

**Report on Spot Checks of Capital Projects
funded by the Department of the
Environment, Heritage and Local
Government**

20 October 2009

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Executive Summary

Introduction

Ernst & Young were commissioned to undertake a major 'spot check' assignment examining capital projects on behalf of the Department of the Environment, Heritage and Local Government. The Department of Finance Guidelines require that on-the-spot checks are completed. Compliance has been assessed against a range of key rules and guidelines including the Department's Capital Appraisal Guidelines. A list of the rules and guidelines are noted in Table A.2 in Appendix A.4. We also assessed compliance with the Department of the Environment, Heritage and Local Government own internal guidelines.

In line with Department of Finance guidelines, Ernst & Young on behalf of the Department of the Environment, Heritage and Local Government, examined a sample set of projects, carefully selected in accordance with a number of set criteria (value, geography, programme, year, etc.). The sample was drawn from capital projects which were in existence during 2006 and/or 2007 and was equally spread across the various programme areas. The 143 projects selected for the on-the-spot checks were valued at approximately €330m and covered 9 programme areas (e.g. housing, water, waste etc.).

Overview

The exceptions/issues as documented in Figure A, below, are clear. There are two significant outliers - incomplete /no formal appraisal performed and no project brief - over 65% of projects suffer from both.

A number of other issues/exceptions occur in 20% - 40% of projects, while the other exception categories are found in approximately 10% or less of projects. In short, project appraisal and planning are clearly key problem areas. Where there are interactions with third parties, exceptions seem to occur less frequently within projects, for example, no evidence of formal Departmental approval occurs in c. 4% of projects.

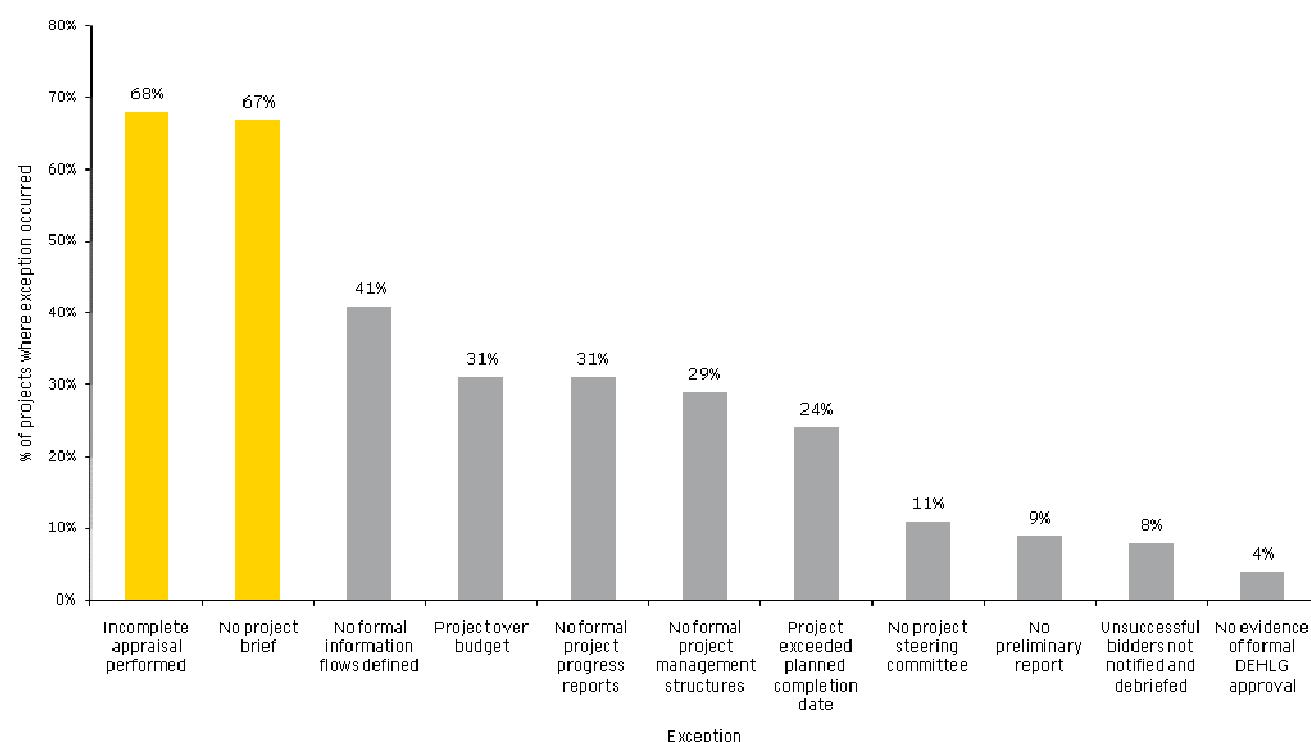


Figure A: Overview of Exceptions for all Projects

Figure B, below, shows both the extent of the identified exceptions by programme area and their relativity in terms of the other key exceptions. The exceptions by stage are also interesting as we see more exceptions (greater proportion of projects have exceptions) being recorded at the 'appraisal' and 'planning' stages.

On a programme basis, while there are differences to the overall trend, we note that not all of the projects experience the same exceptions to similar extents. For example, we saw a limited number of formal project progress reports and formal information flows in programme areas with projects of less monetary spend.

