

AUDIT & RISK MANAGEMENT SERVICE

INTERNAL AUDIT PROGRESS REPORT AND QUARTER 4 PLAN 2013/14

Introduction

1. The Internal Audit Plan for Quarter 4 is attached as appendix 1 to this report, and includes a progress status on the previously reported planned activity.

Resources

2. We have extended the Principal Auditor secondment to April 2014. This will support on the completion of the Audit Plan. In addition we have commissioned an IT Audit specialist. He has completed an IT Audit needs assessment, and during Q4 will be undertaking an assurance mapping exercise against the areas identified in the needs assessment.

Completed Audits

3. There have been 9 audits completed since the last report. A further 5 audits are at draft report stage. Summaries of the completed audits are attached as appendix 2.
4. The following audits have been completed:

Service	Audit	Opinion
CYP	6 th Form Grant Funding	Complete - no material issues or concerns
AFW	Governance Establishment (Coroner Service)	Reasonable
CBE	ADEPT Accounts	Complete - no material issues or concerns
RBT	Growth and Optimisation Gateway Review	Complete - no material issues or concerns
RBT	Review of Charges	Reasonable
CYP	Pebble Brook School	Limited
RBT	Capital Programme Slippage	Complete - recommendations for

		improvement
CYP/CBE	AMEY Contract	Limited
Please note for the above audit the summary of findings is provided under separate cover to be considered in closed session.		
CBE	Highways Contract - Capital Maintenance	Limited

Definition of Opinion Ratings:

SUBSTANTIAL:	There is a sound system of internal control in which risks are being managed to acceptable levels
REASONABLE	There is generally a sound system of internal control, however some significant risks have been noted and there is therefore the possibility that some objectives will not be achieved
LIMITED	The system of internal control is generally weak, and the exposure to risk is such that it is probable that objectives will not be, or are not being achieved. The system is open to the risk of significant error or abuse.

Other Audit Activity

5. The Purchase to Pay project is on-going The Chief Internal Auditor is on the project board; however, in addition the Audit Manager is providing advice and support to the project, which in time will include reviewing the controls being considered in the design of new systems and processes.
6. The Finance Business Partner (CYP) and the Chief Internal Auditor are currently reviewing the system of assurance to the Chief Finance Officer in relation to financial management in schools. This work is scheduled to conclude by the end of March 2014.

Counter-Fraud update

Investigations

7. The following are current or completed investigations since the last report:

Vodafone – There were three suspected irregularities in respect of relatively low value expenses incurred on mobile phones. We have had to close these cases due to a lack of evidence. It is thought that the phones have been disposed of and, due to poor control; a block was not put on the cards resulting in someone finding them and making the calls abroad. An audit of the system for managing mobile phones has been undertaken as a result and is currently at draft report stage.

Change of Bank Details – The council has been subject to attempted fraud by external fraudsters. Approximately £50k was paid to a fraudulent account. The monies have been recovered in full and the case is currently with the Police for investigation

Cashing of Cheques - There is an on-going investigation into irregular encashment of cheques within a school. The HR process is being followed, and in addition a full audit of the financial management in the school is to be programmed in.

NFI Update;

Total number of matches for BCC – 14,551

Total of which have been recommended we look at as a priority – 3,284

Total number complete/currently being processed – 253

There were a large number of duplicate creditor matches (7,729), these have been closed altogether/not reviewed individually as it was deemed a duplication of work and crossed over with the work undertaken recently to review all duplicate creditor payments.

Update by area;

Pensions – Majority of the recommended matches have been looked at.

Payroll – Small number of matches have been reviewed. Potentially serious matches, such as visa/immigration matches were reviewed as a priority and have been closed.

Blue Badges and Concessionary Travel Passes – No matches have been reviewed.

Private Residential Care Home – No matches reviewed.

Insurance – All matches reviewed.

Creditors – A small number of recommended matches outside of the duplicate payments bulk have been reviewed.

There are no matters to report from the matches checked to date.

