



Internal Audit Report
Corporate
Capital Programme 13-19
March 2014

Final Report

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

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Background and Introduction

The capital programmes fund expenditure on the purchase, improvement and enhancement of assets which provide long term benefit to the community, 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. In selecting projects for inclusion in the composite capital programme, the Council undergoes a process of ranking each proposed project against specific criteria.

On the 18 September 2013 the Strategic Policy and Resources Committee approved a revised seven years composite capital budget of £47,314,000 for 2013/14, £50,235,000 for 2014/15, £66,232,000 for 2015/16, £48,706,000 for 2016/17, £22,123,000 for 2017/18, £26,614,000 for 2018/19 and £27,083,000 for 2019/20.

Internal Audit 12-08 highlighted that the Council had identified a number of key issues and drivers which necessitated improvements in the way the capital programme was managed. That audit was therefore rescheduled to form part of the Internal Audit plan for 2013/14, as approved by Audit Committee on the 27 March 2013.

The Chief Executive established a Strategic Investment Group in June 2013 which includes the Executive Officer Team and other Senior Managers within the Council to scrutinise the programme and drive improvements in its implementation. This group also provides a mechanism for updating elected members on the capital programme. In addition, a Capital Programme Manager was recruited in November 2013 to lead, manage, co-ordinate and monitor the delivery of the Council's capital programme.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of all relevant staff during this audit.

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.

Control Objective: To ensure the integrity and adequacy of the management of the Capital Programme.

Auditor's Comments:

The Strategic Investment Group has been established to scrutinise the capital programme and drive improvements in its implementation. The corporate risk
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profile stipulates that the Executive Director (Environment) is responsible for the effective leadership of the delivery of the Council’s capital programme and the Capital Programme Manager was appointed in November 2013. In addition, the Corporate Resources Group has a role to play in the approval and monitoring of the progress of projects within the capital programme.

Progress on the capital programme is reported to the appropriate bodies in line with the controls stated in the corporate risk profile and all Service’s Business Management and Improvement Plans refer to the implementation, delivery or monitoring of the capital programme.

There is, however, a need to make the distinction between, and clarify, the remits, roles and responsibilities of those groups and individuals involved in the capital programme. There is also scope for improving other key governance documents (e.g. the project management toolkit and Financial Regulations) and for improving awareness of the overall arrangements through improved use of the intranet site, eric. The management of the programme would benefit from a comprehensive action plan for ensuring that adequate governance arrangements are in place and are effective.

Only projects with a business case which has been scored using the approved Criteria for Prioritising Projects should be included within the composite capital programme. However the audit found that some projects are included without this process having been followed.

Post implementation reviews, which highlight good practice and lessons learned from undertaking completed projects within the capital programme, are not routinely undertaken.

The Service advised that actions such as the recent appointment of the Capital Programme Manager and the formation of the Strategic Investment Group is addressing many of the findings detailed within this report, although some time will be required to allow these actions to become embedded and evidenced. The assessment of the strength of control has therefore taken into account the improved culture within the Council regarding the awareness of and focus on the delivery of the capital programme which is less tangible than the current evidence base.

Strength of Internal Controls:	Moderate
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Control Objective: To ensure the adequacy of the monitoring and reporting arrangements of the composite capital programme.
Auditor’s Comments:
Papers are presented regularly to various bodies such as the Strategic Policy and Resource Committee which receives regular composite capital budget and housing investment plan monitoring reports. Similarly the Corporate Resources Group (CRG) receives regular information regarding the capital programme. Whilst much

of the information presented to the CRG relates to financial monitoring there is evidence that non-financial matters are also reviewed by them.

There is scope to improve the monitoring and reporting arrangements in respect of the items making up the composite capital programme as much of the reported information relates to financial monitoring and not performance details such as the achievement of milestones, lessons learnt or whether the project delivered the intended results.

The Financial Regulations require Executive Directors to make adequate arrangements to monitor the income and expenditure for which they are responsible. There is scope to improve and update the associated guidance that defines such adequate arrangements as the current guidance focuses on revenue and not capital monitoring.

Strength of Internal Controls:

Moderate

Management Action and Follow-Up

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

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.

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.

