

Internal Audit Report on Follow up of Controls Operating over Developer Contributions

Report by Internal Audit Manager

1. Purpose of the Report

The purpose of this report is to respond to the Audit Committee's request that Internal Audit follow up on the monitoring recommendations reported in the review of controls operating over Developer Contributions reported to the Audit Committee in March 2016.

2. Background

In March 2016, a report was presented to the Audit Committee on the controls in place over Developer Contributions. A number of recommendations were made in the report to improve controls within this area focusing on Governance, Monitoring and Procedures. The report can be viewed using the following link:

<https://midlothian.cmis.uk.com/live/live/live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/81/Committee/6/Default.aspx>

3. Progress

3.1 Discussions with management highlighted that 3 major pieces of work are in progress to improve practice in this area as follows:

3.1.1 The Planning Service has carried out a review of their service and business processes associated with Developer Contributions. Two of the outcomes of this review were to recruit a Compliance Officer and to purchase a database monitoring system to assist with the Developer Contribution process. The Compliance Officer will assist with monitoring the level of completion of developments and thereafter collection of amounts due. The Compliance Officer is expected to be in place after the summer recess. The new system will be used to record all of the developments and stages of completion. A procurement exercise is currently being undertaken to source the system. Once these outcomes are implemented the monitoring of Developer Contribution agreements in place will be much improved;

3.1.2 Financial Services and the Planning Service are working together to complete an in depth analysis of contributions received and the allocation of these contributions to capital infrastructure. This exercise will not only improve existing arrangements but will provide an accurate foundation by which the new system can be populated. This review, coupled with the implementation of the new system, should ensure that all contributions are received timeously and allocated to infrastructure

within the appropriate timescales. This work will be completed over the summer;

- 3.1.3** Financial Services are also conducting an analysis of forward funded assets. Costs have been ascertained for these assets and the analysis of amounts allocated to these assets will form part of the above analysis of contributions received. This work will also be completed over the summer.
- 3.2** There have also been immediate changes to business processes which have already improved the effectiveness of the Developer Contributions process. Planning, Legal Services and Financial Services continue to work together and meet regularly with information held in shared locations. Invoicing is now a proactive process, with the Planning Service making contact with developers and actively seeking contributions. This changed approach should ensure that all contributions are collected at the appropriate time and ensure that none are missed.
- 3.3** Management have advised that all Developer Contributions identified as being due for payment so far, have either been collected or are in the process of being collected.

4. Audit Opinion

It is our opinion that management are addressing the risks identified in the original audit and that the actions completed or underway will, once fully implemented, reduce risk to an acceptable level.

5. Report Implications

5.1 Resource

There are no direct resource implications arising from this report.

5.2 Risk

Weaknesses in the monitoring of Developer Contributions could lead to the loss of contributions from developers.

5.3 Single Midlothian Plan

Themes addressed in this report:

- Community safety**
- Adult health, care and housing**
- Getting it right for every Midlothian child**
- Improving opportunities in Midlothian**
- Sustainable growth**
- Business transformation and Best Value**
- None of the above**

5.4 Key Priorities within the Single Midlothian Plan

This Report does not directly impact on the key priorities within the Single Midlothian Plan.

5.5 Impact on Performance and Outcomes

The improvements in practice will reduce the risk associated with the collection of contributions and their application to capital infrastructure.

5.6 Adopting a Preventative Approach

An effective system for the collection of Developer Contributions will mitigate against the impact of development on Council services and infrastructure.

5.7 Involving Communities and Other Stakeholders

This report has been discussed with the relevant Heads of Services and Directors of Midlothian Council.

5.8 Ensuring Equalities

There are no equalities issues with regard to this report.

5.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

5.10 IT Issues

There are no IT issues with regard to this report.

6. Recommendations

The Audit Committee is asked to note the contents of this report.

7 June 2016

Report Author: Heather Mohieddeen, Senior Auditor
Email: heather.mohieddeen@midlothian.gov.uk
Reviewer: Elaine Greaves, Audit Manager
Email: elaine.greaves@midlothian.gov.uk
Tel: 0131 271 3126 / 3285