



INTERNAL AUDIT

FINAL

REPORT

Title: Capital Review

Report Distribution

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EXECUTIVE SUMMARY

Introduction

An audit of Capital Projects was undertaken as part of the approved internal audit periodic plan for 2006-07.

The purpose of the audit review was to provide assurance that capital projects are adequately planned, let and managed to achieve the Council's desired outcome.

An audit of capital projects was last conducted in January 2006 to which there were seven recommendations made. From the testing performed in the current review it was found that six of the seven recommendations have been implemented.

A review of all the land and building sales performed by the Estates Department between April 2005 and July 2006 were reviewed (seven in total). Ten project contracts were also reviewed as part of the testing ensuring that all documentation from start to finish has been produced, appropriately authorised, correctly detailed and posted.

The Council has recently (April 2006) installed a new finance system called Agresso. As expected this has had an effect on the work being performed by staff with details and codes being changed over to the new system. The new system was still being updated with information at the time of the audit.

The Housing Department are currently performing a tendering review for its housing maintenance and repairs from which one contractor will be offered a three to five year contract with the Council to perform all maintenance work and one contractor for all repair work. This will reduce the number of tenders being performed each year, hopefully increasing the level of resources available which can be utilised elsewhere. It is anticipated that this will be in place by the end of the year.

Principal Findings

	High	Medium	Low
Number of recommendations	0	0	5

The detailed findings and associated recommendations are provided in the second part of this report. No high or medium risk recommendations were made.

Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

With the new finance system Agresso being implemented in April 2006 the finance department has limited resources to transfer over and change the coding, etc. This has then led to some financial activities being delayed.

INTRODUCTION

Objective & Scope

The objective of our audit was to evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the Council's objectives are managed effectively.

The key risks associated with the system objectives are:

- Goods or services are not obtained at the most competitive rates, resulting in excessive costs to the Council;
- Staff do not know what they are responsible for, or how they should carry out their duties, leading to non-compliance with legislation, laws or the organisation's policy and procedures;
- That assets (land & buildings) are not valued by an appropriate qualified officer;
- Losses due to fraud or error, inefficient processing or inappropriate activity;
- That no capital coding scheme is in place resulting in miscoding of invoices;
- Sales or disposals of assets are not controlled through a centralised point;
- No tracking system (unique numbered/labelled) is in place for capital items, resulting in potential loss to the Council;
- No formal system is in place to process capital invoices and update the asset register, resulting in inaccurate financial records;
- Reconciliations are not undertaken resulting in potential errors in the financial accounts;
- Capital charges are incorrectly calculated;
- Sales/disposal items have not been identified as part of the asset management plan;
- The best price for sales/disposals is obtained (tenders, auctions);
- Agencies used (estate agencies etc) by the Council are not independent, resulting in potential collusion;
- Poor decision making, due to poor quality or timeliness of information provided to management;
- Realistic budgets are not set for Capital projects.

The control areas included within the scope of the review are:

- Capital Programme (format and approval);
- Tendering and contractor appointment procedures;
- Project planning and monitoring;
- Budgets and monitoring;
- Interim and final payments;
- Management information and reporting.

Confidential

The adequacy and detail of the tendering procedure will not be covered in the review and we will not actively seek to identify fraud.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the Council's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
1. Capital – Contracts Register Review Level of Risk – Low			
<p>The contracts register has not been updated for 2006/07 and no payments posted since April 2006, this is due to the introduction of the new Agresso system.</p>	<p>Failure to record all contracts and payments on the contracts register in a timely manner may result in incomplete or inaccurate records and non-compliance with policy and procedure.</p>	<p>The Council should ensure that the contract details on the contracts register is updated as soon as possible in order to minimise any potential errors and allow up to date information to be available for management monitoring purposes.</p> <p>Action: Alison Ball – Financial Services Manager</p>	<p>Management Comment: Recommendation Agreed</p> <p>Planned Corrective Action: The Contracts Register provides a subsidiary control. The key financial controls are embedded within the creditor payments and budgetary control procedures. The Contracts Register will be updated and subject to ongoing maintenance in the future.</p> <p>Timescale: 31st December 2006</p>

