

**Health Professions Council
Audit Committee - 26 June 2007**

INTERNAL AUDIT REPORT – NEW BUILDING PROJECT

Executive Summary and Recommendations

Introduction

As part of the internal audit programme for 2006/7 PKF undertook a review of the New Building Project for 22-26 Stannary Street and procedures at HPC. The attached report which includes a management response was agreed with the Executive in June 2007.

Decision

The Committee is asked to discuss the report.

Background information

None

Resource implications

None

Financial implications

As budgeted for in 2007/08 Financial year

Appendices

None

Date of paper

11 June 2007

Date	Ver.	Dept/Cmte	Doc Type	Title	Status	Int. Aud.
2007-06-11	a	ADT	PPR	Executive Summary 22-26 Stannary Street internal audit report Audit Committee 26 June 2007	Final DD: None	Public RD: None



Accountants &
business advisers



New Building Project

May 2007

Final - Confidential

Assurance Level: Satisfactory – Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.

Staff Interviewed – Simon Leicester, Stephen Hall, Charlotte Milner, Shelagh Gillick

Audit Team – Mark Wonnacott

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1 Introduction

- 1.1 This review forms part of our 2006/2007 internal audit, which has been carried out in accordance with the programme which was agreed with the Audit Committee in June 2006.
- 1.2 The Health Professions Council (HPC) is in the process of expanding its premises in Kennington through an adjacent property, 22 – 26 Stannary Street, which it acquired in July 2005. The new building was previously occupied by a commercial printer and requires extensive refurbishment. This New Building Project was budgeted to be £1.4m.
- 1.3 The aim of the audit was to carry out a review of the New Building Project and consider the adequacy and appropriateness of the arrangements for:
- Risk management;
 - Governance;
 - Financial management, including budgetary control and payments;
 - Contract management; and
 - Reporting.
- 1.4 The work was carried out primarily by holding discussions with relevant staff, reviewing available documentation and evaluating and testing controls in order to determine their effectiveness.
- 1.5 This report has been prepared as part of the internal audit of the Health Professions Council under the terms of the contract for internal audit services. It has been prepared for the Health Professions Council and we neither accept nor assume any responsibility or duty of care to any third party in relation to it. The conclusions and recommendations are based on the results of audit work carried out and are reported in good faith. However, our methodology is dependent upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

2 Executive Summary

2.1 This report summarises the work undertaken by PKF and our conclusions on the New Building Project in Stannary Street. The work was performed as part of our internal audit plan for 2006/07.

Overall Conclusion

2.2 Review of the processes and controls in place indicated that the project under review was being managed effectively and that the control procedures were appropriate and operating as intended. However, we have raised two best practice recommendations. We have assessed the internal controls as **Satisfactory**.

2.3 Our review of the governance arrangements for project showed that two groups have been established to run the project at an operational level – the Client Project Group and Consultant Group. These have appropriate membership and meet on a regular basis to ensure that progress is made towards the completion of the New Building Project (the Project).

2.4 There has also been regular reporting to the HPC Council and the Finance and Resources Committee (F & R Committee) relating to the New Building Project. The F & R Committee received reports relating to the Project on the 22nd June 2006, 20th November 2006 and 21st March 2007. Management has also ensured that the experience and expertise of the Council and Committee members has been utilised where appropriate. However, we noted that the risk management arrangements have not been formally documented and therefore the extent of risk and how it is being managed is less transparent.

2.5 We understand that reports on progress to the F & R Committee will continue throughout the life of the Project. Given the significance of the Project to HPC, this formal reporting needs to ensure that the F & R Committee is aware of all significant steps in the Project and the progress against the agreed budget and timescale.

2.6 Our review of the financial management arrangements and the payment mechanism for the Project showed that the controls are appropriate and operating. The budget for the Project has been approved by the F & R Committee and the Project has its own cost centre to ensure that the costs relating to it can be monitored and reported on an ongoing basis. Delegated authorities are in place to ensure that all payments receive the appropriate authorisation and all payments tested were made in accordance with the HPC procedures.

2.7 We have made best practice recommendations in respect of:

- Regular, formal reporting to the F & R Committee in order to ensure that the cost and timeliness of the Project is monitored at a Committee level; and

- Development of a project risk register for use at the Client Project meetings in order to ensure that risk management is used to drive the project on an ongoing basis.

2.8 Finally we wish to thank all members of staff for their availability, cooperation and assistance during the course of our review.

