



**Integration Joint Board
Co-bhòrd an Amalachaidh**

Internal Audit Review

**Project Management of Capital
Investment And Delivery**

Final Report – 2020/21-IJB 4

9 November 2020

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

CONTENTS

| | Page |
|--|-------------|
| SECTION 1 EXECUTIVE SUMMARY | 1-4 |
| SECTION 2 DETAILED FINDINGS AND RECOMMENDATIONS | 5-9 |
| SECTION 3 ACTION PLAN | 10 |
| APPENDIX A RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT | 11 |
| APPENDIX B ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES | 12 |
| APPENDIX C DEFINITION OF AUDIT OPINIONS | 13 |

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| Date of Visit | September 2020 |
| Draft Report Issued | 15 October 2020 |
| Management Response Received | 9 November 2020 |
| Final Report Issued | 9 November 2020 |

| | |
|-----------------------------------|----------------------------|
| Issued to: | |
| Chief Executive, CNES | Malcolm Burr |
| Chief Finance Officer, IJB | Debbie Bozkurt |
| Audit Scotland | D.Jamieson, R.Buist |

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

SECTION 1: EXECUTIVE SUMMARY

Introduction

- 1.1 The Report has been prepared following an internal audit review of Project Management of Capital Investment and Delivery as part of the operational annual internal audit plan for 2020/21. The purpose of the Report is to provide an overview of the Integration Joint Board's arrangements for Project Management of Capital Investment and Delivery in terms of the objectives noted below.

Background Information

- 1.2 Capital is not delegated to the Integration Joint Board, however, it is in the interest of the board to receive assurances that the required finance and governance arrangements are in place in order for projects to be successful and achieve the desired outcomes. This is fundamental to achieving the aims and objectives set out in the strategic plan.
- 1.3 This review has focused on the two largest projects currently being progressed, the Barra and Watersay Campus and the new care facility at Goathill, Stornoway.

Internal Audit Objective

- 1.4 In accordance with the remit outlined within the operational annual internal audit plan for 2020/21 and further documented within the agreed terms of reference, our internal audit work was designed to obtain assurance that the Integration Joint Board's arrangements for Project Management of Capital Investment and Delivery were appropriate and operating as expected. In practice, we assessed whether the overall objective was being achieved by confirming that:-
- Identified adequate levels of capital funding to enable relevant capital projects to go ahead whilst considering ongoing revenue funding requirements;
 - Carried out adequate planning prior to commencement of each project with appropriate business cases submitted, approved and reviewed throughout the lifecycle of each project taking into consideration any changing circumstances;
 - Fully costed each project and has appropriate accounting systems in place to allow recording, monitoring and reporting of costs throughout;
 - Carried out relevant stakeholder analysis with appropriate communication plans in place to inform stakeholders throughout the project lifecycle;
 - Appropriate project management and governance arrangements in place with sufficient monitoring and reporting of progress back to the Integration Joint Board; and
 - Risk registers in place for each capital project with appropriate escalation of high level risks for inclusion on the Integration Joint Board's strategic risk register.

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

Concluding Remarks

- 1.5 Our detailed findings are included in the body of the Report. We would point out that the most significant issues arising from our review which require management attention are:
- A report should be put before the IJB at the earliest opportunity in order to communicate any potential funding issues and to make the board aware of any required changes to service delivery models as a result of funding gaps identified; (Para 2.1)
 - Updates outlining current financial position to be provided as a standing item until the conclusion of each project; (Para 2.1)
 - Arrangements need to be made to communicate key risks to all members of the IJB at each scheduled meeting. In addition, in the event of material change occurring outwith the planned schedule of meetings, these must be notified to members of the IJB timeously; (Para 2.1)
 - In order to provide the IJB with assurances that there is appropriate oversight and progress of projects, project updates should be provided as a standing item at each meeting with reports submitted to the Scottish Government and each of the parent body's committees also considered for circulation to IJB members. (Para 2.2)
- 1.6 Based on the audit work carried out our overall opinion is that a reasonable level of assurance can be placed upon the control environment of the service/area under review.

