Internal Audit Report
Corporate
Capital Projects 14-20
March 2015

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Draft Report 14020 v 0.005

Internal Audit

Background and Introduction

This audit was carried out as part of the audit plan for 2014/15, approved by the Audit Committee on 2 April 2014. Audit testing took place in December 2014 and January 2015.

The Capital Programme funds expenditure on the purchase, improvement and enhancement of assets which provide benefit to the community for many years – such as schools, roads and housing. The capital budget is managed as two separate programmes being (a) The composite capital programme, which deals with the funding of capital expenditure on general fund services and (b) The housing investment programme.

The arrangements that the Council has in place for managing capital projects have been subject to significant change. The Capital Programme was subject to Internal Audit review in 2013/14.

The purpose of this audit was to review the arrangements that were put in place to ensure that capital projects included within the capital programme are adequately managed, producing the required outcome on time and within budget.

The focus of this audit was to test various aspects of the management, monitoring and reporting arrangements for three capital projects relating to the Perth Office Programme, Lewis Place Refurbishment and Rattray Community Facilities.

Scope and Limitations

The audit reviewed the arrangements in place for managing capital projects. Expenditure in relation to the housing investment programme was excluded from the scope as such topic will be considered for inclusion in a future audit.

Similarly, the audit did not re-examine the arrangements regarding the Council's Capital Programme, as these arrangements were covered by Assignment 13 -19, progress with which is covered by the regular Internal Audit follow up process.

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 the adequacy of the management, monitoring and reporting arrangements of capital projects.
Auditor's Comments: The testing confirmed the adequacy of the management, monitoring and reporting arrangements of capital projects and supporting evidence was available for the tested areas. There is scope to enhance some elements of the control environment, where appropriate this is detailed below. Governance arrangements for one of the projects selected for testing have evolved over time. Whilst the revised arrangements have enhanced the governance and scrutiny of the project, they are no longer fully aligned with the arrangements approved by Council. The Council's Corporate Risk Profile includes the Capital Programme and project risks by reference to the monitoring of performance and the role of the Council's Strategic Investment Group (which is an officer group established to direct the Council's Capital Programme) which monitors Capital Projects. Milestones have been agreed for the tested projects and where appropriate slippage and/or remedial action taken and reported. Financial Systems are updated on a regular basis with monitoring by the relevant Service Management Team and the Chief Executive's Service Corporate Accounting section. Regular capital budget monitoring reports are provided to the Strategic Policy and Resources Committee. Interviewed staff demonstrated an awareness of their project responsibilities and the need to monitor projects by utilising a variety of methods such as meetings with key stakeholders, design team meetings, reporting to Service Management Teams/Programme Board and to the Council's Strategic Investment Group. Documentation detailing estimated costs and the works to be carried out was held in relation to the tested areas. There is scope to standardise processes to ensure that business cases or updated business case documentation supports each project. The Project Management Toolkit guides staff in projects and is currently being reviewed. Similarly, there is scope to enhance guidance issued regarding the preparation of budgets. The criteria for scoring and prioritising projects is under review and Internal Audit has provided advice where there is scope for clarification.

Strength of Internal Controls:	Moderately Strong

Management Action and Follow-Up

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

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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. Appendix 3 details a further issue which was raised during the audit.

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 Manager and the appropriate staff from other Services during this audit.

Feedback

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

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Executive Director (TES)

B Renton, Depute Director (TES)

S MacKenzie, Head of Performance and Resources (TES)

F Crofts, Finance and Resources Manager (TES)

J Symon, Head of Finance

A Taylor, Head of Finance & Support Services (HCC)

G Boland, Senior Business and Resource Manager (ECS)

N Ballantine, Capital Programme Manager (TES)

S Walker, Chief Accountant

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

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Authorisation

The auditor for this assignment was D McCreadie. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark
Chief Internal Auditor
Date: 11 March 2015

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Criteria for Scoring and Prioritising Projects	Low
2	Capital Budget Monitoring Guidance	Low
3	Guidance for Capital Project Costs	Low
4	Project Management Toolkit	Low
5	Business Cases	Medium
6	Capital Monitoring Sheet	Low

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Appendix 2: Action Plan

Action Point 1 - Criteria for Scoring and Prioritising Projects

A review is underway to refresh and update the Criteria for Scoring and Prioritising Projects. There is scope for ensuring that this review includes the documentation of the process to be followed for exceptions.

In addition, there is scope to improve control over the documentation, such as version control.

Management Action Plan

The Chair of the Corporate Resources Group will liaise with the Capital Programme Manager to document the process for scoring projects for both the normal capital process and for any exceptions.

The Criteria will be maintained with a system for version control in place.

