

Causeway Coast and Glens Borough Council

Internal Audit Report Capital Projects

August 2020
Final



INTERNAL AUDIT REPORT

Capital Projects

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2019/20. This report summarises the findings arising from a review of

The table below summarises the key risks reviewed:

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be inadequate planning of capital projects leading to decisions to implement projects which do not support Council's objectives or inappropriate use of Council resources	-	3	-
There may be inadequate controls over the tendering of consultants and contractors, leading to poor value for money, a lack of clear and transparent decision-making and a lack of opportunity for other suppliers	-	-	-
Project budgets may not be adequately controlled, managed and monitored leading to overspend and increased costs to the Council	-	2	-
Completed Projects may not be evaluated leading to missed opportunities to improve future capital planning	-	1	1
Total recommendations made	0	6	1

Based on our audit testing we are able to provide the following overall level of assurance:

Limited

There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

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All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

1 Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and considered the main risks facing capital project management and a review of the key systems and controls in place to address these. The objective was to ensure that:

- There is an adequate Capital Projects framework in place
- Processes are operating as expected to effectively plan, procure, and manage the implementation of projects
- Projects are appropriately evaluated once they have been completed to ensure appropriate levels of benefit for Council and lessons are learned to improve the planning of future capital projects

2 Background

Effective management of key projects is vital for the Council to ensure that it supports and achieves its priorities. Adoption of sound project management practices helps to significantly reduce the risk of project failure.

Good project management is underpinned by:

- Clear governance, accountability and decision making
- A robust business case showing that the benefits are worth the investment
- Effective planning and control
- Identification and active management of risks
- Engagement of stakeholders
- Good communication
- Regular reviews to check that the project is on track
- Ensuring lessons are learned and recorded.

The Council's capital investment strategy is driven by the Council's Corporate Strategy 2015-2019. One way of the Council ensuring that it achieves and meets its objectives is through capital projects. These projects require a significant amount of project management, financial, technical and administrative input to take them forward. Effective monitoring of capital projects is necessary to identify and address potential under-performance, budget over-spend and project overruns and to ensure delivery of work streams and services in accordance with the Council's priorities and objectives.

Council has adopted a project management system based on the Prince 2 principles which follows a 4-step process from inception and proposal through to implementation and review.

3 Risks

The risks identified by Internal Audit relating to grounds maintenance and agreed with management are as

A previous internal audit in this area in 2016/17 revealed strong control over the management and monitoring of individual project implementation. Issues identified centred on wider oversight of the Capital Programme planning and procurement guidelines. In 2016/17 projects were not at the stage of completion so testing of post project evaluation could not be carried out at that time. For these reasons it was agreed with management that we would concentrate on the following risks:

1. There may be inadequate planning of capital projects leading to decisions to implement projects which do not support Council's objectives or inappropriate use of Council resources.
2. There may be inadequate controls over the tendering of consultants and contractors, leading to poor value for money, a lack of clear and transparent decision-making and a lack of opportunity for other suppliers
3. Project budgets may not be adequately controlled, managed and monitored leading to overspend and increased costs to the Council
4. Completed Projects may not be evaluated leading to missed opportunities to improve future capital planning

The sample of Capital Projects selected for this audit also included 1 of Council's Strategic Projects

4 Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

5 Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

5.1 Risk 1 – Consideration and Planning of Capital Projects

ISSUE 1 – Medium Term Planning and Capital Programme.

- a) **Observation-** Audit has found that Council has a Medium-Term Financial Plan (MTFP) in place. Audit also reviewed a presentation to elected members on the proposed Capital Programme 2020-24 and a spreadsheet of Capital Cashflow relating to borrowing costs for Capital until 2030.

The slides containing the Capital Programme 2020-24 includes key medium term (2020-24) guiding principles and refers to the need for “affordability” when planning capital projects. It presents “New Working Principles for 20-24” including No 4 which states that no further projects will be progressed into stage 4 unless it meets 1 of 3 criteria:

- a. Majority of Capital is Grant Funded i.e. grant funding makes a project affordable.
- b. Self-Financing
- c. Essential Health and Safety works.

