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Dacorum Borough Council
Final Internal Audit Report
Regeneration

August 2015

This report has been prepared on the basis of the limitations set out on page 13.

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Key Dates:

Date of fieldwork:	June 2015
Date of draft report:	July 2015
Receipt of responses:	July 2015
Date of final report:	August 2015

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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2015/16, we completed a risk based audit of the processes in place for Regeneration.

Although Full assurance was given to the audit of Regeneration that took place in 2014-15, since then there has been an issue where a proportion of the Local Sustainable Transport Fund (LSTF) money was returned at the year end as it had not been spent. This related to the Maylands Urban Realm Improvement project (MURI), and as it is being reported as a loss to the Council within published performance measures, we need to be able to provide assurance over the controls in place in this area.

We looked at 2 other projects during this audit:

-Maylands Business Centre Extension and

-Heath Park.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over Regeneration, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Governance Arrangements, Management and Monitoring of Key Milestones, Budget Setting and Monitoring and Payments.

1.3. Summary Assessment

Our audit of the Council's internal controls operating over Regeneration found whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Substantial	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Regeneration is shown in Section 3.

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1.4. Key Findings

We have raised two priority 2 and four priority 3 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- The Hemel Evolution Programme Board's Terms of Reference should record its review date to ensure that it is regularly updated and relevant to the purpose of the committee. (Priority 3).

- The governance diagram for the MURI project should detail the reporting responsibilities it has to the Dacorum Regeneration Steering Group. (Priority 3).

- The Terms of Reference for the Dacorum Regeneration Steering Group should be reviewed and its members' attendance should be assessed to ensure all required departments are adequately represented. We also suggest that the list of required members is reviewed and its review date is documented. (Priority 3).

- The change control process which allows teams to amend and align key original project end dates in CorVu to actual deliverable dates within the project plans should be communicated to Project Teams, in order to facilitate improved quality of reporting. (Priority 3).

- CorVu reports should be completed correctly and progress against all the key milestones and dates contained in the original Project Initiation Document (PID) should be reported. (Priority 2)

- The level of training on CorVu within the Regeneration team should be reviewed and action taken to ensure everyone is at an agreed level of capability. (Priority 2).

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

We received the management responses in a timely manner and they have been included in the main body of the report.

1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

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2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Regeneration, with regards to the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;

- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;

- identification of control weaknesses and potential process improvement opportunities;

- discussion of our findings with management and further development of our recommendations; and

- preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

Governance Arrangements

The process, approval structure, and reporting lines have been clearly defined and documented. Communication lines have been established to enable efficient and effective decision making. Appropriate and adequate financial planning is in place to enable available financial resources to be identified. Regeneration programmes adequately reflect corporate strategy, objectives and investment priorities.

Management and Monitoring of Key Milestones

Appropriate operational monitoring is in place to ensure that individual projects perform as planned. There is a clear record of actions taken in response to overruns or slippage, and the impact of this on the overall programme. Appropriate monitoring of the programme is in place, and key milestones are recorded on the Council's performance planning and management system, CorVu.

Budget Setting and Monitoring

Appropriate provisional budgets are calculated and approved and budget monitoring is in place to ensure that variances are identified at an early stage to enable corrective action to take place promptly. Actual against budgeted expenditure is reported to senior management on a regular basis. Details of deviations from planned expenditure are provided along with appropriate explanations.

Payments

Invoices and schedules of payments are checked against contractual agreements and examined against ant payment deductions. Payments are authorised by the designated signatory with the appropriate authority.

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3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Governance	≈	≈	**Recommendations 1, 2 and 3**
Management and Monitoring of Key Milestones	≈	≈	**Recommendations 4, 5 and 6**
Budget Setting and Monitoring	✓	✓	
Payments	✓	✓	

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

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4. Observations and Recommendations

Recommendation 1: Programme Board – Terms of Reference (Priority 3)