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)

J Fyffe, Executive Director (ECS)

J Walker, Executive Director (HCC)

B Renton, Depute Director (TES)

I Innes, Head of Legal Services

S MacKenzie, Head of Performance and Resources (TES)

J Symon, Head of Finance

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

F Crofts, Finance and Resources Manager (TES)

G Boland, Senior Business and Resource Manager (ECS)

S Walker, Chief Accountant

N Ballantine, Capital Programme Manager

M Mitchell, Corporate Procurement Manager

F Easton, Team Leader, Change Management (ECS)

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

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

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 31 March 2014

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Strategic Investment Group	High
2	Corporate Governance Roles and Responsibilities - Groups	High
3	Corporate Governance Roles and Responsibilities - Individuals	High
4	Business Cases	High
5	Contract Rules - Capital Programme	Low
6	A-Z of Resources on Intranet	Medium
7	Financial Regulations Guidance	Medium
8	Performance Reporting Arrangements	High
9	Measureable Action Plan	High
10	Post Implementation Reviews	High

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Appendix 2: Action Plan

Action Point 1 - Strategic Investment Group

A 23rd July 2013 Executive Officer Team report states that a new Strategic Investment Group (SIG) meets six weekly from June 2013. The minutes from the first meeting on 4th June 2013 evidence that the Group's purpose, outline and process was discussed but such detail was not documented.

Therefore there is no remit for the SIG which clarifies its roles and the governance impact on the remit of others involved in delivery of the Capital Programme (e.g. Corporate Resources Group).

Management Action Plan

1) The Capital Programme Manager will liaise with the Chief Executive's office to ensure that the remit for the Strategic Investment Group (SIG) is formally documented and agreed.

2) The agreed SIG remit will thereafter be published on Eric.

The impact of the SIG remit on the overall Corporate Governance Roles and Responsibilities will be reviewed as part of Management Action Plan 2.

Importance:	High
Responsible Officer:	N Ballantine
Lead Service:	The Environment Service
Date for Completion (Month / Year):	June 2014
Required Evidence of Completion:	1)Extract from meeting approving SIG remit 2)Extract from Eric page

Auditor's Comments

Satisfactory

Action Point 2 - Corporate Governance Roles and Responsibilities - Groups

The Corporate Risk Profile stipulates that arrangements are established to confirm capital programme performance to the Executive Office Team (EOT), Service Management Teams and Corporate Resources Group (CRG). However the guidance that details such arrangements, including the remits, roles and responsibilities of these groups, is not widely available. In addition, the Corporate Risk Profile referred to in Action Point 3 makes no reference to the role of the Strategic Investment Group (SIG).

Likewise, there is also scope to ensure actions agreed at meetings impacting on the Capital Programme are cascaded to relevant parties. For example, the SIG minutes from the 4th June 2013 stipulate that full business cases must come to the SIG for all projects; but the Project Management Toolkit has not been updated to reflect this requirement. The minutes also state that underspends should be reported at the conclusion of projects, but guidance has also not been updated to reflect this requirement.

Management Action Plan

1. The Capital Programme Manager will arrange for the Corporate Risk Profile to be updated to reflect the role of the Strategic Investment Group (SIG).
2. The Capital Programme Manager will review the impact of the Strategic Investment Group remit, as per Management Action 1. The outcome of this review will be incorporated into an approved Capital Programme governance model which will form part of a new dedicated section on Eric. Any actions arising from SIG / CRG relating to the governance arrangements will be updated on these pages going forward.

Importance:	High
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	July 2014
Required Evidence of Completion:	1. Revised Risk Profile 2. Approved Capital Programme Governance model

Auditor's Comments

Satisfactory

Action Point 3 - Corporate Governance Roles and Responsibilities - Individuals

Governance roles in relation to the Council's capital programme are referred to in various documents. The Corporate Risk Profile 2013/14 states that the Executive Director (Environment) is responsible for the effective leadership of the delivery of the capital programme. The Major Capital Investments in Councils report to Strategic Policy and Resources Committee of 12th June 2013 states that the Chief Executive has capital programme monitoring discussions with Executive Directors and holds regular meetings with the Head of Legal Services and Head of Finance to ensure governance arrangements are in place and are being adhered to. However, no central guidance dictates the above governance roles.

There is also scope to improve and clarify published documentation in relation to Corporate roles. The Environment Service (TES) Eric pages do not include the corporate leadership responsibility for the capital programme or the corporate role of the Capital Programme Manager. The Corporate Risk Profile progress section focuses on TES actions, for example referring to the Property Review and not their wider corporate role.