The MTFP states that it “sets out a programme of proposed projects to ensure the sustainability and robustness of Council finances for the current term and beyond”. It does not currently contain a detailed forecast of the Council’s projected funding/income streams or costs. However, Audit was advised that recent events (Covid-19) require a rewrite of the MTFP and the intent was to track the agreed actions via a costed plan. The MTFP does not include an analysis of medium-term reserve positions or other financial assumptions.

The MTFP includes 3 bullet points relating to the Capital Programme and includes a related target to reduce the annual cost of borrowing by £1m (delivery date in 10 years). However, there is very little detail on the alignment between the MTFP and the Capital Programme with no mention of the 4th Working Principle in the Capital Programme limiting further capital projects progressing to stage 4.

Audit notes that Council does not have in place a Capital Strategy. To comply with the CIPFA Prudential Code (2018) capital strategies should be in place for all local authorities from 1 April 2019.

<p>b) Implication- Without a fully comprehensive and detailed Medium-Term Financial Plan which considers Council's projected funding/income streams and revenue and capital costs over the medium term there is a risk that service cost demand and capital projects are not based on realistically projected resource availability. In the absence of a capital strategy there is a risk of non-compliance with the CIPFA Prudential Code.</p>
<p>c) Priority Rating- 2</p>
<p>d) Recommendation- Council should update the MTFP to include a detailed analysis of the medium-term financial position, underpinned by clear assumptions, including the impact of Covid-19. The Capital Programme should be clearly aligned to the financial projections within the MTFP and a Capital Strategy should be put in place. A Capital Strategy should include capital expenditure, investments, liabilities and treasury management, along with sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured, and how they will meet legislative reporting requirements. It should include details of planned disposals and how realisation of assets has been considered and will be managed.</p>
<p>e) Management Response- Agreed</p>
<p>f) Responsible Officer & Implementation Date- Chair of CPWG supported by CPWG dedicated finance officer.</p> <p>See also response to issue 2 – ie each report should have a financial template to update members on the financial aspect of each project. ie its impact on the capital affordability.</p> <p>Date Nov / Dec 2020</p>

ISSUE 2 – Project Proposal/Business Case

- a) Observation-** Council follows the Prince 2 project management methodology and have documented the various steps (proposal; tendering; implementation; completion; post project evaluation) in a Governance matrix. Business cases are required for all capital expenditure > £30k. A full Business Case including economic appraisal of Major projects is required.

Audit sampled 3 capital projects and found a proposal was in place for each project sampled. The following was noted. A recommendation had been made during the previous IA in this area (2016/17) that documented procedures should be reviewed and expanded to include: agreed definitions on the different types of projects, more specific guidance on the form and content of project proposals and business cases (and Economic Appraisals where applicable). Audit was advised that the documented procedures are yet to be reviewed and expanded.

<p>b) Implication- In the absence of detailed, standardised guidance and templates for project proposals there is an increased risk of improper planning of capital projects leading to decisions to implement projects which do not support Council's objectives or an inappropriate use of Council financial resources.</p>
<p>c) Priority Rating- 2</p>
<p>d) Recommendation- Audit recommends that the documented guidance and templates in use for capital projects be reviewed and updated as soon as possible.</p>
<p>e) Management Response- Agreed - The CPWG currently uses templates for the CPWG meetings - the SRO's are now required to complete these templates prior meetings at procurement advancement stages 1,2,3. Economic business case section will be developed within this templates.</p>
<p>f) Responsible Officer & Implementation Date- Chair CPWG and SRO's – Nov 2020</p>

