



Dacorum Borough Council

Final Internal Audit Report

Community Infrastructure Levy

September 2016

This report has been prepared on the basis of the limitations set out on page 14.

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Key Dates:

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1. Executive Summary

1.1. Background

As part of the Internal Audit Programme for 2016/17, we have undertaken an audit of the Council's systems of internal control in respect of the Community Infrastructure Levy (CIL).

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 Legislation, Setting the Levy, Collection of the Levy and Governance, Spending the Levy, Budget Monitoring, and Monitoring 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 three Priority 2 recommendations and three Priority 3 recommendations where we believe there is scope for improvement within the control environment. The recommendations raised have been set out below:

- Introduction of Exacom Procedure Notes (Priority 3);
- Independent spot check of liability and relief calculations (Priority 2);
- Periodic follow ups on commencement dates for approved developments (Priority 2);
- CIL Liability Notices raised for all applicable developments (Priority 2);
- Acknowledgement of CIL payments received (Priority 3);
- Development of a Performance Monitoring Framework (Priority 3).

A report issued in April 2014 "Community Infrastructure Levy (CIL) - Bridging the Infrastructure Funding Gap" showed an infrastructure cost, and the infrastructure funding gap (2011-2031) of £131.4m & £65.46m respectively. The report also estimate a total CIL income projected for the corresponding period, to be £23.47m (before taking account of the 15% of the total to be passed to the town/Parish Council and 5% to for the administration of CIL) and concludes that CIL will provide just over a third of the funding gap thereby highlighting the need to prioritise the delivery of projects and maximise the use of external funding sources to supplement the remaining gap.

The projections have not been reviewed since April 2014. However, it was concluded that, at this stage, a revised forecast would add no additional value to the scheme as there have been no significant changes to the assumptions used in the projections and the number of CIL applied to date is relatively small and do not provide meaningful data to revise the projections. Consideration should be taken to review the long term projection of CIL in the next 12-24 months following collation of more data, income and likely impact factors that would affect the collection and success of CIL. This would allow more reliance on the projection and provide an accurate forecast which the performance can be measured against and decisions may be based upon.

At this stage in the CIL process, we were unable to provide assurance within Budget Monitoring and Forecasting given the limited information available following recent implementation of CIL, in July 2015. There is a time lag between the initial set up of CIL to collecting the charges raised as the financial liability is not triggered until the commencement of works. Since July 2015 a total of £65,119.35 has been collected. In the next 12-24 months, the Council will be in a better position to forecast more effectively given more commencement dates, liabilities raised and income generated.

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

1.5. Management Response

We received the management responses in a timely manner and they have 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. To review the draft governance arrangements in place to 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 & Legislation			Recommendation 1
Setting the Levy			
Collection of the Levy & Governance			Recommendation 2 Recommendation 3 Recommendation 4 Recommendation 5
Spending the Levy			
Budget Monitoring	N/A	N/A	Please refer to 1.4 Key Findings for further information.
Monitoring Performance			Recommendation 6

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: Exacom Procedure Notes (Priority 3)

<p>Recommendation</p> <p>The Council should implement Exacom procedure notes to document the process and administration of CIL.</p>
<p>Observation</p> <p>The Council should implement procedural guidance for Exacom to ensure that another individual is able to confidently take over the role with little or no training should the occasion arise.</p> <p>Following discussion with the Strategic Planning and Regeneration Officer, it was identified that there is currently no procedure guidance for the use of Exacom. There are currently two members of staff who maintain and oversee CIL, one of which is due to go onto Maternity Leave at the end of June 2016. Procedure Guidance would be of value when a replacement officer is brought in to take over this role or if another individual is required to provide a cover.</p> <p>Where there is no formal procedure guidance, there is an increased risk of staff following inconsistent practice and risk of discontinuity in the event of the staff absence or turnover.</p>
<p>Responsibility</p> <p>Group Manager - Strategic Planning and Regeneration / Infrastructure Officer</p>
<p>Management response / deadline</p> <p>DBC recognises the need for procedure notes in regard to concerns over a 'single point of failure' within the team at present with the bulk of the CIL workload being processed by the Infrastructure Officer. Guidance notes will be produced by the beginning of November 2016.</p> <p>Additionally, the Council's Infrastructure Officer will be providing further and specialist training to the Lead Officer regards CIL. Also, an Assistant Officer has been employed with a remit to undertake a number of CIL administration tasks and will also consider training requirements for the team's Technical Assistant. It is hoped that such training will provide additional cover thereby mitigating any risk of discontinuity.</p>

Recommendation 2: Secondary Spot Check of Liability / Relief Calculation (Priority 2)