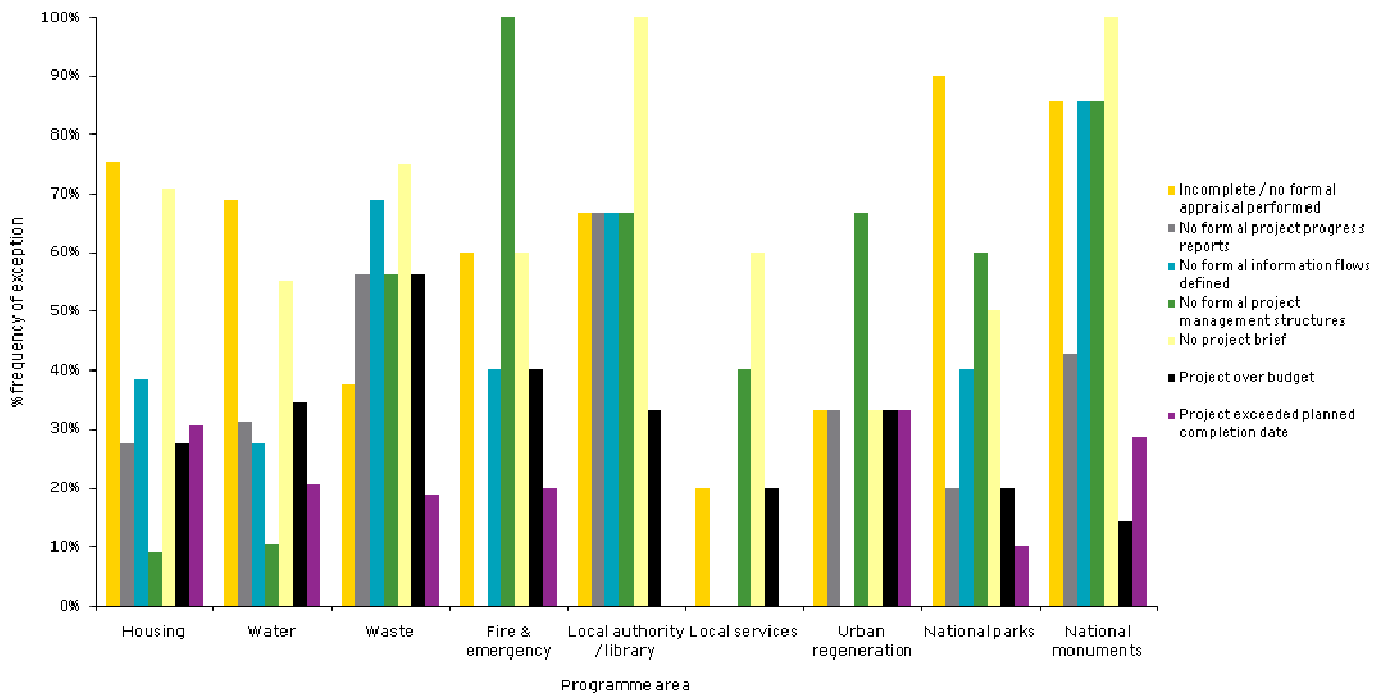


Figure B: - Overview of Exceptions for all Projects at a Programme Level

This report has a number of key findings which are developed in Section 1 of this report and supported by our detailed analysis. In summary form, we have found that:

Some tasks are done well

- ▶ Procurement - local authorities comply with the relevant guidelines.
- ▶ The local authorities are focused on securing the money for the relevant project, albeit the appraisal process is not always completed to the letter of the capital appraisal guidelines. We note that in a large number of cases in programme areas of significant capital spend, the processes adopted mirror the guidelines but are not exact in their delivery.

Yet other tasks are not always completed properly, such as:

- ▶ Project appraisal e.g. appraisal not fully completed
- ▶ Project planning e.g. no project brief, no plan
- ▶ Project implementation e.g. no formal information flows, no steering committee, project over budget, no formal progress reports.

The most frequently occurring exceptions in each programme are set out in Table A.

Table A: Summary of completed spot-checks			
Programme	Total Value of Projects Reviewed (€)	Exception Rate	Most Frequently Occurring Exceptions
Housing Capital Projects	173,027,657	14.8%	1. Incomplete appraisal 2. No project brief 3. No formal information flows
Water Capital Projects	125,625,736	19.5%	1. Incomplete appraisal 2. No project brief 3. Project over budget
Waste Capital Projects	20,625,134	34.8%	1. No project brief 2. No formal information flows 3. No formal reporting
Fire and Emergency Capital Projects	3,150,000	26.3%	1. No formal project management structure 2. Incomplete appraisal 3. No project brief
Local Authority Library Capital Projects	1,355,056	24.6%	1. No project brief 2. Incomplete appraisal 3. No formal project management structure
Local Services Capital Projects	1,109,075	10.5%	1. No project brief 2. No formal project management structure 3. Project over budget
Urban Regeneration Capital Projects	3,250,561	12.3%	1. No formal project management structure 2. Project not completed on time 3. Project over budget
National Parks Capital Projects	1,555,000	20.0%	1. Incomplete appraisal 2. No formal project management structure 3. No project brief
National Monuments Capital Projects	126,782	30.8%	1. No project brief 2. Incomplete appraisal 3. No formal information flows