Ian Dyson
Chief Internal Auditor
January 2014

APPENDIX 1 Regulatory & Audit Committee 28 January 2014 - Progress against Quarter 3 Plan 2013/14 & Quarter 4 Plan

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
General	1	<p>Annual Governance Statement We will be analysing the self-assessment Annual Governance Statement questionnaires returned from Service Directors. This will form key evidence for the production of the Annual Governance Statement. The Chief Internal Auditor will also be liaising with the Corporate Leads on the key control processes in compiling the AGS.</p>	Completed – AGS signed
General	1	<p>Assurance Mapping This work has started and will be piloted in Oxfordshire. Once the first review in Oxfordshire has been completed the model will be tested at BCC.</p>	On-going
Corporate	1	<p>Health and Safety (Legislation) Carried forward from 2012/13 this audit will review the system for ensuring statutory responsibility for Health and Safety is being effectively managed.</p>	Final Report - Reasonable
Corporate	3	<p>Governance and Financial Management</p> <p>This element of the governance and financial management audit focuses on the effectiveness of the corporate processes in place. Testing will follow on from the 2012/13 audits with areas being selected from the following:</p> <ul style="list-style-type: none"> • Authority and Governance. • Risk Management. • Financial Management. • Performance Management. • Human Resources. • Legislation. 	Fieldwork

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		<ul style="list-style-type: none"> • Procurement. • Information Governance. • Project Management. • Partnerships. <p>The outcome of the audit will be reported accordingly, enabling Service Directors to complete their self assessment as part of the annual governance process.</p>	
Corporate	4	<p>Payroll</p> <p>The Payroll process from starter to leaver is managed by HR and the 'Reward' and 'Employee Lifecycle' Teams which are part of the Support Services Centre. Payroll services are also provided by Bucks County Council to external organisations and some academy schools. Following on from last year's audit and other issues identified there is a Payroll Project Team in place to monitor the progress of any necessary actions.</p>	Fieldwork
Corporate	4	<p>General Ledger</p> <p>The Council's objective for the system is to ensure that the internal controls for the monitoring of the General Ledger are adequate and effective. This audit will include a follow up of the previous audit completed in April 2013. The General Ledger system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives.</p>	Scoping
Corporate	4	<p>Accounts Receivable (incl. Cash Receipting)</p> <p>The Council's objective for the system is to ensure that the internal controls for the monitoring of Accounts Receivable are adequate and effective. The</p>	Fieldwork

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		Accounts Receivable and Income Management system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives.	
Corporate	4	<p>Accounts Payable</p> <p>The Council's objective for the system is to ensure that the internal controls for the monitoring of Accounts Payable are adequate and effective. The Accounts Payable system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives.</p>	Scoping
CYP	1	<p>Mandeville School</p> <p>A request was received to undertake a full audit of Mandeville School, following the issue of a Notice of Concern, due to a significant year end overspend. The audit will focus on the following areas:</p> <ul style="list-style-type: none"> • Governance. • Financial Management (budget setting and budget monitoring). • Financial Control. • Payroll. • Procurement, contracts and leases. • Accounts Payable. • Purchasing Card. • Imprest. 	Final Report – Limited
CYP	1	<p>Bucks Learning Trust</p> <p>The Audit and Risk Management Team will continue to review the governance arrangements through the life of this project, including reviewing the operational</p>	This work is on-going

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		systems and procedures being designed for the operation and management of the contract with the LATC.	
CYP	2	Schools Thematic (Budget Setting and Budget Monitoring) The original audit has been suspended and replaced by an analytical review of the 2011/12 and 2012/13 budget information for all schools in Buckinghamshire, identifying trends and issues. The evidence will be used to inform a service led review of the S151 system of assurance over financial management in schools, including a review of roles and responsibilities. That review is being managed as a project, sponsored by the Chief Internal Auditor and led by the Finance Business Partner.	Project initiated
CYP	2 and 4	Families First This work involved a review of the governance arrangements and data control processes in place in order to verify and sign off the grant claim for the government's Troubled Families results-based payments claim.	Q2 - Complete Q4 - Verification of second claim to be carried out January 2014
CYP	2	Care Management Controls The main focus of the audit will be to review the monitoring mechanisms in place which provide assurance that key processes to safeguard children are working effectively.	Fieldwork complete, draft report to be issued
CYP	2	Schools Admissions The audit involved a review of the adequacy and effectiveness of the system of internal controls over the School Admission process for September 2013 Primary and Secondary school entry.	Final Report - Substantial
CYP	2	SEN Follow Up	To be completed in

