

Report to Audit Committee

**Agenda
Item:**

A.5

Meeting Date: 8 July 2021
 Portfolio: Finance, Governance and Resources
 Key Decision: Not applicable
 Within Policy and
 Budget Framework YES
 Public / Private Public

Title: Internal Audit Report – Economic Development – Major
 Funding (Governance)
 Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
 Report Number: RD27/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2020/21 and considers the review of Economic Development – Major Funding (Governance).

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Audit Committee:	8 July 2021
Scrutiny Panel:	Not applicable
Council:	Not applicable

1. BACKGROUND INFORMATION

- 1.1 An audit of Economic Development – Major Funding (Governance) was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2020/21. The audit (**Appendix A**) provides reasonable assurances and includes 6 medium-graded recommendations.

2. RISKS

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. CONSULTATION

- 3.1 Not applicable

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is asked to

- i) receive the final audit report as outlined in paragraph 1.1;

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

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Appendixes	Internal Audit Report – Economic Development – Major Funding (Governance) – Appendix A	

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Legal – In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement.

Finance – Contained within the report

Equality – None

Information Governance – None

Audit of Major Funding Streams

Economic Development

(Governance)

Draft Report Issued: 18th June 2021

Director Draft Issued: 23rd June 2021

Final Report Issued: 24th June 2021



Audit Report Distribution

Client Lead:	Regeneration Manager
Chief Officer:	Corporate Director (Economic Development) Chief Executive
Others:	Head of Planning Policy Project and Performance Manager
Audit Committee:	The Audit Committee, which is due to be held on 8 th July 2021 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Major Funding Streams within Economic Development (Governance). This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th July 2020.
- 1.1 Over £200m of funding has been secured for housing, economic development, and regeneration projects in Carlisle. The City Council are the Lead Authority for a number of these including St Cuthbert's Garden Village, Future High Street Fund and Town Deal – the latter two of which have a cumulative value is over £30m. The City Council are now in the process of contracting with the MHCLG to deliver these projects and programmes. This will require the City Council to act as the Accountable Body and in the case of the Town Deal, support the business case appraisal process. The City Council is also delivering improvements to Carlisle Station and The Citadels as part of the wider £350m Borderlands Programme. Best practice arrangements for the Borderlands Programme, which is based at Northumberland County Council, are considered as part of this report.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations, and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was the Regeneration Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
- Governance arrangements have not been fully developed for the future delivery of major regeneration work, including Future High Streets Fund, Town Deal Funding, and St Cuthbert's Garden Village
 - Regeneration projects are not delivered in line with the Authority's project management arrangements
 - Project delivery is not dynamic, leading to response time delays and slow delivery
 - Advice and guidance on best practice followed by partners delivering similar regeneration projects has not been sought
 - The Authority's Departments are not working together in a unified project delivery process.

- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Major Funding Streams (Governance) provide **reasonable assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	4
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. Information - reliability and integrity of financial and operational information (see section 5.3 or N/A)		1
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.4)	-	-
Total Number of Recommendations	-	6

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.3 Findings Summary (good practice / areas for improvement):

An Economic Development Major Projects Group has been established to liaise with project leads, co-ordinate activity across the City Council, support corporate objectives, and manage funding as projects are moved into pre-delivery and delivery phases. The group meets monthly and minutes are documented. Formally agreeing the previous minutes, establishing documented terms of reference, further developing management information reporting, and tracking actions will further increase the likelihood of successful outcomes.

A dedicated project management office has been agreed by SMT and will go to Executive for approval 5th July. It is in an advanced stage of development and will help to ensure that the necessary resources and skills are in place to manage major projects. Formal consideration of PMO staff cover at short notice will help to ensure continuation of service.

Management are developing risk registers for all major projects. Finalisation of the registers with robust mitigating actions and regular review will reduce the likelihood of project risk escalation.

A project management handbook is available to guide project development and delivery, although it requires further review and update to align with current best practice.

The Council utilises a SharePoint repository for filing and easy access to major project documents, and further development of the site will increase the confidence of users.

Management actively seek to learn from other high achieving organisations and embed best practice in processes and procedures. In doing so, care should be taken to ensure that duplication of information is minimised.

