CROYDON

Final Internal Audit Report

Capital Spend Projections and Monitoring (Governance and Oversight)

July 2023

Distribution: Corporate Director of Resources & S151 Officer
Director of Finance (Deputy S151 Officer)
Head of Finance Interim
Head of Finance Interim (Corporate and Treasury Management)
Principal Accountant

Assurance Level	Issues Identified	
Substantial Assurance	Priority 1	0
	Priority 2	2
	Priority 3	1

mazars

Contents

Page

Executive Summary

Detailed Report

Appendices

Executive Summary

1. Introduction

1.1 The London Borough of Croydon (Council) General Fund (GF) Capital Programme consists of 79 projects of various sizes, with a total budget of £67.6m for 2022/23. The three-year GF Capital programme was set as part of the 2021/22 annual budget setting process, which was subsequently revised to a four year programme, commencing in 2021/22 and ending in 2024/25. The Council presented the forecast to and obtained approval from the Cabinet in January 2022.

1.2 The Council takes ownership of its financial circumstances by recommending utilisation of the Council's own capital receipts to fund much of its own investment programme (and specifically the capitalisation direction recommended for approval by the Improvement Panel and subject to agreement by the Secretary of State) to reduce the forecast levels of additional Council borrowing.

1.3 As part of the Council's transformation agenda, £65.8m was charged as a capitalisation direction for 2020/21, with further assumptions of £50m for 2021/22 (and £25m in 2022/23 and £5m in 2023/24). These values are included in the Council's borrowing levels brought forward and future capital spend assumptions. By prioritising the use of capital receipts to repay these capitalisation direction costs, the Council minimises the revenue impact and allows the Council over the three years to fully finance the cost of capitalisation directions from its own resources, without impacting the level of public sector debt.

1.4 A Capital Board was constituted to scrutinise, challenge and evaluate capital projects. During the period February to July 2022, the Capital Board met every month and the minutes of their meetings were documented.

1.5 In April 2022, capital project monitoring was reassigned to the corporate finance team, with the Acting Finance Manager for Finance, Investment and Risk and the Interim Head of Finance (Corporate & Treasury Management) currently responsible for monitoring process. The team produces monthly monitoring reports which are provided to the Senior Management Team and the Cabinet.

1.6 It should be noted that the focus of our audit was on controls (including governance and oversight) over capital spend projections and monitoring, rather than the specifics of the projects and or policy / affordability of proposals and plans.

1.7 While our review and testing were performed remotely, we obtained all relevant documents required to complete the review.

1.8 The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 2 Issues
The Council's Financial Regulations (and underlying procedure notes) do not set out capital monitoring and reporting requirements across directorates nor the need to perform capital project spend reconciliations. **(Issue 1)**
There is a need to improve the capital monitoring process at a directorate level to enhance consistency across the various capital projects. This is borne from the findings in the report, such as capital project reconciliations being done annually rather than monthly and project managers not having access to the finance system, 'My Resource', for project spending reconciliations. **(Issue 2)**

The one Priority 3 recommendation is included under section 4 below.

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management Requirements

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
2	Capital monitoring is presented monthly to Cabinet as part of the Financial Performance report. The report includes spend to date on capital schemes. An improvement in 2023-24 is that as well as the Capital Internal Control Board, capital monitoring is taken to Directorate Management Team meetings alongside revenue monitoring. The Heads of Finance are emailing out instructions to capital project managers on a monthly basis to provide capital updates.	**Expected Control** Up to date and approved Financial Regulations are in place and set out practices and procedures that are relevant and consistent with legislation and the Council's operations framework. **Issue/Finding** The Council's Financial Regulations, published in June 2020 and most recently reviewed in December 2021, set out that '*Quarterly financial monitoring of the capital programme, including spend to date, projected spend for the financial year and slippage will be presented to Cabinet as part of the financial monitoring report. Programme and Project managers along with the relevant Corporate Director must ensure that any variances to budget are reported as soon as they are aware of them.*' However, the Financial Regulations (and underlying procedure documents) did not address monitoring and management information reporting in relation to directorates and did not include a documented process requiring Project Managers to reconcile committed projected expenditure to the actual spend on the General ledger. From discussion with Project Managers from three directorates (Resources, Sustainable Communities, Regeneration and Economic Development, and Housing), it was identified that monitoring procedures and reporting processes were not in place,

Responsible Officer	Deadline	
		potentially leading to an inconsistent or inadequate approach across the various directorates. **Risk** Where policies, procedures and guidance are not documented, there is a risk of inconsistent practices. When key staff are absent, other staff may be unable to undertake actions required correctly or consistently.
Director of Finance (Deputy S151 Officer)	N/A	

