



Dacorum Borough Council

Final Internal Audit Report

Regeneration

December 2014

This report has been prepared on the basis of the limitations set out on page 9.

CONFIDENTIAL

Distribution List:

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Sally Marshall – Chief Executive (Final report only)

Key Dates:

Date of fieldwork: August/ September 2014

Date of draft report: September 2014

Receipt of responses: November 2014

Date of final report: December 2014

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1. Executive Summary

1.1 Background

As part of the Internal Audit programme for 2014/15, we have undertaken an audit of the Council’s systems of internal control in respect of Regeneration.

The Corporate Plan and Dacorum Development Programme are in place within the Council. These documents set out the strategic direction for the Borough of Dacorum and help to guide the Regeneration projects that need to take place.

During the audit, four projects were chosen from the Regeneration plan. These four projects consisted of;

- Plough (Magic Roundabouts),
- Marlowes Shopping Zone,
- Hemel Bus Interchange and
- Jellicoe Water Gardens,

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 Regeneration, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Governance Arrangements, Scheme/ Project Appraisal, Procurement Activities, Management and Monitoring of Schemes and Payments.

1.3 Summary Assessment

Our audit of DBC’s internal controls operating over Regeneration found that there is a sound system of internal control designed to achieve the system objectives. The controls are being consistently applied.

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
Full	Full

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 Regeneration is shown in Section 3.

1.4 Key Findings

We have raised one priority 3 recommendation where we believe there is scope for improvement within the control environment. This is set out below:

- Payments to suppliers / contractors should be made within the contractors agreed terms and conditions. (Priority 3).

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

1.5 Management Response

We have received the management responses and have included them in our Final 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 Regeneration, with regards the areas set out in section 2.3, are adequate and are 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:

- *Governance Arrangements*

The process, approval structure, and reporting lines have been clearly defined and documented. Communication lines have been established to enable efficient and effective decision making. Appropriate and adequate financial planning is in place to enable available financial resources to be identified. Regeneration programmes adequately reflect corporate strategy, objectives and investment priorities.

- *Scheme / Project Appraisal*

A process for assessing and validating/scoring competing projects has been established, and complied with, in determining the projects within their respective programmes / scheme. Where projects are being funded through ear marked funding, the basis of the funding is verified. Project appraisal processes adequately justify the need for the preferred scheme and determined priorities.

- *Procurement Activities*

The council's EU procurement requirements are observed and complied with where works are commissioned and activities aim to achieve best value for money.

- *Management and Monitoring of Schemes*

Appropriate budget and operational monitoring is in place to ensure that individual projects perform as planned, or variances are identified at an early stage so that appropriate corrective action or decisions can be made. There is a clear record of actions taken in response to overruns or slippage, and the impact of this on the overall programme. Appropriate monitoring of the programme is in place, and actual against budgeted expenditure is reported to senior management on a regular basis. Details of deviations from planned expenditure are provided along with appropriate explanations.











- *Payments*

Invoices and schedules of payments are checked against contractual agreements and examined against any payment deductions. Payments are authorised by the designated signatory with the appropriate authority.

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
Governance Arrangements			
Scheme/ Project Appraisal			
Procurement Activities			
Management and Monitoring of Schemes			
Payments			Recommendation 1

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: Payments (Priority 3)

Recommendation

Payments to suppliers/ contractors should be made within the contractors agreed terms and conditions.

Observation

When an invoice is received by the Regeneration Department, a check is carried out to confirm that the works have taken place and that the invoice can be paid. Agresso then sends it to a relevant approver, which in most cases is the Group Manager, whom has an approval limit of £50,000. Once it has been approved and received by the Payment team, it is processed for payment.

During the audit, a sample of 12 Purchase Orders were selected to include all four of the projects looked at during this review. The four projects included, Marlowes Shopping Zone, Bus Interchange, Plough roundabout lighting and Water Gardens. Out of the 12 Purchase Orders selected, it was identified that one invoice has not been paid. This invoice is for Penburn Consultants Ltd, for a value for £150 which was due to be paid by the 20th October 2013, therefore making it over 10 months late. Furthermore, out of the sample of 12 invoices selected, it was noted that in 7 instances the invoices were not paid within contractor's terms of 30 days. The lateness of these payments varied from 7 days to 7 months late.

Where suppliers / contractors are not paid within their terms of payment, there is a risk that disputes may arise which could lead to reputational damage to the authority. Furthermore, there is a risk that interest may be payable to the contractor which could lead to a financial loss to the authority.

Responsibility

Chris Taylor- Group Manager and all Project Managers

Management response / deadline

Agreed.

Please note, that of the 8 invoices not paid on time:





- 1 was for a claim from a former consultant employee which we dismissed and the claim was never pursued – it was incorrect in value in the first place (this is the £150 reference)
- 1 had the invoice date and the due date saying the same – if you take our payment from the invoice date, it was paid within 2 weeks and therefore on time
- 1 was incorrectly addressed and therefore got delayed - therefore out of DBC's control (we can't be responsible for supplier error)
- 5 invoices were subject to queries on the amount. On this point we are simply exercising correct due diligence, particularly as the sums are high. The AD for Finance has advised me that he would not support payment where the amount quoted was wrong or where we believed we should be challenging, to ensure the public purse is not paying more than it needs to.

Regeneration projects involve some big bills so it is inevitable there may be some delays as amounts are correctly challenged. Where checking required with both the client (DBC) and supplier this will incur delay, particularly if the supplier is not quick to respond.

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:

- James Doe - Assistant Director(Planning, Development and Regeneration)
- Jo Deacon - Project Officer – Bus Interchange
- Chris Taylor - Group Manager (Strategic Planning and Regeneration)
- Claire Covington - Strategic Planning and Regeneration officer.

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

December 2014

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