



# Carlisle City Council

## Report to Audit Committee

### Report details

Meeting Date:	08 July 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Sands Centre Development
Report of:	Corporate Director Finance & Resources
Report Number:	RD.10/22

### Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of the Sands Centre Development.

### Recommendations:

The Committee is requested to

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

### Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

## **1. Background**

1.1. An audit of the Sands Centre Development was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 3 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**

4.1 The Committee is requested to  
i) receive the final audit report 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

### **Contact details:**

Contact Officer: Michael Roper Ext: 7520

### **Appendices attached to report:**

- **Internal Audit Report – Sands Centre Development – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

### **Corporate Implications:**

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

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

# Audit of Sands Centre Redevelopment

Draft Report Issued: 22nd April 2022

Director Draft Issued: 6<sup>th</sup> May 2022

Final Report Issued: 9<sup>th</sup> May 2022



## Audit Report Distribution

<b>Client Lead:</b>	Client-side Project Manager
<b>Chief Officer:</b>	Deputy Chief Executive Chief Executive
<b>Others:</b>	Head of Financial Services
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 8 <sup>th</sup> July 2022 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 Sands Centre Redevelopment. This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15<sup>th</sup> March 2021.
- 1.2. The replacement of Carlisle City Council's James Street Pools and the development of the Sands Centre site to improve wet and dry side sporting provision has been a long-term aspiration for the Council.
- 1.3. In 2013 the Council had adopted the Sports Facilities' Strategy 2013 – 2025 which had been based on an indoor and outdoor facilities needs assessment and set out the authority's vision for sports facility development in the district.
- 1.4. In the summer of 2017, the Council commissioned a design team to work up a Royal Institute of British Architect's (RIBA) Stage 2 outline design for the Sands Centre and an Employer's Agent was selected by competitive tender to realise the project management and design roles.
- 1.5. Council approved the scheme in March 2018, following consultation and recommendations from Executive and the Joint Scrutiny Panel. Redevelopment is scheduled to be completed by Autumn 2022.

### 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 Client-side Project 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:
  - Failure to grow and develop project governance arrangements leads to project delays and poor decision making
  - Inadequate embedding of risk management controls leads to project risk escalation
  - Planned outcomes not delivered due to insufficient focus on core project objectives

- Poor financial management leads to project cost escalation
- Project management good practice appropriate to the size and nature of the project is not followed.

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 C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Sands Centre Redevelopment 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 D**. Audit recommendations arising from this audit review are summarised below:

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

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

comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

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

The main construction tender offer aligns with the Sands Centre project design specification reported to Council on 25<sup>th</sup> June 2019.

Good practices for a project of this size and nature are generally in place.

A suitable role structure is in place supported by current job descriptions.

A current service plan is in place which includes an objective relating to the Sands Centre Redevelopment.

The reasons why recorded actions are not always resolved on a timely basis, requires review.

Formal acceptance of responsibilities assigned to the Project Board and wider project members will further enhance accountability.

Project risks would benefit from regular review and formal agreement by the wider Project team.

#### **Comment from the Deputy Chief Executive:**

The results of this audit review of the Sands redevelopment are welcomed and will help give the SCRIPT team members some further structure to their challenging work.

The three recommendations will all be acted on during this next period and will help give the project more transparency, assurance and clearer task and risk management.

It is pleasing to note the good practice outlined in this report and I would like thank the project team for their hard work and commitment to this corporate project.

## 5.0 Audit Findings & Recommendations

### 5.1 Management – Achievement of the organisation’s strategic objectives

- 5.1.1** The main construction tender offer was examined and found to align with the Sands Centre project design specification reported to Council on 25<sup>th</sup> June 2019.
- 5.1.2** A current service plan is in place which includes an objective relating to the Sands Centre Redevelopment.
- 5.1.3** The Client-side Project Manager is a member of the Property Services Team and line manages three members of staff, one of whom (Project Support Officer) assists on the Sands Centre project. Job descriptions have all been reviewed within the last 5 years although the Client-side Project Manager’s job description would benefit from further alignment to the Council’s project management guidance. For example, the guidance promotes an adapted version of the Association of Project Management (APM) approach, although the job description directs the Client-side Project Manager to promote the Prince2 project management approach.
- 5.1.4** The project team use an electronic action board to record assigned actions in 7 broad categories. Comments on progress are recorded in chronological order and the majority have a due date set for resolution of the action. When an action is not resolved on schedule, the due date is automatically shaded red. At the time of audit testing (April 2022), 85 out of 103 current actions were overdue.
- 5.1.5 Recommendation 1 - Review reasons for overdue actions**
- 5.1.6** A documented task list records project tasks assigned to named individuals. During audit testing, some of the assignees were found to be incorrect and some task descriptions required further clarity to fully understand the task assigned. Roles detailed in the project team terms of reference do not always fully align to those assigned in the task list. For example, a role is described in the terms of reference as advisory, although the role includes ‘provision of reports’ in the task list.
- 5.1.7** There is an action on the SCRIPT electronic notice board to, ‘Review task list, project team and structure and terms of reference no later than three monthly intervals’, although it was not possible to verify that the review is regularly carried out. Formal agreement will significantly increase the level of accountability for agreed actions and allow named individuals to clarify any concerns over assigned responsibility.