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
			Q4
CYP	3	<p>Schools Thematic (Payroll & Recruitment)</p> <p>This audit is a thematic review of the payroll and recruitment processes in place within schools. The audit will involve visiting a sample number of schools to review their processes, as well as the involvement and system in place centrally.</p>	Removed – review replaced by individual school audits
CYP	3	<p>6th Form Grant Funding</p> <p>This audit will involve a review of the accuracy of the Local Authority's 16-19 Grant Return.</p>	Complete
CYP	3	<p>Follow Up of Schools Audit Actions</p> <p>This work will involve following up the audit actions agreed as part of the 2012/13 school visit audits.</p>	Removed – review replaced by individual school audits
CYP	3	<p>Pebble Brook School</p> <p>The audit of Pebble Brook School is being undertaken as part of the 2013/14 Internal Audit plan. Testing will focus on the adequacy and effectiveness of the system of internal control that is in place to manage and mitigate financial and non-financial risks.</p>	Final Report - Limited
CYP	3	<p>Iver Village School</p> <p>The audit of Iver Village School is being undertaken as part of the 2013/14 Internal Audit plan. Testing will focus on the adequacy and effectiveness of the system of internal control that is in place to manage and mitigate financial and non-financial risks.</p>	Draft Report

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
CYP	4	<p>School Visit 3 – TBC</p> <p>The school audit (TBC) is being undertaken as part of the 2013/14 Internal Audit plan. Testing will focus on the adequacy and effectiveness of the system of internal control that is in place to manage and mitigate financial and non-financial risks.</p>	To start
CYP	3	<p>Governance Establishment (Aftercare Team)</p> <p>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	Fieldwork
CYP	3	<p>Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within the service areas. The programme of work will be completed over the remainder of the year, and will include testing on compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:</p> <ul style="list-style-type: none"> • Authority and Governance. • Risk Management. • Financial Management. • Performance Management. • Human Resources. • Legislation. 	Fieldwork

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		<ul style="list-style-type: none"> • Procurement. • Information Governance. • Project Management. • Partnerships. <p>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	
AFW	1	<p>Local Authority Trading Company</p> <p>The Audit and Risk Management Team will continue to review the governance arrangements through the life of this project, including reviewing the operational systems and procedures being designed for the operation and management of the contract with the LATC.</p>	This work is on-going
AFW	1	<p>Fuel Poverty Grant</p> <p>This work is an audit of the allocation of the DECC Fuel Poverty Grant, reviewing the supporting documentation that details how the grant has been allocated and spent.</p>	Complete
AFW	2	<p>Safeguarding</p> <p>The main focus of the audit will be to review the monitoring mechanisms in place which provide assurance that key processes to safeguard vulnerable adults are working effectively.</p>	Fieldwork complete, draft report to be issued
AFW	3	<p>Governance Establishment (Coroner Service)</p> <p>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and</p>	Final Report - Reasonable

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.	
AFW	3	<p>Governance Establishment (Community Hospital Team)</p> <p>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	Draft Report
AFW	3	<p>Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within the service areas. The programme of work will be completed over the remainder of the year, and will include testing on compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:</p> <ul style="list-style-type: none"> • Authority and Governance. • Risk Management. • Financial Management. • Performance Management. • Human Resources. • Legislation. • Procurement. • Information Governance. • Project Management. 	Fieldwork

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		<ul style="list-style-type: none"> Partnerships. <p>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	
CBE	1	<p>Joint Waste Committee Return</p> <p>This work is an audit of the Annual Return 2012/13 for the Buckinghamshire Joint Committee on Waste.</p>	Complete
CBE	1	AMEY Contract	Final Report - Limited
CBE	1	Highways Contract - Capital Maintenance	Final Report - Limited
CBE	2	<p>ADEPT Accounts</p> <p>This work is an audit of the Association of Directors of Environment, Economy, Planning & Transportation accounts, of which the Strategic Director, Communities and Built Environment, is the Honorary Secretary & Treasurer.</p>	Complete
CBE	2	<p>Capital Programme Management</p> <p>This audit was requested by the Cabinet Member. The audit will review how the schemes in the programme are being managed, with particular focus on project slippage.</p>	Completed - Recommendations made
CBE	3	<p>Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within the service areas.. The programme of work will be completed over the remainder of the year, and will include testing on</p>	Fieldwork

