



ENTRUST Compliance Inspection Risk Model

May 2017

Sounding Board Event

- Introduction
- Background to consultation
- Risk model
- Consultation and feedback
- Review
- Next steps

Background

- Landfill Tax Regulations 1996 – HMRC appointed ENTRUST as regulator of the LCF
- Statutory Responsibility is to ensure LCF monies are spent compliantly
- To achieve this operate a regulatory framework based on cradle to grave
- Part of the framework is to deliver a compliance risk based approach
- Review of risk model:
 - Feedback from stakeholders
 - Corporate Plan 2017-2020

Corporate Plan 2017-2020

- *Following feedback from stakeholders in 2016/2017, during 2017/2018, we plan to consult with stakeholders on the operation of our compliance risk model to ensure that it continues to provide sufficient and accurate information to allocate our limited resources to the delivery of our statutory assurance role.*

Current approach

- KPI - *During the 2017/2018 year inspect at least one third of active EBs to monitor compliant spend, focusing on previous non-compliance and areas of risk identified through the risk model*
- 220 planned reviews
- Quarterly allocations based on EB data and information
- Role of “intelligence”

Development

- Risk model originally developed in 2005
- Incorporated into EOL in 2011
 - Simplified, greater differentials
- Reviewed in 2012
 - Taking account of high value projects and EB risk management
- Updated in 2015
 - Strengthening EB internal controls
- Updated in 2017
 - Focus on recent activity and patterns of risk

- All discussed and agreed with HMRC

Operation of the risk approach

- Applied in January and July each year to identify EBs for review.
- Run via EOL which lists the EBs from highest to lowest risk score.
- Each EB assessed based on the initial risk score and other factors such as changes in activity and any other information held e.g. where we have received intelligence concerning their operation or potential non compliance.
- Allocation to individual inspectors, arrange routine visits giving a minimum of six week notice to EBs.
- Re-planned the inspection profile to achieve more than 50% coverage in the first half of the year and 80% of all inspections by 31 December.

Reviews

Year	Planned Control Framework Inspections	Planned Project Compliance Reviews	Total Planned Reviews	Actual Reviews
2013/2014	36	282	318	353
2014/2015	36	282	318	338
2015/2016	34	284	318	354
2016/2017	35	255	290	308
2017/2018	TBA	TBA	220	Ongoing

New developments

- Managing reduced resources/fewer inspections/smaller fund
- Stakeholder consultation on risk approach
- Sharing own risk scores with EBs
- Benchmarking to assist EB compliance and best practice

The Risk Model

The model

- Calculations only based on information submitted by EBs and held on EOL;
- The operation of the model has been subject to internal review on a regular basis in 2012; 2015 and 2017;
- Reviews have been carried out in response to emerging 'hot topics' within the sector – unspent funds; administration costs etc and scoring in these areas adjusted accordingly;
- Reviews also carried out as a matter of good practice in ensuring we make full use of the data available to us through EOL

Risk Model

- Based on 12 indicators
 - 6 x indicators cover EBs performance on complying with the Regulations
 - 2 x indicators cover funding received;
 - 2 x indicators cover committed expenditure;
 - 1 x Value of assets
 - 1 x Time since last compliance review
- Calculations changed from a “whole life” basis to a rolling 6-year basis so risk score more accurately reflects where an EB has moved into or away from compliance;
- Additional project risk indicators have been identified for future inclusion:
 - Number of completed projects in previous 6-years; and
 - Value of LCF expenditure on completed projects in previous 6-years.

Risk indicators and values

Risk Model Indicators	Risk Definition	Max Value
Lateness of Form 3 (Contribution notification)	Number of occurrences within the previous 12 months	8000
Lateness of Form 4 (Statutory Annual Return)	Number of occurrences in previous 6-years	7000
Total EB funding – contributions	The sum of all contributions received in previous 6-years	5000
Total EB funding – transfers	The sum of all transfers received in previous 6-years	5000
Lateness of Form 7 (Transfer Notification)	Number of occurrences within the previous 12 months	7000
Un-reconciled Form 4	Number of Form 4 's at 'Non - Reconciled' status on EOL for previous 6-years	1400
Number of Non Compliant recommendations	Number of non compliant recommendations raised at the last compliance review	1600
Administration costs	Value of administration costs reported on last annual return	1600
LCF funds committed to projects	Value of funds committed to projects approved by ENTRUST on last annual return	500
LCF funds uncommitted to projects	Value of funds not committed to projects on last annual return	400
Assets Purchased	Amount spent on assets within previous 12 months	500
Time since last compliance review	Number of months since last review to current date	400

Risk Indicator example of calculations

Risk Model Indicator	Risk Definition	Interval	Score	Weighting	Max Value
Un-reconciled Form 4	Number of Form 4 's at 'Non - Reconciled' status on EOL for previous 6-years	0	0	100	2000
		1	1	100	
		2	5	100	
		3	10	100	
		4+	20	100	

Profile of EB risk scores - March 2017

Risk value	Number of EBs
> 10,000	1
8,000 – 10,000	5
7,000 – 8,000	8
6,000 - 7,000	142
5,000 – 6,000	5
4,000 – 5,000	26
3,000 - 4,000	242
500 - 3,000	1458
Compliance inspection target	220

Operation of the risk approach

- Applied in January and July each year to identify EBs for review;
- Run via EOL report which lists the EBs from highest to lowest risk score;
- Highest scoring EB's assessed individually on the initial risk score and other known factors and any other information held e.g. where we have received intelligence concerning their operation or potential non compliance;
- KPI agreed with HMRC to review one-third of active EBs for 2017/2018 (c 220);
- 6-months of reviews allocated to inspectors to arrange schedule reviews and giving a minimum of six weeks notice to EBs.

Consultation

Consultation and feedback

- Overall feedback on the approach
- Consideration of individual indicators
 - EB indicators
 - Project indicators
- Other suggestions for change and improvement

Next steps

- Circulation of feedback after event
- Presentation of findings to ENTRUST Board and HMRC – July
- Publication of model - September