To reduce the likelihood of decisions being deferred by non-constituted governance groups, consideration should be given to development of written procedures between meetings, which are then ratified and documented at the next available meeting.

Comment from the Corporate Director (Economic Development):

I welcome this report as it will provide assurances that the right processes are in place.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 Standing agenda item 1, in the minutes of the first Economic Development Major Projects Group on 8th December 2020 is, 'Purpose of the meeting/ roles and responsibilities. Under this agenda point, the minutes record that, 'This was the first meeting for some time and would be an opportunity to liaise with project leads and co-ordinate activity across the City Council and support corporate objectives. The significant amount of investment coming our way needs managed as we move into pre-delivery and delivery phases'. Documented terms of reference will further clarify the specific purpose(s) of the group to members. As a starting point for drafting the terms of reference, it is advised that management consider the group's delegated authority, and the decisions outside the day to day project management arrangements that they are brought together to make. Standing agenda items may then benefit from being aligned to those specific terms of reference. Including documented roles and responsibilities in the terms of reference will clarify to individual members why they have been asked to attend, and what they are invited to contribute. Review of the terms of reference at the start of each meeting may increase the likelihood that discussions and decision remain aligned to the group's purpose. The Chair may wish to task a member of the group with ensuring that the discussions remain aligned.

Recommendation 1 – Document terms of reference for the Economic Development Major Projects Group.

5.1.2 Actions are assigned and recorded in the minutes of the Economic Development Major Projects Group. The minutes record that actions have been reviewed, but do not record individual outcomes. The likelihood of successful outcomes of actions assigned will be enhanced by creating and maintaining an action tracker for the group, and it is advised that management consider the following headings:

- Action assigned
- Person action assigned to
- Date assigned
- Date due
- Priority
- Status: complete/ in progress/ overdue etc

Responsibility should then be assigned to monitor, record, and track each action raised by the Group through to completion.

Recommendation 2 – Outcome of individual group actions to be recorded.

- 5.1.3** The minutes of the Major Projects Economic Development Group record that the minutes of the previous meeting have been 'noted'. To further enhance the transparency of the discussions and decisions that took place, it is advised that minutes record that all group members present at the previous meeting have read the previous minutes (specify the date) and agree the content as accurate.
- 5.1.4** A dedicated Economic Development Project Management Office (PMO) has been agreed by SMT and will go to Executive for approval 5th July. The proposal includes the use of Microsoft Project online and Power BI reporting tool to improve the efficiency and effectiveness of project management administration. Documented continuation of service arrangements should be formally considered and documented for the PMO, including provision for how software training/ expertise will be shared amongst users, with alternative staff available to administer projects using Microsoft Project online at short notice. Due to the specialist nature of the work, it is also advised that management consider a dedicated resource for writing Power BI reports. Other services have also expressed the need for a Power BI report writer and management should consider if a dedicated resource that can work across services, will add organisational value.

Recommendation 3 – Review PMO continuation of service arrangements.

- 5.1.5** The project update report for SMT is also regularly provided to members of the Economic Development Major Project Group. The report details the following: 'Update providing SMT with high level overview of Economic Development programme and the status of key projects. The challenges, opportunities, risk and options are presented to inform SMT and highlight areas for their consideration, to address any issues, advise on crucial decisions taken and identify support required to ensure projects progress as required in order to meet key milestones.'
- The report provides useful information for the group, although it is advised that when terms of reference have been agreed (see rec 1), management consider developing specific management information reporting that further aligns to the group's documented purpose. A new highlight report has been developed for the SMT. Management indicated that it was well received and will be taken forward as part of the reporting to the Economic Development Major Project Group (see rec. 2,).
- 5.1.6** The Economic Development directorate operates an Economic Development/ Major Projects risk register. Audit were informed that the register is considered regularly by the Departmental Management Team and the Economic Development Major Projects Group (although the minutes of the Group do not always articulate this clearly). Audit were also informed that operational risk registers are under development for all major projects, but not yet fully drafted and subject to regular review/ update.

5.1.7 It is advised that all project risks are included in their individual risk registers rather than a separate overarching register. Individual project risk registers should then be subject to regular review and update at the Economic Development Major Projects group, with escalating risks highlighted to more senior groups.