ISSUE 3 – Scrutiny of Capital Projects – Capital Project Working Group

<p>a) Observation- Audit found (pre-February 2020) that the meetings of the Capital Project Working Group (CPWG) were not recorded in detail. There was insufficient documented evidence to allow Audit to confirm that proposals for capital projects had been properly scrutinised or discussed at this level.</p> <p>The Terms of Reference (ToR) for the CPWG was re-written in late 2019/20 and since February 2020 meetings have been fully minuted.</p> <p>Audit reviewed the revised ToR for the CPWG and found a good basis for improving the operation of this group. However, the details of the governance arrangements and administrative support for the group need further development.</p>
<p>b) Implication- In the absence of clear and detailed information within the ToR on governance and administrative support there is an increased risk of lack of clarity and agreement across Council departments on the roles and responsibilities in relation to Capital project proposal, scrutiny and approval and overall Capital programme oversight.</p>
<p>c) Priority Rating- 2</p>
<p>d) Recommendation- Audit recommends that the ToR requires further detail and greater clarity over governance reporting arrangements. The following points should be considered:</p> <ul style="list-style-type: none"> • Although it is referred to in the ToR the main aim of the CPWG should be clearly stated; wording such as the following should be considered “to advise SLT and Council on the prioritisation of capital projects, within the constraints of the capital and revenue budgets” • Who will provide what information, in what format and how frequently to the CPWG?

- Who will provide administrative support to CPWG; including minutes of meetings?
- How often and in what format will CPWG report to SLT? Who will prepare this information?
- Who will provide the Finance information? A member of the Finance team should be nominated to oversee the capital expenditure and attend CPWG meetings
- A diagram of the governance reporting arrangements should be included to ensure clarity and agreement over roles and responsibilities in the scrutiny and approval of all capital projects and the capital programme

e) Management Response- Agreed the TOR is to be updated as suggested – The Chair of the CPWG will provide information monthly or sooner if needed by SROs and a Business Support Officer will be assigned the responsibility of administrative support for the CPWG. The Chair of the CPWG will provide regular updates to SLT in line with project stages. A member of the Finance team will be nominated to support the CPWG. A diagram of the governance reporting arrangements has been developed.

f) Responsible Officer & Implementation Date- Chair CPWG and dedicated finance officer Oct/Nov 2020

5.2 Risk 2 – Capital Project Tendering and Contract Management

There were no issues identified in this area.

5.3 Risk 3 – Capital Project Budget Management

ISSUE 4 – Reporting of Total Capital Programme Spend

a) Observation- For individual capital projects; Audit testing revealed site meetings taking place and supporting Capital Project Team meetings minutes, with actions being agreed and followed up, payments being made in line with the project progress and monitoring of the actual cost against budget.

However, the lack of documented evidence of the frequency of CPWG meetings and absence of detailed minutes of what was discussed (as noted in Issue 3 above) means there is not sufficient documentary evidence of how the total Capital programme budget was monitored and managed at the macro level across Council.

There is an annual workshop for elected members to discuss the Capital Programme; but there is no evidence of periodic reporting of total Capital programme costs against budget throughout the year to Council. Audit notes that this will now be reported on a more frequent basis through the Finance Committee (established in October 2019). Audit reviewed the Finance Committee meetings

minutes since October 2019 and found that although the Capital Programme was discussed at 2 out of the 7 meetings held, it is not a recurring agenda item.
b) Implication- In the absence of frequent reporting of the total Capital Programme spend against the forecast Capital Programme cost there is an increased risk that the Capital Programme is unaffordable and mitigating actions are not discussed and introduced in a timely manner.
c) Priority Rating- 2
d) Recommendation- Progress of the total Capital Programme expenditure, compared to the projected Capital Programme cost should be a standing item on the agenda of the CPWG and Finance Committee. The resulting discussion at both levels should always be documented in the meeting minutes.
e) Management Response- Agreed – a standard finance template will be developed and embedded into all project reports advancing to any stage of the procurement process. This will inform members of the capital programme financial status and the impact of the project.
f) Responsible Officer & Implementation Date- Chair CPWG supported by finance officer and compliance of the SRO's (members of the CPWG) Oct/ Nov 2020

