



# Capital Accounting 2018/19

Final Report

Issue Date: 12<sup>th</sup> September 2019

# Executive Summary

Audit Opinion		Recommendation Summary	
	<h2>Partial</h2>	Priority	Number
		Priority 1	1
		Priority 2	2
		Priority 3	0
		<b>Total</b>	<b>3</b>
<p>In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>			

## Audit Conclusion

The Capital Programme Governance Handbook, which should provide an overview of governance procedures for the capital programme has yet to be adopted. The procedures include a corporate standard for business case development. The full adoption of the Handbook is an important step towards addressing current audit concerns regarding governance around the setting and monitoring of the capital programme.

Audit testing on the 2018/19 Capital Programme, noted that two projects had limited or no supporting documentation, whilst the two projects reviewed that utilised the new business case templates, were found to represent a significant improvement as regard establishing the business case and the provision of supporting documentation. The introduction of these procedures should help address the long-standing issue, evident in previous audit reviews, of inadequate documentary evidence to demonstrate relevant authorisation and the business case behind projects on the capital programme.

Summary details of the actual progress of the 2018/19 Capital Programme expenditure against budget was as follow:

	31 <sup>st</sup> May 2018 £,000	31 <sup>st</sup> August 2018 £,000	30 <sup>th</sup> November 2018 £,000	28 <sup>th</sup> February 2019 £,000
<b>Actual spend to date</b>	3,712	17,897	37,960	57,292
<b>Further Committed expenditure</b>	39,073	36,356	35,555	29,380
<b>Remaining uncommitted budget</b>	63,568	69,987	41,010	9,575
<b>% remaining uncommitted budget</b>	59.8%	56.3%	35.8%	9.9%
<b>Revised working budget after virements</b>	106,353	124,240	114,525	96,247

The above pattern of underspending was also evident in the 2017/18 Capital Programme where there was an underspend of £20.598 million i.e.25% of the revised working budget. Such underspends create the need for significant virements and fluctuating revised working budgets. Although there are many factors that could have contributed to the underspends, there is nevertheless a probable link between the failure to deliver projects, within budget and on a timely basis, and poorly defined inadequately supported business cases.

A delay with the reconciliation of the Asset Register to the General Ledger for 2017/18 due to staffing issues was an issue for concern. Continuity arrangements need to be in place to ensure the reconciliation takes place on a timely basis.

## Background

The Capital Strategy 2018 to 2023 sets out the Council’s Capital Programme which is a 5-year rolling budget. The Capital Programme for 2018/19 totals £87,703,000 including £20,139,000 for the Housing Revenue Account.

Capital Accounting is the responsibility of a team headed by the Capital & Financial Planning Accountant within the Finance Section of the Resources Directorate.

## Corporate Risk Assessment

### Objective

To ensure the capital assets are correctly valued and the asset records are accurate and complete

Risk	Inherent Risk Assessment	Manager’s Initial Assessment	Auditor’s Assessment
1. The Council is in breach of its statutory duty to maintain an accurate and complete asset register in accordance with legislation	High	Medium	Medium
2. Capital assets are misrepresented in the Annual Statement of Accounts	High	Medium	High
3. Capital Assets are misappropriated due to false or fraudulent practises.	High	Medium	Low

## Scope

The review looked at the capital accounting processes with a particular focus on the development process for individual projects in the 2018/19 Capital Programme. Testing of the capital accounting processes, including the asset register focused on 2017/18 and 2018/19.

# Findings and Outcomes

## Summary of Control Framework

A Capital Programme Governance Handbook is in the process of being adopted, with standardised procedures for business case development already partially introduced. An authorised capital programme was in place for 2018/19.

The service level agreement for the delivery of financial services to the relevant service areas sets out responsibilities as regard capital accounting, budget setting, maintenance and monitoring.

Procedures are in place for budget monitoring with the Collaborative Planning system generating monthly monitoring reports.

The Authority maintains an asset register, with systems in place for the accounting of asset disposals, valuation of assets, asset impairments and the reconciliation of the asset register to the general ledger.

Management oversight is provided by the Capital & Financial Planning Accountant.

<b>1.</b>	<b>Capital assets are misrepresented in the Annual Statement of Accounts</b>	<b>Medium</b>
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<b>1.1 Finding and Action</b>		
Issue	Risk	
Asset Register Reconciliation	<b>Medium</b>	
Findings		
The Asset Register was reconciled against the General Ledger for 2017/18. However, a lack of key staff meant that the reconciliation of the Register was late.		
Recommendation		
Continuity arrangements need to be in place to ensure that the Asset Register is reconciled with the General Ledger on a timely basis.	Priority Score	<b>2</b>
Agreed Action	Timescale	
Agreed	Responsible Officer	Capital & Financial Planning Accountant

1.2 Finding and Action		
Issue	Risk	
Business cases	High	
Findings		
<p>For the 2018/19 Capital Programme, business case templates were only completed for those within the 21st century school programme. All bids for 2019/20 Capital Programme should follow the new model and will require the completion of the relevant Business case template.</p> <p>An Audit review of four capital programme projects included within the 2018/19 Capital Programme found that:</p> <ul style="list-style-type: none"> <li>• Two projects, not in the format of the new business case templates, were found in one instance to have limited documentation and in the second to have no available documentation for audit purposes. Documentary evidence did not provide a clear audit trail to demonstrate relevant authorisation and the business case behind each project.</li> <li>• The two projects reviewed that utilised the new business case templates were found to represent a significant improvement on previous requirements as regard the need for a business case/ supporting documentation to support a capital project.</li> </ul>		
Recommendation		
Ensure that all projects included in the Capital Programme are supported by a robust business case and suitable documentary evidence.	Priority Score	1
Agreed Action	Timescale	
Agreed	Responsible Officer	Capital & Financial Planning Accountant

1.3 Finding and Action		
Issue	Risk	
Capital Programme Governance Framework	Medium	
Findings		
A governance framework set down in the Capital Programme Governance Handbook has been produced but has not yet been adopted. The proposal had been to introduce the framework for 2019/20.		
Recommendation		
Arrangements need to be put in place for the adoption of the Capital Programme Governance Handbook as soon as possible.	Priority Score	2
Agreed Action	Timescale	
I will clarify what changes need to be made to the Handbook and draft briefing paper for EMT to agree the formation and make up of a Capital Panel to undertake the Gateway Reviews.	Responsible Officer	Capital & Financial Planning Accountant

# Audit Framework and Definitions

## Assurance Definitions

<b>None</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

## Definition of Corporate Risks

Risk	Reporting Implications
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	Issues of a minor nature or best practice where some improvement can be made.

## Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

<b>Priority 1</b>	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

# Authors and Distribution

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