

Audit Committee, 19 March 2015

Internal Audit Report – Project Management

Executive summary and recommendations

Introduction

As part of the Internal Audit Plan for 2014-15 Mazars have undertaken a review of arrangements for project management. This included review of the management of the major projects.

Decision

The Committee is asked to discuss the report

Resource implications

None

Financial implications

Mazars' agreed fees in 2014-15 are £24,000 including VAT and expenses.

Appendices

Internal Audit Report – Project Management

Date of paper

12 March 2015



Internal Audit Report

**Project Management
(05.14/15)**

February 2015

FINAL REPORT

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Appendix 1 – Definitions of Assurance Levels and Recommendations

AUDIT CONTROL SCHEDULE:

Client contacts	Greg Ross-Sampson: Director of Operations Claire Reed: Project Portfolio Manager	Internal Audit Team	Peter Cudlip: Partner Graeme Clarke: Director James Sherrett: Manager Adam Gould: Senior Auditor
Finish on Site \ Exit Meeting:	26 November 2014	Management responses received:	4 February 2015 16 February 2015
Date last information received:	9 December 2014		
Draft report issued:	20 January 2015	Final report issued:	16 February 2015
Revised draft report issued:	13 February 2015		

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Status of our reports

This report is confidential and has been prepared for the sole use of Health & Care Professions Council (HCPC). The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

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1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2014/15, we have undertaken a review of the Health and Care Professions Council's (HCPC) arrangements for Project Management. This included review of the management of the major projects for Fees Review (Major Project 71) and SAGE and PRS upgrade (Major Project 74).
- 1.2 Within our Internal Audit Strategy, we have provided resources for consideration of project management/individual projects on an annual basis due to there being a number of risks associated with projects on HCPC's Corporate Risk Register.
- 1.3 As part of our Follow Up audit in 2014/15 (report reference 02.14/15) we followed up on progress made in the implementation of recommendations raised as part of our Project Management audit in 2013/14 (06.13/14). Two recommendations were made in our 2013/14 audit of this area. At the time of our Follow Up audit the one Priority 2 recommendation had been implemented and the one Priority 3 recommendation was in progress. This review found that the Priority 3 recommendation is currently on course to be implemented by the end of 2014/15 in accordance with the planned implementation date.
- 1.4 We are grateful to the Project Portfolio Manager, Project Managers and other members of staff for their assistance during the course of the audit.
- 1.5 The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

2. BACKGROUND

- 2.1 Project management is the way of managing change. It describes the activities that meet specific objectives and can be used to introduce or improve new or existing products and services.
- 2.2 HCPC, in maintaining its operations, conducts numerous projects to ensure it remains a streamlined and efficient organisation. These projects are overseen by the Project Management team.
- 2.3 The Project Management team reports to the Director of Operations and currently consists of the Project Portfolio Manager, two Project Managers, Senior Project Manager and a Project Administrator. The team use Microsoft Project for the ongoing project management of all projects and use a project management methodology that is based upon PRINCE2. We understand this methodology is currently under review within HCPC.
- 2.4 Each year the Project Portfolio Manager invites the Directors to produce Business Cases for projects they would like to initiate in the next financial year. All Business Cases for major projects are collated by the Project Portfolio Manager and presented to the Executive Management Team (EMT) at an away day designed to decide which major projects to initiate and to prioritise them. These Business cases, which include the relevant Project Sponsor, the budget and resources and time frames, are considered by the EMT in relation to the following financial year and to determine which projects should go ahead.
- 2.5 An indicative Major Projects work plan is produced and presented to the Finance and Resources Committee who are asked to "discuss the proposed workplan and agree its contents". The Committee in turn recommend the workplan to the Council

for approval. As part of the revised governance structure, the work of the Finance and Resource Committee will be subsumed into the work of the Council.

- 2.6 Once approved, progress and budget reports are regularly provided to EMT to help ensure projects are delivered to cost and timescales. A project finance template has been developed which is designed to enable easier monitoring of the financial position of projects.
- 2.7 A Project Management Update is also provided as part of the Operations Report to each Finance and Resources Committee meeting. In addition, detailed reports on individual projects may also periodically be presented to the Council.