PKF (UK) LLP

May 2007

3 Detailed Findings

Background

- 3.1 The HPC is in the process of expanding its premises in Kennington. The need for expansion arises from:
- the increase in the number of registrants in recent years;
 - the increasing number of professions to regulate;
 - rise in the number of employees from 36 in 2001 to 90 in 2006; and
 - the increasing number of tribunals that are taking place.
- 3.2 The original building is Park House, which is located at 184 Kennington Park Road, Kennington. Park House is joined via a covered bridge to 20 Stannary Street. The adjacent property, 22 – 26 Stannary Street, was acquired in May 2005 in order to meet the continuing need for additional space.
- 3.3 The additional property is a 1950's building and was previously occupied by a commercial printer. The New Building Project aims to convert this into suitable space and to link it with the existing properties. Once the Project has been completed the new premises will comprise a Customer Service Centre housing approximately 40 staff, a new Council Chamber, a number of new meeting rooms and general office facilities.
- 3.4 The Project is significant to HPC both in its size and nature, falling outside the usual range of activities that HPC carries out. Particular risks to HPC from the Project include:
- Cost overrun;
 - Poor value for money;
 - The completed Project does not meet requirements;
 - Significant delay in completion; and
 - Significant disruption to existing activities.

Governance Arrangements

Our assessment

- 3.5 Our review indicated that the governance arrangements for the Project were appropriate and were operating effectively. We have made one recommendation in relation to regular formal reporting to the F & R Committee.

Our findings

- 3.6 Best practice for the governance of building projects of this size and nature include ensuring that:
- Roles, responsibilities and authorities are clear;
 - The management team has sufficient skills and experience in respect of building projects;
 - Procedures for letting and running contracts are clear;
 - All key decisions are supported by an appraisal of relevant options and documented;
 - The progress of the project is monitored both through management and through the Committee structure;
 - There is a mechanism for escalating and addressing exceptions
- 3.7 There are two groups that have been set up to run the Project on an ongoing basis. The Client Project Group comprises of the HPC Chief Executive, Facilities Manager and representatives from the Architect, Studio Callaghan and the Quality Surveyor, Davis Langdon LLP. This meets on a regular basis. Its role is to provide direction to the overall Project.
- 3.8 The Consultant Group consists of the HPC Facilities Manager, the Client Representative, and representatives from the Architect, Studio Callaghan, the Quality Surveyor, Davis Langdon LLP and the other Consultants working on the project as requested. This group is working at a lower level on the detail of the work being conducted on the refurbishment. It has met seven times. Issues arising within this Group may be escalated to the Client Project Group.
- 3.9 All meetings of the Client Project Group and the Consultant Group have been minuted and show that the Project is being managed and reported on a regular basis and decisions supported by appropriate levels of evidence..
- 3.10 There has also been regular reporting to the HPC Council and the F & R Committee on the Project. The Chief Executive has reported to Council as part of the Chief Executive Report to ensure that the Council is aware of the Project progress and developments.
- 3.11 The F & R Committee received reports relating to the Project on the 22nd June 2006, 20th November 2006 and 21st March 2007. We understand that it is intended that reports will be prepared for the F & R Committee on progress throughout the life of the Project. In order to ensure that there is an appropriate level of scrutiny of the Project, this needs to continue and cover progress and costs.

Recommendation

R1 Regular, formal reporting to the Finance and Resources Committee should be carried out in order to ensure that the project is monitored at a Committee level with regard to the progress of the project, costs incurred on the project and the projected timing of the completed project.

3.12 The Facilities Manager has also set up a Contact List giving the names, addresses, phone numbers and email addresses of all the parties involved within the project. This includes the following:

- HPC Facilities Manager;
- Client Representative;
- Architect – Studio Callaghan;
- Planning Supervisor – Davis Langdon LLP;
- Cost Consultant – Davis Langdon LLP;
- Structural Engineer – Built Engineers Ltd;
- Services Engineer – Fulcrum Consulting;
- Acoustic Consultant – Fleming and Barron;
- Fire Consultant – Bodycote Warringtonfire Consulting;
- Dimensional Surveyor – Plowman Craven and Associates;
- Superstructure and Ground Investigation Surveyor – Sandberg Consulting Engineers;
- Party Wall Surveyor – Hawton Shore and Associates;
- Local Authority and Statutory Approvals – London Borough of Lambeth:
 - Planning;
 - Conservation; and
 - Building Control.
- Local Authority and Statutory Approvals – Fire Brigade; and
- Local Authority and Statutory Approvals – English Heritage.

Risk Management Arrangements

Our assessment

3.13 Our review indicated that the risk management arrangements in place over the Project have not been formally documented. We have made a best practice recommendation in relation to formalising the risk management arrangements.

Our findings

- 3.14 Best practice in managing projects of this type includes the assessment and management of Project risks and regular reporting on any changes in these risks and the extent to which they have been mitigated.
- 3.15 Whilst there has been a consideration of risks and how they will be managed, the risk management arrangements for the Project have been informal. There is no documented risk register, monitoring of risk movements, assessment of risk mitigations or formal reporting on risk issues. We have made a best practice recommendation below to ensure that the risks relating to the project are documented and used as a tool to manage the project on an ongoing basis.

Recommendation

R2 A project risk register should be established and approved and used as a tool to manage the project.

Financial Management including Budgetary Control and Payment Mechanism**Our assessment**

- 3.16 Our review indicated that appropriate controls are in place to ensure effective financial management of the Project.

