

# **Causeway Coast and Glens Borough Council**

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## ***Internal Audit Report Capital Projects***

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May 2017  
Final v2

**MOORE STEPHENS**

# INTERNAL AUDIT REPORT

## Capital Projects

### Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2016/17. This report summarises the findings arising from a review of Capital Projects which was allocated 9 days.

Through our audit we found the following examples of good practice:

- The documented Capital Projects Management/Governance procedure developed by Council is based on PRINCE 2 project management principles and is quite comprehensive.
- Council has a capital expenditure programme setting out capital projects which have already been approved or are in the process of being proposed for 2016/17, 2017/18, 2018/19, and 2019/20. Council also has a pipeline of identified projects which have been ranked in order of priority, and which will come on-stream, if approved and if funds permit in the future.
- The establishment of a Capital Projects Review Group demonstrates Council's commitment to good governance in the management of capital projects.
- For the Capital Projects reviewed during the audit, the Capital Project Unit, had put in place appropriate controls e.g. project steering committees, regular progress discussion and reporting to the Head of Infrastructure to monitor progress of the projects during implementation.

Two areas (Priority 2) where controls could be enhanced was noted during our review:

- Council procedures for capital project proposal has been evolving in the last two years and the Capital Project Governance document sets out a 4-step approach to project management based on PRINCE 2 concepts. In addition, training, has been provided to the Capital Project Review Group (CPRG) on developing business cases. There are two different types of projects included in the Council's documented procedures (within the Capital Project Governance documents) each with a different approach: Special/Major and Regular projects. We noted that there is no clear definition or criteria for the two different types of project and any difference in the approach to proposing them is not clearly explained. In addition, we found that the procedures do not clearly explain when a full economic appraisal is required. Business Case templates have recently been developed for different forms of major projects, but this is not yet reflected in the Capital Project Governance document. Documented procedures should be reviewed and expanded to include agreed definitions on the different types of projects and more specific guidance on the form and content of project proposals and business cases (and Economic Appraisals where applicable) needed for each type of project.

- Reviews of business cases are not sufficiently documented. The CPRG should ensure that the review of Business Cases prior to submission to Council is sufficiently evidenced. To assist the process, consideration should be given to developing a template for the review of Business Cases which would be completed and signed by those who perform the review (at each stage) and approve each Business Case before presentation to Council (at each stage).

The following table summarises the total number of findings/recommendations from our audit:

Risk	Number of recommendations & Priority rating		
	1	2	3
Projects may not be adequately planned, managed and reported to Senior Management and Council members leading to delays in completion, additional costs, poor quality standards and poor decision-making	-	-	1
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	-	-	2
Project budgets may not be adequately controlled, managed and monitored leading to overspend and increased costs to the Council	-	2	1
<b>Total recommendations made</b>	<b>0</b>	<b>2</b>	<b>4</b>

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

**Satisfactory**

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.

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	May 2017

<b>Audit progress</b>	<b>Date</b>
Audit commenced	6 February 2017
Draft Report issued to senior management for response	13 April 2017
Responses Received	11 May 2017 & 6 June 2017
Responses Agreed	6 June 2017
Report Issued	6 June 2017

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, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council’s internal control system.

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## 1 Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and will consider the main risks facing Capital Projects and review the key systems and controls in place to address these.

We concentrated on the main risk areas of:

- Project planning
- Project management
- Project monitoring.

## 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 capital projects and agreed with management are as follows:

1. Projects may not be adequately planned, managed and reported to Senior Management and Council members leading to delays in completion, additional costs, poor quality standards and poor decision-making
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 Audit Approach

To complete our audit we focused on three case study capital projects:

- Dungiven Sports Pavillion
- Portrush Town Hall
- Riada 3G sports pitches

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 and in relation to the case studies selected
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Capital Project Manager
Capital Project Officers
Director of Leisure and Development
Project Director Strategic Investment Board
Senior Project Accountant
Procurement Officer

## 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 – Project Planning, Management and Reporting

#### ISSUE 1 – Reporting Capital Project Progress

##### a) Observation-

We found that the Senior Management Team discussed in general terms the progress of the capital projects in the sample selected e.g. planning approved, tender submitted, contract awarded. Once a capital project starts is then operational progress is monitored by the Capital Projects Unit.

Our audit testing showed that for the projects sampled, each had a steering group set up; chaired by the Council Project Officer, with representatives from Council and the contractors. They meet approximately monthly and discuss project progress, budget, risk management, health and safety etc. Dungiven Sports Facility, as a major project, also has a Project Board which includes 8 elected members.