ISSUE 5 – Capital Programme Monitoring

<p>a) Observation- Audit was advised that a member of the Finance Team monitors gross Capital project costs against grant funding and determines loan requirements, interest costs and repayments etc.</p> <p>The Chief Finance Officer's role would have included the provision of information to decision makers such as the CPWG and Finance Committee. This officer is currently on extended leave. Another senior member of the finance team left Council late in 2019. The remaining Finance team members are now managing the responsibilities of both of these officers, but no additional resources have been assigned to the Finance team. Audit has been advised that the impact of Covid-19 on the Capital Programme is under ongoing consideration and discussion.</p>
<p>b) Implication- As the finance team is working with reduced team members, they may have insufficient resources to ensure that 1 person is solely dedicated to support strategic decision makers in Council. This person should be free of month end reporting; forecasting; budgeting and accounting. They should support strategic decision makers and manage strategic matters affecting the finance team, and the processes and systems that they use. The reduced finance team working during this period of major financial change (due to Covid-19) may result in an increased risk that issues with the total Capital Programme expenditure may not be raised in a timely manner.</p>
c) Priority Rating- 2

<p>d) Recommendation – Audit recommends that 1 person on the finance team is solely dedicated to have oversight of strategic matters including the Capital Programme. This should take place as soon as possible.</p>
<p>e) Management Response- Agreed – this is essential and urgent for the CPWG</p>
<p>f) Responsible Officer & Implementation Date- Chair CPWG supported by finance officer – Oct 2020</p>

5.4 Risk 4 – Post Project Evaluation (PPE)

ISSUE 6 – PPE Guidance and Training
<p>a) Observation- Council follows the Prince 2 methodology for project management which includes the need for a PPE which should be presented to the CPWG and to Council.</p> <p>A review of Council's Capital Project Governance documents reveals the need for a PPE to be carried out is documented. However, these documents do not include detail of when a PPE should be performed or provide a template or detailed guidance on what should be considered when performing a post project evaluation.</p> <p>Audit was advised that it was Council policy that a PPE be carried out when a project has been fully operational for 12 months + (this requirement is not documented). Audit notes that for some grant funded projects a PPE is required by the funder. However, it is not clear if this PPE sufficient for Council's own internal evaluation and for reporting to CPWG and Council.</p> <p>There has been no recent training on PPE for Council officers.</p>
<p>b) Implication- There is an increased risk that completed Projects may not be properly evaluated leading to missed opportunities to improve future capital planning</p>
<p>c) Priority Rating- 3</p>
<p>d) Recommendation- The Council's guidance on Project management should be expanded to include more information on the timing of and the content of PPEs. The guidance should reference PPEs created for grant funded projects and clarify if a second PPE is required for internal Council purposes. Templates should be developed for PPEs. Every PPE should be reviewed by the CPWG and forwarded to the relevant Committee in a timely manner. Training on PPE should be provided to all officers across Council who are involved in overseeing capital projects.</p>
<p>e) Management Response- Agreed - a standard format will be developed in conjunction with the CPWG. The responsibility for the PPE (stage 4) investigation and data collection shall rest with the SRO and be evidence</p>

based for the CPWG to review. The PPE criteria should be based on the original business case criteria, in order that a comparison is directly made with the business case objectives. The criteria and PPE will be required to be reviewed by the CPWG.

The CPWG should be the body that reports PPE's as it's a collective body and thus independent to the individual SRO business case.

- f) **Responsible Officer & Implementation Date-** SRO is responsible for PPE; CPWG will support development of PPE template – Date to be confirmed by SRO for the procedure and doc's to be presented to the CPWG.

ISSUE 7 – PPE Reporting

- a) **Observation-** The ToR for the CPWG includes the requirement for PPEs to be reviewed by this group and then forwarded to the relevant Council Committee. As mentioned in Issue 3 there is a lack of available documented evidence of what was discussed at CPWG meetings. As a result, Audit cannot verify if PPEs were routinely reviewed by this group.

Audit sampled 3 capital projects and 1 project had been completed 1 year ago (June 2019) necessitating the completion of a formal PPE. A PPE was underway by the relevant service area at the time of Audit testing (July 2020). 1 additional project in the Audit sample was a strategic capital project which is ongoing. This project has elements of infrastructure development, the first stage of which was completed over 2 years ago. Audit reviewed the relevant Committee minutes for the period March 2017 – March 2020 and found no evidence of a formal PPE relating to this project being presented to the Committee. After 2 years some update, on the project, was provided to the Committee (September 2019).