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		<p>compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:</p> <ul style="list-style-type: none"> • Authority and Governance. • Risk Management. • Financial Management. • Performance Management. • Human Resources. • Legislation. • Procurement. • Information Governance. • Project Management. • Partnerships. <p>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	
CBE	4	<p>Governance Establishment (Drug Action Team)</p> <p>This review is being undertaken as part of the Governance and Financial Management audit work, focussing on the effectiveness of the governance and financial management arrangements in place. The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	Scoping
CBE	4	<p>Property Mobilisation</p> <p>This is a review of processes being developed in line with the new structure at</p>	Scoping

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		the request of the Senior Manager (PLACE).	
RBT	1	Vodafone The audit will document the current processes in place for administering and monitoring the use of Vodafone mobile phones across the Council.	Draft Report
RBT	2	Growth and Optimisation Gateway Review The Support Services Transformation Programme commenced in 2010. An outline Business Case for Growth and Optimisation was presented to Members in July 2012. The Internal Transformation, with Selective Partnering or Outsourcing, was agreed by Members as the preferred way forward and an updated Business Case was approved in April 2013. The work will involve a gateway review of the programme to assess the robustness of the Business Case, programme governance, project management and strategic fit with the Council's objectives.	Complete
RBT	2	Review of Charges The audit will review how charges made by the Council comply with legislation and regulations and how those charges are aligned to the Income Generation Strategy. At an operational level the audit will consider the application of those charges and for a sample the systems for collection of fees charged.	Final Report - Reasonable
RBT	2	Income Collection (Zipporah) Following on from the Review of Charges audit, this review will evaluate the effectiveness of how the Council's income collection system (Zipporah) is utilised.	Scoping

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
RBT	2	<p>Payroll Project</p> <p>Following the “Limited” Payroll audit report for 2012/13, a project was initiated to address the issues identified.</p> <p>This work will oversee project progress, advising on the controls being implemented and the overall delivery of the project. The work will also inform the 2013/14 Payroll review.</p>	Ongoing
RBT	2	<p>Purchase to Pay Project</p> <p>This work will support the Purchase to Pay Project, advising on any revisions to procurement processes. The work will also aim to ensure the appropriate control mechanisms are in place, prior to their submission to the Project Board for approval.</p>	Ongoing
RBT	3	<p>Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within the service area. The programme of work will be completed over the remainder of the year, and will include testing on compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:</p> <ul style="list-style-type: none"> • Authority and Governance. • Risk Management. • Financial Management. • Performance Management. • Human Resources. 	Fieldwork

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		<ul style="list-style-type: none"> • Legislation. • Procurement. • Information Governance. • Project Management. • Partnerships. <p>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	
RBT	3	<p>Treasury Management</p> <p>The Treasury Management Team manages the Council's investments and cash flows, its banking, money market and capital market transactions. This includes the effective control of the associated risks and the pursuit of optimum performance consistent with those risks.</p>	Draft Report
RBT	4	<p>Pensions</p> <p>The Council's objective for the system is to ensure that the system of internal controls for the monitoring of Pensions is adequate and effective. The Pensions system was categorised as high risk as part of the audit needs assessment exercise based on its relative importance to the achievement of the Council's objectives.</p>	Fieldwork
PPC	3	<p>Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within the directorate. The programme of work will be completed over the remainder of the year, and will include testing on</p>	Fieldwork

Directorate	Qtr Start	Audit	Progress as at 20 January 2014 (Bold = complete)
		<p>compliance with key corporate processes. Testing will follow on from the 2012/13 audits with areas being selected from the following:</p> <ul style="list-style-type: none"> • Authority and Governance. • Risk Management. • Financial Management. • Performance Management. • Human Resources. • Legislation. • Procurement. • Information Governance. • Project Management. • Partnerships. <p>The outcome of the audit will form part of the overall assurance for the Service Directors to complete their self assessment as part of the annual governance process.</p>	

APPENDIX 2 Summary of completed audits

Note for information:

We categorise our management actions according to their level of priority:

High	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
Medium	Significant issue that requires prompt action and improvement by the local manager.