<p>Recommendation</p> <p>The Council should introduce a secondary 10% spot check on the liability and relief calculations for CIL liable developments through Dacorum Borough Council.</p>
<p>Observation</p> <p>The Council should complete a 10% spot check to ensure that the calculations of the levy and application of reliefs (where applicable) are accurate and valid, and the Council is able to maximise potential income from CIL. It is recognised that given the recent introduction, there is currently little income being generated through CIL, however there are expectations for this to increase in the coming years.</p> <p>There is currently no secondary check in place following the calculation of the CIL liability or relief / exemptions awarded to the developers. There is a passive control where developers are likely to inform the Council where they believe to have been overcharged. However, this will not help identify any invalid or incorrect reliefs or if the developer is undercharged.</p> <p>Where there is no secondary check, there is a risk of over / under charge of the CIL liability. Where developers are undercharged on their liability notice, the Council does not maximise their potential income through CIL.</p>
<p>Responsibility</p> <p>Group Manager - Strategic Planning and Regeneration</p>
<p>Management response / deadline</p> <p>Procedures will be brought in by November 2016 to carry out cross-checking of the calculations between the Lead Infrastructure Officer and the Assistant Officer. This is a resource intensive process so it is considered that spot checks of 5% of caseload are carried out. This, with the new cross-checking procedures should ensure greater accuracy.</p> <p>There are also some technical issues with regards to the ability of the Local Planning Authority (LPA) to accurately measure plans in a number of cases depending on the form of data entry in Acolaid. There are a number of cases for which the Infrastructure Officer has generated Liability Notice (LN) on the basis of the measurements, particularly in light of inconsistencies within the submitted application forms.</p> <p>The methodology for calculation of CIL relief is not specified within the CIL Regulations 2010 (as amended) and it has been acknowledged by the CIL Planning Officers Society (POS) Implementation group that differing methodologies are being used. The POS group have submitted information in the CIL Review and requested additional advice from the Department for Communities and Local Government (DCLG) on this matter. The critical issue should be for the LPA to determine its methodology and apply this consistently (see Recommendation 1)</p> <p>A number of review dates have been included within Exacom to ensure that relief claims are checked and effectively monitored for the duration of the claim. Notifications have been set for multiple £0 claims within the Agresso system and such notifications should act as warnings against potential disqualifying events in cases of CIL relief. Reviews will be undertaken on the dates specified.</p>

Recommendation 3: Periodic Follow Up on Commencement Dates (Priority 2)

<p>Recommendation</p> <p>The Council should complete periodic follow ups of CIL approved projects where the commencement date has yet to be received.</p>
<p>Observation</p> <p>The Council should complete periodic follow ups of CIL approved projects where the commencement date has not yet been received. This should be completed to ensure that the Council is informed within a timely manner of commencement and a demands notice can be raised promptly for the CIL charge associated with the project.</p> <p>A report had been generate of all CIL liabilities within the Exacom system. This report contained 97 projects; of which only five had a commencement date applied to project. The liabilities for these projects were generated in July and August 2015. However, a commencement date has yet to be provided to the Council and a demand notice has not been issued. Some of these projects may have commenced and a demand notice should be raised but without the commencement date, the Council is unable to raise the demand notice.</p> <p>Where the Council is not informed of the projects commencement date there is an increased risk that the demand notice is not issued promptly and CIL Charge will not be paid to the Council in a timely manner and in line with the Instalments Policy in place.</p>
<p>Responsibility</p> <p>Strategic Planning and Regeneration Officer</p>
<p>Management response / deadline</p> <p>This reflects comments made by our own finance section at the time of the end of year accounts with a concern relating to the value of our contingent asset for CIL against the Demand Notices (DN) The Infrastructure Officer requested the provision of additional reports within Exacom specific to this point at recent discussions with the provider, A new version of the software has been recently released and this includes a report on the number of days since the issue of the LN. From this report, we will be updating those cases for which significant time has elapsed by the end of August/September 16.</p> <p>We will undertake site inspections of CIL and S106 cases to ensure the robust monitoring of both income streams. The intention is to address a backlog of sites by the 31st December 2016.</p> <p>Furthermore, reminder notices will be issued after one year has elapsed where commencement has not taken place from the original issue of notices.</p>

Recommendation 4: CIL Liability Notice for all Applicable Developments (Priority 2)