Concluding Thoughts

Considerations for the Department

Going forward other considerations for the DEHLG include:

- ▶ Consideration should be given to commencing further review procedures on projects of material monetary value where significant non-compliance has been identified.
- ▶ The Department could advise the Local Authorities to come together to explore how they might implement change. This may involve the creation of 'shared services' for Local Authorities to pool resources. (See below for considerations for Local Authorities).
- ▶ Updated internal guidelines will need to be built into formal templates and checklists, developed by Ernst & Young, to facilitate 2009 spot checks.
- ▶ Local Authorities demonstrate high levels of compliance with the capital appraisal and other guidelines at points of external interaction, for example, securing funds from the Department or complying with National and EU procurement guidelines. However, Local Authorities demonstrate a lower level of compliance in executing internal procedures arising from the various guidelines, for example, project appraisal input and formal progress reporting.
- ▶ The Department should focus on "externalising" the internal processes to ensure increased compliance with Department of Finance Capital Expenditure Guidelines. To do so it should consider introducing incentives or possible sanctions to Local Authorities in order to achieve more effective compliance.

Considerations for the Local Authorities

- ▶ Local Authorities could come together to organise training for relevant staff.
- ▶ The Local Authorities should consider the levels of non-compliance at each programme level and commence a process of improving files both retrospectively and going forward. This may take the form of the development of an in-house team complimented by third party support.
- ▶ Local Authorities must consider the development and inclusion of performance indicators within the project management structure. This could be linked to the PMDS appraisal. This will increase the level of accountability and create an incentive to comply with guidelines.

1. Summary Findings and Recommendations

Introduction

This section provides an overview of the principal findings of the on-spot-checks of capital projects performed by Ernst & Young. For each finding identified there is a corresponding recommendation.

Principal Findings and Recommendations

Below we have set out our principal findings and corresponding recommendations. These findings which are substantiated in the detail of this report are reported in this section based on regularity of occurrence and/or significance.

1.1 Finding - Insufficient level of compliance with guidelines

The level of compliance with Department of Finance guidelines is considered insufficient. Fig A (Pg 2) highlights types of exceptions and the frequency of same. Although there are a number of exceptions noted across each project stage of appraisal, planning and implementation, we consider the following three findings to be of particular importance in reaching this overall conclusion:

- ▶ Many projects did not have a formal appraisal completed. It was noted that complimentary procedures/documents (assessment of needs and/or preliminary report) were in place for a significant number of appraisal related exceptions but did not satisfy all the criteria set out in the Department of Finance guidelines.
- ▶ A number of projects did not have formal procedures in place to facilitate reporting on the progress of projects. Local authorities tended to focus on exceptional reporting rather than on progress reporting. Projects of a lower monetary spend had more ad-hoc reporting procedures that projects of a higher monetary value.
- ▶ Projects exceeded their original approved budgeted cost. There was no evidence of contingency costs being built into costing methods.

Recommended action:

Consideration should be given to communicating to each local authority the importance of compliance with guidelines in both substance and form. Irrespective of mirroring the guidelines, local authorities are required to comply with all aspects of the guidelines in detail.

An emphasis should be placed on ensuring that appraisals are thoroughly completed and that compiled documents (assessment of needs and/or preliminary report) address all elements as outlined in the Department of Finance guidelines.

An emphasis should be placed on the importance of periodic progress reporting as opposed to the practice of exception reporting. Key elements of progress reports should include progress in relation to costs (actual v budgeted) and timeline (actual v budgeted) as well as adverse developments encountered.

Consideration should be given to the inclusion of contingencies with the budgeting process (refer to Finding 1.10).

1.2 Finding - Staff are not sufficiently aware of relevant guidelines

A number of staff responsible for the management of capital projects at local authority level are not sufficiently aware of the exact requirements from the 'Department of Finance Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector' that are to be followed in relation to capital projects that the local authority is undertaking.

Recommended action:

Consideration should be given to providing formal training to nominated local authority personnel on key guidelines. At a minimum this would include the 'Department of Finance Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector' and the 'Overview of procedures for the appraisal, management and review of capital schemes administered by The Department of the Environment, Heritage and Local Government'.

1.3 Finding - Insufficient formality in the reporting process

Irrespective of project value, an insufficient level of formality exists in following the reporting processes as outlined in the Department of Finance guidelines and other relevant guidelines. Local authorities tended to focus on exceptional reporting rather than on progress reporting.

Recommended action:

Prescribed reporting formats and information flows (i.e. indicating responsibility for report preparation and implementation) should be defined at the outset of the project. Consideration should also be given to preparing a generic set of reporting templates to be completed by nominated project personnel at defined intervals prior to (appraisal and planning stages) and during the project (implementation stage). The emphasis should be on ensuring that periodic progress reporting is undertaken, as opposed to the practice of exception reporting.

1.4 Finding - Underdeveloped team and management structures

Underdeveloped team and management structures were evident in a significant number of projects. Appropriate team roles and responsibilities were not formalised.

Recommended action:

At the outset of a project, team roles and corresponding responsibilities should be formally documented. It is important to note that a project's management structure should be considered in proportion to project size.