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

A full list of opinions which an auditor may provide can be seen at Appendix C.

It should be noted that our findings and conclusions are based on the information made available to us at the time of our review. The current restrictions in place as a result of Coronavirus (COVID-19), together with home working is likely to have limited our access to some staff and documentation which requires to be acknowledged when considering the contents of the Report.

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

1.7 We have graded our detailed findings and recommendations, based on the likelihood of the identified weakness occurring and the impact on the Comhairle if it should occur, using the following criteria:

Grade 1 - **“Critical”** – High likelihood, High impact (HH)



“The weakness is almost bound to happen or is already happening (likelihood) and could have a significant impact on the Comhairle’s services, reputation, control, financial position, statutory, regulatory or constitutional compliance if not contained”

Grade 2 - **“Contingent/Insurable Risk”** - Low likelihood, High impact (LH)



“The weakness is unlikely to happen, but would have a significant impact on the Comhairle’s services, reputation, control, financial position, statutory, regulatory or constitutional compliance if it did occur”

Grade 3 - **“Housekeeping”** – High likelihood, Low impact (HL)



“The weakness is almost bound to happen or is already happening but is unlikely to have a material impact on the Comhairle’s services, reputation, control, financial position, statutory, regulatory or constitutional compliance, and can be contained”

Grade 4 - **“Value for Money”** – High likelihood, Value for money impact (HV)



“The weakness is almost bound to happen or is already happening but if contained would have a positive impact on economy, efficiency and effectiveness in the use of resources”

Where we have identified isolated exceptions in our sample testing, and we consider that:-

- they are unlikely to recur; and
- would have no significant impact if they should occur;

we have classified them as low likelihood and low impact (LL), discussed them with relevant officers and detailed them in Appendix B to the Report.

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

1.8 The recommendations can be summarised and prioritised as follows:

| | Recommendations | Overall Gradings | | | |
|-----|---|---|---|---|---|
| | | 4 | 3 | 2 | 1 |
| 2.1 | <p>A report be put before the IJB at the earliest opportunity in order to communicate any potential funding issues and to make the board aware of any required changes to service delivery models as a result of funding gaps identified.</p> <p>Updates outlining current financial position to be provided as a standing item until the conclusion of each project.</p> |  | | | |
| | <p>Arrangements be made to communicate key risks to all members of the IJB at each scheduled meeting. In addition, in the event of material change occurring outwith the planned schedule of meetings, these must be notified to members of the IJB timeously.</p> |  | | | |
| 2.2 | <p>Project updates be provided as a standing item at each meeting, with reports submitted to the Scottish Government and each of the parent body's committees also considered for circulation to IJB members.</p> |  | | | |

1.9 We would like to thank all staff for the co-operation and goodwill we received during the course of our internal audit fieldwork.

For Integration Joint Board Internal Audit Section
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9 November 2020

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

SECTION 2 - DETAILED FINDINGS AND RECOMMENDATIONS

| FINDINGS AND IMPLICATIONS | RISK RANKING | | RECOMMENDATION | GRADE | MANAGEMENT COMMENT |
|---|--------------|----------|--|----------|--|
| | L | I | | | |
| Control Objective 1: Each relevant partner organisation has identified adequate levels of capital funding to enable relevant capital projects to go ahead whilst considering ongoing revenue funding requirements. | | | | | |
| <p>2.1 From reviewing previous meetings of the Integration Joint Board it is evident that funding arrangements of the new care facility at Goathill have been discussed periodically. However, revenue estimates were last presented to the board in March 2019 when a shortfall of approximately £392k was reported. From discussions with management we understand that this revenue funding gap has now increased significantly. A gap analysis of staffing required for the facility is also underway.</p> <p>An update should be provided to the board as a matter of urgency with assurances provided as to how the funding gap will be addressed, whether there are any further cost implications as a result of the staffing gap analysis and whether the proposed service delivery model will be affected. Updates should also be given on a much more frequent basis. Also, as the project in Barra progresses, regular finance updates should be provided to the board to keep members informed of potential funding gaps at the earliest opportunity.</p> | H | H | A report be put before the IJB at the earliest opportunity in order to communicate any potential funding issues and to make the board aware of any required changes to service delivery models as a result of funding gaps identified. | 1 | <p>CFO has written to the CEO/CO outlining that due consideration resulting from two factors, namely, the increase in workforce, and decrease in anticipated income is acknowledged as the estimated revenue gap is considerable. There is now an urgent need for further and more detailed work in order to ascertain the reason for the shortfall before a comprehensive report is placed before the IJB Members.</p> <p>CFO had advised of a shortfall at the Budget Board and the likelihood of this increasing as being an initial marker. The CFO will include the higher figure in the 3 year financial plan until such time as work has been undertaken to understand the reason and issues contributing to the considerable shortfall in funding.</p> |

