

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CHIEF EXECUTIVE'S UNIT
AUDIT DESCRIPTION	FINANCIAL SYSTEM AUDIT
AUDIT TITLE	CAPITAL CONTRACTS AND OPERATING LEASES
AUDIT DATE	AUGUST 2014

2014/2015



1. AUDIT SCOPE AND OBJECTIVES

A review of Capital contracts and Operational Leases has been planned as part of the 2014/15 Audit Plan. The Council's Capital Programme is a key tool in the delivery of its strategic vision.

The Capital Program, Planning and Management guide aims to bring structure to the process of Capital Programme planning, assisting in subsequent management and delivery. In addition, it aims to ensure clear alignment of the Programme with the council's governance and management structures, its key strategic plans, and its revenue budgeting process.

The total budgeted capital spend for the financial year 2013/14 is £33m and for operating leases the actual spend for the year ending 2013/14 is £0.7M which covers land and buildings, vehicles ,cars and equipment.

The scope of the audit is to review compliance with regulations set out in the Council's Constitution and Capital Project Planning and Management Guide and to review the protocols in place in relation to collection and collation of information relating to Operating Leases.

Objectives are as follows:

Capital Contracts

- Evidencing that there is a link between the Capital Program and the agreed corporate and service priorities of the Council as detailed in the Corporate Plan and Corporate Asset Management plan;
- Evidencing that there is a clear audit trail showing that Capital program projects have been subject to all appropriate controls in line with agreed policies and guidance including;
 - Evidencing that the Council's Business Gateway Model is adhered to as regards preparation of business cases; and
 - Evidencing that monitoring, reporting and impact assessment of projects are properly documented.

Operating Leases

- Evidence that operating leases are properly recorded and accounted for.

2. RISKS IDENTIFIED

- Infrastructure and asset base does not meet current and future requirements;
- Infrastructure and asset base is not being used or managed efficiently or effectively;
- Failure to comply with regulations and procedures detailed in the Capital Program, Planning and Management guide; and
- Inconsistent use/ presentation of information.

3. AUDIT OPINION

The level of assurance given for this report is Limited.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

4. FINDINGS

The following findings were generated by the audit:

Capital Projects

- The Capital Programme Planning and Management Guide comprehensively details the various steps that Departments must follow to ensure clear alignment of the Capital programme with the Council's governance and management structures, its key strategic plans, and its revenue budgeting process.
- Supplementary guidance and procedures have been agreed in relation to the Strategic Action Log and this requires to be reflected in updated Capital Programming Management Guide.
- Eight projects were sampled from the forty projects included in the Capital Budget monitoring report dated 31st March 2014. Of the eight projects three related to strategic change, three to Service development and two to Asset sustainability.
- Of the projects sampled it was found that more recent projects (post 2013) had conformed with guidance. This reflects the improvements made to the capital planning processes by the Strategic Asset Management Board over the last three years.
- Documentation was found to be incomplete with a number of key documents not available. This included scoring sheets from three of the eight projects, an outline business case and post project analysis from all of the projects sampled.

- Record management procedures were found to be weak which compromised the availability of complete files as documentation is not held at a single point or location.
- Where documentation was complete there was a link to corporate and service priorities of the Council.
- Projects conformed to the Councils Gateway Model as regards to the preparation of business cases.
- Monitoring and reporting for the projects has been properly documented, however impact assessments were unavailable.

Operating Leases

- No guidelines or procedures were available for recording of leases or what controls should be in place to ensure effective and efficient operations of leases.
- Procedures are not coordinated between departments and consequently each department produces their own record of leases.
- Sampling highlighted discrepancies in records kept and physical equipment held.
- Due to recording discrepancies there is potential for mis-reporting of lease values.

5. CONCLUSION

This audit has provided a limited level of assurance. There are three recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There are one high and two medium recommendations which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Customer Services staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedures and guidelines		High/ Medium or Low		
<p>Record management procedures were found to be weak which compromised the availability of complete files as documentation is not held at a single point or location.</p> <p>Documentation was found to be incomplete with a number of key documents not available. This included scoring sheets from 3 of the 8 projects , an outline business case and post project analysis from all of the projects sampled</p>	<p>Failure to comply with approved guidance.</p> <p>Failure to provide assurance that projects are achieving best value for money.</p> <p>Failure to provide assurance that projects contribute to corporate and service priorities.</p>	High	<p>All documentation will be held on the Asset Management Sharepoint Site.</p> <p>Organised in financial years.</p>	<p>Head of Facility Services</p> <p>31 March 2015</p>
2. Procedures and guidelines		High/ Medium or Low		
Supplementary guidance and procedures have been agreed in relation to Strategic Action Log and this requires to be reflected in updated Capital Programming Management Guide	Failure to update procedures and guidelines risks projects not achieving best value for money.	Medium	The Capital Programming and Management Guide will be reviewed annually and as	<p>Head of Facility Services</p> <p>31 December 2014</p>

			required.	
3. Procedures and guidelines		High/ Medium or Low		
No guidelines or procedures available for recording of leases. Procedures are not coordinated between departments. Discrepancies exist between records kept and physical equipment held. Potential for mis-reporting exists.	<p>Failure to have robust information systems.</p> <p>Reduced Management assurance.</p> <p>Failure to secure best value.</p>	Medium	Leasing procedures will be documented and issued.	<p>Finance Manager – Corporate Support</p> <p>31 December 2014</p>

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