- g) **Implication-** There is an increased risk that PPEs of completed Projects may not be properly reviewed at all levels leading to missed opportunities to improve future capital planning

- b) **Priority Rating-** 2

- c) **Recommendation-** All completed PPEs should be forwarded to the CPWG and relevant Council Committee shortly after 1 year of a project being completed. The resulting discussion should be noted in the relevant meeting minutes.

- d) **Management Response-** Agreed SRO to prepare PPE which must be reviewed by the CPWG.

- e) **Responsible Officer & Implementation Date-** This will be linked to the implementation of Issue 6 and will start as soon as templates are agreed.

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Summary of Key Controls Reviewed

Risk	Key Controls
<p>There is inadequate planning of capital projects leading to decisions to implement projects which do not support Council's objectives or inappropriate use of Council resources</p>	<ul style="list-style-type: none"> • An appropriate medium-term plan is in place to support planning and selection of capital projects • Such a plan has been approved by Committee and Council • The plan is supported by appropriate budget estimates • Projects contained within the plan are aligned to Council's objectives • An appropriate justification/proposal is completed for a capital project prior to its go ahead. • Templates and guidance are available for preparing different types of justification/project proposals; e.g. outline business cases; Economic Appraisals (dependent on size or type of project) etc. • Evidence of review of all project proposals at the appropriate level (e.g. by the Capital Projects Review Group (CPRG); appropriate Committee and Council) is retained
<p>There may be inadequate controls over the tendering of consultants and contractors, leading to poor value for money, a lack of clear and transparent decision-making and a lack of opportunity for other suppliers</p>	<p>For the sample selected:</p> <ul style="list-style-type: none"> • Invitations to tender for consultants and contractors followed Council's Procurement Policy • Tenders received are clearly marked with the time and date of receipt and stored in a safe location until opening • Tender opening is recorded & panels are established to evaluate tenders received • Panel members notify if there are any conflicts of interest in relation to the tenders being assessed, with conflict of interest declarations being completed and signed • Award criteria are drawn up for tenders • The assessments and scoring of each tender by each panel member are documented • The decisions of the tender panel are documented with all documentation relating to the tender (including the evaluation panel) kept on file • The use of a single tender process is authorised, and the reasons why are documented • Standstill notices are sent to all tenderers notifying of the award of the tender and of the standstill period, during which any challenges to the decision of the evaluation panel can be made • A process for dealing with challenges to tender award decisions is in place • Any and all work completed to investigate a challenge to an award decision is documented • Challenges are dealt with appropriately and in a timely manner • Contracts are signed between Council and any consultants and contractors working on the project as soon as practicable following appointment • For any procurement made by the council under an external framework (e.g. SIB Framework) the council has informed the external organisation officially and is fully compliant with the terms of using such a framework

Risk	Key Controls
<p>Project budgets may not be adequately controlled, managed and monitored leading to overspend and increased costs to the Council</p>	<ul style="list-style-type: none"> • There is a general documented process for monitoring and taking an overview of capital project progress, expenditure across Council and the early identification of any issues • Regular reports are prepared and submitted to the Capital Projects Review Group (CPRG), senior management team and / or Council to update on capital project progress and expenditure • Anticipated expenditure is clearly set out in the economic appraisal / business case • Expected project deliverables are clearly set out in the proposal/tender document and/or agreement/contract • Contractors provide detailed costings for each stage of the case study project, agreed as part of their contract fee • Payments made to consultants and contractors (for the case study projects) are in line with the agreed contract fees and on evidence of work completed • Grant claims from Council to project funders are correctly completed and submitted in a timely manner (if relevant to the case study projects) • Actual expenditure on the case study project is monitored against projected expenditure and any variances investigated • Changes to the case study project budget are approved at an early stage • Senior management take action to address budget issues identified from projects to ensure a timely resolution
<p>Completed Projects may not be evaluated leading to missed opportunities to improve future capital planning</p>	<ul style="list-style-type: none"> • Projects undergo a Post project Evaluation (PPE) after a agreed period of time post completion (e.g. 12 months) • There is a template and guidance is in place to facilitate the PPE • The responsibility for the performance of PPE is clear • A report is prepared summarising the findings and reported to the appropriate level (e.g. to the Capital Projects Review Group (CPRG); appropriate Committee and Council)