Observation	Risks	Recommendation	Management's Response
2. Capital – Recording of Tenders Level of Risk – Low			
<p>Tender documentation is received by the 'one stop shop' within the Council building and a carbon copy receipt completed for tenders that are received by hand. Upon questioning it was stated by the personnel within the one stop shop that a receipt is only given if requested and no log is maintained.</p> <p>Amendments have been made to the Standing Orders indicating that tender documents will be sent directly to Legal, these amendments are to be passed to Cabinet at the next meeting for approval.</p>	<p>There is no formal procedure and inadequate segregation of duties in the recording of the receipt and review of tenders.</p>	<p>The Council should ensure that all tender documentation received by hand or by post is logged centrally and sequentially numbered, before being forwarded to the relevant department for opening and review.</p> <p>Action: Sue Sale – Head of Legal & Democratic Services</p>	<p>Management Comment: Recommendation Agreed</p> <p>Planned Corrective Action: The amended Standing Order's, which provide for centralisation of the contracts receipting process, is scheduled to be considered on the 11th October 2006.</p> <p>Following ratification procedure notes will be developed for the revised process.</p> <p>Timescale: 31st October 2006</p>

Observation	Risks	Recommendation	Management's Response
3. Capital – Contract Register Reconciliations Level of Risk – Low			
<p>No reconciliations between the FMS and the contracts register have been performed since the implementation of the new Agresso system in April 2006.</p> <p>Due to the reconciliations not being performed an error of £705k (T & S Heating) was found on the Contracts Register, which would have been identified if the reconciliations had been undertaken.</p>	<p>There is a risk that errors within the contracts register and management accounts may not be detected on a timely basis.</p>	<p>Reconciliations between the FMS and the contracts register should be performed on a monthly basis.</p> <p>Action: Alison Ball – Financial Services Manager</p>	<p>Management Comment: Recommendation Agreed</p> <p>Planned Corrective Action: The error was relevant only to the Contracts Register, which provides a subsidiary control to the financial controls embedded within the creditor payment and budgetary control procedures.</p> <p>Monthly reconciliations will recommence.</p> <p>Timescale: 31st December 2006</p>

Observation	Risks	Recommendation	Management's Response
4. Capital – Contract Variations Level of Risk – Low			
<p>From a sample of 10 contracts only six (housing) had any variations forms completed. A review of all the variations (20+) forms completed for the six contracts, found only one that had not been signed by the supervising officer.</p>	<p>Failure to authorise a variation form may lead to unnecessary work being performed at extra cost to the Council.</p>	<p>The Council should ensure that all variations are appropriately authorised in line with the Financial Regulations.</p> <p>Action: Heads of Service</p>	<p>Management Comment: Recommendation Agreed</p> <p>Planned Corrective Action: A paper will be submitted to SMT, requiring Heads of Services to note the audit findings and recommendation and ensure appropriate action is implemented to discharge the recommendation.</p> <p>Timescale: 30th September 2006</p>

Observation	Risks	Recommendation	Management's Response
5. Capital – Land Sales Level of Risk – Low			
<p>A review of seven land sales over the past 18 months found that only one had been put out to tender. This was due to the others being either sales of small plots of land to a neighbouring house or a release of a restrictive covenant on a plot of land. The one that went out to tender received three tenders back to which the highest bidder was not accepted due to their offer being withdrawn.</p> <p>Most of the necessary documentation was found to be on the files signed and dated with only the completion slip missing from four of the files.</p>	<p>There is a risk that the Estates Department may be unaware when a sale or disposal has been completed when dealing with them.</p>	<p>The Legal Department should ensure that a completion slip is sent to the Estates Manager which is then retained on the necessary land sale file.</p> <p>Action: Sue Sale – Head of Legal & Democratic Services</p>	<p>Management Comment: Recommendation Agreed</p> <p>Planned Corrective Action: In future it will be ensured that signed completion slips are forwarded to the Estates Manager for retention on file.</p> <p>Timescale: Immediate</p>