<p>Recommendation</p> <p>The Council should ensure that all approved CIL liable developments have an accurate CIL Liability Notice issued promptly following a planning permission being granted; including developments with a £0 Liability.</p> <p>Consideration should be taken to conduct a data matching exercise between Acolaid and Exacom to ensure information is stored wholly and accurately, and any projects on Exacom without a liability notice should be followed up.</p>
<p>Observation</p> <p>The Council should ensure that a Liability Notice is issued promptly following a planning permission being granted to optimise CIL income on all relevant and chargeable developments, and apply a consistent approach in raising Liability Notices.</p> <p>A sample of nine projects was selected where the planning permission was granted and the application was CIL liable but no liability notice has been raised through Exacom. Our testing identified that in two cases a liability had been calculated for the development, but not issued to the developer. The combined liabilities for the two cases amounted to over £79,000. It could not be explained why a liability amount had been calculated, but not sent through a notice. In both instances, the developer would have been able to claim full relief for the CIL Charge. However, a nil value liability notice should have been issued with a confirmation of the relief being applied. In one of the two cases although a draft liability notice was created, this was not sent to the developer and the development had already commenced. The Council is therefore unable to issue the liability notice retrospectively on this project. Given that the liability notice would have been a nil value, there is no financial loss on this specific case. However, the Council should ensure that the liability notice is issued promptly before the commencement of development for all projects.</p> <p>Comparison between an Acolaid Report for all granted, CIL Applicable applications, and an Exacom Liability Report, identified the information did not reconcile. It was identified there had been inconsistency in issuing Liability Notices for CIL Applicable developments where the notice is £0. To ensure consistency and more effective monitoring, the Council should ensure all applicable developments have a Liability Notice raised, including £0 liabilities.</p> <p>Where the Council does not issue a Liability Notice in a timely manner, the Council are unable to claim all available CIL income on relevant and chargeable developments.</p> <p>Where the Council does not have a complete set of data, there is increased risk as to the integrity of information stored within the systems. It may also be difficult to ensure CIL income is accurately and appropriately charged on all CIL Liable developments.</p>
<p>Responsibility</p> <p>Strategic Planning and Regeneration Officer</p>
<p>Management response / deadline</p> <p>The CIL Regulations 2010 (as amended) do not require the LPA to issue LN for those schemes that are subject to a zero charge, hence the inconsistency with early CIL applications. The generation of £0 LN cases often reflects the grant of CIL relief.</p> <p>We will write to developers where there is a £0 CIL liability to make matters clear. To be actioned by October 2016</p>

Recommendation 5: Acknowledge of CIL Payments Received (Priority 3)

<p>System Improvement Opportunity</p> <p>The Council should ensure that all developers’ payments are acknowledged in a timely manner of receiving payment.</p>
<p>Observation</p> <p>The Council should acknowledge payment in a timely manner to ensure developers have a formal receipt of payment being received in relation to their CIL charge.</p> <p>It was identified in one of the four payments received under CIL since July 2015, that formal acknowledgement had not been sent to the developer following their final payment of their CIL charge.</p> <p>It is good working practice to acknowledge receipt of CIL charges. There is full transparency within the audit trail with receipts being provided to the Developer.</p>
<p>Responsibility</p> <p>Strategic Planning and Regeneration Officer</p>
<p>Management response / deadline</p> <p>The CIL Regulations 2010 (as amended) strictly require the acknowledgement of payments as they occur. The Infrastructure Officer will acknowledge payments within 10 working days. We have developed a spreadsheet of when payments should be due to assist in the monitoring of CIL receipts and the forward planning and projection of CIL expenditure.</p> <p>It is now necessary to report quarterly income via our project monitoring software (CORVU) on a monthly basis and additional information requests have been suggested as a standing item to monthly Corporate Regeneration Group (CRG) meetings.</p> <p>To be actioned by October 2016.</p>





Recommendation 6: Performance Monitoring Framework (Priority 3)

<p>System Improvement Opportunity</p> <p>The Council should implement a performance monitoring framework against which the performance of the service can be monitored.</p> <p>An example Key Performance Indicator (KPI) may be in relation to commencement dates; 95% of all approved developments are followed up with a phone call within three months to confirm a commencement date, within six months a site visit should take place to confirm commencement has not started.</p>
<p>Observation</p> <p>There should be KPIs introduced to measure the success of administration of CIL applicable projects; and ensure all relevant funds are received in a timely manner.</p> <p>In discussion with the Strategic Planning and Regeneration Officer it was identified that CIL is currently not subject to any performance indicators and acknowledged a gap in the process of chasing commencement dates of projects which have been approved.</p> <p>Where the performance is not monitored there is an increased risk of poor performance not being rectified and / or managed.</p>
<p>Responsibility</p> <p>Strategic Planning and Regeneration Officer</p>
<p>Management response / deadline</p> <p>A KPI will be developed in consultation with the Infrastructure Officer. Initial suggestions for a KPI have been identified within his Work Action Plan and these will be progressed further as additional support is provided to the role. A KPI should be established and evaluated by the 31st March 2017.</p>

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.

Appendix B - Staff Interviewed

The following personnel were consulted:

- Heather Overhead Strategic Planning and Regeneration Officer
- Robert Freeman S.106 Development Officer
- Chris Taylor Group Manager (Strategic Planning and Regeneration)
- Clare Dempsey Sundry Debtors Team Leader
- Yamini Krishnan Assistant 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

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