We noted from our review of Committee and Council minutes that general progress of Capital Projects is not regularly reported to Council, although Council does receive updates on major projects such as Dungiven Sports Pavilion and Elected Members sit on the Project Board. Council also receives an update on Capital Projects via the bi-annual Capital Works Programme workshop. At the workshop Council is informed of which stage each project is at in the Council's 4-step procedure. The stages are:

- Stage 1 - Scoping, feasibility and Outline Business Case developed
- Stage 2 - Procurement and Final Business Case prepared
- Stage 3 - Approval of the Final Business Case and tender report by Council allows work to begin
- Stage 4 - Project completion and Evaluation Report prepared

However, no detail is provided at the workshop in relation to:

- The physical progress status of each project,
- Expenditure against budget to date,
- Planned completion dates.

##### b) Implication-

If progress regarding capital projects is not reported to Council on a regular basis, elected members may not have sufficient information to verify that the scope and objectives of the project continue to be addressed, including in terms of quality assessment, and that the project is on schedule to be delivered within budget.

##### c) Priority Rating-

3

**d) Recommendation-**

More regular reporting should be made to Council elected members on capital project progress. This could be achieved by providing additional information to elected members at the bi-annual Capital Works Programme Workshop. Additional information which should be reported includes:

- The physical progress status of each project,
- Expenditure against budget to date,
- Any major issues faced,
- Planned completion dates.

Additionally, the CPRG should document its review of post project evaluations prior to submission to Council to record if the outcomes of the project were in line with the planned Business Case and to inform future planning of capital projects.

**e) Management Response-** There is insufficient time at the Capital Works Programme Workshops to consider the Capital Programme and to also report on the progress of each of the individual Capital Projects. The detail of each project is managed by its SRO and Project Board (on which Elected Members sit). In addition to this, SMT will consider the Project Board Minutes of each project being copied to Members of the relevant committees for information along with their monthly Committee papers.

Post Project Evaluation reviews the delivery of the project construction while Benefits Realisation looks at the Project operational outcomes in line with the Business Case. SRO's will ensure timely completion of appropriate Post Project Evaluations and Benefits Realisation.

**f) Responsible Officer & Implementation Date-** SMT to consider the issue as above and Project SRO's to implement any decision by September 2017

## 5.2 Risk 2 – Controls of Tendering for Capital Projects

### ISSUE 2 – Assessment Panel - Declarations of Conflict of Interest

**a) Observation-**

We found from our testing of the tender processes for the 3 case study Capital Projects that Projects were procured in line with the Council's procurement policy and procedures. However, we found that for one of the capital project case studies reviewed (Riada 3G Pitches), the Council's representative on the tender assessment panel had signed a conflict of interest declaration on behalf of the other panel members.

We also noted that an assessment scoring matrix signed by all the panel members was not on file for Portrush Town Hall or Riada 3G Pitches projects.

The Council's procurement policy and procedures sets out in section 6.2 that signed conflict of interest forms from all people participating in the evaluation of the tender should be placed in the procurement folder. We note that this is recorded however as forming part of the Pre-tender stage and it may be beneficial to record this again



at the Tender evaluation and award section (sub-section 3 in Section 6.2 and also in Section 6.8).
<p><b>b) Implication-</b> Without signed evidence of consideration of conflict of interest by each panel member and signed scoring sheets in line with Council's Procurement Policy and Procedures (2014), there is a lack of evidence to support transparency in tender related decision-making.</p>
<p><b>c) Priority Rating-</b> 3</p>
<p><b>d) Recommendation-</b> All tender assessment panel members should complete and sign a declaration of interest prior to assessing tenders, and a scoring matrix should be signed by each member of the assessment panel. Consideration should be given to re-iterating the need for signed declarations of interest at tender assessment stage within the procurement policy and procedures.</p>
<p><b>e) Management Response-</b> Agreed.</p>
<p><b>f) Responsible Officer &amp; Implementation Date-</b> Capital Project Manager – (Immediately). Procurement officer to consider amendment to the Procurement Policy for signing declarations of interested.</p>

### ISSUE 3 – Council Policy and Procedures for Procurement

**a) Observation-**

We found that there is an inconsistent use of standstill periods in the tender award process. Council's Policy and Procedure for Procurement states "For all tenders above £30,000, including those exceeding the EU Procurement Threshold, the principle of a mandatory minimum standstill period of 10 days will apply". We found that for one of the case studies (Portrush Town Hall) a standstill period was not included in the award letter. We were advised that the Procurement Officer had provided guidance which stated that 'a standstill period of 10 days is only applicable when the value of the procurement exceeds that set out in The Public Contracts Regulations 2015'. We were advised that this would currently only be for capital projects exceeding £4.2m. We noted that neither of the other 2 cases studies exceeded the Public Contracts Regulations threshold, yet reference to a (5 day) standstill period was made in the relevant award letters.