1.5 Finding - Lack of continuity with project-specific knowledge

On a number of projects there was a distinct lack of continuity with project-specific knowledge lost between personnel leaving and joining the project team at various stages throughout the project cycle. In part, due to the lack of formal management structures and project reporting, there was a consequent impact on the ability of newly assigned staff to effectively work on a project with immediate effect and report appropriately during the execution of on-the-spot review procedures.

Recommended action:

There are a number of actions which can be taken to improve the handover of project ownership and retain project knowledge, including:

- ▶ Formal project management structures with defined roles and corresponding responsibilities.
- ▶ A project hand-over period should take place whereby new personnel assigned to the project spend a period of time with the outgoing management to understand the project background; objectives and likely outcome of the project; project costs and timeline; relationships with any external parties; and key project milestones. The handover period should reflect the overall value and complexity of the project.
- ▶ A summary 'lessons learnt' report should be completed at the conclusion of each project. This concise report should be prepared under prescribed headings such as commonly encountered issues; good practices; costs; timeline and outcomes.

1.6 Finding - Emphasis on securing rather than managing funds

On a number of spot-checks performed it appeared that there was a strong focus on securing funds rather than on the management of funds. Securing funds is regarded as a key project success indicator and often management of the project is secondary in terms of priority to that of the process of securing funds from the Department.

Recommended action:

Weekly, bi-weekly and/or monthly costing reports, which track actual costs incurred against budgeted costs, should be prepared by appropriate project personnel. Budgeted and actual costs should be reported for each project cost centre. This should help to ensure that budget overruns are identified as they occur and that they can be appropriately managed. Explanations of budget overruns should also be provided, where applicable. Budget and actual costs comparisons should form part of periodic progress reports compiled for projects.

1.7 Finding - Lack of ownership and responsibility for projects

The lack of formality would appear to be a key factor inhibiting key local authority personnel from embracing ownership of projects and taking appropriate responsibility.

Recommended action:

Formally identifying a project leader(s) with defined responsibilities may help to encourage personnel to actively take ownership of a project.

1.8 Finding - Projects not completed within agreed timeline

A significant number of projects were not completed within the agreed timeframe.

Recommended action:

Regular (bi-weekly and/or monthly) progress reports should be prepared by assigned project staff. The overall project objective should be broken down into a number of key project milestones. Actions to be completed to achieve that milestone within a defined timeframe should be monitored and documented as the project progresses. This will help to ensure that projects can be effectively split into component parts and more easily managed. Tightly monitored and controlled project activities may help to ensure that projects are completed within their approved budgeted cost. Explanations on a failure to achieve project milestones should also be provided.

1.9 Finding - Procurement activity exceptions

Procurement activities are generally performed in line with national and EU guidelines. Findings from the spot-checks performed indicate that this is an area where local authorities have typically demonstrated a high degree of compliance with and knowledge of the relevant procurement guidelines. However, a number of tendering exceptions were consistently identified, including:

- ▶ Failure to appropriately notify unsuccessful tenders on the failure of their bid;
- ▶ Failure to follow appropriate procedures for the use of MEAT based evaluations.

Recommended action:

A procedure should be put in place whereby a checklist of procurement activities is completed by relevant project staff at the conclusion of each tendering process confirming that each of the appropriate steps in the procurement process have been followed.

1.10 Finding - Projects not delivered within budget

A significant number of projects were not delivered within the agreed budget. Findings from the spot-checks performed indicate that cost overruns were usually attributable to changes in the scope of works to be performed and extra costs incurred relating to unforeseen circumstances.

Recommended action:

A more considered appraisal process may result in a more robust project cost estimation process. As contingency costs are not factored into the budget process, more robust appraisal procedures may reduce the degree of project budget variances.

1.11 Finding - Final account and post project activities not completed in a timely manner

For a significant number of projects, delays were evident in completing and delivering the final account report and other post project activities.

Recommended action:

An incentive should be put in place to encourage project teams to compile the final account and undertake post project activities in a timely manner. This incentive could take the form of withholding a percentage of the grant payment from the local authority until the final account is compiled and all post project activities have been completed.

2. Project Overview

For the period week 36 (2008) to week 9 (2009) - inclusive - a total of 143 capital projects were spot-checked by Ernst & Young auditors. A post-project review was performed for a further 20 projects. For each post-project review a spot-check checklist was also completed. Table 2.1 below presents the breakdown of the spot checks performed according to programme area and the stage of the project.

Table 2.1: Summary of completed spot-checks						
Programme	Appraisal	Planning	Implementation	Post-project evaluation	Total	Value (€)
Housing Capital Projects	19	17	12	17	65	173,027,657
Water Capital Projects	7	8	7	7	29	125,625,736
Waste Capital Projects	5	3	3	5	16	20,625,134
Fire and Emergency Capital Projects	1	1	2	1	5	3,150,000
Local Authority Library Capital Projects	-	1	1	1	3	1,355,056
Local Services Capital Projects	2	1	1	1	5	1,109,075
Urban Regeneration Capital Projects	1	1	1	-	3	3,250,561
National Parks Capital Projects	2	3	3	2	10	1,555,000
National Monuments Capital Projects	2	2	2	1	7	126,782
	39	36	31	35	143	329,825,001

The project sample was equally spread across the various programme areas, with a minimum of 5% coverage obtained. Arising from the completion of spot checks, auditors recorded the exceptions encountered during the review process. Outlined in section 3 to 11 is a detailed account of non-compliance findings identified during the spot check audits. We have presented our review findings for each of the nine programme areas including: housing, water, waste, fire and emergency, local authority libraries; local services; urban regeneration; national parks; and national monuments.