REVIEW OF CHARGES - REASONABLE

The audit activity focussed on the following key risk areas identified in the processes relating to the charging system:

A: Policies and procedures

- There is no approved policy in place that sets out the overarching framework for establishing fees and charges across BCC.
- The charging policy is not aligned to the approved Income Generation Strategy.

B: Service area charging

- The charging policies operated by the service areas do not comply with the Corporate Charging Policy, charges applied may be inconsistent with the Council's objectives to increase access to services and / or maximise income.
- Fees charged do not comply with statutory requirements or are not in accordance with fairer charging.
- Fees charged by the service areas are not reviewed and uplifted as necessary on an annual basis.
- Proposals for new charges are not approved by the relevant Cabinet Member.

C: Application of charges

- Fees are not charged at the correct rate and/or in a timely manner.
- Systems for the collection of fees are inadequate.

The audit covered corporate policies in place and charging in the following areas:

- Culture and Learning - Registrars - Approved venue ceremonies and citizenship ceremonies.
- Culture and Learning - Adult Learning – Adult Education Income.

- Culture and Learning - Libraries – book fines and reservation fees.
- Place - Countryside and Heritage – Agricultural Estate rents.
- Place - Planning, Environment and Development - Planning fees.

Overall Conclusion

Our overall conclusion is **reasonable**. Internal Audit identified that there is generally a sound system of internal control in place.

There are approved and up to date policies in place for Charging, Trading and Income Generation and these are available to staff on the Intranet. However a directory of charges has not been published on the Internet.

In the areas tested there are charging policies in place where appropriate; fees are reviewed on a regular basis and these are available on the Buckinghamshire County Council website. However the new course registration fee introduced for 2013/14 for Adult Learning courses was not approved by the Cabinet Member.

Charges made by the service areas agree to the published fees. However the banking process for Adult Learning payments made by cash and cheques is not robust. There are a large amount of outstanding fines, £196,276, for overdue items borrowed from libraries, these date back several years.

There are 2 'High' priority actions and 2 'Medium' priority actions agreed following this audit.

GOVERNANCE ESTABLISHMENT (CORONER SERVICE) – REASONABLE

The audit activity focussed on the following key areas:

- Policies and procedures
- Budgetary control
- Payroll
- Human Resources
- Procurement
- Income/banking
- Assets
- Information security
- Imprest accounts
- Business Continuity
- Risk Management
- Performance Management
- Project Management
- Partnerships

Internal Audit identified that there is generally a sound system of internal control in place. Risks are being mitigated to acceptable levels, except for the risks noted. The key areas related to the following:

- Reminders not being issued for staff to declare any gifts or hospitality.
- The lack of an annual review of officers who are in receipt of Critical Car User Payments.
- The current version of the Culture and Learning scheme of delegation not being on the intranet and an inconsistency between the service manager's approval limit in the scheme and on SRM.
- Improvements in the visibility of the purchase order approval process.
- Receipts needing to be retained in all instances for purchasing card transactions.
- Improvements in the content of the Culture and Learning inventory.
- Access to inquest files needing to be secured.
- The Business Continuity Plan for the Coroner's Team needing to be updated.

There are 2 'High' priority actions and 8 'Medium' priority actions agreed following this audit.

PEBBLE BROOK SCHOOL – LIMITED

The audit activity focussed on the following key risk areas identified in the processes relating to the School:

- Governance.
- Financial Control (budget setting and budget monitoring).
- Payroll.
- Procurement, contracts and leases.
- Accounts Payable.
- Purchasing Card.
- Income and cash management.
- Imprest.

Overall Conclusion

The overall conclusion is Limited. The system of internal control is generally weak with poor financial management, and therefore an unacceptable exposure to the risk of poor financial performance and to the risk of fraud or error. Risks have not been adequately identified and the controls in place do not mitigate the risks to an acceptable level. The controls that are in place are not being monitored effectively. Although there is no evidence of fraud the control system is weak and could be open to abuse.

The School has not managed the budget deficit effectively and there are weaknesses in budget setting and budget monitoring process. In 2012/13 the School had increased expenditure in some areas without a subsequent reduction in other areas. There is evidence that the Corporate Services Committee could be more proactive in the budget monitoring process and be more effective in challenging and holding senior leaders to account for all aspects of the School's financial performance and ensuring financial stability.

