



Internal Audit Report  
The Environment Service  
Capital Programme  
17-03  
May 2017

## Final Report

Legal & Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
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### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 22<sup>nd</sup> March 2017.

The Council’s Capital Programme funds expenditure on the purchase, improvement and enhancement of assets which provide long term benefit to the community, such as schools, roads and housing. It is made up of a series of individual projects and works programmes.

The current approved budget for the Capital Programme is approx. £660.1m gross and the budget is managed as two separate packages; the composite capital programme (circa £558.5m), which deals with the funding of capital expenditure on general fund services; and the housing investment programme (circa £101.6k), which deals with the funding of capital expenditure on the Housing Revenue Account.

Arrangements in place regarding capital investments has been the subject of scrutiny and review over the last 5 years from both internal and external sources, including an Accounts Commission report in March 2013. The Council has developed a range of measures in 2013 and beyond to improve governance, procedures and reporting, including the creation of a Capital Programme Office in 2014.

Audit testing was carried out in April and May 2017

### Scope and Limitations

The audit considered arrangements in place to support the delivery of the Capital Programme.

The review consisted of analysis of documentation, governance arrangements and interviews with relevant officers.

The audit did not examine expenditure in relation to the housing investment programme at this time.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

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Control Objective: To ensure that there is adequate consideration of budget and strategy when planning the Capital Programme

**Audit Comments:**

Internal Audit testing confirmed that there is adequate consideration of budget and strategy when planning the Capital Programme.

A Treasury and Investment Strategy is approved by Council on an annual basis. This details considerations in regards to investment planning and outlines the borrowing strategy for future years. This is supplemented by a Composite Capital Budget report which details the proposed programme. This gives information on the process and rationale for Composite Capital Programme budget allocation.

Both of these documents are completed annually and outline the strategy for a rolling 7-year programme. For the year 2024/25 the Council deferred this budget setting process until February 2018, as referred to within the 2017 Treasury and Investment Strategy report to Council on 22<sup>nd</sup> February 2017.

There is a defined application, assessment and approval process for inclusion in the Composite Capital Programme. This has been developed in recent years and includes scoring criteria for ranking capital bids, standardised business case documentation and a process framework. The culmination of these demonstrates consideration and scrutiny to ensure that the most appropriate projects and programmes, linked to Council objectives, are approved and included.

The Capital Programme Office recognises that there were a small number of strategically aligned proposals approved by Council in 2016 which were not subject to the full application and assessment process. The Service advises that these are reflective of changes to local economic priorities which arose during the application and assessment timeframe. In advance of the next budget setting exercise, processes will be reviewed to take account of such inclusions.

Strength of Internal Controls:

Strong

Control Objective: To ensure that there are effective controls in place to monitor, report and deliver the Capital Programme

**Audit Comments:**

Internal Audit testing confirms that overall there are effective controls in place to monitor, report and deliver the Capital Programme.

The Capital Programme Office has developed an informative intranet site and project management toolkit to assist with consistent delivery of the Capital Programme. This contains relevant information, templates and links detailing project development, management and monitoring expectations. Training has been carried out with project personnel and elected members and future training needs will continue to be identified and supported.

There is a clearly documented governance framework in place and appropriate reports are being submitted to Committees and Officers in line with this. However, the service acknowledges that there is scope to further improve governance

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through the introduction of a programme-wide risk register.

There is evidence of relevant financial and performance scrutiny of the Capital Programme. This is supported by; standardised key milestones, monitoring by Finance officers, and the role performed by the Capital Programme Office in relation to information collation, liaison and reporting. There may be benefit, however, in introducing a control check to ensure financial information provided to Senior Managers and the Strategic Policy & Resources Committee is reported consistently.

Audit confirmed that the Capital Programme Office is continuing to develop management systems which will further improve the control environment and assist in evaluating outcomes and informing future programmes. This includes digitising information to improve assurance in reporting, key stage assessment for project assurance and reporting of project evaluation to inform best practice and measure the benefits of capital expenditure.

A small number of areas where documentation would benefit from revision have also been identified.

Strength of Internal Controls:	Moderately Strong
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### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Capital Programme Office and Finance Officers during this audit.

### Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

## Internal Audit Report

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive Sustainability, Strategic and Entrepreneurial Development

B Renton, Director (Environment)

S MacKenzie, Head of Performance and Resources

L Simpson, Head of Legal and Governance Services

J Symon, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

N Ballantine, Capital Programme Manager

J Jennings, Senior Accountant

External Audit

### Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 18 May 2017

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### Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	<a href="#">Inclusion Process</a>	Medium
2	<a href="#">Programme-wide Risk Register</a>	Medium
3	<a href="#">Manual Recording</a>	Low
4	<a href="#">Project Assurance</a>	Low
5	<a href="#">Evaluation</a>	Low
6	<a href="#">Documentation</a>	Low

## Appendix 2: Action Plan

### Action Point 1 - Inclusion Process

There is a defined application, assessment and approval process for project inclusion within the Capital Programme.

A small number of proposals approved by Council in 2016 were not subject to this full process. The Capital Programme Office recognises this and has worked with Services to develop relevant documentation to support these projects and programmes.

### Management Action Plan

The Capital Programme inclusion process will be reviewed to take account of those strategic projects added to the programme in accordance with Council's agreed priorities.

Importance:	Medium
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Updated capital programme inclusion process

### Auditor's Comments

Satisfactory

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### Action Point 2 - Programme-wide Risk Register

The Capital Programme Office has developed processes to ensure that risks to individual projects and programmes are captured and reviewed.

However, in line with recommendations from external scrutiny, there is scope to introduce a programme-wide risk register. Documentation, and systematic reporting, of this would assist the Council and Senior Managers in assessing risks which may impact upon successful delivery of the Capital Programme.

### Management Action Plan

A Capital Programme-wide risk register will be documented and approved to ensure that all risks are captured and assessed on a timely basis.

Importance:	Medium
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Capital programme-wide risk register detailing review frequency

### Auditor's Comments

Satisfactory

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### Action Point 3 - Manual Recording

There is evidence of a governance structure, appropriate reports being reviewed and scrutiny of the Capital Programme. There is, however, a risk of data error due to the manual recording systems in place.

Internal Audit identified 2 instances where financial expenditure information provided to the Corporate Resource and Strategic Investment Groups differed from that provided to the Strategic Policy and Resources Committee.

Therefore, there is scope to introduce a control check to ensure consistency of financial information within reporting until a fully digitised system is in place.

### Management Action Plan

a) Options for digitising information are being progressed.

b) A control check will be introduced to ensure financial information provided to Strategic Policy and Resources Committee is consistent to that provided to Corporate Resource and Strategic Investment Groups.

Importance:	Low
Responsible Officer:	a) N Ballantine, Capital Programme Manager b) J Jennings, Senior Accountant
Lead Service:	a) The Environment Service b) Corporate and Democratic Service
Date for Completion (Month / Year):	a) December 2018 b) September 2017
Required Evidence of Completion:	a) Contract evidencing digital system in place b) Evidence of control check

### Auditor's Comments

Satisfactory

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### Action Point 4 - Project Assurance

There is evidence of project assurance being trialled for newer projects and programmes. However, the scope and format of key stage evaluation has yet to be fully determined.

### Management Action Plan

The Capital Programme Office has been consulting with relevant Heads of Service and Senior Managers to identify the most appropriate form of key stage evaluation. Once an appropriate format has been determined this will be incorporated into the project management toolkit and procedures for the Capital Programme Office.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Procedure outlining gateway/project assurance review

### Auditor's Comments

Satisfactory

## Action Point 5 - Evaluation

Lessons learned and benefits realisation is defined as part of the project journey within the project management toolkit. In addition, one of the reportable key milestones is in respect of completing lessons learned documentation and audit has observed examples of paperwork in regards to this.

The Service recognise, however, that further work is required to ensure that information from these is communicated at the appropriate level to inform best practice, measure the benefits of capital expenditure and link evaluation information to initial stages of future programmes.

## Management Action Plan

The Capital Programme Office will continue to develop systems in regards to evaluation. This will include documenting a template benefits realisation report, agreeing a process and format for reporting and follow up of evaluation outcomes at the appropriate levels and building systems to link this to initial stages of future programmes.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) May 2018 b) December 2018
Required Evidence of Completion:	a) Progress report on the agreed action b) Approved process for reporting of lessons learned and benefits realisation, including sample reports

## Auditor's Comments

Satisfactory

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### Action Point 6 - Documentation

Internal Audit has identified a small number of areas where Capital Programme documentation may benefit from revision and application of version control.

These include:

- defining the categories used to segment and inform the reporting structure of the projects within the Capital Programme
- updating the Capital Programme Office Team Plan to reflect all ongoing developments

### Management Action Plan

Documentation will be updated as per the minor issues log provided by Internal Audit.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Confirmation that areas outlined on minor issues log have been addressed

### Auditor's Comments

Satisfactory