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Table 2.2 below provides a summary of the sample coverage obtained for the spot-check audits performed. The total coverage of 6.47% of approved capital expenditure ensures that the minimum 5% coverage has been exceeded. Further details on the sample selection process are contained in Appendix A.3.2 of this document.

Table 2.2: Sample reviewed	
Total expenditure reviewed	€329,825,001
Total approved expenditure on capital programmes	€5,095,626,000
Coverage obtained from on-the-spot audits	6.47%

3. Housing Capital Projects

For housing capital expenditure projects' spot-checks were performed in three programme areas, including:

- ▶ **Social Housing Investment Programme (SHIP):** This scheme provides funding for the development of social housing projects. The objective of the scheme is to provide tailored housing services to those who cannot afford to meet their own housing needs. Substantial investment is devoted to social and affordable housing measures under the SHIP.
- ▶ **Capital Assistance Scheme (CAS):** Under this scheme, voluntary housing bodies provide accommodation to meet special housing needs such as those of the elderly, people with a disability, homeless, returning emigrants or smaller families. The approved voluntary housing bodies are responsible for tenancy allocations in consultation with the local authorities.
- ▶ **Capital Loan and Subsidy Scheme (CLSS):** Under this scheme, voluntary housing bodies provide housing for renting, particularly to meet the needs of low-income families. Not less than three quarters of the dwelling units are let to households that have qualified for local authority housing. Rents are determined taking account of household earnings and circumstances. Tenants of the houses are centrally involved in the management of their estates.

65 housing capital projects with a total spend of €173,027,657 were audited. An exception rate of 14.8%¹ was identified at programme level.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of housing capital projects.

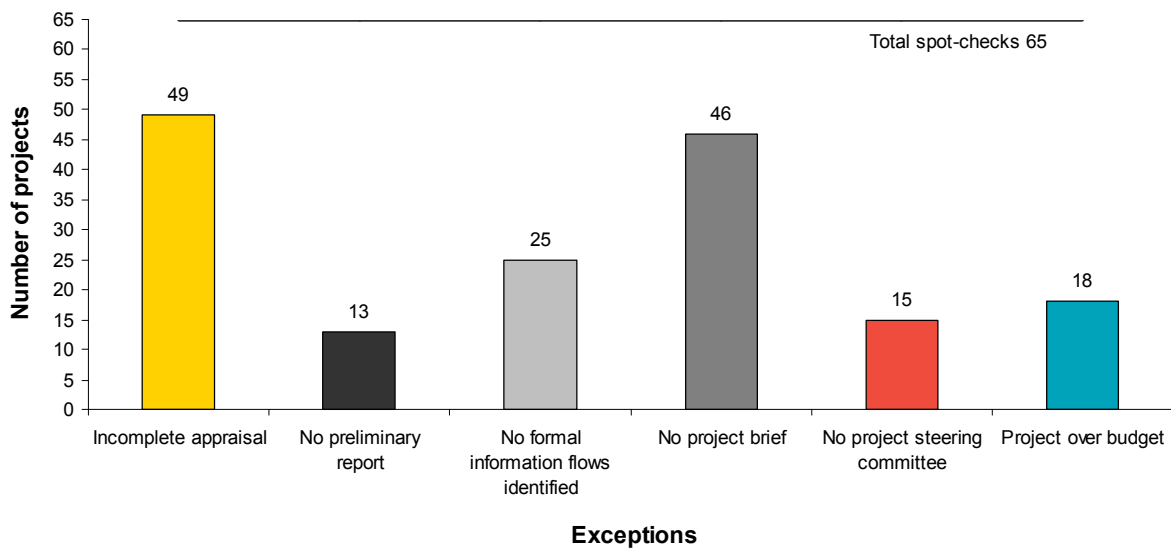


Figure 3.1 - Non-compliance areas for housing capital projects

¹ 224 exceptions/1512 possible exceptions

Housing Projects Overview

Based on the spot-checks performed, a number of findings emerged that were consistent across the three programme areas reviewed. A minimum number of exceptions were identified in the procurement process, tax compliance, audit trail and planning permission activities.

Below we have outlined our detailed findings that were consistent across the three housing programmes reviewed.

Projects not delivered within budget

A number of projects were not completed within the approved budgeted cost. Based on the sample spot-checks performed, cost overruns were usually attributable to changes in the scope of works to be performed and extra costs incurred relating to unforeseen circumstances. A number of the cost overruns thus appeared to relate to inaccurate planning and design outputs which were performed at the outset of the project, given that project costs were prepared on the basis of such designs. In some instances, works were undertaken that were outside of the original scope of the project. For a small number of projects cost overruns appeared to be unavoidable. Issues with soil, site drainage and poor weather were just some of the unavoidable issues that resulted in cost overruns.

Contingency costs were not considered when compiling project budgets by any local authority. A more inclusive estimate of contingency costs incorporated in project budgets would assist the cost estimation process and potentially lower the exception rate in project over-run.

