

Audit Committee

27 September 2021



Report of: *Director of Finance*

Title: *An Update on Capital Programme Governance, Delivery and Accounting Improvements*

Ward: *City Wide*

Officer Presenting Report: *Glenn Hammons (Interim Senior Finance Business Partner)*

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Recommendation

The Audit Committee note the progress to date in implementing improvements to capital programme delivery, governance and accounting.

Summary

The Council is committed to delivering the aims of its Corporate Strategy and work with partners to deliver the One City Plan and West England Combined Authority Plan. Capital investment in the region is a key element to achieving the outcomes of these strategies. The Council's capital investment programme totals around £1bn over the 5-year period 2021-2026.

The Council's auditors have identified areas requiring improvement in relation to capital governance, delivery and accounting (this follows the ISA260 2019/20, VFM Audit Finding Report 2019/20 and the Internal Audit team assurance reviews in the past 18 months). This report provides an update to Audit Committee on the progress made to date towards implementing the programme of changes required to the Council's capital programme delivery, governance, and processes, to mitigate potential risks and implement best practice.



Policy

4. None affected by this report. Grant Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they must comply with the relevant statutory requirements, namely the Local Audit and Accountability Act 2014.

Consultation

Internal

5. Executive Director: Growth & Regeneration and Director of Finance

External

None

Background and Context

6. The Council is committed to deliver the aims of its Corporate Strategy and work with partners to deliver the One City Plan and West England Combined Authority Plan. Capital investment in Bristol and the surrounding area is a key element to achieving the outcomes of these strategies. The Council's capital investment programme totals in excess of £1bn over the period 2021-2026.
7. The Council's external auditors, Grant Thornton, have identified capital expenditure as an area in their plan of audit work as reported to Audit Committee during 2021. This follows the ISA260 and VFM Audit Finding Report 2019/20 to Audit Committee in January 2021
8. In addition there have been two recent internal audits undertaken on the capital programme:
 - a. Capital Programme Financial Monitoring – Delivery. The audit reported in May 2020 and identified 8 recommendations, of which 7 have been implemented and 1 is in the process of being implemented as part of the improvements to capital governance processes. The audit also identified 6 areas of good practice (see Appendix 2).
 - b. Capital Programme Governance. The audit assessed the adequacy and appropriateness of the governance arrangements and decision making systems that are proposed under the Council's strategic partnership with Arcadis to govern the delivery of capital projects. The internal audit update provided to Audit Committee in July 2021 provided a summary of the outcomes, which included a reasonable assurance opinion being given on the new arrangements that have been developed and are in the process of being rolled out over the projects and programmes. However, limited assurance was provided on the arrangements in place over the Capital Portfolio. A further review is planned in Q4 of the 2021/22 financial year.
9. A further update was requested by the Audit Committee in relation to the improvements being made to the Council's strategic capital governance arrangements. This report builds on the report to Audit Committee in July 2021 referred to in paragraph 6(b) above and provides an update on the progress towards implementing changes to the Council's capital programme delivery, governance, and processes in response to audit recommendations, to mitigate potential risks and to implement best practice.

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10. The update provides assurance to Audit Committee that action has been and continues to be taken. However, it should be noted that this was anticipated to be a 3-year programme of improvements rather than a one-off review and whilst some of the changes can be implemented with immediate benefits others will take time to embed within the organisation as they require cultural, as well as process, change.
 11. A list of all the actions being taken, a status update and commentary is shown at Appendix 1. Further follow up and new audits will be undertaken over the period of this improvement plan and will result in internal and external Audit reports to the Audit Committee as appropriate.

Not applicable.

Risk Assessment

The content of this report is in response to a risk assessment.

Public Sector Equality Duties

None applicable for this report.

Legal and Resource Implications

Legal

None arising from this report.

Financial

None arising from this report.

Land

Not applicable.

Personnel

Not Applicable.

Appendices:

Appendix 1: Progress Update on Improvements to Capital Programme Delivery, Governance and Processes

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Reports from Grant Thornton, the external auditor, to the Audit Committee in January 2021, February 2021 and July 2021.

Update report from Internal Audit to Audit Committee in July 2021.

Progress Update on Improvements to Capital Programme Delivery, Governance and Processes

