

Dacorum Borough Council



Internal Audit Report
Capital Programme
March 2020

FINAL REPORT



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If you should wish to discuss any aspect of this report, please contact Sarah Knowles, Senior Manager, sarah.knowles@mazars.co.uk or Peter Cudlip, Partner, peter.cudlip@mazars.co.uk

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of Dacorum Borough Council and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in Appendix A3 of this report for further information about responsibilities, limitations and confidentiality.

01 Introduction

As part of the Internal Audit Plan for 2019/20, we have undertaken a review of the Capital Programme at Dacorum Borough Council. The objectives of the audit were to evaluate the adequacy of the system of internal control and its application in practice within the area under review.

Dacorum Borough Council published its capital programme covering a 5 - year period, in line with its Medium Term Financial Strategy. As part of the annual MTFS review and budget setting process, Senior Officers are invited to submit new Capital bids using a standardised business case template for Council projects.

As approved by Cabinet in February 2019, the 2019/20 total Capital Programme allocation is £59.032m, of which £42.289m is to be spent on the Housing Revenue Account (HRA) Capital Schemes, and £16.743m is to be spent on non-HRA Capital Schemes.

In addition to looking at the Capital Programme as a whole, five capital projects were chosen from four different services. These projects were:

- Commercial Assets and Property Development
 - Tring Community Centre – new play area for Children’s Nursery
 - Bunkers Farm
- Procurement and Contracted Services
 - Multi Storey Car Park – Berkhamstead
- Information, Communication and Technology
 - Future Vision of CRM
- Strategic Planning and Regeneration
 - The Bury – Conversion into Museum and Gallery

We engaged with a number of staff members during the review and are grateful for their assistance during the course of the audit.

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.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A1, whilst further analysis of the control environment over Council Tax is shown in Appendix A2.

The report summarises the results of our internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

02 Background

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over management of the Capital Programme, and provide guidance on how to improve the current controls going forward.



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.

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

03 Key Findings

Our assessment in terms of the design and compliance with the system of internal control is set out below:

Adequacy of System Design	Effectiveness of Operating Controls
 Good Assurance	 Good Assurance

Main Findings
<ul style="list-style-type: none"> Our main finding is that there are projects that have been approved for the Capital Programme, without having fully completed a capital bid as required by the Council when submitting capital proposals. However, the exceptions related to an historic budget process that has since been strengthened, and therefore no recommendation has been raised.

Examples of areas of strength
<ul style="list-style-type: none"> Training is provided to all budget holders by the Finance team on a quarterly basis. Finance also offer full support and advice to budget managers throughout the annual capital cycle. There is a clearly defined governance structure in place, both to manage the Capital Programme, as well as individual projects. Feasibility studies are completed and evaluated against each project to assess potential costs and impact. Communication between Project Management Boards and Finance regarding financial updates on capital projects effectively help to ensure effective budget monitoring across the Capital Programme.

Priority	Number of recommendations
1 (Fundamental)	0
2 (Significant)	0
3 (Housekeeping)	0
TOTAL	0

Risk Management

The risk most relevant to the Capital Programme is as follows:

- The Borough does not secure sufficient investment in essential infrastructure that is required for continued and improved economic performance and housing delivery that is sustainable and fit for the future. (*Strategic Risk 6:December 2018*)

A suggested risk and control matrix for the Capital Programme is included at Appendix A2. This matrix will help to inform senior management of the effectiveness of the existing controls in place to manage the EMA and to illustrate where issues identified in the audit report will strengthen areas of existing controls.

Value for Money

Value for money (VfM) considerations can arise in various ways and our audit process aims to include an overview of the efficiency of systems and processes in place within the auditable area.

To ensure the Council is achieving value for money when awarding tenders for Capital works, Officers must adhere to the Council's Commissioning and Procurement Standing Orders.

A1 Audit Information

Audit Control Schedule	
Client contacts:	Caroline Souto – Team Leader - Finance Planning and Analysis Fiona Jump – Group Manager - Financial Services
Internal Audit Team:	Peter Cudlip, Partner Sarah Knowles, Senior Audit Manager Temi Tewogbade, Auditor
Work commenced	4 November 2019
Finish on Site \ Exit Meeting:	26 November 2019
Draft report issued:	28 January 2020
Management responses received:	5 March 2020
Final report issued:	10 March 2020

Scope and Objectives

The overall objective of this audit was to provide assurance that the systems of control in respect of the Capital Programme, with regards to the areas set out below are adequate and are being consistently applied.

