

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 June 2017

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – Capital Projects (Payment Certificates)

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Capital Projects (Payment Certificates).

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

3 BACKGROUND

- 3.1 A review of the internal controls surrounding Capital Projects was undertaken as part of the Audit Plan for 2016/17.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 June 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CAPITAL PROJECTS (PAYMENT CERTIFICATES)

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2016/17 a review was undertaken of the arrangements in place for Capital Projects (Payment Certificates). A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate reporting arrangements are in place for capital contracts awarded – contracts in excess of £250,000 are reported to the Members' Library Service in line with the Council's Corporate Procurement Procedures.
- Systems are in place to ensure that expenditure incurred on capital contracts is accurately reflected in the general ledger.
- For all interim payment certificates issued, an authenticated VAT receipt is held by the Council.
- Retention monies are properly deducted on the interim certificates prior to payments being made.

1.3 Areas with Scope for Improvement

- There was a lack of adequate segregation of duties – in one case, an interim payment certificate was prepared, checked and authorised for payment by the same member of staff. *Risk – errors and irregularities may occur and remain undetected.*
- In two instances, there was a lack of documentation to support the gross valuation of works certified on the interim certificates – we were unable to reconcile the payments made to the actual value of work completed. *Risk – errors and irregularities may occur and remain undetected.*
- In one case, there had been a failure to demonstrate best value – additional work had been awarded to an existing contractor outwith the tendering process. *Risk – failure to obtain best value.*

1.4 Summary

Our review of Capital Projects (Payment Certificates) has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden
Internal Audit Manager**

June 2017

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
CAPITAL PROJECTS (PAYMENT CERTIFICATES)**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure effective segregation of duties between the member of staff preparing the interim certificates and the member of staff checking or authorising the certificates for payment.	Medium	Team Manager Cost and Procurement	Agreed		June 2017
3.3.1	Management should ensure that the gross valuation used in the interim payment certificates is based on the actual value of the work completed to date.	High	Team Manager Cost and Procurement	Agreed		June 2017
3.5.1	Management should ensure that best value can be demonstrated in the awarding of all works.	High	Team Manager Cost and Procurement / Quantity Surveyor	Agreed		June 2017

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.