Audit found that for fully drafted project risk registers, the wording of mitigating actions could be further developed to align directly with the risk. For example, the following risk is detailed, 'Cost escalation – Programme becomes less viable, produces lower value for money, places strain on council budget'. The mitigating action is, 'The project has been fully costed including between 10% and 15% contingency. The Council would be responsible for cost overrun'. Consideration should be given to rewording the mitigating action to demonstrate how overspend will be regularly monitored and overspend escalated in a timely manner so corrective action can be taken. Costing of the project is good practice, but regular monitoring and escalation will mitigate the risk. For all risks, the mitigating actions should consider what future event(s) are in place to manage, monitor and take informed decisions on risk escalation.

It is also advised that when drafting project risk registers, only key risks that have a major impact on project progression are recorded, helping to keep the risk assessment process manageable and ensuring quality over quantity.

Recommendation 4 – Finalise risk registers for all major projects with regular documented review and update.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 Service guidance for Authority projects is detailed in a project managers handbook, last updated in December 2017. Audit found that for major projects, the project management process and documentation is led by the requirements of the specific grant funding application, rather than the process detailed in the project management handbook. The project management handbook process is more aligned to internally funded projects. Consequently, Audit were not able to ascertain that major projects wholly follow the project management guidance, but this reflects the requirement to review and update the guidance in line with current practice.

When the project management guidance is updated, management may wish to consider drafting it as a best practice guide, moving away from a requirement to complete prescribed documents and proformas, reflecting that there are different grant funding requirements and more than one method to reach a desired outcome. An addendum to the project management handbook can then reflect how best practice will be applied to individual projects to reach those desired outcomes. Responsibility for ensuring that best practice as detailed in the handbook is being followed, should be assigned and compliance reviewed.

Management may wish to consider the Borderlands Inclusive Growth Deal Programme Handbook as best practice, and it is currently being drafted with the following content:

- Purpose of the document
- Borderlands overview
- Strategic context (benefits of the project)
- Roles and responsibilities (including project management office, accountable bodies, and partner organisations)
- Governance and compliance (including governance structures, audit, scrutiny, freedom of information and General Data Protection Regulation)
- Transparency (decision making process)
- Delivering the deal (including programme management process, approvals process, contracting, project initiation visit, monitoring, inspections, evaluation, audit, change control, funding recovery, annual report, communications and branding, risk management and monitoring and evaluation.

The above should be considered in the context of the specific requirements of the Borderlands Programme, and their unique funding arrangements. The City Council's project management handbook will apply across several major projects.

Recommendation 5 – Review and update the project management handbook.

5.3 Information – reliability and integrity of financial and operational information

5.3.1 The Council utilises a SharePoint repository for filing and easy access to major project documents, although further work is required to ensure content is wholly current and complete for all major projects. Effective update and maintenance of the repository will enhance the confidence of users, increase visits to the site, and reduce the need to circulate documents via email.

As a starting point, management may wish to review which key project documents should be held on the site, the purpose they each serve in the project process, how and when they will be used, and who will require input and access. In addition to completed key major project documents and proformas, consideration should be given to including governance structure diagrams, agendas, minutes, reports, risk registers, action, and human resource planners.

Documented service guidance will clarify the documents to be filed, along with allocation of responsibility for site maintenance and management update/ reporting on completeness. Statistics on the use of the SharePoint repository are readily available to users including number of unique viewers and site visits in the last week. This is a useful tool for measuring the effectiveness of the repository as improvements are made.

For the Borderlands partnership, a decision was taken that key documents (business case, grant determination, minutes of approval meeting) will be held by the accountable body (Northumberland County Council) on a shared access site, because the accountable body will outlast the partnership. There are two people that deal with this, one at the accountable body and an identified lead within the PMO. It was suggested that best practice would be to have one person responsible for the process.

