Strategic Collections Manager	End of quarter 1 2018/19	

Control Area 6: Collection and Refunds		Detailed Finding/Rational – Issue 2
Priority	Action Proposed by Management	
2	<p>The Executive Director of Resources and s151 Officer authorised write offs in July 2017 and January 2018.</p> <p>Due to income and debt managing demand project, the Council will consider debt factoring prior to write off which means that for business rates we may consider write off to be conducted at 6 monthly periods as opposed to quarterly.</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 debt management practice for recognised bad debts deemed irrecoverable to be written off on a quarterly basis.</p> <p>Write-off Request forms for Business Rates were requested since April 2017. One write-off request form was provided, which was authorised in July 2017. At the time of the audit in January 2018, no other write-off request forms had been submitted.</p> <p>This issue was also identified in the 2016/17 audit, where the management response was that, 'Write-offs will be completed quarterly during 2017/18'.</p> <p>Where write-off batches are not undertaken quarterly, there is risk that the Council is failing to realise its bad debts appropriately and subsequently account for them. There is also a risk that resources are being inappropriately used to chase debts that are unlikely to be paid, thus wasting resources.</p>
Responsible officer	Deadline	
Strategic Collections Manager	Complete	

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 2017/18.

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 Council Tax.
- 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 Council Tax (and number of recommendations made):

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	1	0
Valuations	0	0	0
Liability	0	0	0
Billing	0	0	0
Reliefs	0	0	0
Collection and Refunds	0	1	0





Business Rates 2017/18

Recovery and Enforcement (including Appeals)	0	0	0
Accounting and System Reconciliations	0	0	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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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