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

| FINDINGS AND IMPLICATIONS | RISK RANKING | | RECOMMENDATION | GRADE | MANAGEMENT COMMENT |
|---|--------------|---|--|-------|--|
| | L | I | | | |
| Control Objective 1: Each relevant partner organisation has identified adequate levels of capital funding to enable relevant capital projects to go ahead whilst considering ongoing revenue funding requirements. | | | | | |
| 2.1 | L | H | Updates outlining current financial position to be provided as a standing item until the conclusion of each project. | | <p>A funding report will be placed before the IJB as a matter of priority and then quarterly with any update thereafter.</p> <p>There is a need to confirm the shortfall, although there are external factors such as potential repatriation of cases which may provide some solution to this problem.</p> |

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

| FINDINGS AND IMPLICATIONS | RISK RANKING | | RECOMMENDATION | GRADE | MANAGEMENT COMMENT |
|--|--------------|----------|--|----------|--|
| | L | I | | | |
| Control Objective 1: Each relevant partner organisation has identified adequate levels of capital funding to enable relevant capital projects to go ahead whilst considering ongoing revenue funding requirements. | | | | | |
| <p>2.1 Due to the covid-19 pandemic, the Goathill project has now incurred approximately £1.9m of additional capital costs. A report was submitted to the Comhairle’s Investment Delivery Board detailing this and how the funding gap has been closed, however, it is unclear whether this information has been relayed to the IJB.</p> <p>The potential for further additional costs, delays and other material project risks will need to be monitored and reported to the IJB in a timely manner with updates provided as issues become apparent rather than purely waiting until the next scheduled meeting.</p> <p>Although capital is not delegated to the board, it maintains a significant interest in the matter as it has also set aside a significant amount of capital funding for the project. The delivery of the new campus at Goathill is fundamental to the IJB’s strategic plan therefore, as changes occur within the project, it needs to be provided with the relevant assurances that funding is in place for the project to proceed and continue to be viable.</p> | L | H | <p>Arrangements be made to communicate key risks to all members of the IJB at each scheduled meeting. In addition, in the event of material change occurring outwith the planned schedule of meetings, these must be notified to members of the IJB timeously.</p> | 2 | <p>Agreed.</p> <p>Since IJB consists of Comhairle and Health Board Members some of this will be contained within monitoring reports.</p> <p>However, specific detail will need to be reported directly to the IJB and its Members.</p> |

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

| FINDINGS AND IMPLICATIONS | RISK RANKING | | RECOMMENDATION | GRADE | MANAGEMENT COMMENT |
|--|--------------|---|----------------|-------|--------------------|
| | L | I | | | |
| Control Objective 2: Each relevant partner organisation has appropriate project management and governance arrangements in place with sufficient monitoring and reporting of progress back to the Integration Joint Board. | | | | | |
| <p>2.2 A report by the Chief Officer in March 2020 indicated that governance structures were being developed with regards to the Barra and Vatersay Campus project. We also noted that progress reports regarding both projects have been provided to the board on a number of occasions through written reports and verbal updates. A detailed update on the Barra project was also provided to the September IJB meeting.</p> <p>The Investment Delivery section of the Comhairle, in conjunction with colleagues from NHSWI, have provided detailed progress reports to the Scottish Government regarding the Barra project with a further report due to be submitted in September.</p> <p>These reports provide a great deal of detail within the business case including governance arrangements and risk management processes.</p> | | | | | |