Recommendation
The Hemel Evolution Programme Board's Terms of Reference should record its review date to ensure that it is regularly updated and relevant to its purpose.
Observation
As the main oversight committee for all the Regeneration projects at the Council it is imperative that the Terms of Reference for the Programme Board accurately reflects its purpose, role and responsibilities and is regularly reviewed to ensure it is fit for purpose. During our review of the document, we found that it did not detail when the next review is due so there is a risk that the value and purpose of the Programme Board could become affected. An effective Project Board that regularly reviews its aims, objectives, responsibilities and membership will help to avoid the risk that costs could overrun and delays could occur.
Responsibility **Team Leader – Regeneration Team**
Management response / deadline The TOR for the Programme Board will be reviewed by the end of September including a section stating that it will be reviewed every two years or before if deemed necessary. This will include a review of membership of the Board. 30 September 2015

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Recommendation 2: MURI Governance Chart (Priority 3)

Recommendation
The governance diagram for the MURI project should detail the reporting responsibilities it has to the Dacorum Regeneration Steering Group.
Observation
Every regeneration project should have a documented and up to date governance chart in place that details all roles, responsibilities and reporting requirements. We found that the project team regularly attends and presents progress reports to the Dacorum Regeneration Steering Group, however this reporting requirement was not detailed within its governance chart. Where reporting requirements are not documented, there is a risk that the governance and the management of risks associated with the MURI project could become undetected and thus unreported which could lead to budget overrun and failure to meet key project deliverables.
Responsibility **MURI Project Officer**
Management response / deadline The governance diagram for the MURI project will be amended to show reporting lines to the Steering Group and project board. 31 August 2015

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Recommendation 3: Attendance at Steering Group (Priority 3)

Recommendation The Terms of Reference for the Dacorum Regeneration Steering Group should be reviewed and its members' attendance should be assessed to ensure all required departments are adequately represented. We would also suggest that the list of required members is reviewed and its review date is documented.
Observation One of the key objectives of the Dacorum Regeneration Steering Group is to prepare and regularly review Regeneration projects documentation, including identifying risks and issues, and where resolution is not possible, to escalate to the Hemel Evolution Programme Board. Through discussion with staff, they stated to us that they found the Dacorum Regeneration Steering Group meetings to be an extremely valuable and informative forum where project issues are highlighted, discussed and key decisions are taken. However following our review of the minutes for February, March and May 2015 we do have some concerns around staff attendance. A total of between 37-41 members of staff are required to attend these monthly meetings, however when we calculated how many people actually attended the last 3 meetings, attendance was calculated at 22% (ie.8 staff attended, 29 did not), 33% and 41% respectively. Upon closer inspection it would seem that members of the Regeneration Team and Finance are regular attenders to this meeting and that perhaps other stakeholders are absent. If all stakeholders are not adequately attending and thus not represented, there is a risk that their issues and concerns are not being taken account of, which could lead to delays in the delivery of the project that could then have a monetary and reputational impact for the Council.
Responsibility **Team Leader – Regeneration Team**
Management response / deadline A new TOR for the Steering Group will be prepared including refreshing the membership of the group and the need to attend the relevant parts of the meeting. I suggest this is then taken to CMT meetings to ensure that attendance is endorsed at a high level for the organisation and that attendance is then monitored and if necessary reported to the relevant Manager for non-attendance within a specific area of the council. The TOR will be reviewed by the end of August and raised at CMT meeting in September. 30 September 2015

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Recommendation 4: Milestone Reporting in CorVu (Priority 3)

Recommendation
The change control process which allows teams to amend and align original project end dates in CorVu to actual deliverable dates within their project plans should be communicated to the project teams, in order to facilitate improved quality of reporting.

Observation
Dacorum uses the project reporting tool called CorVu which Project teams are required to input into, to produce monthly update reports which are reviewed at Project Meetings, Steering committees and Programme Board meetings.
CorVu is a project reporting tool which deals with retrospective data and information not live data and so doesn't allow project managers/officers to actively manage the project data from the system.
CorVu has limited flexibility in recording/reporting dates so if a project is one day late then it's immediately flagged as a red risk.
We identified that there is a change control process in operation which many projects teams are unaware of. This process allows staff to review/amend/change key project milestone dates within the CorVu system; in conjunction with the respective Project teams, to ensure more accurate and up to date progress reports are produced.
For projects to be delivered on time and to budget its imperative that project reporting contains reliable, accurate and timely information as there is a risk that costs could overrun and delays could occur.