Policies and Procedures: There are sufficiently detailed policies and procedures 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 an efficient, effective, and transparent decision-making process 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, it is ensured that proposed projects are prioritised in accordance with the nature, extent, associated risks, strategic fit, and feasibility of proposed benefit

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 details 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 materialised. Information need of management is clarified and complete, accurate, and valid performance information relating to 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.

Definitions of Assurance Levels		
Assurance Level	Adequacy of system design	Effectiveness of operating controls
Good Assurance:	There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied, or any weaknesses identified do not affect key controls and are unlikely to impair the achievement of the objectives of the system.
Substantial Assurance:	Whilst there is a basic sound system of internal control design, there are weaknesses in design, which may place some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses, which put some of the system objectives at risk.
Limited Assurance:	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.
No Assurance	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.

Definitions of Recommendations	
Priority	Description
Priority 1 (Fundamental)	Recommendations which are fundamental to the system and upon which the organisation should take immediate action. Major issues for the attention of senior management and the Audit Committee
Priority 2 (Significant)	Recommendations, which, although not fundamental to the system, provide scope for improvements to be made. Recommendations for local management action in their areas of responsibility.
Priority 3 (Housekeeping)	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Detailed problems of a minor nature resolved on site through discussions with local management.

A2 Risk Matrix

Area: Policies and Procedures

					Poorly defined policies and procedures	Insufficient guidance and training for budget holders	Linked Issues
		Significance			H	H	
		Current Exposure			A	A	
		Future Exposure			A	A	
A01	Policies and Procedures						
Existing Controls							
C01 01	Financial regulations are up to date and available to staff and the public on the council website			E	H		
C01 02	Training is provided to budget managers and officers by senior members of the Finance Team			E		H	

Area: Governance Arrangements

Area: Governance Arrangements				Inadequate and ineffective governance structure	Lack of accountability	Linked Issues	
Significance				M	M		
Current Exposure				A	A		
Future Exposure				A	A		
A02	Governance Arrangements						
Existing Controls							
C02 01	Clearly defined governance structure is in place				E	H	H

Area: Allocation of Capital Programme Budget

				Capital project bids are not sufficiently scrutinised	Linked Issues	
		Significance		H		
		Current Exposure		L		
		Future Exposure		A		
A02	Allocation of Capital Programme Budget					
Existing Controls						
C03 01	A capital bid form must be completed and approved for every prospective capital project			P	H	

Area: Project Initiation

Area: Project Initiation										Objectives and milestones are unrealistic	Linked Issues		
										Significance	H		
										Current Exposure	A		
										Future Exposure	A		
A04	Project Initiation												
Existing Controls													
C04 01	The feasibility of each project is evaluated											E	M

Area: Monitoring

Area: Monitoring											
					Significance			Slippage / Overspend	Capital project does not align with the Council's strategic objectives	Capital project updates not reported accurately to Finance	Linked Issues
					Current Exposure			A	A	A	
					Future Exposure			A	A	A	
A05	Monitoring										
Existing Controls											
C05 01	Finance Team meet with budget managers twice per month			E	H		H				
C05 02	Reports reviewed in quarterly Cabinet meetings			E	H	H					
C05 03	Status of capital programme reported to Corporate Management Team on a quarterly basis			E	H	H					
C05 04	Projects logged and monitored through Rocket and Project Management Office			E	H						

Area: End of Project Evaluation and Tracking Realisation of Proposed Benefit

					Projects are not sufficiently evaluated upon completion	Realisation of proposed benefits is not tracked	Linked Issues
		Significance			M	M	
		Current Exposure			A	A	
		Future Exposure			A	A	
A06	End of Project Evaluation and Tracking Realisation of Proposed Benefit						
Existing Controls							
C06 01	Project Completion form			E	H		
C06 02	Project Evaluation form must be completed			E	H		

Key to Codes

Significance

H	High
L	Low
M	Medium

Exposure

A	Acceptable
L	Limited
U	Unacceptable

Effectiveness

E	Effective
I	Ineffective
P	Partly Effective

A3 Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report, which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

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