No challenges had been made by unsuccessful tenderers in relation to the tender process for the capital projects reviewed. We noted however that the process to follow in the event of a challenge is not included within the Council's documented Procurement Policy and Procedures (2014).

**b) Implication-**

The lack of documented procedures for managing challenges and the inconsistent approach to the use of standstill periods increases the risk of differing approaches being taken by Council officers which could lead to a perception from contractors that Council does not apply its procedures fairly or consistently.

<b>c) Priority Rating-</b> 3
<b>d) Recommendation-</b> The Council Policy and Procedure for Procurement (2014) should be reviewed and updated to clearly define: <ul style="list-style-type: none"> <li>• The process for dealing with challenges</li> <li>• Clarification on the process in relation to standstill periods.</li> </ul>
<b>e) Management Response-</b> Agreed. Procurement Policy to be reviewed and amended accordingly.
<b>f) Responsible Officer &amp; Implementation Date-</b> Procurement Officer – (by October 2017.)

### 5.3 Risk 3 – Management and Monitoring of Capital Budget

#### ISSUE 4 – Business Cases and Economic Appraisals

##### a) Observation-

Council procedures for capital project proposal has been evolving in the last two years and a Capital Project Governance document sets out a 4-step approach to project management based on PRINCE 2 concepts. In addition, training, has been provided to the Capital Project Review Group on developing business cases.

There are two different types of projects included in the Council's documented procedures (within the Capital Project Governance documents) each with a different approach: Special/Major and Regular projects. We noted that there is no clear definition or criteria for the two different types of project and any difference in the approach to proposing them is not clearly explained. In addition, we found that the procedures do not clearly explain when a full economic appraisal is required.

Outline Business Cases are required for all capital projects with a value more than £30k. No consistent template has been used within Council; but a 'Green Book'/NIGEAE-type assessment has been applied, including review of costs. It is applied in full for all projects which receive central government funding and in a proportional manner for self-funded projects. For small self-funded projects, the business case may simply be a condition report and/or a short (2-3 page) summary proposal.

We noted that work has begun to consider standardising templates and at a workshop in September 2016 for the Capital Projects Review Group, draft templates were discussed for Short Business Case for Major Projects - £500k +, and Business Case for Major Projects – High Risk or £2m+.

##### b) Implication-

All projects should have a business case that provides a rationale for the work and sets out clearly an evaluation of the costs involved. Without a consistent approach to business cases, there is a risk that capital investment decisions could be made based on incomplete information.

<b>c) Priority Rating-</b> 2
<b>d) Recommendation-</b> Documented procedures should be reviewed and expanded to include: <ul style="list-style-type: none"> <li>• agreed definitions on the different types of projects</li> <li>• more specific guidance on the form and content of project proposals and business cases (and Economic Appraisals where applicable) needed for each type of project.</li> </ul>
<b>e) Management Response-</b> Business Case templates have been issued and a workshop on how to complete business cases together with detailed guidance has been held. The workshop papers will be re-issued and Capital Working Group will review the guidance and amend / supplement it as may be necessary.
<b>f) Responsible Officer &amp; Implementation Date-</b> Director of Leisure and Development / Project Director Strategic Investment Board by October 2017

## ISSUE 5 – Capital Project Proposal Assessment

### a) Observation-

The Council's Capital Projects Review Group (CPRG) is tasked to review all business cases before they are reviewed by SMT and submitted to Committee/Council. The CPRG should also provisionally approve the funding arrangements for each potential capital project.

The Chair of the CPRG us that all projects are discussed at the CPRG meetings; however minutes are not recorded and there are no Action Points from the most recent CPRG meetings. A spreadsheet of all projects is updated at the CPRG, and this is the only record of the outcome of this meeting. We found that the spreadsheet used by the CPRG is complex and it is difficult to see at a glance the overall capital projects situation.

We found from our review of the Senior Management Team (SMT) Action Points that there was no record of business cases being reviewed and approved by SMT; although there was evidence of the progress of capital projects being discussed at SMT.

### b) Implication-

The Capital Projects Governance procedures and the Terms of Reference of the CPRG provide a good framework to ensure oversight of project proposals, progress and post project evaluation. However, there is no way to verify that the scrutiny being performed by the CPRG is sufficient to reduce the risk of project failure (either in terms of planned outcome, time, scope or cost); as there are no minutes of CPRG, and no templates were used in assessing/scoring of business cases.

The complexity of the CPRG Capital Projects spreadsheet increases the risk of errors within the reported data, and in the absence of a summary page there is no easy way to check the accuracy of total capital budget, expenditure, and to reconcile recorded changes in project budgets.

**c) Priority Rating-**

2

**d) Recommendation-**

The CPRG should ensure that the review of Business Cases prior to submission to Council is sufficiently evidenced. To assist the process, consideration should be given to developing a template for the review of Business Cases which would be completed and signed by those who perform the review (at each stage) and approve each Business Case before presentation to Council (at each stage).

