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Dacorum Borough Council
Final Internal Audit Report
Community Infrastructure Levy (CIL)

June 2014

This report has been prepared on the basis of the limitations set out on page 12.

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Key Dates:

Date of fieldwork:	May 2014
Date of draft report:	May 2014
Receipt of responses:	June 2014
Date of final report:	June 2014

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1. Executive Summary

1.1. Background

As part of the Internal Audit programme for 2014/15, we have undertaken an audit of the Council's systems of internal control in respect of Community Infrastructure Levy (CIL).

The Government has permitted local authorities to introduce a Community Infrastructure Levy since April 2010. Community Infrastructure Levy (CIL) is a local tariff that enables local authorities to set a charge on most types of new development. The money raised is available to the Local Authority to fund a wide range of local and strategic infrastructures which can include transport schemes, open spaces, schools and community facilities.

Dacorum Borough Council are currently implementing CIL in a number of stages, with a final implementation date of April 2015. As CIL is not yet fully implemented , areas of the scope were adapted to fit the current position. Audit was unable to look at the areas around the Application of Levy and Receipt of Payment as these are not yet applicable.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Community Infrastructure Levy (CIL), and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Policy, Procedures and Legislation; Formal adoption of CIL, Project Governance; Infrastructure list; Infrastructure Tariff; Application of the Levy; Receipt of Payment; and Monitoring and Reporting

1.3. Summary Assessment

Our audit of DBC's internal controls operating over Community Infrastructure Levy (CIL) found that there is a sound system of internal control designed to achieve the system objectives. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Full	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Community Infrastructure Levy (CIL) is shown in Section 3.

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1.4. **Key Findings**

We have raised two priority 2 recommendations and two priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- All employee training and development needs in relation to CIL should be documented within a training plan. (Priority 3)
- The meetings held regarding the implementation of CIL should be documented and recorded into formal meeting minutes or action notes. (Priority 3)
- The risk register should be reviewed on a regular basis and reported to Management (Priority 2)
- All documentation including the Project Initiation Document, policies, time tables and the section of the website in relation to CIL should be kept up to date to reflect the revised deadlines. (Priority 2)

Full details of the audit findings and recommendations are shown in Section 4 of the report

1.5 **Management Response**

We have received the management responses and have included them in our Final report.

1.6 **Acknowledgement**

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

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2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Community Infrastructure Levy (CIL), with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;

- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;

- identification of control weaknesses and potential process improvement opportunities;

- discussion of our findings with management and further development of our recommendations; and

- preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

- *Policy, Procedures and Legislation*

  Policies and procedures are in place to help ensure Council staff have adequate guidance to work within legislation and in a consistent manner. Policies and procedures are readily available to members of staff. Procedures are in place to enable members of staff to receive appropriate training. Procedures are in place within the Funding Decision Protocol to guide funding bids by service and infrastructure providers for a decision by Cabinet.

- *Formal Adoption of CIL*

  The Council has formally agreed to adopt the Community Infrastructure Levy. There is in place a formal strategy or policy that describes the basis of how the Council will apply the levy. The policy has been formally agreed and is made available to members of staff and the public.

- *Project Governance*

  There are appropriate controls in place to demonstrate that governance arrangements are in place. Decisions made during the project are supported with documentary evidence.

- *Infrastructure list*

  Controls are in place to help ensure that the Council has determined a list of projects or types of infrastructure which may be funded through CIL. The list is formally approved and is available to members of staff and the public.

- *Infrastructure Tariff*

  The Council has prepared a Charging Schedule. The schedule sets out the basis by which the charges are to be applied under the CIL. There is supporting documentation to verify the basis of the charges. The Charging Schedule is subject to consultation, is formally agreed and approved, and is readily available.

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- *Application of the Levy*

  Each developer will be notified of the charge in a Liability Notice. Where any reliefs are applicable or where the CIL charge is not applicable evidence is retained to confirm the rationale for these decisions.

- *Receipt of Payments*

  Controls are in place to ensure that charges as detailed in the Liability Notice are received when due. Charges are due at the commencement of the development and a Notice of Commencement is submitted. Appropriate software has been implemented and controls are in place to ensure that information is recorded in an accurate and timely manner and that appropriate controls are in place to restrict access to the system. Charges are raised via a Debtor invoice and charges received are accurately accounted for in the finance system.

- *Monitoring and Reporting*

  There are robust procedures in place to monitor the charges received and how those charges are being spent. Regular reporting of the outcomes of the monitoring is undertaken.

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3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policy, Procedure and Legislation	✓	≈	**Recommendation 1**
Formal Adoption of CIL	✓	✓	
Project Governance	✓	≈	**Recommendation 2, 3 and 4**
Infrastructure List	✓	✓	
Infrastructure Tariff	✓	✓	
Application of the Levy	✓	✓	
Receipt of Payments	✓	✓	
Monitoring and Reporting	✓	✓	

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

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4. Observations and Recommendations

Recommendation 1: Training Plan (Priority 3)

Recommendation
All employee training and development needs in relation to CIL should be identified and formulated within a training plan.

