

Final Internal Audit Report

Business Rates (NDR) 2025/26

September 2025

Distribution:

Head of Payments, Revenues, Benefits & Debt – **Audit Sponsor**

Revenues Recovery Service Manager

Revenues Operational Service Manager

Strategic Head of Finance

Director of Finance & Deputy S151 Officer

Corporate Director, Resources & S151 Officer

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This report ("Report") was prepared by Forvis 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 Forvis 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 C of this report for further information about responsibilities, limitations and confidentiality.

Internal Audit One Page Summary

Internal audit objective: To assess the design and effectiveness of the control framework for managing Business Rates (NDR).

Rationale

Why is the IA in the plan:

This is a routine cyclical audit of a key revenue stream area for the Council.

Your strategic risk:

FIR0062 - Proposed business rates reset affects the Council's aim to achieve financial sustainability.¹

Key audit risk(s):

Financial loss due error, fraud or failure to collect income.

Summary of our opinion

Substantial Assurance

See Appendix A for definitions

Summary of Issues

Priority 1 (High)	-	Actions agreed by you	3
Priority 2 (Medium)	1	Priority 1 completion	N/A
Priority 3 (Low)	2	Overall completion	30 September 2025

Summary of findings and root causes

Areas with controls working as expected

- ✓ Information was made available to the public regarding setting up a business account, paying business rates and exemptions and reliefs.
- ✓ Collection rates for business rates were monitored throughout the year and reported to senior management for oversight.
- ✓ The suspense account was monitored and any items in suspense were cleared in a timely manner.

Highest priority finding

- No approval mechanisms were in place to verify exemptions and reliefs added to business accounts.

Key root cause

- Risk of fraud or error in granting exemptions/relief has not been adequately considered.

Direction of travel

Previous internal audit date

July 2024

Direction of travel



Previous opinion: **Substantial**

Recurring findings

None

¹ This is a summary of the strategic risk – full details of this risk can be found in the Council's Risk Register

01 Introduction and Background

Non-domestic rates (NDR), more commonly known as 'Business Rates,' are imposed on most non-domestic properties, including shops, offices, pubs & restaurants, warehouses, factories, hotels and short-term rentals

Unlike council tax, rates are set nationally by central government, although local authorities are responsible for collection. Since 2013, local authorities retain a proportion of business rates collected locally, with the rest passed on to central government to be redistributed in the form of top-up grants. For the financial year 2025-26, Croydon Council (Council) will retain 30% of business rates income collected.

Business rates are calculated by multiplying the NDR multiplier set by central government against the 'rateable value' of the property, as determined by the Valuation Office Agency (VOA). Businesses can dispute their valuation with the VOA, although the Council is not involved in this process since the VOA is a national body.

Prior to the start of each financial year (1 April), the Council conducts a billing exercise, whereby each property is sent a business rates bill. Businesses have the option to pay their rates annually, quarterly or in monthly instalments, via a range of different methods including direct debit, pay by phone, BACs or telephone banking and PayPoint outlet.

There are various forms of discounts, relief and reductions available for ratepayers, depending on circumstances. These include relief for properties unoccupied for less than three months, relief for registered charities, reduction for small businesses, as well as discretionary relief that the Council can grant in case of hardship. Additionally, for the 2025-26 financial year, qualifying businesses can claim 'Retail, Hospitality and Leisure' (RHL) of 40%, reduced from 75% in the 2024-25 financial year.

This audit examined the process for managing business rates from the point of setting up new business accounts, through to billing.

This audit was part of the agreed Internal Audit Plan for 2025/26. The agreed scope is included under Appendix A.

Scope Limitations

The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. Any testing performed was conducted on a sample basis. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

02 Detailed Action Plan

We have identified areas where there is scope to improve the control environment. Our detailed findings are provided below. Definitions for the levels of assurance and recommendations used within our reports are included in Appendix B.