The CPRG should consider including a summary page on the spreadsheet it uses to record progress of Capital Projects through the Council's 4 step process. This could provide information at a glance and allow a reconciliation of project changes (i.e. movement between the 4-steps, all budget increases/decreases, expenditure to date).

If Business Cases are reviewed at SMT, this should also be evidenced through recording in the SMT Action Points.

**e) Management Response-** The Capital Working Group is not a decision making body but rather it provides support and advice to project SRO's. For each project, the SRO is responsible for bringing the Business Case to Council and Council is the decision maker. Going forward, relevant Capital Working Group feedback to SRO's on Business Cases will be noted in the minutes / actions from the meeting.

A projects summary sheet is included in Capital Programme Workshops and the detail of any budget variations is reported to the respective Project Boards. There is insufficient time at the Capital Programme Workshops to consider the Capital Programme and to also report on the finance of all the individual Capital Projects. SMT will consider the Project Board Minutes of each project being copied to Members of the relevant committees for information along with their monthly Committee papers.

Where SMT review Business Cases, this will be reflected in the SMT Action Points.

**f) Responsible Officer & Implementation Date-** SMT to consider the issue as above and Project SRO's to implement any decision by September 2017

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## 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

### Budgetary Control

Risk	Key Controls
<p>Projects may not be adequately planned, managed and reported to Senior Management and Council members leading to delays in completion, additional costs, poor quality standards and poor decision-making</p>	<p>For the case studies:</p> <ul style="list-style-type: none"> <li>• A project team (owner, board etc.) has been identified, with roles and responsibilities clearly understood</li> <li>• A detailed plan has been drawn up, which includes: <ul style="list-style-type: none"> <li>○ A definitive and clear scope</li> <li>○ An assessment of the needs and expected outcomes</li> <li>○ A detailed project activity schedule</li> <li>○ Identification of each stages of completion</li> <li>○ A detailed income and expenditure schedule</li> <li>○ Identification of project risks and mitigating controls</li> <li>○ The methods by which the project will be monitored</li> </ul> </li> <li>• The plan is regularly reviewed and monitored to ensure that an adequate level of quality is delivered and that issues are identified and dealt with in a timely manner by the project board</li> <li>• A project manager is appointed to regularly oversee the project</li> <li>• Regular reports are prepared and submitted to the project board and / or senior management team and / or Council to update on the project</li> <li>• Senior management take action to address issues identified from projects to ensure a timely resolution</li> <li>• Progress regarding capital projects in general and as a whole is reported to senior management and Council on a regular basis - this is subject to an audit recommendation</li> <li>• A post project evaluation is completed to verify that the scope and objectives of the project have been met, including in terms of quality assessment, and delivered within budget.</li> </ul>
<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 case studies:</p> <ul style="list-style-type: none"> <li>• Invitations to tender for consultants and contractors followed Council's Procurement Policy</li> <li>• Tenders received are marked with the time and date of receipt and stored in a safe location until opening</li> <li>• Tender opening is recorded &amp; panels are established to evaluate tenders received</li> <li>• Panel members notify if there are any conflicts of interest in relation to the tenders being assessed - this is subject to an audit recommendation</li> <li>• Award criteria are drawn up for tenders</li> <li>• The assessments and scoring of each tender by each panel member are documented - this is subject to an audit recommendation</li> <li>• The decisions of the tender panel are documented with all documentation relating to the tender (including the evaluation panel) kept on file</li> <li>• The use of a single tender process is authorised and the reasons why are documented</li> </ul>

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"> <li>• 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 - this is subject to an audit recommendation</li> <li>• Challenges to tender award decisions are dealt with appropriately and in a timely manner - this is subject to an audit recommendation</li> <li>• All work completed to investigate a challenge to an award decision is documented</li> <li>• Contracts are signed between Council and any consultants and contractors working on the project as soon as practicable following appointment</li> </ul> <ul style="list-style-type: none"> <li>• There is a general process for monitoring and taking an overview of capital project expenditure across Council - this is subject to an audit recommendation</li> <li>• An economic appraisal and business case is completed for the case study project prior to its go ahead to include arrangements for the application of planning permission (where required) - this is subject to an audit recommendation</li> <li>• Anticipated expenditure is clearly set out in the economic appraisal / business case</li> <li>• Contractors provide detailed costings for each stage of the case study project, agreed as part of their contract fee</li> <li>• 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</li> <li>• Grant claims from Council to project funders are correctly completed and submitted in a timely manner (if relevant to the case study projects)</li> <li>• Actual expenditure on the case study project is monitored against projected expenditure and any variances investigated</li> <li>• Changes to the case study project budget are approved at an early stage</li> </ul>