Importance:	Low
Responsible Officer:	A Taylor, Head of Finance & Support Services (as Chair of Corporate Resources Group)
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	September 2015
Required Evidence of Completion:	Minute from CRG meeting

Auditor's Comments

Satisfactory

Action Point 2 - Capital Budget Monitoring Guidance

The Financial Regulations state that Executive Directors may authorise virements between budget heads for revenue and capital budgets under their control up to a maximum of £100,000. However, guidance on the council's intranet site, Eric, states that there are no delegated powers that allow Executive Directors to approve virements for Capital budgets.

At the date of audit testing, the Financial Regulations on Eric did not open the above capital budget guidance but opened an out of date version dated 2006. This may lead to misunderstandings and/or inconsistencies in the application of requirements.

Management Action Plan

The capital budget monitoring guidance will be updated to reflect the Council approved Financial Regulations, and will be re-issued to Financial Controllers and uploaded to the Councils' intranet site (Eric). The Financial Regulations will be updated to include links to the capital budget monitoring guidance.

Importance:	Low
Responsible Officer:	D Coyne, Senior Accountant
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	March 2015
Required Evidence of Completion:	Updated capital budget monitoring guidance

Auditor's Comments

Satisfactory

Action Point 3 - Guidance for Capital Project Costs

There is scope to improve the guidance available for project managers when calculating the anticipated costs of projects. There is a risk of errors if guidance doesn't stipulate the need to take into account certain aspects such as the effect of inflation, contingencies and the treatment of VAT.

Management Action Plan

The Business Case template will be amended to include a section where the costing assumptions are stated, including inflation; any contingency provision and the source of cost estimates (e.g. engineers, consultants etc.).

Protocols for the preparation of project budgets, which will include reference to inflation, contingencies and VAT, will be included in the Project Management Toolkit once it has been updated.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	September 2015
Required Evidence of Completion:	Updated Project Management Toolkit

Auditor's Comments

Satisfactory

Action Point 4 - Project Management Toolkit

The Project Management Toolkit requires capital projects to be appraised utilising whole life costing techniques but the hyperlinks to whole life cost guidance are broken.

Dependant on the project, the toolkit requires a Project Initiation Document (PID). However, testing revealed inconsistencies in the preparation of this toolkit template, as only one of three tested projects utilised this document. Those involved with the other projects understanding being that the template was not required.

The Capital Programme Manager was aware of the scope to improve the toolkit and advised that a recently recruited member of staff will be tasked with a review of the toolkit and its associated hyperlinks.

Management Action Plan

The Capital Programme Manager will update the Project Management Toolkit as part of the Capital Programme Office's review of the toolkit (see Action Point 3) and ensure that hyperlinks are working. A new hyperlink to the Capital Programme Eric page will be added to the Project Management Toolkit.

In addition the Capital Programme Manager will ensure that all Services are reminded that all new projects will require a Project Initiation Document in accordance with the Project Management Toolkit template.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	September 2015
Required Evidence of Completion:	Evidence that Toolkit updated and Service reminded of that a PID is required

Auditor's Comments

Satisfactory

Action Point 5 - Business Cases

Audit testing confirmed that changes to capital projects such as revised costs and/or timelines were supported by documentation such as monitoring and Committee reports.

There is scope to standardise how changes to business cases are recorded as there is no standard system of change control in place.

There is a risk that the lack of a business case that estimates costs and projected outcomes may result in inconsistencies and misunderstandings in the delivery of projects.

Management Action Plan

The Capital Programme Manager will introduce a change control log which will be attached to business cases.

Importance:	Medium
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	September 2015
Required Evidence of Completion:	Change control log

Auditor's Comments

Satisfactory

Action Point 6 - Capital Monitoring Sheet

The Capital Monitoring sheet (QUAD) in relation to the Pullar House infrastructure POP states that "it was agreed on 22/01/14 that the £1 million allocated against Pullar House would be revenue costs." The QUAD was in need of updating as the actual capital to revenue transfer was £584,705 and not £1 million.

The Service advised that the referred to QUAD was out of date as this element of the POP had been transferred to the separate Pullar House office QUAD record, approved at SP&R Committee on 23rd April 2014.

Management Action Plan

The Service has updated the QUAD in relation to the Pullar House infrastructure POP to specify that £585,000 of costs had been switched from capital to revenue.

The update will be approved by the Service SMT.

Importance:	Low
Responsible Officer:	F Crofts, Finance & Resources Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	n/a

Auditor's Comments

Satisfactory

Appendix 3: Other Issue

Governance Arrangements for Perth Office Programme

Governance arrangements for the Perth Office Programme (POP) have evolved over time, in line with the management of the overall Capital Programme. Whilst the revised arrangements have enhanced the governance and scrutiny of the POP, they are no longer fully aligned with the arrangements approved by Council in December 2012.

Council will be informed of the revised governance arrangements in the next report on the POP.