

# Dacorum Borough Council

## Final Internal Audit Report

### Community Infrastructure Levy

May 2018

This report has been prepared on the basis of the limitations set out on page 10.

CONFIDENTIAL

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**Key Dates:**

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# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Programme for 2017/18, we have undertaken an audit of the Council's systems of internal control in respect of the Community Infrastructure Levy (CIL).

The CIL is a standardised non-negotiable levy that is charged to new development for the purpose of raising funds to deliver infrastructure that is required to support new development. The CIL charging schedule is intended to enable the delivery of infrastructure required to support development planned through the Core Strategy.

## 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 CIL, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies, Procedures and Setting of the Levy, Collection of the Levy and Governance Arrangements, Spending of the Levy, Budget Monitoring, and Monitoring of Performance.

## 1.3. Summary Assessment

Our audit of the Council's internal controls operating over the CIL found that 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 also 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
Substantial	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 the Community Infrastructure Levy are shown in Section 3.

#### 1.4. **Key Findings**

We have raised two Priority 2 recommendations where we believe there is scope for improvement within the control environment. The recommendations raised are in respect of the following:

- Recovery of overdue CIL payments (Priority 2)
- Performance Monitoring Framework (Priority 2)

Since the last audit, the CIL Team have implemented procedural guidance for Exacom. The Exacom Manual outlines the procedures on logging into the system, adding liable parties, adding forms, calculating a CIL liability charge and generating a commencement report.

As of March 2018, no CIL funding had been used in the commissioning of infrastructure projects. The outgoings from the CIL funding have been 15% to the Parishes/Wards of the Borough. This is where the Parish/Ward receives payments twice a year for specific use within their area. As of April 2017, a total of £498,673 had been raised through CIL fees for the 2016/17 financial year. Of this some £24,933.67 was set aside to cover the costs relating to the administration of the CIL charge. This amounts to some 5% of all CIL receipts over the period.

Currently, the bulk of the CIL revenue has not been spent, although 5% of the CIL revenue is used to fund administrative expenditure. Monthly budget monitoring reports are produced by the Finance team on the administrative expenditure of the CIL Team.

A monthly reconciliation of the Agresso and Exacom systems is also carried out by the Finance team in respect of income collected. Review of the most recent reconciliation for Period 10 did not identify any significant variations between the two systems.

The Council's website includes reference to CIL, including details of the collection and spending of the levy. The website includes links to the Dacorum Infrastructure Development Plan.

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

#### 1.5. **Management Response**

We received the management response in a timely manner and this has been included in the main body of the 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.

## 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 the Community Infrastructure Levy, with regards to the areas set out in section 2.3, are adequate and 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:

#### **Policies, Procedures and Legislation**

The Council has in place a Strategy and guidance which details the rationale for the Council's approach to the management of the Community Infrastructure Levy. These documents should be readily available, and should be reviewed and updated on a regular basis.

#### **Setting of the Levy**

An overview of the procedures are in place to ensure that the CIL levy has been set in accordance with legislative requirements. A charging schedule has been prepared and has been subject to the appropriate consultation with stakeholders. The charging schedule has been subject to independent review, appropriate approval and is readily available to all the relevant parties.

#### **Collection of the Levy and Governance Arrangements**

The CIL levy should be applied to all proposed development projects that have received planning permission, that provide infrastructure to support growth with Dacorum. Procedures should be in place to ensure that the levy is paid within 60 days of the commencement of the development. The application of discretionary relief is carried out in a transparent manner in accordance with Council policy and legislative requirements. All income received from the application of the levy is accounted for in a complete and accurate manner. The draft governance arrangements in place ensure that all decisions are made in a transparent and timely manner for the guidance and approval of spending.

#### **Spending of the Levy**

The Council should have in place a list of those infrastructure projects that may benefit from CIL funding. The list should be reviewed and updated at least annually. Infrastructure projects should be in line with the Council's objectives. CIL funding is applied to appropriate infrastructure projects in accordance with Council policy and legislative requirements.

#### **Budget Monitoring**

Robust procedures should be in place for monitoring the financial performance of the service. Roles and responsibilities should be clearly defined to help ensure accountability. Significant

variances should be identified and investigated. The performance should be reported on a regular basis to the appropriate forum.

**Monitoring of Performance**

There should be a performance monitoring framework against which the performance of the service can be monitored. Timely and accurate management information should be produced and reported to the appropriate forum on a regular basis. Information regarding the spending of the lev should be displayed on the Council’s website.