Recommendation / Area of Risk	Actions and Timeline	Status	Update / Commentary
<p>1. External Audit recommendation in ISA260 Report & VFM Audit Findings Report</p> <p>The council should evaluate and consider how it sets its capital budget to enable it to set more realistic budgets going forward.</p> <p>The Council's growth and regeneration plans should be updated to reflect slippage in capital plans.</p> <p>Reported to Audit Committee: Jan 2021</p>	<p>Strengthen Capital Programme governance</p>	<p>Implemented / On-going</p>	<p>The Council has taken steps to improve governance, such as introduction of governance boards to oversee delivery, make recommendations within delegations and escalate issues as appropriate. These have resulted in more robust monitoring of delivery, transparency of synergies and resource challenges, greater scrutiny of delivery.</p> <p>The Capital Investment Board (CIB) has been established and is attended by Executive Directors, Statutory Officers and key service Directors. It meets monthly and is responsible for managing schemes through the capital programme. CIB is supplemented with member delivery oversight by the Delivery Executive. All formal decisions are made by Cabinet or Council in accordance with the Financial Scheme of Delegation.</p> <p>These processes are now embedded within the organisation and Council's decision pathway and have started to see incremental development and improvements during their operation.</p> <p>An example of this development has been the Delivery Executive call-in process established within 2020/21 to challenge and support project delivery as well as establishing more realistic delivery profiles which take appropriate account of optimism bias. These new governance arrangements will take some time to 'squeeze out' the excess of activity already in the system.</p>

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			The embedding and strengthening is seen as a continuous process.
	Update the Council's Capital Strategy	Implemented / On-going	The Council's Capital Strategy was updated in November 2020 when it was approved by Cabinet and Council. This included substantial updates in relation to capital governance and scheme prioritisation. In accordance with best practice updates will be undertaken on an annual basis, with the next update planned for Cabinet in November 2021 and Council in December 2021.
	Implement and embed capital governance improvements to manage schemes through their lifecycle [Implementation target: by March 2022]	In progress	Following enhancements to the Capital Strategy in December 2020 a new capital governance process and methodology is in development and once finalised and approved will be used to manage schemes through their capital lifecycle. The methodology will align to existing project management protocols used within the council. This updated approach will be reflected in the update to the refreshed Capital Strategy due to be approved by Council in December 2021. The approach will then be used to formulate the Capital Programme Budget for 2022-27, to be approved by Council in February 2022, and used to monitor/progress schemes through their lifecycle from April 2022.
	Further develop and embed a prioritisation process /	In progress	Following enhancements to the Capital Strategy in December 2020 an approach and methodology to prioritising initial capital schemes ideas has been

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	<p>methodology for capital investment ideas</p> <p>[Implementation target: by March 2022]</p>		<p>developed. Its aim is to prioritise scarce resources and provide assurance that capital investment is targeted at the Council's priority outcomes, is affordable and has sufficient resource/capacity to implement the scheme. This remains work in progress and following endorsement will be used to aid member prioritisation of schemes as part of the budget process for 2022/23. The methodology will align to existing project prioritisation protocols used within the council.</p>
	<p>Appoint a strategic partner for delivering capital projects</p>	<p>Implemented</p>	<p>An external strategic partner (Arcadis) was appointed in February 2021. Arcadis have been working closely with the council to ensure processes and governance are aligned. Arcadis are actively supporting the council on a number of schemes with the capital programme. Arcadis have provided additional capacity, skills and knowledge to projects. Work continues to embed the relationship between the council and Arcadis.</p>
	<p>Improve capital governance, delivery and reporting in Growth & Regeneration Directorate</p>	<p>Implemented / On-going</p>	<p>A Board has been established within Growth and Regeneration and has been meeting monthly. It has been reviewing monthly highlight reports for projects and reviewing progress against plan. In addition a number of improvements have been made and are in the process of being embedded into projects. These improvements which are driven between the council and Arcadis include a strong programme/project management methodology, due diligence, quality assurance, clear definition of responsibilities, regular checks / balances and scrutiny / challenge, digitally</p>

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			<p>enabled reporting system and realistic project delivery plans.</p> <p>The internal audit update provided to Audit Committee in July gave a 'Reasonable' assurance rating for the work to date and committed to a further review in Q4 of the 2021/22 financial year. The findings arising from the audit has been formulated into a detailed action plan which has been discussed and agreed by senior managers in Growth & Regeneration.</p>
	<p>Improve capital governance, delivery and reporting in Directorates (except Growth & Regeneration)</p>	<p>In progress</p>	<p>The remaining Directorates of the Council use existing Boards and governance structures to develop, implement and manage their capital project (e.g. Adults Strategy Board, IT Board and Housing Delivery Board). Where a service is of insufficient critical mass to have its own Board the EDM meeting, which is part of the Decision Pathway, is used.</p> <p>The application of the learning from the governance improvements currently being made in the Growth & Regeneration Directorate will need to be applied to the rest of the organisation. be considered by CIB in due course.</p>
	<p>Capital Programme Review Workshop</p>	<p>Complete / On-going</p>	<p>In May 2021 a capital programme review workshop was held. This follows slippage in delivery of capital programme, external audit findings on 2019/20 accounts and internal audit review of capital programme governance. The review of current programme was undertaken to understand progress and delivery of current approved programme as set by Full Council in February 2021. The review identified 9 recommendations which have been incorporated into the governance process improvement work.</p>