Observation
In order to make sure that the relevant Council employees are provided with appropriate training for the application of CIL, a training plan should be developed in advance. The training plan should consider who needs training, to what level of training each individual needs, the type of training that should be undertaken and when this training should take place. In the initial stages of the implementation of CIL it was confirmed that the Strategic Planning and Regeneration Officer initially received support from the Planning Officer Society (POS) and in the early stages advice from Huntingdonshire District Council, a pilot authority for CIL. Through discussions with the Senior Planning Officer and the Strategic Planning and Regeneration Officer it was confirmed that the training needs have been discussed on an informal basis for members of staff involved in the implementation and administration of CIL. However, audit confirmed that a formal training plan has yet been developed. Where the training and development needs are not identified and appropriate training provided in advance of the application of CIL, there is a risk that CIL will not be implemented successfully which may lead to the objectives not being achieved and may lead to a loss of financial resource to be applied to projects within the district.

Responsibility
James Doe – Assistant Director (Planning, Development and Regeneration)

Management response / deadline
Agreed. This will be put in place by 31 December 2014 in anticipation of the start date for CIL charging of 1 April 2015.

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Recommendation 2: Meeting minutes (Priority 3)

Recommendation
The meetings held regarding the implementation of CIL should be documented and recorded in formal meeting minutes or action notes.
Observation
There are regular meetings in relation to CIL in order to discuss performance, provide an update on progress and to resolve any issues that have been identified. Furthermore, in order that agreed actions are documented and can be followed up, meeting minutes or action notes should be recorded for the meetings held. There is a CIL Working Group and a Task and Finish Group in place for the implementation of CIL. Audit confirmed that although meetings have been taking place and in some instances notes have been taken, audit could not evidence any formal meeting minutes or action points for every meeting. Where there are no documented action notes or meeting minutes there is a risk that agreed actions or decisions are not formally recorded which may lead to actions not being completed in a timely manner.
Responsibility
James Doe – Assistant Director (Planning, Development and Regeneration)
Management response / deadline
Agreed. Action notes will be provided from each meeting from this point forward, with immediate effect. These will be reported back and agreed through each CIL working group meeting.

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Recommendation 3: Risk Register (Priority 2)

Recommendation
The risk register for the CIL project should be reviewed on a regular basis and reported to Management.

Observation
The risk register sets out the risks in relation to the CIL Project. Additionally, the risk register sets out the risk owners and mitigating actions specifically relating to CIL in order to ensure that risks are controlled effectively. The risk register should be reviewed on a regular basis to ensure that actions are being taken to mitigate the risks.
Audit obtained a copy of the risk register for the CIL project that was submitted in February 2012 with the PID.   The risk register was dated February 2012 and there was no evidence to confirm that the register had been reviewed since that date. From an examination of the Risk Register it noted that for a number the risks the register was not complete. In some instances there was no detail within the consequences and controls sections. Furthermore, it was noted that in one case, the risk refers to delays in the implementation of CIL beyond April 14. It was also noted that no implementation dates were recorded to enable effective monitoring of the completion of the mitigating actions.
Where the risk register is not fully completed and reviewed on a regular basis, there is a risk that the expected objectives of CIL will not be realised.

Responsibility
James Doe – Assistant Director (Planning, Development and Regeneration)

Management response / deadline
Agreed. The Risk Register will come to each working group meeting as a standing item for consideration and review with immediate effect,

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Recommendation 4: Documentation kept up to date (Priority 2)

Recommendation

All documentation including the Project Initiation Document, policies, time tables and the section of the website in relation to CIL should be kept up to date to reflect the revised deadlines. Additionally, the Project Initiation Document should be signed off and approved.

Observation

All documents relating to the project such as the Project Initiation Document, policies, time tables and the website should be kept up to date with current timescales to ensure that staff and developers are aware when CIL is going to be implemented, and to enable effective monitoring to ensure that deadlines are being met. Furthermore, the Project Initiation Document should be signed off in order to confirm that it is accurate.

The implementation date for CIL has been put back due to changes in the CIL regulations. The most recent change in date changes the implementation date to the 1ST April 2015.. Audit obtained a range of documents relating to the implementation of CIL. These included the Project Initiation Document, policies, timetables and through an examination of the website it was confirmed that the current implementation date of April 2015 is not reflected consistently. Furthermore, it was noted that the PID should be updated and signed to confirm changes.

Where project documentation is not kept up to date to reflect revised deadlines, there is a risk that members of staff do not work consistently and that the implementation date may not be achieved.

Responsibility

James Doe – Assistant Director (Planning, Development and Regeneration)

Management response / deadline

Agreed. The Project Plan will be updated by 31 July 2014, and will feature as a standing working group item.

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Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

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Appendix B - Staff Interviewed

The following personnel were consulted:

- James Doe - Assistant Director(Planning, Development and Regeneration)

- Robert Freeman - Planning Officer

- Heather Overhead - Strategic Planning and Regeneration Officer

We would like to thank the staff involved for their co-operation during the audit.

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Statement of Responsibility

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

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. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all 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. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

June 2014

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