



**Internal Audit Report**

CHIEF EXECUTIVE'S UNIT  
STRATEGIC FINANCE

**CAPITAL CONTRACTS**

FEBRUARY 2013

## 1 INTRODUCTION

This report has been prepared as a result of the Internal Audit review to establish compliance with the Council's Capital Contract regulations and procedures. The audit forms part of the 2012/2013 Internal Audit planned programme of audits.

Reviews of specific aspects of Capital Contracts have been undertaken and reported on in previous years by Internal Audit as part of annual audit plans. The work undertaken during 2012/13 will form year one of a new three year programme intended to cover all aspects of capital contracts.

Capital expenditure budget approved for 2012-13 with potential for capital contracts summarised below:

<b>Department</b>	<b>Value £000s</b>
ICT	2,247
Facility Services	2,119
Carbon Management	1,912
Education	4,770
Communities & Culture	883
Private sector housing grant	1,334
Adult care	370
Children & families	91
Roads & amenity	15,469
CHORD	8,605
Cycling, walking & safer streets	104
<b>Total</b>	<b>37,904</b>

## 2 AUDIT SCOPE AND OBJECTIVES

Internal Audit has undertaken both a high level review of Council regulations and procedures and sample testing of a number of capital contracts entered into during 2012-13 to ensure regulations and procedures are appropriate, adequate and are being complied with. The areas reviewed included:

- Procurement regulations and procedures provide adequate details in respect of the initiation and approval of capital contracts and officers levels of responsibility
- Officers involved in the letting of contracts during the current financial year have access to the Council's contract regulations and

procedures, have received appropriate training and are aware of their roles and responsibilities

- Council Standing Orders Relating to Contracts and supporting Procurement Manual comply with Scottish Government and EU regulations and guidelines
- Contracts arising from capital projects approved for 2012-13 have been correctly initiated, approved and accepted in accordance with the Council's regulations and Procurement Manual

### **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

- SR16 Failure to have a robust internal control process and system

This risk has been considered within the scope of our audit.

### **4 CORPORATE GOVERNANCE**

There were no Corporate Governance issues to be reported as a result of this audit.

### **5 MAIN FINDINGS**

- 5.1 The Council's Standing Orders Relating to Contracts adequately set out the high level requirements for the initiation of contracts and is supported by the Procurement Manual which provides further details of processes and levels of responsibility.
- 5.2 Standing Orders and the Procurement Manual are held on the Council's Hub, and are thus available to all officers involved on the capital contracts process.
- 5.3 Council Standing Orders Relating to Contracts and the supporting Procurement Manual include appropriate references to, and comply with, Scottish Government and EU regulations and guidelines.
- 5.4 Testing of a sample of contracts arising from 2012/13 capital projects confirms they have been correctly initiated, approved and accepted in accordance with the Council's regulations and Procurement Manual although the published Scheme of Authorised Purchasers was found to require update.

## 6 RECOMMENDATIONS

One recommendation of Medium priority was identified as a result of the audit. The recommendation is shown in the action plan attached at Appendix 2 which has been compiled with the co-operation and agreement of Procurement team

Internal Audit considers that, in an effort to improve the quality of internal control, the recommendation should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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 definition of each classification is 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.

## 7 AUDIT OPINION

Based on our findings we can conclude that capital contracts are let in compliance with Council Standing Orders and procurement procedures and that the standing orders and procedures comply with Scottish Government and EU regulations and guidelines although the Council's level of internal control would be enhanced by the implementation of the recommendation set out in the agreed management action plan attached at Appendix 2.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to Strategic Finance and Facility Services Staff for their co-operation and assistance during the course of audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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## APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	It was noted that 2 of the sample contracts had been authorised by an officer not included on the published schedule of authorised signatories. Investigation confirmed that the officer was approved to authorise and had been omitted from the list in error.	Medium	The published Scheme of Authorised Purchasers should be reviewed and updated.	Procurement and Commissioning Manager	30/4/2013