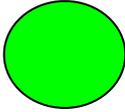
3. SCOPE AND OBJECTIVES OF THE AUDIT

- 3.1 Our audit considered the following risks relating to the area under review:
- Poor and/or unrealistic project initiation, specification and objectives leading to failure to deliver project objectives and HCPC requirements;
 - Poor project management and monitoring resulting in delays in delivery of projects and/or cost over-runs; and
 - Ineffective post-project review and evaluation resulting potential improvements for future projects not being identified and acted on.
- 3.2 In reviewing the above risks, our audit considered the following areas:
- Project management framework including Project Management Handbook, procedures/templates and guidance covering project management activities;
 - Review of agreed projects (MP 71 - Fees Review and MP 74 - SAGE and PRS upgrade) from the initial stages through to where the project is in progress covering:
 - Project Initiation Document (PID)
 - Initial plan
 - Risk and Issues logs
 - Budgetary control
 - Quality log
 - Stakeholder Analysis and Communications Plan
 - Resource management
 - Approval of projects by EMT/Committee/Council
 - Monitoring of the operational and financial progress of projects by project team/EMT/Committee/Council
 - Escalation of project risks from individual project risk logs/registers to the project management section of the corporate risk register and strategic risks, as appropriate.
- 3.3 The objective of our audit was to evaluate HCPC's controls and processes for the management of Project Management and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot

be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

- 3.4 We are only able to provide an overall assessment on those aspects of the controls and processes for management of Project Management that we have tested or reviewed. The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.

4. AUDIT FINDINGS: ONE PAGE SUMMARY

Assurance on effectiveness of internal controls	
	Substantial Assurance

Recommendations summary	
Priority	No. of recommendations
1 (Fundamental)	None
2 (Significant)	1
3 (Housekeeping)	4
Total	5

Risk management
<p>Project risk logs are in place for individual projects and at the end of a project the risk log is reviewed as part of the 'lessons learned' meeting.</p> <p>The Project risk logs contain risks which are risks to the success of that particular project. These tend to be very operational and it is therefore unlikely that these individual risks will be sufficiently high in terms of likelihood and/or impact to be required to be escalated to the project management section of the HCPC Corporate Risk Register. These are risks to the success of a project not risks to the operation or success of HCPC as a whole. We noted that there is an appropriate risk escalation process in place for the escalation of risks from the project risk logs to the Corporate Risk Register. However, in the instances reviewed none of the project risks were deemed to be significant at an organisational level.</p> <p>We identified as part of our testing that the risks identified within the project risk logs have not received a risk score in a number of instances. Furthermore, two of the risks included within the risk register for the SAGE and PRS Upgrade project are not project specific risks.</p>

Value for money
<p>The Project Management team has a well-developed project management approach which adopts the widely recognised PRINCE2 methodology and uses Microsoft Project. Project management processes are therefore streamlined whilst being appropriately robust.</p> <p>HCPC classify projects as either major projects or departmental projects. HCPC require a project to meet two of the five classification criteria for a project to be classified as major. Major projects are managed by the Project Management team and departmental projects are managed by a member of the relevant departmental team. By creating a two tier response level for projects HCPC are ensuring that project management expertise is appropriately allocated to projects based on the projects importance and overall risk to the organisation.</p>

5. SUMMARY OF FINDINGS

Overall conclusion on effectiveness and application of internal controls

- 5.1 Taking account of the issues identified in paragraphs 5.2 and 5.3 below, in our opinion the control framework for Project Management, as currently laid down and operated at the time of our review, provides **adequate assurance** that risks material to the achievement of HCPC's objectives in respect of this area are adequately managed and controlled.

Areas where controls are operating effectively

- 5.2 The following are examples of key controls which we have considered are operating effectively at the time of our review:
- HCPC has documented a detailed Project Management Guide for major projects. The Project management guide details three key stages (Project Start Up, Project Initiation and Managing Project build) and the various activities required to be completed at each stage. HCPC detail the action required for each activity, the preparer, the reviewer/authoriser, who presents it to EMT and the deadline;
 - The Project Initiation Document 'PID' has been completed for both projects reviewed. In addition, we were able to agree the authorisation of the PID to EMT minutes;
 - We confirmed a detailed 'product and work breakdown structure' had been compiled for both projects. The breakdown detailed the tasks and activities required to be completed as part of the project;
 - A project plan had been completed for both projects reviewed. The plan consisted of a Gantt chart detailing each task and the timeframe the activity is required to be completed by. We were informed by the Project Manager for the SAGE and PRS Upgrade project that none of the outstanding activities are on the critical path and would not result in a delay to the project. There has been a delay to the 'Fees Review' project but this has been appropriately managed through the generation of exception reports;
 - We tested two controls within the project risk registers and in both instances we were able to confirm the control tested had been implemented and was operating effectively;
 - We noted that a budget had been compiled for both projects as part of the Initiation Stage. Each budget detailed both the capital and operational expenses and was reviewed by the EMT;
 - For both projects reviewed, initial issues have been captured by the Project Manager and evidence was obtained demonstrating they have been monitored and appropriately amended since identification; and
 - Progress reports are presented on a fortnightly basis to EMT. The progress reports provide high level commentary on the status of the project. A RAG system has been employed to indicate the likelihood of the project meeting its deadline and a pictorial system has been utilised to indicate whether the status of the project has improved or declined since the last reporting cycle.