The lack of easily accessible and up to date information which clearly dictates the Corporate and Service capital programme governance roles and responsibilities may give rise to the risk of potential inefficiencies such as duplication of work and unnecessary delays in the delivery of the capital programme.

Management Action Plan

1. The Capital Programme Manager will include Capital Programme roles and responsibilities as part of a new dedicated section on Eric. This will include the Environment Service's corporate leadership responsibility for the capital programme.
2. The Corporate Risk Profile will be reviewed to focus on TES and Corporate actions

Importance:	High
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	July 2014
Required Evidence of Completion:	1. Extract from new dedicated capital programme section on Eric 2. Updated Corporate Risk Profile

Auditor's Comments

Satisfactory

Action Point 4 - Business Cases

Business Cases are required for all capital projects, as required by the Project Management Toolkit. Business cases are then scored using the Criteria for Prioritising Projects utilised by the Corporate Resources Group and the Executive Officer Team and only those projects that best meet the criteria are included in the report to Council for approval.

Audit testing of 10 randomly selected projects from the Composite Capital Budgets for 2016/17 and 2017/18 revealed that 6 projects were supported by Business Cases (BC). Of the remaining four:

- The standard BC template was not used in a scheme which is entitled both the Tay Estuary Rail Study and the Gleneagles Station – Road Improvement Scheme. The document provided to the Auditor was also undated with no owner, costs or objectives/critical success factors documented.
- The street lighting renewal programme BC requested funding of £1,062,373, however £400,000 was approved. There is no documented analysis of the impact of this decision nor has the business case been updated.
- 2 projects for 2017/18 were not included in the project prioritisation matrix presented to Council as these were originally included within the approved revenue budget. Although the transfer of funding from revenue to capital was approved by SP&R, there were no BCs for these projects.

In addition, BCs are not held in respect of “top sliced” projects such as Structural Maintenance.

The failure to ensure that business cases which meet minimum standards are held for all projects making up the Composite Capital programme may lead to resources not being allocated to the appropriate project and risk future difficulties in delivery of the capital programme.

Management Action Plan

1. The Capital Programme Manager will liaise with the Corporate Resources Group to the review the Criteria for Prioritising Projects ensuring the criteria clearly explains the management of limited exceptions to scoring capital projects.
2. Once the above criteria have been approved consideration will be given to updating the Project Management Toolkit and the Council’s Revenue and Capital Budget information on Eric appropriately.
3. All business cases will be considered by CRG in terms of format and content based on the project management toolkit business case templates.

Importance:	High
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Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	September 2014
Required Evidence of Completion:	Reviewed criteria for prioritising projects Relevant updates on Eric Business Cases presented to CRG

Auditor's Comments

Satisfactory

Action Point 5 - Contract Rules - Capital Programme

The Scheme of Administration states the Head of Legal Services is the lead officer for contract rules and guidance. The 2012/13 Corporate Risk Profile supplemented this by stipulating the Head of Legal Services owned the internal control “Draft contract arrangements in place to take due account of the need to ensure probity in the expenditure of public money”.

However, the 2013/14 Corporate Risk Profile states that the Executive Director (TES) is responsible for the above internal control.

There is a need to clarify who the responsible officer for the Contract Rules as inconsistencies may lead to misinterpretation or misunderstanding of requirements.

Management Action Plan

The Capital Programme Manager will liaise with the Executive Director (TES) to clarify the responsible officer for the Contract Rules.

Once the above agreed the Corporate Risk Profile will be updated or the matter pursued as appropriate.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	May 2014
Required Evidence of Completion:	Revised Risk Profile

Auditor's Comments

Satisfactory

Action Point 6 - A-Z of Resources on Intranet

The stated purpose of the “A-Z of Resources” published on the Council’s intranet is to support you in the work you do by providing information and practical toolkits on issues, procedures and tasks that could arise in your working day.

Audit review of the above A-Z revealed that no capital programme guidance or support was listed within the headings of financial matters or corporate governance. Nor were any results found under capital programme or capital.

The failure to refer to the capital programme may result in those involved in the capital programme or new to the programme not being aware of or adhering to the appropriate requirements.

Management Action Plan

As referred to in Management Actions 1-3 a new dedicated Capital Programme section will be established on Eric and linked from the “A-Z of Resources”

Importance:	Medium
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	July 2014
Required Evidence of Completion:	Extract from Eric Capital Programme page

Auditor’s Comments

Satisfactory

Action Point 7 - Financial Regulations Guidance

The Financial Regulations state that Executive Directors must make adequate arrangements to monitor the income and expenditure for which they are responsible.