There are many instances where the School are not adhering to the Local Management Handbook (LMH) in regards to contracts, procurement and purchasing cards. Purchases are made without consideration of allocated budget limits and whether value for money is achieved.

The internal governance arrangements are weak, and it would appear the level of scrutiny and financial stewardship by the Governing Body, including Corporate Services Committee is not satisfactory.

There are 22 'High' priority actions and 17 'Medium' priority actions agreed following this audit.

CONTRACT AUDIT REVIEW OF CAPITAL PROGRAMME SLIPPAGE

A review of the Capital Programme is a high level review and was undertaken during September / October 2013. This review has been undertaken at the request of the Cabinet Member for Finance and Resources and the Service Director (Finance & Commercial Services) to consider the management of the Council's Capital Programme that for 2013 /14 will be £112,268,000 with a specific focus on what contributes towards Capital Programme slippage.

The following projects were used as our sample:

Skills Centre Chesham
Furze Down School
High Heavens Waste Transfer
Berryfields Primary School

We interviewed staff responsible for capital accounting for their viewpoints on capital expenditure planning and met with the Chief Information Officer to gain a high level overview of how ICT capital expenditure is monitored and managed. Based on the information provided, we felt that controls in project management for ICT followed recognised practice.

The findings from this review have been discussed with Cllr Hardy, Richard Ambrose, and Gill Hibberd, with a further contribution from Chris Williams; the recommendations contained in this report are the outcome of those discussions.

Findings and Conclusion

Overall we concluded that there are weaknesses in the way the Capital Programme is managed with the key issues summarised as follows:

- The point of entry for a scheme onto the Capital Programme is based on an annual bidding process. The timetable to meet this process may not be compatible with the development of the Business Case leading to financial estimates being offered as opposed to reasonable cost certainty, scheme tolerance identified, risk understood and dependencies being fully documented;
- Some project bids are for sums of money that are not linked to a specific project but a projected need. For example additional provision of primary school places is difficult to monitor as it is not hypothecated to a single capital purchase but potentially a number of purchases, such as temporary classrooms, for a number of schools over more than one financial year;
- The format of business cases, capital programme monitoring and overview of progress is based on "cost" as opposed to the other parts of the project

management triangle of “time and quality”. In particular, the projects reviewed did not have a clear understanding of tolerance other than cost. Understanding the impact of risk or documenting dependencies with countermeasures would appear to be limited. Reports to BIG showing programme slippage were not accompanied by action plans to show how the slippage could or would be compensated for to achieve delivery timescales. In particular the escalation of recurring delays across the programme does not appear to have been undertaken;

- Scope change that in turn could impact delivery timescales or the impact of dependencies, is not approved or clearly understood at a strategic level as the focus of the project team is on meeting the financial envelope; and
- An understanding of project delays that is then used to improve project methods through risk management countermeasures or post project review is not formally recorded.

We also noted that an approved project had been commenced on site without a signed contract. The reason for the haste to commence was that slippage had already occurred and the window for completion had narrowed. This breach of Contract Standing Orders is a consequence of project timescale slippage.

The above points are a synopsis of the findings that are all interlaced around the role of BIG and how the monitoring or progress of a capital project should be undertaken through the programme. One outcome from the review could be an assessment of the overall governance and higher level management structure that could be developed to improve delivery performance. Although project management methodology is applied, the overview of a project through programme showing where the project is against a Gateway process to give BIG a better strategic overview does not currently occur.

Recommendations:

The following recommendations are for the consideration/agreement of BIG who is asked to nominate an officer responsible and timescale for taking agreed actions forward.

