

Final Internal Audit Report

Business Rates

July 2020

Distribution: Executive Director of Resources and Monitoring Officer
Director of Finance, Investment and Risk and S151 Officer
Head of Payments, Revenue, Benefits and Debt
Strategic Collection Manager
Business Rates and Council Tax Manager

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

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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and 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. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, 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.

Contents

Page

Executive Summary

1. Introduction.....	2
2. Key Issues.....	3

Detailed Report

3. Actions and Key Findings/Rationale	4
---	---

Appendices

1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

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 was funded through the introduction of the business rates retention scheme. The Enterprise Act 2016, provided for the introduction of business rates appeals reform, including modifying the Valuation Tribunal powers to consider ratepayer appeals. The Act also allowed for the Valuation Office Agency to share further information with local authorities.
- 1.3 At the 2017 Autumn Budget it was confirmed that London would become a 100% business rates retention pilot for the duration of the 2018/19 financial year. The pilot comprised of the thirty-two London Boroughs, the City of London and the Greater London Authority.
- 1.4 In December 2017, the government announced the aim of increasing the level of business rates retained by local government from 50% to the equivalent of 75% in April 2020. In order to test increased business rates retention and to aid understanding of the transition into a reformed business rates retention system in April 2020, the government invited local authorities in England to apply to become 75% business rates retention pilots in 2019/20. London, as part of these pilots, now has a 75% business rate retention for 2019/20.
- 1.5 With covid-19 'Small Business Rates Grants' are available to small businesses with a rateable value of £15k or less and 'Retail Hospitality and Leisure Grants' to those in the retail, hospitality and leisure sectors with a rateable value of less than £51k. 100% business rates relief for 2020/21 is also available for non-local authority providers of childcare and occupied retail, leisure and hospitality businesses. It should be noted; however, that these grants were not in the scope of this audit, the Covid-19 lockdown period only commencing after the audit was completed.
- 1.6 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. Scope

- 2.1 Testing of the 'Accounting and System Reconciliations' was not completed due to the business disruption caused by the COVID-19 pandemic. Testing in all other scope areas was completed as planned.

3. Key Issues

Priority 2 Issue

Seven of the sample of ten new rate payers / occupiers tested were not set up on the Northgate system within the Council 10 day target. **(Issue 1)**

4. Action and Key Findings/ Rationale

<u>Control Area 4: Liability</u>						
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1				
2	The team will take reasonable action to ensure that schedules are set up in a timely manner. The delays were predominantly during July 2019 which could have been a result of summer holidays and annual leave on the team. The Business Rates team is a small team of 3 FTE, so any absence on the team could result in delays.	<p>The Council has a target of setting up all new rate payers / occupiers on the Northgate system within 10 working days of a business registering for rates.</p> <p>Sample testing of ten new rate payers found that in seven cases these were not set up within the 10 day target, taking between 12 and 41 days to be set up.</p> <p>As billing cannot commence until a ratepayer is set up on the system, long delays in setting up a new ratepayer result in delays to billing. This creates a risk of financial loss to the council, as payments will not be received until later. It also creates a reputational risk, as businesses may perceive a lack of effort on the Council’s behalf, particularly if the delay to billing causes them difficulties with financial planning.</p>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Head of Payments, Revenue, Benefits and Debt</td> <td>July 2020</td> </tr> </tbody> </table>	Responsible officer	Deadline	Head of Payments, Revenue, Benefits and Debt	July 2020	
Responsible officer	Deadline					
Head of Payments, Revenue, Benefits and Debt	July 2020					

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 was funded through the introduction of the business rates retention scheme. The Enterprise Act 2016, provided for the introduction of business rates appeals reform, including modifying the Valuation Tribunal powers to consider ratepayer appeals. The Act also allowed for the Valuation Office Agency to share further information with local authorities.
- 1.3 At the 2017 Autumn Budget it was confirmed that London would become a 100% business rates retention pilot for the duration of the 2018/19 financial year. The pilot comprised of the thirty-two London Boroughs, the City of London and the Greater London Authority.
- 1.4 In December 2017, the government announced the aim of increasing the level of business rates retained by local government from 50% to the equivalent of 75% in April 2020. In order to test increased business rates retention and to aid understanding of the transition into a reformed business rates retention system in April 2020, the government invited local authorities in England to apply to become 75% business rates retention pilots in 2019/20. London, as part of these pilots, now has a 75% business rate retention for 2019/20.
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 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 business rates and included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0
75% Business Rate Pilot	0	0	0
Valuations	0	0	0
Liability	0	1	0
Billing	0	0	0
Reliefs	0	0	0
Collections and Refunds	0	0	0
Recovery and Enforcement	0	0	0
Accounting and System Reconciliations* This part of scope was not completed due to the business disruption caused by the COVID-19 pandemic.	N/A	N/A	N/A
TOTAL	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.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom.
Registered in England and Wales No 0C308299.