The Regulations contain a hyperlink to “Revenue & Capital Monitoring Guidance” which defines these adequate arrangements. However, this guidance is entitled Revenue Monitoring Guidance for Accountancy Section Staff. The guidance also refers to the role of the Executive Director (Corporate Services), which ceased to exist in 2009. Finance Division advised the guidance relates mainly to revenue and requires updating to reflect capital monitoring.

The lack of up to date and clear capital monitoring guidance may lead to errors and/or misinterpretation of requirements.

Management Action Plan

The Service will review and update the “Revenue & Capital Monitoring Guidance” to fully reflect the guidance that should be applied in monitoring capital expenditure and income. The updated guidance will also include for example, the process for the approval of virements proposed by Services.

Importance:	Medium
Responsible Officer:	J Jennings, Senior Accountant
Lead Service:	Chief Executive’s Service
Date for Completion (Month / Year):	September 2014
Required Evidence of Completion:	Copy of updated Revenue & Capital Monitoring Guidance

Auditor’s Comments

Satisfactory

Action Point 8 - Performance Reporting Arrangements

Capital project performance information is reported to various bodies including Strategic Policy & Resources Committee, Executive Officer Team, Corporate Resources Group and Service Senior Management Teams.

However audit testing revealed that much of the information reported relates to financial monitoring and not performance matters such as the achievement of milestones, whether the project is on track and will or has delivered the intended results and any lessons learned.

Whilst the Service advised that progress has been made in this regard, there is scope to improve and standardise the above performance reporting arrangements.

Management Action Plan

Capital programme performance reporting will continue to be reviewed by the Capital Programme Manager; reports will include for example, lessons learned and/or whether the project is on track. These reports will be provided to the appropriate Council committees and corporate groups.

Importance:	High
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2014
Required Evidence of Completion:	Performance reports

Auditor's Comments

Satisfactory

Action Point 9 - Measureable Action Plan

A Corporate Resources Group (CRG) report of 15th October 2012 advised that an improvement plan was being progressed in response to a November 2011 review of slippage. This report also detailed Capital Programme Governance Proposals aimed at providing a more consistent approach to scrutiny of the capital programme.

A further Capital Programme update which included governance proposals was made to the Strategic Improvement Group on the 15th October 2013. This presentation advised that an initial review completed in August 2013 highlighted a number of issues including:

- Disparity in reporting between Services
- A lack of "Team PKC" approach
- Spend profile doesn't match activity
- Need for standard key milestones to be developed

Whilst the Service advised that improvements have been made such as the Capital Programme 2013/14 Exceptions Report Appendix presented to the Strategic Resources & Performance Committee on 12th February 2014 and the appointment of the Capital Programme Manager, the Auditor could find no consolidated action plan which clearly documents the governance proposals and/or evidences progress made.

Management Action Plan

The Capital Programme Manager will develop a work plan which details key measurable deliverables and actions in relation to the Capital Programme. This plan will be reviewed as part of business as usual between the Capital Programme Manager and the Finance and Resources Manager with exceptions reported as appropriate to the TES SMT.

Importance:	High
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	May 2014
Required Evidence of Completion:	Work Plan detailing deliverables.

Auditor's Comments

Satisfactory

Action Point 10 - Post Implementation Reviews

An Appendix to an SP&R report of 12th June 2013 states that the Council has arrangements in place to monitor all projects including lessons learned. This conflicts with the project management toolkit which requires post implementation reviews for projects in excess of £500,000 or those classed as High or Complex Risk.

Audit testing revealed that whilst some post project reviews are carried out this does not routinely occur. Education and Children's Services for example, provided evidence that their continuous improvement process performance improvement plan includes post project reviews.

The failure to ensure that post implementation reviews are routinely carried out to a predetermined standard may mean that valuable lessons are not shared in managing capital programme projects and helping deliver efficiencies.

Management Action Plan

The Capital Programme Manager will develop a methodology to carry out structured Post Implementation Reviews and will include lessons learned. Such methodology will be presented for approval to the Strategic Investment Group.

Once approved the above methodology will be published on Eric and the project management toolkit updated.

Importance:	High
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	September 2014
Required Evidence of Completion:	Approved published methodology

Auditor's Comments

Satisfactory

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