



INTERNAL AUDIT
FINAL REPORT

Title: Capital

Report Distribution

For Action: Alison Ball Financial Services Manager
Pauline Moore Principal Accountant

For Information: Mark Kimberley Head of Corporate Services
Sally Smith Audit Commission

Prepared By: Ajay Adatia – RSM Bentley Jennison, Lead Internal Auditor

Draft Issued: 24th November 2009

Final Issued: 10th December 2009

Contents	Page
Executive Summary	2
Introduction	3-4
Detailed Findings	5-7
Annex A – Audit Definitions / Responsibilities	8-9

EXECUTIVE SUMMARY

Introduction

An audit of Capital was undertaken as part of the approved internal audit periodic plan for 2009/10.

An audit of Capital was previously undertaken in December 2008 to which two recommendations were made. From the testing performed in the current review it was found that both recommendations have been implemented.

The Capital Programme 2009/10 was passed to Cabinet on the 19th February 2009 for review before approval by the full Council on the 4th March 2009.

The original 2009/10 Capital Budget was £3.466m this had been revised to £4.283m (including carried forward).

The majority of the Capital Programme is taken up by two areas: Direct Services and Leisure & Wellbeing. The Capital Programme budget monitoring takes place between Service Departments and Financial Services. The Cabinet is presented with the Budget Monitoring, Performance Digest & Virement Report on a quarterly basis..

This review considered the Council's Fixed Asset Register and compliance with SORP requirements in which revaluation and historic costs were to be accounted for separately. It was found that assets are depreciated using the straight line method.

Principal Findings

	High	Medium	Low
Number of recommendations	0	0	2

The detailed findings and associated recommendations are provided in the second part of the report. There were no high/medium risk recommendations made in the report.

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.

INTRODUCTION

Objective & Scope

The purpose of the audit review is to ensure that the Capital Programme is formed through appropriate scoring of schemes and is approved. Capital projects are adequately managed and monitored. Assets are added to the asset register, are identifiable and details capital charges.

The key risks associated with the system objectives are:-

- Assets (land & buildings) are not valued by an appropriate qualified officer;
- 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;
- Losses due to fraud or error, inefficient processing or inappropriate activity;
- 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);
- Poor decision making, due to poor quality or timeliness of information provided to management; and
- Realistic budgets are not set for capital projects.

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

- Capital Programme (format and approval);
- Capital Invoice identification process;
- Capital Invoice coding & accounting;
- Budgets and monitoring;
- Interim and final payments;
- Capital asset identification process (tagging);
- Capital asset register entry;
- Depreciation charges correctly calculated
- Compliance with SORP 2007 requirements; and
- Management information and reporting.

Confidential

The following limitation to the scope of the audit was agreed when planning the audit:

- Testing is on a sample basis only and therefore we cannot provide absolute assurance that fraud does not exist.

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 authority'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
<p>Recommendation 1 - Financial Regulations Level of Risk - Low</p>			
<p>The Councils Constitution details Finance, Contracts and Legal Matters. These were found to be dated in September 2007 and are in need of reviewing. The Financial Regulations contain relevant information on the capital assets.</p>	<p>There is a risk that capital schemes and payments are made that are not in line with up-to-date Financial Regulations.</p>	<p>The Council should ensure that the Financial Regulations are revised on a timely basis.</p> <p>Action: Alison Ball - Financial Services Manager</p>	<p>Management Comment: Recommendation Agreed.</p> <p>Planned Corrective Action: The planned upgrade to Agresso 5.5 and ongoing implementation of the Gedling Transformation Programme will inevitably result in changes to policies and procedures in pursuit of efficiency and effectiveness. The Financial Regulations will be updated in line with the completion of any procedural changes emanating from the implementation of these initiatives.</p> <p>Timescale: To commence January 2010, completion 31st December 2010.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Capital Programme Monitoring Level of Risk - Low</p>			
<p>Each department or service will have their own cost centre code. A unique project code is set up for each project within the relevant department cost centre code.</p> <p>Review of the capital monitoring spreadsheets found that an additional scheme had appeared since period 5 (August 2009). The scheme was not on the monitoring sheet in earlier periods. The scheme was for Leisure, CF Additional Male/Female Changing.</p> <p>The Principal Accountant believes that the scheme might have been 'hidden' from the previous year spreadsheet. In addition, the cost centre for the scheme was coded wrongly.</p> <p>It was found that the scheme does not have a capital budget in the current financial year and there has been no actual or committed spend to date.</p>	<p>There is a risk of miscoding of invoices when cost centre codes were not allocated correctly to each scheme.</p> <p>There is risk that inaccurate capital monitoring spreadsheet may lead to confusion and ineffective monitoring, particularly if the scheme had monetary value that altered the total capital Programme value.</p>	<p>The Principal Accountant should ensure that all schemes are coded correctly with their unique project code and department cost centre code.</p> <p>Only schemes that are approved on the Capital Programme should appear on the capital monitoring spreadsheet.</p> <p>Action: Pauline Moore – Principal Accountant</p>	<p>Management Comment:</p> <p>The identified risk of miscoding is not possible as the Agresso system rejects codes that are not linked. It is the responsibility of the Budget Manager to determine which budget invoices relate to and ensure the correct code is used at the point of authorisation.</p> <p>It is necessary to record all schemes, regardless of approval, that have either budget or expenditure on the capital monitoring spreadsheet in order to balance to the system. This is a control to ensure that if unapproved expenditure takes place it is highlighted and action taken.</p> <p>Planned Corrective Action:</p> <p>The entry identified is a net zero scheme in the current financial year. In future such schemes will be</p>

Confidential

Therefore, this does not change the current financial year's total Capital Programme value.			deleted instead of being hidden from display. Timescale: Immediate
---	--	--	--

ANNEX A

Risk & Assurance – Standard DefinitionsAudit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect to the risks emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are a number of significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Head of Corporate Services, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Manager of Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk