



Final Internal Audit Report

Capital Programme

March 2018

This report has been prepared on the basis of the limitations set out on page 10.

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Key Dates:

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Date of final report: March 2018

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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2017/18, we completed a risk based audit of the internal control processes in place for the Council’s Capital Programme.

In addition to looking at the Capital Programme as a whole, fourteen capital projects with a reported/forecasted overspend or slippage were chosen from four services. These projects were:

- Strategic Housing:
 - Wood House
 - Swing Gate Lane
 - Westerdale Garage Development
 - Martindale
 - Stationer’s Place/Apsley Paper Mill
- Property and Place:
 - DBC commissioned capital works
- Strategic Planning and Regeneration:
 - Market Square
 - Water Gardens
 - Town Centre Access Improvements
 - Maylands Business Centre
 - The Bury - conversion into museum and gallery
- Commercial Assets and Property Development:
 - Multi-Storey Carpark Berkhamsted
 - Bunkers Farm
 - Demolition of Civic Centre

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

In summary, the scope covered the following areas: Policies and Procedures, Governance Arrangements, Allocation of Capital Programme Budget, Project Initiation, Monitoring, End of Project Evaluation and Tracking Realisation of Proposed Benefits.

Summary Assessment

Our audit of the Council’s internal controls operating over the Capital Programme found that there is a sound system of internal control designed to achieve the system objectives. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

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	Substantial

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 the Capital Programme is shown in Section 3.

1.3. **Key Findings**

We have raised two priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Policies and Procedures – Training (Priority 3)
- Financial Updates from Project Management Boards (Priority 3)

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

1.4. **Management Response**

We received the management responses in a timely manner and these have been included in the main body of the report.

1.5. **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 the Capital Programme, regarding 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:

Policies and Procedures

Sufficiently detailed policies, procedures and guidance are in place to enable budget holders to administer and manage capital projects in an effective and efficient manner.

Governance Arrangements

There is clear accountability and an adequate structure is in place to facilitate efficient, effective, and transparent decision making regarding the capital programme.

Allocation of Capital Programme Budget

Capital Project bids are subject to robust scrutiny to ensure that the proposals are realistic and support the Council's capital strategy. In addition, proposed projects are prioritised in accordance with the nature, extent, associated risks, strategic fit, and feasibility of the proposed benefit.

Any ring fenced budget is allocated correctly to the projects that fulfil the terms and conditions of the fund.

Project Initiation

Each project within the Capital Programme has clearly defined objectives and milestones, and an adequate governance structure is put in place with clearly defined responsibilities.

Projects are scoped in sufficient detail to enable reliable estimates of budget, timescale and other resource requirements.

Monitoring

Progress of the Capital Programme is monitored regularly and preventative measures are put in place where possible to avoid slippage or overspend, and corrective actions are taken to address slippage or overspend if they materialise.

The information need of management is clarified, accurate and complete. Valid performance information relating to the Capital Programme is provided to facilitate effective and efficient management oversight and decision making.

End of Project Evaluation and Tracking Realisation of Proposed Benefit

Projects are evaluated upon completion and any lessons learnt are fed through to future projects. Realisation of proposed benefit is tracked through fully and corrective actions are taken where possible to remedy any under achievement.

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
Policies and Procedures			Recommendation 1
Governance Arrangements			
Allocation of Capital Programme Budget			
Project Initiation			
Monitoring			Recommendation 2
End of Project Evaluation and Tracking Realisation of Proposed Benefit			

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: Policies and Procedures – Training (Priority 3)

<p>Recommendation</p> <p>Additional training and support should be provided to the Budget Managers of capital projects within Housing and Regeneration. Finance and the Budget Managers should discuss and agree the exact extent of their training requirement.</p> <p>Finance may consider whether feedback should be sought from Budget Managers from other services to establish whether any additional training and support are required in respect of managing capital projects, including the initial stage of formulating the bidding form and developing the project milestones.</p>
<p>Observation</p> <p>Policies, procedures, training and guidance provided to services should ensure that they have sufficient understanding to manage their capital projects.</p> <p>For the sample of four services, discussions were held with Budget Managers from each service. Budget Managers from three of the services explained that the current level of guidance and training they received regarding formulation of capital bids was sufficient. Budget Managers for one of the services (Housing and Regeneration) expressed a concern over a lack of capital project specific training resulting in bid forms not being completed accurately and subsequently challenged repeatedly by Finance. She explained that the team would benefit from additional financial management training for capital projects to address this issue. As indicated above, the other Budget Managers did not express any concerns regarding the extent of training and guidance offered by Finance and this may be an isolated exception. However, the exact extent of the training needs should be agreed with the Budget Managers to ensure that they are able to fulfil their responsibilities.</p> <p>Where training needs of budget holders are not assessed correctly and adequate level of training is not provided, there is an increased risk of projects being poorly scoped and managed.</p>
<p>Responsibility</p> <p>Group Manager (Financial Services)</p>
<p>Management response / deadline</p> <p>Finance offer full support and advice to budget managers throughout the annual capital cycle. In our view the effectiveness of this is demonstrated by three of the four budget managers contacted being satisfied with the extent of capital training and guidance received.</p> <p>Support to complete capital bids is available from the service’s dedicated accountant and assistant accountant. Guidance is included on the capital bid template to support budget managers through the process. The Accountancy team scrutinise all current bids closely and work with managers to ensure the bids are robust before capital budgets are set.</p> <p>In order to ensure that budget holders and their accountants are clear regarding training requirements in respect of the capital programme, budget holders will be asked to specify if they have any specific training requirements at the start of the capital cycle. To be implemented by 31/07/18.</p>

Recommendation 2: Monitoring – Feeding financial updates from Project Management Boards to Finance (Priority 3)

<p>Recommendation</p> <p>Finance should receive assurance that any financial updates reported to Project Management Boards regarding the capital programme are accurately fed back to them.</p> <p>Management should consider whether a representative from Finance should attend Project Management meetings within each service. The representative could be the accountant already assigned to the service for budget monitoring purposes. This will help to identify project level slippages or overspend in a timely manner and feed these into a wider capital programme agenda, allowing Finance to take more centrally coordinated approach.</p>
<p>Observation</p> <p>Communication between Project Management Boards and Finance regarding financial updates on capital projects will help to ensure effective budget monitoring across the capital programme.</p> <p>Examination of the monitoring process both for the capital programme as a whole and for individual capital projects across the sample of four services found that progress was tracked on at least four levels, depending on the characteristics of the project. This included reports to quarterly Cabinet meetings, quarterly Corporate Management Team meetings, budget managers tracking progress via the Rocket and Project Management Office platforms, as well as twice-monthly direct meetings between Budget Managers and their assigned accountants from Finance. In addition, each service was found to have its own Project Management Board (or equivalent), discussing progress and providing updates from a project management perspective. However, discussions and updates provided to the project management boards are currently not always fed back to Finance.</p> <p>Where the progress of capital projects and financial updates provided to the capital project boards are not accurately reported to Finance, there is an increased risk that Finance may be unable to forecast the capital project budget accurately and Finance may also be unable to re-profile the capital programme in an efficient and effective manner.</p>
<p>Responsibility</p> <p>Group Manager (Financial Services) and capital project leads</p>
<p>Management response / deadline</p> <p>The process of cascading project operation and financial progress can be made more consistent. Group Manager (Financial Services) to work with capital project leads to ensure a Finance representative is included on the circulation list of project progress and financial updates. To be implemented for capital projects from financial year 2018/19 onwards, commencing May 2018.</p>

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:

- Caroline Souto – Team Leader (Finance Planning and Analysis)
- Keshika Naidoo – Accountant (Housing and Regeneration)
- Lucy Tash – Accountant (Finance and Operations)
- Chris Taylor – Group Manager (Strategic Planning & Regeneration)
- Nathalie Bateman – Team Leader (Infrastructure and Project Delivery)
- Nicholas Brown – Group Manager (Commercial Assets & Property Development)
- Fiona Williamson – Group Manager (Property & Place)
- David Barrett – Group manager (Housing Development, Strategic Housing)
- James Wilson – Corporate Performance Management Lead Officer
- Charles Berry Ottaway – Innovation and Improvement Team Leader

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

March 2018

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