Responsibility
Assistant Director for Performance and Projects

Management response / deadline
Training on the change control process to allow an improved quality of reporting has been provided as part of Corvu training.
An improved change control template has also been updated as part of the new project management guidance (Managing Projects Successfully) which was launched at the end of July.
Monthly project clinics also enable us to review how projects are working and identify issues including change control requirements.
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Recommendation 5: Completeness of CorVu Reports (Priority 2)

Recommendation
CorVu reports should be completed correctly with accurate, complete and reliable risk information included and progress reported against all the key milestones and dates contained in the original Project Initiation Document (PID).
Observation
As detailed above, for projects to be successfully delivered it's important to have an effective project reporting system in place.
Audit obtained copies of the CorVu reports for MURI (Jan, April and May 2015), Heath Park (Jan and April 2015) and the Maylands Business Centre extension (May 2015) and found that the "Key Tasks" section which contains key dates and information from the original PID were completed more fully for Heath Park and Maylands Business Centre projects compared with the MURI CorVu reports.
Included in the recent MURI Situation Report produced by the Assistant Director – Planning Development and Regeneration that documented the reasons for the LSTF money to be returned he noted that:
"*Project reporting should have been better. The Risk levels were identified as too low and there should have been greater challenge over assumptions to get a procurable solution by 31 March 2015".*
It's therefore imperative that to avoid the completeness and accuracy issues found within the MURI CorVu reports where risks were not correctly assessed and reported, that extra effort is made to ensure all key milestone dates and data are included for every monthly project update report. This action will therefore mitigate against future projects failing to meet key project deadlines and financial budgets.
Responsibility
MURI Project Officer
Management response / deadline
The standard of reporting key dates on CorVu will be improved. Project sponsor for all regeneration projects is now Assistant Director – Planning, Development and Regeneration.
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Recommendation 6: Training on CorVu (Priority 2)

Recommendation
The level of training on CorVu within the Regeneration team should be reviewed and action taken to ensure everyone is at an agreed level of capability.
Observation
With any project management reporting system there will always be varying degrees of expertise, but efforts should be made to ensure all staff achieve an agreed and acceptable standard of knowledge and practice that ensures consistent and robust project reports are regularly produced. Through discussions with the Assistant Director for Performance and Projects and following our audit testing of CorVu reports, we found that the level of expertise and knowledge of the reporting capabilities of CorVu varies across the Council. We believe this is down to a poor level of training offered to staff when the package was first implemented. The Assistant Director did acknowledge to us that this was an area that he was currently seeking to resolve with allowing one of his team to act as a consultant to the project teams to assist in improving their knowledge and learning of the CorVu system. This effort to ensure all staffs have a basic understanding of the CorVu system, should mitigate the risk that project updates are inconsistently produced, contain incomplete information and be of limited value to senior management.
Responsibility **Assistant Director for Performance and Projects**
Management response / deadline New project management guidance (called Managing Projects Successfully) was issued at the end of July which will strengthen the project management process. Corvu training for project managers took place on August 6th and we are going to be undertaking this on a regular schedule as part of ongoing learning and development. As part of Managing Projects Successfully we are launching a project management passport in September which will raise project standards and ensure that all staff has a minimum standard of training. 31 August 2015

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Appendix A - Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

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Appendix B - Staff Interviewed

The following personnel were consulted:

- James Doe - Assistant Director (Planning, Development and Regeneration)

- Chris Taylor - Group Manager (Strategic Planning and Regeneration)

- Kevin Langley - Regeneration Team Leader

- Claire Covington - Project Officer – Heath Park

- Shalini Jayasinghe - Project Officer – MURI

- Becky Oblein - Project Officer – Maylands Business Centre Extension

- Emma Cooper - Technical Assistant - Regeneration

- Rob Smyth - Assistant Director for Performance and Projects

- Yaqubul Islam - Management Accountant for Regeneration Team
- Louis Devayya - Technical Assistant – Economic Wellbeing

- Cat Hamilton - Lead Officer (Payments, Income and RTB)

We would like to thank the staff involved for their co-operation during the audit.

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Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

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