Control Area 3: Discounts, Exemptions, and Premiums

Issue 1: No approvals or quality checks for exemptions & reliefs			
Finding(s) and Risk		Agreed Action	
Review of the exemptions and reliefs process found that there were no approval stages for exemptions or reliefs to be added to business accounts. As a result, a discount could be added to a business account by a single member of staff without any review or check by another member of staff. As advised by the Revenues Recovery Service Manager and the Revenues Operational Service Manager, there were some measures in place that could help to identify instances of exemptions or reliefs being applied incorrectly. There is the National Fraud Initiative, which includes checks to identify any anomalies in application of 'Small Business Rates' exemptions; the most recent exercise due to commence in May 2025. Additionally, an annual review was completed by a Revenues Officer which reviewed exemptions/reliefs associated with charity relief, empty properties and small business rates. However, this review was completed by an officer who was able to add exemptions and reliefs so there was no segregation of duties applied to this review. Furthermore, these checks did not verify all exemptions and reliefs that could be added to business accounts. Risk and Impact: Where there are limited measures to quality assure and approve exemptions or reliefs added to business accounts, there is a risk of officer error in calculating exemptions or reliefs going undetected, and a heightened risk of fraud due to potential collusion.		<u>Management Action</u> The manager of the team will implement random quality checks against exemptions and reliefs and record supporting evidence of the quality checks.	
		Root Cause(s)	
		Approval measures or quality checks were not considered to be necessary to help mitigate the risk of fraud/error in applying discounts and exemptions.	
Responsible Person	Stuart Henderson-Smith – Revenues Operational Service Manager	Action Due Date	1 August 2025
		Priority Level	P2 (Medium)

Control Area 1: Legislative, Regulatory and Organisational Requirements

Issue 2: No training programme in place for new staff			
Finding(s) and Risk		Agreed Action	
Discussions with the Revenue Operational Service Manager identified that there was no defined training programme in place. As explained, training would be provided for a new staff member on a one-to-one basis, and they would be provided with the procedural documents available. Review of the measures in place to track team training commitments found that there was no log or other record maintained which outlined the training courses attended by each member of staff. Risk and Impact: Where there is not a defined training programme in place and no records of training undertaken, there remains a risk that staff are inconsistently trained resulting in knowledge gaps and operational inefficiencies. Instances may also arise where changes in work practices or processes are not properly adopted. Furthermore, staff may claim to not be fully aware of their roles and responsibilities.		<u>Management Action</u> The business rates team will establish a training programme for new starters, and they will record all training activity. There is also a resources workforce group who are looking at induction training.	
		Root Cause(s)	
		Training has not been prioritised, due to the small size of the current team and their relative experience.	
Responsible Person	Stuart Henderson Smith – Revenues Operational Service Manager	Action Due Date	30 September 2025
		Priority Level	P3 (Low)

Control Area 1: Legislative, Regulatory and Organisational Requirements

Issue 3: Policy & procedure documents lacked version control or were out-of-date			
Finding(s) and Risk		Agreed Action	
Policy and procedure documents relating to business rates management process were reviewed, including areas such as setting up business accounts, revaluations, reconciliation, billing and discounts, exemptions, and reliefs. Through review, it was identified that for the documents in place, two had not been updated within the past 12 months. These were: • RB-Adhoc-Billing-between-Annual-Billing-and-Rollover-Guide-v7.9.0, dated December 2023, and • Receipt and Transaction Management (reconciliation) user guide, dated August 2006 [note this is guide originally provided by Northgate]. Additionally, five other documents were undated and did not include version control so the date of the last review could not be determined. These include the following documents: • IMPROVEMENT RELIEF • Gone Away Process • AMENDING AN ADDRESS • Cross Rail Relief • Reconciliation Reports Risk and Impact: Where document procedures in place relating to business rates management are not regularly reviewed and updated, there remains a risk that these procedure documents do not mirror best practice or legislative changes.		<u>Management Action</u> Documentation will be reviewed and updated with version control.	
		Root Cause(s)	
		It was not considered a requirement for all procedural documents to have a version control table to mirror updates.	
Stuart Henderson Smith – Revenues Operational Service Manager		Action Due Date	30 September 2025

Responsible
Person

Priority Level

P3 (Low)

Appendix A – Audit Information

Agreed Objectives and Scope

The objectives of our audit were to assess whether the Council has in place adequate and appropriate policies, procedures, and controls to manage Business Rates (NDR) with a view to providing an opinion on the extent to which risks in this area are managed. The audit considered the following areas relating to the areas under review:

- Legislative, Organisational and Management Requirements
- Set Up of Newly registered Businesses & Billing
- Discounts and reductions (incl. Empty Properties)
- Payments & Reconciliations
- Management Reporting

Scope Limitations

In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. Any testing performed was conducted on a sample basis. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

Appendix B – Definitions for Audit Opinions and Identified Issues

Definitions of Assurance Levels

	Full Assurance	There is a sound system of control designed to achieve the system objectives, and the controls are constantly 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 of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Definitions of Priority Levels

P1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
P2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
P3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Appendix C – Statement of Responsibility

We take responsibility to 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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