**5.1.8** The last minutes recorded for Project Board meeting was in March 2021. It is advised that for a project of this size and nature, the recording of minutes will significantly enhance transparency and accountability of the project.

**Recommendation 2 – Record acceptance of assigned responsibilities by the Project Board and wider project team members.**

**5.1.9** The Council's Risk Management Framework states that the Council's approach to project risks is contained within the Project Manager's Handbook and that such risks fall within the remit of the Transformation Board. The Project Manager's Handbook requires that risk assessment needs to be updated regularly and any significant changes to these risks or significant new risks should be communicated to the project sponsor and escalated to the Transformation Board. Regular updates on project risk escalation are provided by the Client-side Project Manager.

**5.1.10** The Council's Risk Management Framework also requires that appropriate officers according to the type of risk will carry out risk analysis, for example a project team for a project risk. Detailed project construction risks are circulated to board members once a week. Wider project risks are regularly considered by the Client-side Project Manager, although they would benefit from regular review and formal agreement by the wider Project team.

**Recommendation 3 – Project Board members to formally record regular review and agreement of the project risk register**

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

**5.2.1** The Carlisle City Council Project Manager's Handbook's stated purpose is to advise Project Managers on the project processes to be followed. The funding and reporting requirements of major projects at the Council vary considerably and it is noted that the rigid nature of the handbook guidance is not always applicable. The guidance is not mandatory and there is limited challenge on departures from the guidance through corporate oversight. The Client-side Project Manager advised that rather than the Project Manager's handbook, the APM 'body of knowledge' is used as a guide, along with the Royal Institute of Architects (RIBA) stages 1 to 7 because they are more appropriate for the size and nature of the Sands Centre Redevelopment.

**5.2.2** Good practices for a project of this size and nature were largely found to be in place, although there were some notable exceptions such as the absence of stakeholder management arrangements, including a robust communication strategy.

**5.2.3** To further increase future project transparency and accountability, it is advised that at the earliest opportunity, future project boards consider all relevant project management guidance (including the Project Manager's Handbook) and record agreement on project processes that are considered appropriate for that specific project. This will help to further demonstrate that the Project Board has made informed decisions and not overlooked any key processes that should be demonstrated for a project of that size and nature.

### **5.3 Information – reliability and integrity of financial and operational information**

**5.3.1** Following regular review with the Client-side Project Manager, the Employer's Agent issues authorised payment certificates confirming the cost of work carried out to date. It is advised that a proportionate documented record of the regular payment certificate review and agreement is maintained to further enhance transparency.

**5.3.2** Payments to the main construction contractor were found to match the certificates and were appropriately authorised by the Project Sponsor.

**5.3.3** The project team maintains a spreadsheet which tracks payments and commitments to all project contractors to date and regularly reconciles them to the general ledger.

### **5.4 Value – effectiveness and efficiency of operations and programmes**

**5.4.1** Appraisals give individuals, teams and their manager an opportunity to review performance, agree future objectives and to determine learning and development requirements which will help to achieve those objectives. The last team appraisal took place in October 2018. Following recent changes to the corporate appraisal process, individual appraisals are required for all staff and should be held between October and the end of January. Project Management training requirements should be reviewed and documented as part of that process.

**5.4.2** The need to ensure regular appraisals are undertaken for all Council officers has been identified and recommended as part of a separate audit review of Corporately managed internal controls.

## Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
1 - Review reasons for overdue actions	M	Actions not reviewed on a timely basis	Actions recorded (with agreed deadlines) using the MS Planner will be reviewed at the start of each SCRIPT meeting.	DCEO	10 <sup>th</sup> May 2022 onwards
2 – Record acceptance of assigned responsibilities by the Project Board and wider project team members.	M	Reduced accountability and transparency of individual and group performance	A review of the ‘assigned responsibilities’ will be undertaken and a record of acceptance will be made.	DCEO	24 <sup>th</sup> May 2022
3 - Project Board members to formally record regular review and agreement of the project risk register	M	Key risks escalate and Project Board members are unaware	A review of the project risks will be undertaken quarterly (or at more frequent intervals if necessary) and recorded at SCRIPT.	DCEO	24 <sup>th</sup> May 2022

## Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.3	Further align the Client-side Project Manager’s job description to the Council’s project management guidance.
5.1.8	The recording of minutes will significantly enhance transparency and accountability of the project.
5.2.3	Future project boards should consider at the earliest opportunity all relevant project management guidance (including the Project Manager’s Handbook) and record agreement on project processes that are considered appropriate for that specific project.
5.3.1	A proportionate documented record of the regular payment certificate review and agreement should be maintained. The use of cut and paste signatures should be avoided because they can be easily duplicated.

## Appendix C - Audit Assurance Opinions

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

	Definition:	Rating Reason
<b>Substantial</b>	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>
<b>Reasonable</b>	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>
<b>Partial</b>	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>
<b>Limited/None</b>	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 D

### 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:
<b>High</b>	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	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).