It is **RECOMMENDED** that:

- a) BIG adopts a gateway monitoring process for the Capital Programme, consistent with that adopted by the Commercial Services Board.
- b) The starting point for a project entering the Capital Programme (gateway 0) is a report presented to BIG in standard format setting out:
 - Project outline;
 - strategic fit;

- risk and dependencies that could impact delivery and countermeasures;
 - outcomes being sought not just in terms of like for like replacement but in capacity, size, savings or service improvement;
 - size of initial feasibility study and timescales for the next or each gateway.
- c) The agreement to individual projects should include an overall cash envelope in consideration of the need. Authority to spend should be restricted initially by a fixed amount for completion of the feasibility study and detailed design. Future sums within the agreed cash envelope should be released as the project progresses, controlled by the gateway process.
- d) BIG routinely receives a monitoring report showing the gateway progress for all capital schemes, with a defined escalation process to BIG where any schemes have moved outside the agreed scope, time or cost tolerance levels.
- e) Schemes entering the Capital Programme should have realistic timeframes that have been calculated in line with the risk and dependencies assessment. This includes where cash envelopes are initially agreed for strategic management purposes. BIG should receive monitoring reports for these items, ensuring that the allocation of funding once specific works have been identified follows the same gateway disciplines as defined above.

Strategic Recommendations:

BIG should consider the following recommendations to the Future Shapes Programme:

- f) The Commercial Services Board should be combined with BIG to provide a single governance body, overseeing and challenging capital and revenue projects.
- g) A full time Senior Manager Role of Capital Programme Manager should be established within the Business Enterprise Unit being considered under the Future Shapes Programme, with specific responsibility for the delivery of the Capital Programme, accountable to BIG.

HIGHWAYS CONTRACT - CAPITAL MAINTENANCE (LIMITED)

Scope of work

The audit activity focussed on the following key risk areas appertaining to the contract and how these risks are being mitigated to ensure that economy, efficiency and effectiveness is being delivered in the contract framework:

- Accounting process and procedure mitigates potential poor partnership working leading to financial loss;
- Objectives of the partnership are clearly understood to aid delivery in order to limit financial or reputational risk; and
- Governance and management of the main contract includes sufficient flexibility to respond to changing circumstances, formal review points and sufficient management information to mitigate the financial risk of contract failure.

Overall Conclusion on the Capital Maintenance Programme

The Audit was undertaken between May and July with further work undertaken in October and November 2013 and since that time the Transport for Bucks (TfB) team have undertaken their own internal review and they have prepared an improvement plan. Accordingly, the existing audit concerns can be mapped against the improvement plan and the subsequent Environment Transport and Localities Select Committee recommendations. Also, an extract from the Audit report has been shared with Ringway Jacobs (RJ) and they have prepared an action plan in response.

Our overall conclusion is based on the work undertaken earlier in the year and has been highlighted as LIMITED. The system of internal control is generally weak, and the exposure to risk is such that it is probable that wider corporate objectives will not be, or are not being achieved. The system is open to the risk of significant error or abuse. Risks have not been adequately identified and/or are poorly managed at project level and are not adequately shown to be informing programme level risk. The concerns outlined below can be summarised as arising from the structure of the sub contract as opposed to a specific failure in contract management. Issues arising in the report can be viewed as:

- an unclear application of project management methodology by the contractor prevents the client from effectively challenging the development of project associated costs;
- a lack of transparency over how costs or activity is accounted for due to project scope change and inconsistent methodology used by the contractor in developing or monitoring individual projects;
- presentation of contract management information and the interpretation of the contract by the contractor in areas such as disallowed costs can lead to challenge or dispute; and

- contractor methodology is not in line with expected industry standards. Specifically the timely sign off of completed works and commencing the defects period.

The main issue with all of the above points is that transparency in the project management process in the capital maintenance programme can become clouded leading to the client or the contract management team having a poor understanding of individual project costs. There is also a risk of irregularity if a scheme has not been clearly scrutinised by the contractor project managers and proven through a robust project management methodology. Partnership gains such as benchmarking, aggregated discounts for bulk purchase of material and the consistent application of a clear project management methodology all assists with improved delivery, contract management and value for money being achieved through the partnership.

The agreed management actions are aimed at improving the quality of Contract Management and raising the standard of project management within the highways capital maintenance programme practised by the contractor Ringway Jacobs but in particular to encourage the application of controls by project managers. Specifically, to ensure that the procurement of task order process has a higher degree of transparency to give the contract management team improved cost and quality visibility going forward.

All of the above can be traced back to the interpretation of the contract by the contractor and their engagement with the supply chain in a transparent manner.

There are 2 'High' priority actions and 9 'Medium' priority actions agreed following this audit.