Infrequent reporting to sanctioning authority

The spot-checks of projects revealed a number of matters in relation to the performance of progress reporting to the sanctioning authority. For the most part, each project was reviewed at a high level at bi-annual meetings held between the local authority and the DEHLG. Issue escalation management procedures and exception reporting were adopted in a significant number of cases rather than the progress reporting format set out in the guidelines. However, it was noted that such progress very often formed part of an exception based format within the local authority. As outlined in our recommendations for Finding 1.3, the Department should place an emphasis on ensuring that periodic progress reporting is undertaken, as opposed to the practice of exception reporting.

Formality of project management structure

The formality of the project management structures and project management activities varied from project to project. Smaller projects (in value) tended to have more informal project management structures and were less likely to define and document the key project members and their roles and responsibilities in relation to the project.

Final Account not prepared in a timely manner

Delays were evident in completing and delivering the final account report and other post project activities. Irrespective of retention policies in place, the local authorities have a responsibility to actively compile the final account when possible and commence post project procedures and activities in a timely manner. As outlined in our recommendations for Finding 1.11, the Department should consider creating incentives to ensure that final account procedures are commenced in a timely manner.

Social Housing Investment Programme (SHIP)

The range of expenditure on SHIP projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0.5 million to €5 million	35	€72,932,045
€5 million to €30 million	7	€80,200,000
Total	42	€153,132,045

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of SHIP capital projects.

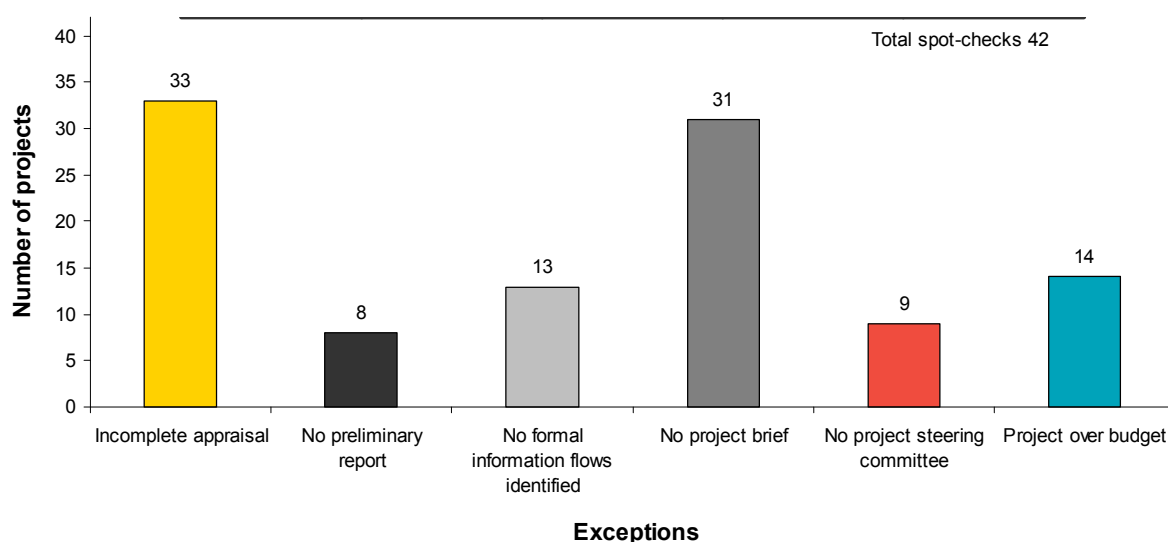


Figure 3.2 - Non-compliance areas for SHIP capital projects

Below we have outlined our detailed findings from spot-checks of SHIP projects.

Levels of compliance with Department of Finance prescribed appraisal activities

The spot-checks of SHIP projects revealed a number of weaknesses in relation to the performance of appraisal activities. For a large number of projects there was either no formal assessment or an incomplete appraisal. Based on the Department of Finance publication 'Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector' ('Department of Finance guidelines' or 'Finance guidelines') there are a number of prescribed appraisal activities that should be performed at the appraisal stage of each capital project. The type of project appraisal to be performed varies in accordance with each project's value. For most of the projects reviewed in the sample, while the appraisal performed may not have been consistent with the Department of Finance guidelines, a type of appraisal was carried out. This ranged from an assessment of a housing waiting list (a listing of individuals who have requested housing assistance through the local authority) through to more detailed appraisals such as a preliminary report.

Informal project management activities

For a significant number of spot-checked projects there was a lack of formal project management activities. A large number of sampled projects had not prepared a project brief. In accordance with the Department of Finance guidelines this document is required to be prepared at the planning stage of a project. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants. While many projects did not have a project brief, the information expected to be contained within a project brief document was included across a number of other documents prepared by the project team. For instance, for a number of projects where there was no project brief, specifications and designs for a project may have been contained within tender documentation, while budgeted project costs may have been included within a preliminary report.

For a large number of projects there were no formal reports prepared by project staff in order to track the progress of a project against cost, quality and time profiles. However, there were some 'leading practice' examples of projects where detailed reports containing information on costs (and comparisons to budgeted costs); overall project progress; and information on significant project issues were prepared on a bi-weekly or monthly basis. Typically such reports were circulated to project leaders and were discussed at meetings of staff in the capital projects section of the local authority.