CROYDON

Control Area 3: Capital Programme Monitoring and Oversight

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
2	The Council is reviewing the Oracle system including MyResources and Oracle projects to identify improvements that can be made to simplify access to spend to date information. To minimise risk from monthly variations in commitments and actual expenditure, the Heads of Finance are now emailing out instructions to capital project managers on a monthly basis to provide capital updates, which are being taken to Directorate Management Teams as well as the Capital Internal Control Board.	**Expected Control** Performing monthly reconciliations between committed project expenditure to the actual spend on the General ledger (GL) helps to identify where there has been miscoding on the GL. This allows variances and spending code errors to be escalated and resolved promptly. A uniformity across the directorates in their approach to project management facilitates an effective and efficient service delivery. **Issue/Finding** A sample of three GF capital projects were reviewed to confirm whether the Project Managers carry out regular project reconciliations, namely: • Transport for London Local Implementation Plan (GF50), with gross expenditure of £9.266m • Disabled Facilities Grant (GF04) with gross expenditure of £2.993m • Corporate property maintenance (GF60) with Gross Expenditure of £2.5m For two of the three projects (GF50 and GF04), it was noted that the Project Managers only reconcile committed project expenditure to the actual project expenditure on the GL report annually. For GF60, project reconciliations were carried out quarterly. In addition, in all three cases, a senior officer did not review and approve the reconciliations. To perform project reconciliations, Projects Managers require access to My Resource in order to download a general ledger report. Whilst two of the Project Managers interviewed had access to My Resource, the Project Manager for the corporate property

		maintenance project did not and relied on the Finance team to provide the GL report. Furthermore, the two Project Managers with access indicated that they needed further training on how to use the system to generate reports and upload project budgets. **Risk** Where the Project Managers/budget holders do not have access to My Resource or are not confident in using the system, there is a risk that project reconciliations are not performed regularly. Infrequent reconciliations with no independent checks increase the risk that miscoding in the general ledger may go undetected and issues will not be promptly addressed. A lack of uniformity within the directorates may lead to inefficiencies, which may result in a reduction in service delivery.
Responsible Officer	**Deadline**	
Director of Finance (Deputy S151 Officer)	N/A	

4. Priority 3 Issue

Agreed action	Findings
Control Area 3: Capital Programme Monitoring and Oversight The risk of potential overspend against budget has been minimised from 2023-24 by the capital monitoring being taken monthly to Directorate Management Team meetings alongside revenue monitoring. The Heads of Finance are emailing out instructions to capital project managers on a monthly basis to provide capital updates.	**Expected Control** Project Managers hold monthly meetings with the relevant accountant to monitor projected spend against budget. **Issue/Finding** Whilst the Project Managers for GF04 and GF50 advised that monthly face-to-face meetings are held with their accountants, we were unable to confirm this as the meetings were not documented. The Project Manager of GF60 had not held any meetings with the relevant accountant. It should however be noted that at the time of the internal audit, no actual overspends against budget have been incurred during 2022/23 and none were forecast for the year end position. **Risk** Where monthly meetings are not held, there is a risk that Project Managers are not aware of the budget position, which may lead to overspend against budget.

Appendix 1

AUDIT TERMS OF REFERENCE

Capital Spend Projections and Monitoring

1. INTRODUCTION

1.1 The General Fund Capital Programme consists of several projects of various sizes. The three-year programme is set as part of annual budget setting and the programme for 2021/22 (Updated) and Forecast General Fund Capital Programme 2022/23 to 2024/25 programme was reported to Cabinet in January 2022.

1.2 The Council takes ownership of its financial circumstances by recommending utilisation of the Council's own capital receipts to fund much of its own investment programme (and specifically the capitalisation direction recommended for approval by the Improvement Panel and subject to agreement by the Secretary of State) to reduce the forecast levels of additional Council borrowing.

1.3 As part of the Council's transformation agenda, £65.8m was charged as a capitalisation direction for 2020/21, with further assumptions of £50m for 2021/22 (and £25m in 2022/23 and £5m in 2023/24). These values are included in the Council's borrowing levels brought forward and future capital spend assumptions. By prioritising the use of capital receipts to repay these capitalisation direction costs, the Council minimises the revenue impact and allows the Council over the three years to fully finance the cost of capitalisation directions from its own resources, without impacting the level of public sector debt.

1.4 The Council aims to apply capital receipts in the most economic manner to minimise capital financing costs, and the general strategy is to apply those receipts in the following order:

1. <u>Transformation Expenditure</u>

   Freedoms to charge revenue transformation costs against capital receipts is given under the Flexible Use of Capital Receipts Regulations and can only be so financed by capital receipts.

2. <u>Capitalisation Direction Borrowing</u>

   Approval by the Secretary of State to capitalise revenue expenditure as the Council transforms is given subject to the maximum period of twenty years borrowing. As this is less than the average period for other capital borrowing a bigger annual revenue saving is achieved by prioritising the repayment or financing of this category of capital borrowing. In addition, an additional 1% premium of borrowing from the Public Works Loans Board [PWLB] is chargeable on borrowing not repaid by capital receipts as a condition of the Capitalisation Direction.

   The Council is committed to fund the capitalisation direction costs from its own capital receipts for the above reason and to demonstrate that it has managed to balance its finances within its own resources

3. Other Capital Borrowing

   The Minimum Revenue Provision charges against revenue for historic capital borrowing are calculated on an annuity basis – that is they are lower in early years and increase in later years.

1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

2. OBJECTIVES AND METHOD

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will for each controls / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls; and
- Report on these accordingly.

3. SCOPE

3.1 This audit included the following areas (and issues raised):

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	1	0
Capital Spending Forecasting and Projections	0	0	0
Capital Programme Monitoring and Oversight (including the use of holding codes)	0	1	1
Total	**0**	**2**	**1**

Appendix 2

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

🟢	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
🟡	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
🟠	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
🔴	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

Appendix 3

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

Registered office: 30 Old Bailey, London, EC4M 7AU, United Kingdom. Registered in England and Wales No 0C308299.