Recommendation 6 – Review the use of SharePoint Repository

- 5.3.2** The Borderlands approach to ensuring that there is a unified delivery process is heavily focussed on circulating forward plans so that when additional support is needed everybody knows what is happening, what the deadlines are and what needs to go to the Partnership Board. The Borderlands PMO is developing service level agreements with relevant services so it is clear what the written responsibilities are for providing support, for example communications planning and democratic services. Forward planning at Borderlands is currently based mainly around email, with regular meetings between the PMO and Lead Officers, Chief Officers and Accountable Bodies.
- 5.3.3** Management informed Audit that there is a Joint Member Working Group where County Council and City Council Members get together to discuss major projects and ensure that thinking is aligned. Business is taken to this group in advance of other Board meetings such as Town Deal, St Cuthbert's Garden Village etc, and it acts as an informal sounding board. Minutes are recorded, but there is no formal requirement to do so because it is not a constituted meeting.
- 5.3.4** For the Borderlands programme, only certain governance group minutes are documented and freely available to the public. The dividing line for Borderlands is where a decision is going to be taken to the Partnership Board or Economic Forum. Although documented, everything discussed in governance groups up until this stage is classed as a recommendation and therefore not made available to the public. Subject to certain caveats though, this information is available through freedom of information request to the authority.
- 5.3.5** Audit were provided with a future high street fund implementation plan which uses a best practice proforma originating from the Borderland's programme. There may be some duplication of information between the future high street fund implementation plan and other key documents such as the business plan. The Borderlands PMO are aware that their document includes a level of duplication but are required to complete the plan in a specified format for deal sign off by government. It is advised that if Borderland's proformas are used for major projects at Carlisle City Council, the content is assessed on its own merit, adds value to the project and avoids unnecessary duplication.

5.4 Value – effectiveness and efficiency of operations and programmes

- 5.4.1** The Borderlands programme uses three supporting documents for their performance report: a progress tracker, delivery milestones and financial spend. The role of their PMO office is neutral and part of their remit is to examine evidence provided by project management that performance reported is accurate. To further increase the robust reporting arrangements already in place at Carlisle City Council, management may wish to consider assigning responsibility to the PMO office to corroborate project delivery status reported against key milestones, prior to governance group circulation.
- 5.4.2** Management informed Audit that further information is sometimes requested by Non-constituted governance groups, deferring major project decisions to subsequent meetings. Borderlands use a system of 'written procedures' if a decision is required by the Partnership Board between meetings via email, with the outcome documented and ratified at the next board meeting. A short report is sent, with an accompanying brief template recording the fact that the Leaders and Forum Chair have agreed to the recommendations as set out in the report. It states that 'The Board is recommended to make the following decisions', including the reason why the decision needs to be made quickly rather than waiting to the next board meeting. The response from Board members would include 'approve' or 'not approve' or 'agree that the decision cannot be taken as a written procedure'. If any member of the Board does not agree, then the decision is deferred to the next meeting. Consideration should also be given to using the Economic Development Major Project Group to scope out the necessary information in advance of senior governance groups taking major project decisions, reducing the likelihood of deferral. For constituted governance groups, it is advised that management liaise with the Democratic Services Officer in the first instance to consider if any improvements that can be made to timeliness of the decision-making cycle.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Document terms of reference for the Economic Development Major Projects Group.	M	Lack of group focus leading to inefficient use of time and duplication of workload.	Document specific terms of reference for the group.	Regeneration Manager/ Project and Performance Manager	30/06/21
Recommendation 2 – Outcome of individual group actions to be recorded.	M	Actions are not completed in a timely manner.	Establish an action tracker which is subject to regular review and update.	Regeneration Manager/ Project and Performance Manager	30/06/21
Recommendation 3 – Review PMO continuation of service arrangements.	M	Project administration process delays.	Formal consideration of robust contingency arrangements for PMO, to include: Shared project management software training across PMO	Corporate Director (Economic Development)	31/07/21
Recommendation 4 – Finalise risk registers for all major projects with regular documented review and update.	M	Project risks escalate and management unaware.	Finalise project risk registers then subject to regular review and update.	Regeneration Manager/ Head of Planning Policy	31/07/21

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 5 – Review and update the project management handbook.	M	Projects do not follow best practice or achieve positive outcomes.	Review and update the project management handbook.	Project and Performance Manager in consultation with project managers.	31/12/21
Recommendation 6 – Review the use of SharePoint Repository.	M	Project decisions delayed through availability of project documentation.	Review use of SharePoint repository. Assign responsibility for management of repository. Regularly update major projects group on missing content.	Project and Performance Manager in consultation with service managers	31/07/21

Appendix B - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).