Areas for further improvement

- 5.3 We identified certain areas where there is scope for further improvement in the control environment. The matters arising have been discussed with management,

to whom we have made a number of recommendations. The recommendations have been, or are being, addressed as detailed in the management action plan (Section 6 below).

Other matters

- 5.4 All projects are managed in line with the HCPC Project Management Guide. The project management approach used is PRINCE 2. One of the Principles of PRINCE2 is 'Tailor to suit the project environment'. Consequently HCPC project managers manage the projects according to PRINCE2 but tailor their approach to ensure that it is appropriate to the environment and to the project. The Project Management Guide lists the required documents to be completed including an initial issues log. There was no such log produced for the Fees Review project which reflects that there were no initial issues identified and that it is not appropriate for blank documentation to be presented to EMT for review.

6. ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> As part of the 'Project Start Up' stage the Project Lead or Sponsor is required to prepare a Business Case and a Portfolio-ready budget. The EMT then reviews and, if appropriate, approves the documents.</p> <p>We were not able to locate a Business Case and a Portfolio-ready Budget for the Fees Review Project and were informed that one had not been prepared.</p> <p><i>Risk:</i> There is an increased risk that financial and operational resources are utilised without the business case being approved.</p>	<p>The project team should be reminded of their responsibility to ensure the 'Project Start Up' stage is completed in all instances.</p> <p>In addition, a check should be performed by the Project Portfolio Manager that a Business Case has been completed before the PID is submitted.</p>	3	<p>A business case is a document that lays out the business reasons as to why a project should be initiated. It provides information to allow the EMT to make a well-informed decision to proceed with the project or not.</p> <p>The Fees review project is run on a regular basis by the HCPC. EMT are familiar with the format of the project, the resources required and the activities that will be undertaken. In addition it is ultimately the decision of Council as to whether a project to increase the fees should be undertaken or not.</p> <p>Due to the above, the project team, along with the temporary project portfolio manager, took the decision that it would be more appropriate for the Council-approved fees change proposal to be utilised in lieu of the business case. This has been documented in the briefing note tabled to Mazars. The briefing note has been placed on the project file as an explanation of why this decision has been taken.</p> <p>EMT approval for initiation was predicated on receiving Council approval for the fees increase.</p> <p>The above circumstances seem to be an appropriate exception to the standard process as the work that would have been undertaken to write the business case was instead undertaken to write the fees change proposal. This decision to make this project an exception was taken in conjunction with the temporary project portfolio manager, was documented and the fees change proposal was approved by Council, which is obviously a higher level of approval than EMT.</p>	

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
				<p>No other projects are lacking a business case and to avoid any confusion in the future, all projects, whether repetitive or not will have a business case.</p> <p>One of the PRINCE2 Principles (capitalised to indicate this is an official PRINCE2 term) is 'Tailor to suit the project environment'. Therefore all the HCPC project managers manage the projects according to PRINCE2 but tailor their approach to ensure that it is appropriate to the environment and to the project.</p>	
6.2	<p><i>Observation:</i> The Project Manager is responsible for ensuring the Quality Log is regularly updated.</p> <p>The Quality Log for the Fees Review project has not been updated since the inception of the project.</p> <p><i>Risk:</i> By not ensuring the quality log is authorised/updated regularly there is an increased risk that quality management is not effective.</p>	<p>The Project Managers should be reminded of their responsibility to ensure the Quality Log is updated /authorised on a regular basis.</p> <p>The Quality Log for the Fees Review should also be reviewed and updated as required.</p>	3	<p>All project managers have been reminded to ensure that the Quality Logs are kept up to date.</p> <p>The Quality Log for the fees project has been updated.</p>	

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.3	<p><i>Observation:</i> The Project Manager is responsible for ensuring the Issues Log is regularly updated.</p> <p>The Issues Log for the Fees Review project has not been updated since April 2014. We were informed there had been a number of updates to three issues which had been recorded as critical.</p> <p><i>Risk:</i> By not recording the current status of issues there is an increased risk of review issues if the reviewer is unaware that critical issues have been addressed.</p>	<p>The Project Managers should be reminded of their responsibility to ensure the Issues Log is updated /authorised on a regular basis.</p> <p>The Issues Log for the Fees Review should be reviewed and updated as required.</p>	3	<p>All project managers have been reminded to ensure that the Issue Logs are kept up to date.</p> <p>The Issues Log for the fees project has been updated</p>	