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

| FINDINGS AND IMPLICATIONS | RISK RANKING | | RECOMMENDATION | GRADE | MANAGEMENT COMMENT |
|--|--------------|----------|--|----------|--------------------|
| | L | I | | | |
| Control Objective 2: Each relevant partner organisation has appropriate project management and governance arrangements in place with sufficient monitoring and reporting of progress back to the Integration Joint Board. | | | | | |
| <p>Continued</p> <p>Performance reports submitted quarterly to the Comhairle's Policy and Resources committee also detail progress of both projects. Furthermore, specific reports are produced for the Investment Delivery Board of the Comhairle at key milestones of these projects.</p> <p>Although we recognise that a number of IJB members are also on these committees, consideration should be given to whether these reports can also be distributed to the IJB in order to keep all members informed as much as possible.</p> | H | L | Project updates be provided as a standing item at each meeting, with reports submitted to the Scottish Government and each of the parent body's committees also considered for circulation to IJB members. | 3 | Agreed. |

2.2

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

SECTION 3 - ACTION PLAN

| REF. | RECOMMENDATION | RESPONSIBLE OFFICER | DATE OF IMPLEMENTATION |
|-------------|--|--|--|
| 2.1 | <p>A report be put before the IJB at the earliest opportunity in order to communicate any potential funding issues and to make the board aware of any required changes to service delivery models as a result of funding gaps identified.</p> <p>Updates outlining current financial position to be provided as a standing item until the conclusion of each project.</p> <p>Arrangements be made to communicate key risks to all members of the IJB at each scheduled meeting. In addition, in the event of material change occurring outwith the planned schedule of meetings, these must be notified to members of the IJB timeously.</p> | <p>Chief Finance Officer</p> <p>Chief Finance Officer/Chief Officer</p> <p>Chief Officer</p> | <p>December 2020</p> <p>Ongoing until conclusion of project(s)</p> <p>To be reviewed in April 2021</p> |
| 2.2 | <p>Project updates be provided as a standing item at each meeting, with reports submitted to the Scottish Government and each of the parent body's committees also considered for circulation to IJB members.</p> | <p>Chief Officer</p> | <p>To be reviewed in April 2021</p> |

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT

Responsibility in Relation to Internal Controls

It is the responsibility of the Comhairle's management to maintain adequate and effective financial systems and to arrange for a system of internal controls. Our responsibility as internal auditors is to evaluate the financial systems and associated internal controls. In practice, we cannot examine every financial implication and accounting procedure within an activity, and we cannot substitute for management's responsibility to maintain adequate systems of internal controls over financial systems. We therefore may not identify all weaknesses that exist in this regard.

It is the responsibility of the Comhairle's management to consider the detailed findings of this Report, where such findings have a specific impact on risk registers. This may include a risk that has not yet been identified, or current risk controls which may be required to be updated to reflect any changes as a result of the findings contained in this report.

Responsibilities in Relation to Fraud and Corruption

The prime responsibility for the prevention and detection of fraud and irregularities rests with management. They also have a duty to take reasonable steps to limit the opportunity for corrupt practices. It is our responsibility to review the adequacy of these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity may have occurred and remained undetected.

We nevertheless endeavour to plan our internal audit work so that we have reasonable expectation of detecting material fraud, but our examination should not be relied upon to disclose all such material frauds that may exist.

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

APPENDIX B

ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES AND CONTROLS

| ITEM | ISOLATED EXCEPTION | RESPONSIBLE OFFICER | AGREED Y/N | DATE OF DISCUSSION |
|-------------|---------------------------|----------------------------|-------------------|---------------------------|
| | | | | |

**INTEGRATION JOINT BOARD
INTERNAL AUDIT REPORT
PROJECT MANAGEMENT OF CAPITAL INVESTMENT AND DELIVERY**

APPENDIX C

DEFINITION OF AUDIT OPINIONS

The standard definitions for internal audit assurance over an engagement are as follows:

| Level of Assurance | Definition |
|---------------------------|--|
| Substantial Assurance | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Reasonable Assurance | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Limited Assurance | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| No Assurance | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |