

# ARGYLL & BUTE COUNCIL

## Internal Audit Section

### INTERNAL AUDIT REPORT

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|---------------------|---|
| CUSTOMER DEPARTMENT | DEVELOPMENT AND INFRASTRUCTURE SERVICES |
| AUDIT DESCRIPTION   | RISK BASED AUDIT                        |
| AUDIT TITLE         | Project Certification                   |
| AUDIT DATE          | May 2016                                |

2016/2017



## 1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Project Certification within Development & Infrastructure as part of the 2016/2017 Internal Audit programme.

Argyll & Bute Council submitted project proposals to Strathclyde Passenger Transport (SPT), three projects were awarded Grant funding for the year 2015/2016. These were:

|   |          |
|---|----------|
| Bus infrastructure upgrades in the Helensburgh Area | £100,000 |
| Helensburgh and Lomond Cycleway                     | £175,000 |
| Turning Circle at Rest and Be Thankful              | £150,000 |

The project proposals were evaluated against transport planning objectives, project justification, deliverability criteria and affordability. Projects were assessed against: strategic alignment with the Regional Transport Strategy and Transport Outcome Reports; integration with existing development plans; anticipated benefits for the regional and local transport networks; and the level of risk to project delivery within the intended project programme and available funding, taking account of the value of any other grants or match funding included in the proposal.

## 2. AUDIT SCOPE AND OBJECTIVES

The main objective of the audit was to review key arrangements for project certification including retention of documentation and record keeping. The Audit focussed on the Turning Circle at Rest and Be Thankful project.

Controls will include:

|               |   |
|---------------|---|
| Authority:    | The organisation has established Governance and Reporting procedures;                       |
| Occurrence:   | Sufficient documentation exists to evidence compliance with grant arrangements;             |
| Completeness: | Required documentation is fully maintained;   |
| Measurement:  | Procedures ensure information is regularly reviewed for accuracy and that it is up to date; |
| Timeliness:   | Procedures ensure that reports are provided within timescales;                              |

Regularity: Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

### 3. RISKS CONSIDERED

- Projects have appropriate corporate input;
- Reputational risk to the Council in not delivering project;
- Inadequate Governance arrangements.

### 4. AUDIT OPINION

The level of assurance given for this report is substantial.

| Level of Assurance | Reason for the level of Assurance given   |
|--------------------|---|
| <b>High</b>        | Internal Control, Governance and the management of risk are at a high standard with only marginal elements of residual risk identified, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied. |
| <b>Substantial</b> | Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.                      |
| <b>Reasonable</b>  | Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.        |
| <b>Limited</b>     | Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised          |

|                     |  |
|---------------------|--|
| <b>No Assurance</b> | Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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:-

|  |
|--|
| <p><b>High</b> - 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;</p> <p><b>Medium</b> - 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;</p> <p><b>Low</b> - 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.</p> |
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## **FINDINGS**

The following findings were generated by the audit:

### **Grant Offer Letter**

The Grant Offer letter is appropriately signed on behalf of the Council by the Head of Strategic Finance.

### **Project Delivery Monitoring**

SPT projects are included in, and as part of, the Capital monitoring spreadsheet with a designated individual line. Capital monitoring reports are produced monthly. These go to the Asset Management Board, Development & Infrastructure DMT, and SMT monthly. They also go to the Policy & Resources Committee quarterly and full Council at the year end. The reports compare actual spend, full current year forecast spend, and total project forecast spend against budget. For both income and expenditure, any variations to actual, forecast and budgeted figures are highlighted and explained. Written Reports are provided by the Strategic Transportation and Infrastructure Manager as updates for the Council Policy Lead for Transportation.

Site visits were undertaken by an independent company (civil engineering) and progress reports were provided to the Service on a monthly basis, including photographic evidence. The company were appointed to oversee the design work, including undertaking site management works.

The Council meet formally with SPT at their monthly Liaison Group meetings which involves officers from all 12 Council's in SPT's area. The Council gives a brief project update at this meeting. Minutes are recorded of this meeting. With regards to expenditure incurred, the Council meet quarterly with SPT Project Officers to discuss progress with projects and amend the profile spreadsheets. These meetings are informal, however, monitoring spreadsheets and spend profiles are updated following meetings to reflect progress with projects. Towards the financial year end SPT also requested that the spreadsheet is completed showing year end spends on projects.

### **Project Delivery**

The grant conditions state that the Council should make best endeavour to complete the project by 31st March 2016. It was evidenced that the project was complete within the agreed timeframe with the grant award being fully claimed.

### **Procedures**

Grant conditions are well documented and informal arrangements on the management of grant processes are agreed with SPT. Grant conditions state the SPT and the Council shall agree appropriate expenditure and invoicing profiles for the project. We were unable to evidence any documented process or flow chart was in place in respect of SPT Grant Funded projects.

## **Recommendation**

Consideration should be given to drawing up formal internal processes for the application and management of grant funded projects, this should include procedures that comply with the terms of the grant.

## **Financial Processes**

As required by the terms of the Grant a discrete cost centre for the Rest and Be Thankful Turning circle is being used to identify income and expenditure.

Monthly Capital Budget Monitoring reports are sent from Strategic Finance as part of the internal monitoring processes for comment and return to Strategic Finance. Roles and responsibilities have been identified including designated budget holder and finance contact.

There is evidence of segregation of duties, invoices are checked by appropriate staff and then passed to 3<sup>rd</sup> tier management for authorisation, however, it was found that on one invoice the value authorised by the 3<sup>rd</sup> tier manager exceeded their authorisation limit. A debtor invoice corresponding to the payment debtor invoice is raised to SPT in order to draw down the equivalent grant funding. It was found that the debtors invoice was raised to SPT within an appropriate timeframe for the drawdown of grant funding. The debtors invoice was authorised by an appropriate person.

## **Recommendation**

It was found that one of the invoices from the Contractor had been authorised by a member of Development & Infrastructure staff which was beyond their authorisation limits. Processes must be tightened to ensure that only appropriately authorised signatories are signing Invoices within the agreed limits.

## **Document Retention**

The Council are required to identify all income and expenditure in relation to the grant in a discrete cost centre and in terms of record retention are required to keep copies of invoices and receipts for a period of 6 years following the completion of the project. It was found the Council are compliant with the terms of the grant.

## **6. CONCLUSION**

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There is 1 high and 1 medium recommendation set out in Appendix 1 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 Development & Infrastructure 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**

| <b>Findings</b>  | <b>Risk Impact</b>  | <b>Rating</b>                      | <b>Agreed Action</b>   | <b>Responsible person agreed implementation date</b>                        |
|--|---|------------------------------------|--|---|
| <b>1. Authorisation</b>  |   | <b>High/<br/>Medium<br/>or Low</b> |  |   |
| Authorisation limits exceeded  | Increased risk of unauthorised spend against Grant Funding leading to potential overspends and/or ineffective use of resources.   | High                               | A written procedure will be put in place which includes clarification of the Council's authorisation limits for invoices.  | <b>Strategic Transportation Quality Officer</b><br><b>30 September 2016</b> |
| <b>2. Procedures</b>   |   |                                    |  |   |
| There are no written procedures in place in respect of governance and reporting processes for SPT Grant funding. | Failure to have clear and concise processes and procedures in place may lead to inefficient and ineffective operations resulting in non-compliance with grant conditions. | Medium                             | A written procedure will be put in place outlining processes required to be compliant with the terms and conditions set out by SPT in their grant funding award letters. | <b>Strategic Transportation Quality Officer</b><br><b>30 September 2016</b> |





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