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.4	<p><i>Observation:</i> Each project plan is required to have a minimum of 15% of the total planned days recorded as a contingency line.</p> <p>We noted that for the Sage and PRS Upgrade project a contingency total of 10 days has been recorded on the plan. The minimum required according to the methodology is 15 days.</p> <p>We were informed that this requirement was not applicable to the Fees Review project as the requirement was introduced after the plan had been approved.</p> <p><i>Risk:</i> By not applying the correct contingency there is an increased risk of actual time exceeding the budgeted time.</p>	<p>Project Managers should be reminded of their responsibility to ensure a minimum of 15% contingency time is recorded on each major project. The contingency for each project should also be scrutinised going forwards in order to ensure the correct amount is recorded.</p> <p>Where appropriate, the contingency allocation for projects initiated prior to the revised methodology should be reviewed to confirm whether it is appropriate.</p>	3	<p>The contingency for the Sage and PRS project was set at less than 15% due to a calculation error and was due to a non-compliance with the process rather than due to the process itself.</p> <p>All project managers have been reminded that they must include a 15% time contingency in their planning and an initiation check list has been compiled to ensure that it is verified prior to being presented to the Portfolio Manager for submission to EMT.</p> <p>All projects that were initiated prior to the methodology being amended will not have their contingency reviewed as it would not be prudent or appropriate to bring unnecessary exception reports to EMT simply to retrofit projects to current methodology. Should a project require to extend its timeline, consideration will be given at that point as to whether it would be prudent to request additional time to allow for contingency. It is to be noted that contingency is set at the relatively high point of 15% at initiation due to the lack of accuracy in predicting events so far in advance. Should a project be nearer to completion when requesting extra time, 15% contingency may be excessive.</p> <p>It is worth noting that a 5 day overrun on a project would have a negligible effect on the organisation.</p>	

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.5	<p><i>Observation:</i> All project budgets at the Project Initiation stage are required to have 15% contingency set as individual budget line both in capital expenditure (CAPEX) and operating expenditure (OPEX).</p> <p>We identified with the SAGE and PRS Upgrade project that 15% had not been correctly applied to the budget. This resulted in the project being under-budgeted by £1,139.</p> <p>We were informed that HCPC has since automated the calculation of the contingency amount.</p> <p><i>Risk:</i> By underestimating the contingency there is an increased risk of the management accounts being understated.</p>	See recommendation above at 6.4.		<p>The contingency for the Sage and PRS project was set at less than 15% due to a calculation error and was due to a non-compliance with the process rather than due to the process itself.</p> <p>All project managers have been reminded that they must include a 15% budget contingency in their planning and an initiation check list has been compiled to ensure that it is verified prior to being presented to the Portfolio Manager for submission to EMT.</p> <p>All projects that were initiated prior to the methodology being amended will not have their contingency reviewed as it would not be prudent or appropriate to bring unnecessary exception reports to EMT simply to retrofit projects to current methodology. Should a project require to increase its budget, consideration will be given at that point as to whether it would be prudent to request additional time to allow for contingency. It is to be noted that contingency is set at the relatively high point of 15% at initiation due to the lack of accuracy in predicting events so far in advance. Should a project be nearer to completion when requesting extra time, 15% contingency may be excessive.</p> <p>It is worth noting that a £1,400 overspend on a project would have a negligible effect on the organisation.</p>	

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.6	<p><i>Observation:</i> A risk log is required to be compiled as part of the 'Initiation' stage and subject to regular review as part of the 'Managing Project Build' stage.</p> <p>The project risk register should only contain risks relating to the successful completion of the project and not risks faced at an organisational level. We noted that for the SAGE and PRS upgrade project, five risks have been recorded on the risk log. Two of the risks are not project specific risks. i.e. 'Upgrade Albacs to C-series'. The two risks relate to the risks faced by the organisation in not upgrading software as opposed to relating to the successful completion of the project. One of the recorded risks has not been scored; therefore it is showing a gross risk of 0.</p> <p>We noted that for the Fees Review project three risks have not been scored post mitigation.</p> <p><i>Risks:</i> By not completing a robust risk identification process there is an increased risk that significant risks are not appropriately mitigated.</p>	<p>Project Managers should be reminded that all risks should be scored and respective risk registers for Sage and PRS and Fees projects updated accordingly.</p> <p>In addition, the guidance should clearly state that only project specific risks should be included on the project risk register.</p>	2	Project managers have been reminded that all risks should be scored and the respective risk registers have been updated. It is not necessary to update the project management guide to state that only risks should be included in the register as this is a key requirement of PRINCE2 methodology. The project management guide is not intended to replicate the PRINCE2 methodology.	

Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, HCPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, HCPC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.