Recommendation / Area of Risk	Actions and Timeline	Status	Update / Commentary
External Audit ISA260 2018/19 – Capital Accounting related Recommendations Update			
<p>Management should consider engaging their own experts to value complex investments</p> <p>(eg Port, service investments, etc)</p>	<p>Engage external expertise for valuation of complex investments</p>	<p>Implemented</p>	<p>The council obtained an external expert’s valuation for the 2019/20 Accounts and will consider a cyclical approach to future valuations. Grant Thornton in their 2019/20 ISA260 confirmed this recommendation as implemented.</p>
	<p>Enhancing the process documentation for valuing non property assets and service investments</p>	<p>On-going continuous improvement</p>	<p>A comprehensive document is in the process of being drafted which sets out council’s approach and methodology to valuing these assets. It is anticipated this will be completed by Autumn 2021. It should be noted this document would supplement the valuation working papers which already exist and unpin the entries in the Accounts for 2020/21.</p>
<p>The Council should review the fixed asset register and financial ledger and ensure that these reconcile and should ensure that all asset related transactions are recorded in the fixed asset register appropriately.</p>	<p>Improvements to fixed asset working papers</p>	<p>Implemented</p>	<p>Work has been undertaken as part of the production of 2020/21 Accounts to improve the presentation of fixed asset working papers to make them easier to follow for the complex entries required to meet the requirements of the CIPFA Code on capital accounting.</p> <p>The council has reduced the number of manual entries and prepared a working paper reconciling the register to the Accounts and ledger to provide an enhanced audit trail.</p>
	<p>Implementing a new fixed assets register</p>	<p>On-going continuous improvement</p>	<p>A new dedicated specialist system based fixed asset register is planned to be operational from April 2022 for the audit of the 2021/22 Accounts. Work is currently taking place between Finance and IT to install the system and transfer data from the existing asset register.</p> <p>The current fixed asset register has been used to prepare the 2020/21 Accounts. However, it has been reviewed and simplified to improve reconciliation to the ledger as referred to above.</p>

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The Council should ensure that the cost of components used in the calculation of the HRA depreciation charge can be evidenced to supporting documentation and can be seen to be up to date and representative of the cost of replacement	Create a clear audit trail with documented evidence to support the estimate of HRA depreciation	Implemented and on-going	In preparing the 2020/21 Accounts the working papers and supporting evidence has been reviewed and improved to provide a clear audit trail. In addition work has been undertaken to improve the linkages between the preparation of the HRA Budget for 2021/22 and the accounting of componentised costs. This will ensure a smoother process during the closedown process at year end.
The Council should ensure that land and properties and valued in accordance with the requirements of the CIPFA Code, with surplus assets and investment properties valued annually and all other land and buildings held at valuation valued at least every five years or sooner if their carrying valued could be materially different to current value	Ensuring the CIPFA Code requirements are adhered to	Implemented	The requirements of the Code were incorporated in the 2019/20 Accounts. Grant Thornton in their 2019/20 ISA260 confirmed this recommendation as implemented.
	Procuring a multi-year contract for external property valuation support	On-going continuous improvement	A draft specification has been developed by Property. Procurement of the contract will commence in October, with valuers appointed before the end of the 2021. This will provide additional capacity, skills and knowledge to supplement the internal valuation team.
External Audit ISA260 2019/20 – Capital Accounting related Recommendations Update			
The Council undertakes a detailed review of its assets to identify any fully depreciated assets and consider whether the useful lives used were appropriate in order to inform the Council's depreciation of future assets	Undertake a detailed review and produce a clearly documented audit trail of fully depreciated assets	Implemented	The recommendation relates to £6.9m assets fully depreciated related to fleet vehicles. The replacement of these vehicles was delayed due to pause in the project to ensure all new vehicles met the Council's climate emergency pledge and therefore current fleet used beyond the assumed asset life. The replacement is still in progress with delays in delivery of some vehicles delayed until Summer 2021.

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			In the production of the 2020/21 Accounts all assets have been reviewed which are fully depreciated but still in use to ascertain whether to extend useful life accordingly.
Management should ensure that valuations are based upon the appropriate supporting data and that this data can be appropriately evidenced and corroborated.	Establish the correct assumptions/build data/floor area for the 10 properties [out of estate of approximately 700 properties] where they were found to be incorrect	Implemented	During the valuation process for the 2020/21 Accounts the council has commissioned new floor plan and obtained required supporting data.
	Improve review and quality assurance processes to ensure correct data is used in valuations	Implemented	The Council has implemented improved quality assurance processes to seek to identify any valuations which do not have sufficient support evidence.
	Digitise property records to improve ability to access data for properties	Implemented and on-going	The Property Service have commenced the process of digitising their manual property records.

Areas of Good Practice identified by Internal Audit in their Capital Programme Financial Monitoring (Delivery) in May 2020

- Staff involved with CIB are actively seeking enhancements to the process of monitoring capital “schemes”
- Experienced and qualified staff
- CIB meets regularly, at least monthly
- All Executive Directors are members of CIB
- Proactive engagement requiring milestones and forecasts to be regularly input by project managers
- Actual spending to date and revised forecasts agreed with ABW (on hard close).

[extract from internal audit report]