### 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
Policies, Procedures and Setting the Levy			
Collection of the Levy and Governance			Recommendation 1
Spending the Levy			
Budget Monitoring			
Monitoring Performance			Recommendation 2

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

## 4. Observations and Recommendations

### Recommendation 1: Recovery of overdue CIL payments (Priority 2)

<p><b>Recommendation</b></p> <p>The Council should ensure that all overdue developers' payments are pursued in a timely manner.</p>
<p><b>Observation</b></p> <p>The Council should regularly review payments received from developers. Where payments are overdue, developers should be chased up and this should be reflected accurately on the Exacom System.</p> <p>A sample of 10 payments were chosen from a report on Exacom of all projects that have commenced since March 2017. From a sample of 10 payments tested:</p> <ul style="list-style-type: none"> <li>• Five payments were overdue (81 days, 94 days, 102 days, 47 days and 307 days overdue);</li> <li>• One payment was late (9 days late);</li> <li>• In two instances, the payment was not owed due to relief being either granted or in the process of being granted; and</li> <li>• In two instances, the payment was made on time.</li> </ul> <p>Where payments are not monitored and overdue payments chased up, there is a risk that the Council is not maximising receipts from the CIL. This can result in funding not being used on key infrastructure projects.</p>
<p><b>Responsibility</b></p> <p>Strategic Planning and Regeneration Officer</p>
<p><b>Management response / deadline</b></p> <ul style="list-style-type: none"> <li>• CIL becomes chargeable on commencement on site. Currently the officer completes a drive around circuit of sites on a monthly basis. This could be more effective if done more often however capacity within the service makes this impossible.</li> <li>• Once DBC is aware that the site has commenced and invoice is raised through the Exacom/Agrosso systems. At this point the financial procedures for chasing payment begin. It has now been agreed that the CIL officer and finance department will meet on a six weekly basis to consider late payments.</li> <li>• Contact details for the developers are not often included in the planning application – rather the Architect or Planning consultant is included. It is being investigated whether it is possible to add the developer/CIL liable party to the application at PP stage to ensure that DBC has this contact going forwards.</li> <li>• Should the site be sold on prior to the debt being settled the CIL debt is included on the land registry records automatically within the current procedures.</li> </ul> <p>31 July 2018</p>

**Recommendation 2: Performance Monitoring Framework (Priority 2)**

<p><b>Recommendation</b></p> <p>The Council should ensure that monitoring is undertaken against the key performance indicators (KPIs), which have been put in place.</p>	
<p><b>Observation</b></p> <p>Since the last audit, the CIL team have introduced KPIs to measure the success of administering CIL projects. However, evidence of regular monitoring of these KPIs was not provided.</p> <p>We were provided with a copy of the Community Infrastructure Levy KPIs. The document sets out which KPIs would be monitored. Examples of KPIs set out in this document include - 95% of relief claims processed within 10 working days of receipt and 95% of Payment Acknowledgements sent within 10 working days. However, the Strategic Planning and Regeneration Officer stated that the document had only recently been produced and, at the time of the audit, the process of monitoring the KPI's had yet to be started.</p> <p>Where the performance is not monitored on a regular basis, there is a risk of poor performance not being rectified and / or managed in a timely manner.</p>	
<p><b>Responsibility</b></p> <p>Strategic Planning and Regeneration Officer</p>	
<p><b>Management response / deadline</b></p> <ul style="list-style-type: none"> <li>A new system has now been put into place to carry out monitoring of processes. This will be overseen by the Assistant team Leader moving forwards. (see KPIs below) – implemented.</li> <li>The quarterly income is recorded on the Councils Rocket system quarterly but this is for information only.</li> </ul>	
<b>KPIs</b>	<b>Monitoring process</b>
Liability Notice issued or Initial contact to be made with liable and interested parties within 10 working days of Decision Notice in 95% of cases.	Date of Decision and date of Notice
95% of Liability Notices pending Commencement Notices followed up by Commencement Reminder Notice at least every 6 months	Date of Liability Notice and date of Commencement Notice reminder
Site visit undertaken for 95% of Liability Notices pending Commencement Notices over 1 year	Date of Liability Notice and date of site visit (activity)
95% of relief claims processed within 10 working days of receipt	Date of receipt of relief form and date of Notification of Relief.
95% of Commencement Notices followed up with a Demand Notice and invoice within 5 working days.	Date of Commencement Notice and date of Demand Notice
95% of Payment Acknowledgements sent within 10 working days	Date of Payment and Payment Acknowledgement date.

## 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
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		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.
<b>Limited</b>		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.
<b>Nil</b>		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
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## Appendix B - Staff Interviewed

The following personnel were consulted:

- Shalini Jayasinghe – Assistant Team Leader
- Emma Cooper - Strategic Planning and Regeneration Officer
- Keshika Naidoo – Group Accountant

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

## 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**

**May 2018**

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