Our findings

- 3.17 Best practice for financial control for a project of this nature includes:
- Clear delegation of authority;
 - Segregation of duties such that each financial decision or transaction involves more than one person;
 - Documentation of decisions and activity;
 - Clear procedures;
 - Effective monitoring.
- 3.18 The following delegated authorities have been put in place over expenditure relating to the Project. For expenditure up to £5,000 the Facilities Manager has the authority to authorise the expenditure. For expenditure between £5,000 and £25,000 the Facilities Manager has the authority to authorise the expenditure but in addition it also needs to be countersigned by

the Chief Executive. For expenditure over £25,000 the President acts as the final additional authorisation. These should provide for close control and segregation of duties.

- 3.19 Purchases relating to the Project have followed the standard HPC procedures. The process commences with the Facilities Manager completing a purchase order. The Facilities Manager sends orders to the suppliers directly and retains a copy of the purchase order. The purchase order agrees the price of the services being delivered. The subsequent invoices are sent to direct to the Finance Department. Invoices are dated stamped on receipt and attached to Purchase Ledger details form (Payment authorisation sheet). The invoice and payment authorisation sheet is then sent to the Facilities Manager for payment approval. The Facilities Manager signs the payment approval form, codes the expense to the project and attaches the purchase order and sends back to the Finance Department.
- 3.20 The purchase order book was issued from finance to the Facilities Manager and the purchase ledger officer maintains a list of those that are issued. The list details the order numbers, the department and the date issued.
- 3.21 Our testing indicated that purchases made relating to the Project were being made following the procedure above, correctly coded and that they received the correct level of authorisation in accordance with the delegated authorities.
- 3.22 There is an individual budget in place for 22 – 26 Stannary Street which has been approved at Council. This will be monitored and reported against as part of the overall budgetary control arrangements in place at HPC throughout the year. Expenditure is coded to this cost centre to ensure that costs can be monitored on an ongoing basis. There is also a Capital Expenditure in place which will also be monitored throughout the year. To aid this process a projected cash flow of the project has been drawn up by David Langdon.

Contract Management and Examination of the Reporting Mechanisms

Our assessment

- 3.23 Our review of the contract management and the reporting mechanisms in place indicated that the contract is being run to ensure that there is the appropriate level of senior management involvement and also Committee member involvement.

Our findings

- 3.24 The arrangements for the management of the contract and the reporting mechanisms are as documented in the governance arrangements earlier in the report. The Project is entering a key phase following the award of the planning permission.
- 3.25 The paper to the F & R Committee on the 21st March 2007 report presented the stage D project report and also appendices including the structural engineers drawings, fire strategy

and acoustics and noise emissions reports. The paper also presented a review of the contract procurement by Davis Langdon which reviewed the five options available and recommends the single stage traditional lump sum approach.

- 3.26 Following this the tender process has progressed and Davis Langdon have assisted with the drafting of the pre qualification questionnaire, shortlisting of the candidates and making estimates of the project cost report to assist in the tender process. The tenders for the major works have been are to be opened on the 11th June 2007. Following this process and the appointment of a contractor, the works will commence on the refurbishment.
- 3.27 As part of this process management are being assisted by the Chair of the Finance and Resources Committee who will also be at the opening of the tenders that are received and will also assist in the decision process.
- 3.28 We have made best practice recommendations in this report to ensure that there is regular formal reporting on the progress of the Project throughout 2007/08 as the refurbishment progresses.

4 Action Plan

Ref.	Findings	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R1	<p>The Finance and Resources Committee (F & R Committee) has now had three reports relating to the Stannery Street project on the 22nd June 2006, 20th November 2006 and the 21st March 2007. We understand that the project will continue to report to the Finance and Resources Committee on an ongoing basis throughout the life of the project.</p> <p>To ensure the project complies with best practice and given the size of the project this formal reporting should ensure that the F & R Committee are aware of all significant steps and the continuing progress against the agreed budget and the agreed timescale.</p>	<p>Regular formal reporting to the Finance and Resources Committee to ensure that the project is monitored at a Committee level with regard to the progress, cost and timing of the completed project.</p>	<p>Medium</p>	<p>Agreed - We will report to the F7R Committee on an ongoing basis. <i>Facilities Manager</i></p>	<p>09/07</p>
R2	<p>The risk management arrangements relating to the project have been informal to date. There is no documented risk register in place for the project.</p>	<p>A project risk register should be established and approved and used as a tool to manage the project.</p>	<p>Medium</p>	<p>Agreed – project risk register will be formulated. <i>Facilities Manager</i></p>	<p>09/07</p>

5 Assurance Definitions

Assurance Level	Definition
Sound	Satisfactory design of internal control that addresses risk and meets best practice and is operating as intended.
Satisfactory	Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.
Satisfactory in Most Respects	Generally satisfactory design of internal control that addresses the main risks and is operating as intended but either has control weaknesses or is not operating fully in some significant respect.
Satisfactory Except For....	Satisfactory design of internal control that addresses the main risks and is operating as intended in most respects but with a major failure in design or operation in the specified area.
Inadequate	Major flaws in design of internal control or significant non operation of controls that leaves significant exposure to risk.