For some SHIP projects there were no formally established project management structures in place to manage the project. Other issues which were identified as potentially hindering the formal management of projects included an absence of a project steering committee for a small number of projects and no reporting templates for use by site staff, such as the Clerk of Works, to record progress of a project 'on the ground'. While the requirements for project monitoring set out in the Department of Finance guidelines may not have been satisfied for a significant number of projects there were other areas where local authorities demonstrated alternative methods of project monitoring. For the majority of sampled SHIP projects local authorities were able to provide evidence of minutes for site meetings. Typically these meetings occurred on a bi-weekly or monthly basis and were attended by local authority representatives, such as engineering staff and the clerk of works, as well as staff from external consultant engineers involved on the project.

Finally, it was found that for a large number of completed projects there was no evidence that a final account was prepared. A final report must be completed for each project within six months of its completion and is to be submitted to the Department of the Environment, Heritage and Local Government ('the Department'). The final report contains important information such as the final cost of the project, the date of project completion as well as a comparison of the project outturn against initial design specifications.

Lack of required interaction with the Department

In a relatively small number of projects, local authorities did not carry out the appropriate steps in relation to liaising with the Department as outlined in the Department of Finance guidelines. For instance, for some projects local authorities did not formally notify the Department on key events occurring during the project. For one project there was no evidence on the project file of the Department approving the project to proceed to the planning stage. In another instance formal Departmental approval for the project was obtained by the local authority after the signing of contracts and the commencement of construction of a project.

High levels of compliance with procurement guidelines with a limited number of exceptions

Based on the spot-check audits performed by Ernst & Young, project staff demonstrated a reasonable degree of knowledge of and compliance with national and EU procurement guidelines. However, a number of procedural exceptions were noted across a number of projects. Most

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frequent amongst these exceptions was the absence of a pre-tender review stage. The pre-tender review stage occurs when plans and designs for a particular project have been finalised and the project proposal is reviewed, taking into account any major changes in a project's circumstances following completion of the design process. Another exception in relation to tendering activities that was frequently encountered was we found no evidence of local authorities formally notifying and debriefing unsuccessful bidders for contracts.

A number of other exceptions relating to tendering activities were identified on a one-off basis including:

- ▶ No supporting evidence that an invitation to tender was advertised using the appropriate media;
- ▶ No independent representation (by an external person/body) on the tender evaluation team (the group responsible for evaluating received bids and making a recommendation on which supplier should be awarded a contract);
- ▶ The absence of a formal tender process;
- ▶ Additional technical works outside of the initial tender agreement being awarded to a contractor without the completion of the appropriate procurement process.

Capital Assistance Scheme (CAS)

The range of expenditure on CAS projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	12	€2,980,236
€0.5 million to €5 million	1	€2,177,168
Total	13	€5,157,404

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of CAS capital projects.

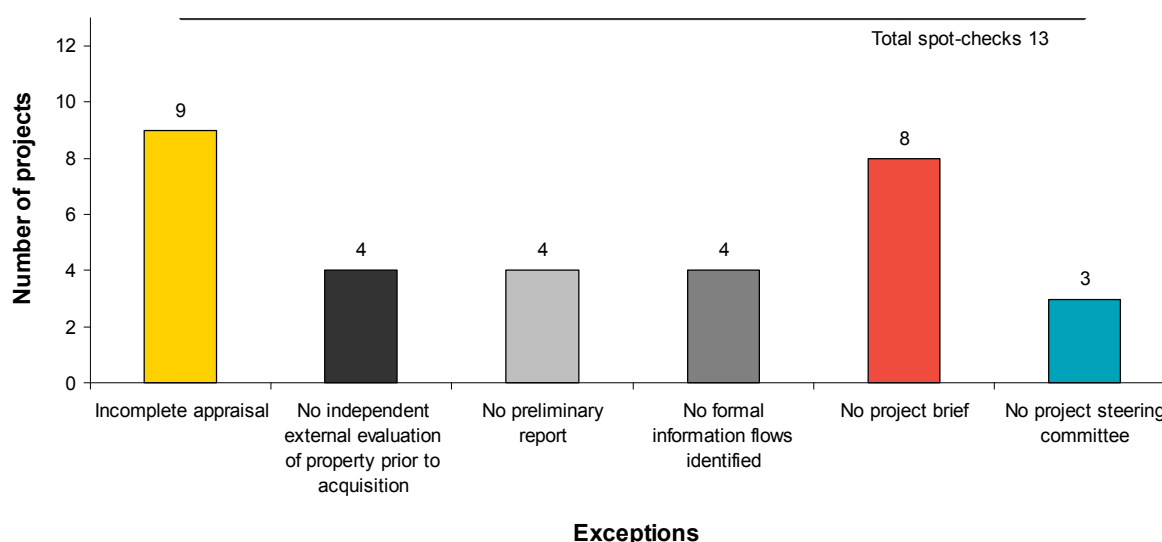


Figure 3.3 - Non-compliance areas for CAS capital projects

Below we have outlined our findings from spot-checks of CAS projects.

No consistent application of appraisal procedures

The spot-checks of projects under the CAS revealed a number of weaknesses in relation to the performance of appraisal activities. For a small number of projects involving the acquisition of one or two houses there was no external independent valuation of a property conducted prior to its purchase. It was confirmed to the auditors that in such instances local authority staff were responsible for identifying a price to be paid for a property based on prices paid for similar properties in the same area. As required by the Department of Finance guidelines there was no formal appraisal performed on a number of projects. The vast majority of CAS projects where spot-checks were performed had a value of less than €500,000. In accordance with the Finance guidelines, for projects with a value of less than €500,000 a simple assessment must be carried out. Typically, a simple assessment contains a justification or rationale for the project; a brief estimation of costs and resources required for the project; an indicative timeline for the project; and a high-level examination of value for money (VFM) considerations of the project. In many instances, the local authority cited the housing needs assessment list as an alternative to an

assessment of needs for the project. However, in these instances the housing needs assessment list was not retained on file and was not used in the appraisal stage of the project.

Lack of local authority oversight into funded voluntary projects

For a number of CAS projects there was a lack of supervision by the local authority on the progress of funded programmes. For instance, it was frequently found that there were no formal reporting lines between the voluntary body in receipt of funding and the local authority. For a minority of CAS projects where there were formal reporting structures between the voluntary housing body and the local authority, issues such as expenditure incurred to date and overall progress of the project were formally reported on a monthly or quarterly basis. For a small number of projects from the sample there was no inspection carried out by the local authority or their representatives to ascertain whether or not the completed property satisfied the criteria for housing quality set out as part of the CAS programme.

Other identified issues

Through the performance of spot-check reviews a number of other exceptions were identified. For a large number of projects, reporting lines and management structures were not formally identified at the outset of the project. In the absence of formal progress reports outlining cost, quality and time consideration for a particular project, verbal and other informal reporting methods were used to appraise local authority staff on the progress of various projects. It was therefore difficult for the auditors to ascertain with certainty the degree, frequency and quality of progress and monitoring activities for a number CAS projects.

Another exception which was frequently identified was the absence of a project brief document. In accordance with the Finance guidelines this document is required to be prepared at the planning stage of a project. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants.

Capital Loan and Subsidy Scheme (CLSS)

The range of expenditure on CLSS projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	4	€1,388,994
€0.5 million to €5 million	6	€13,349,214
Total	10	€14,738,208

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of CLSS capital projects.

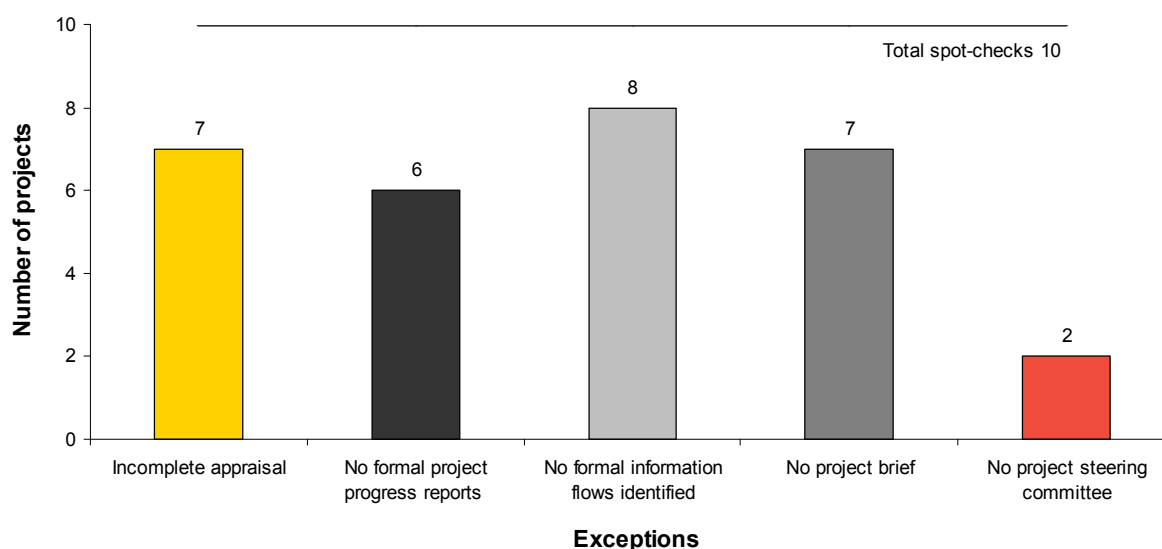


Figure 3.4 - Non-compliance areas for CLSS projects

Below we have outlined our findings from spot-checks of CLSS projects.

Largely compliant with a small number of exceptions observed

Issues identified in projects funded under the CLSS programme were broadly similar to those exceptions identified within SHIP and CAS funded projects. Commonly identified exceptions included an absence of formally identified information requirements, such as the content and frequency of progress reports to be prepared for project leaders. For most projects under the CLSS programme a formal assessment of needs was undertaken in order to ascertain the overall need and viability of a project.

4. Water Capital Projects

For water capital expenditure projects there were two programmes where spot-checks were performed, including:

- ▶ Water Services Investment Programme (WSIP) - The Water Services Investment Programme is the largest component of the Water Services Programme and relates to the provision of major water and sewerage schemes to meet the strategic objectives for investment in water services infrastructure.
- ▶ Rural Water Programme (RWP) - This programme is comprised of a number of measures to address deficiencies in:
 - group water schemes
 - small public water and sewerage schemes
 - private supplies where no alternative group or public supply is available.

29 water capital projects with a total spend of €125,625,736 were audited. An exception rate of 19.5%² was identified at programme level.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of water capital projects.

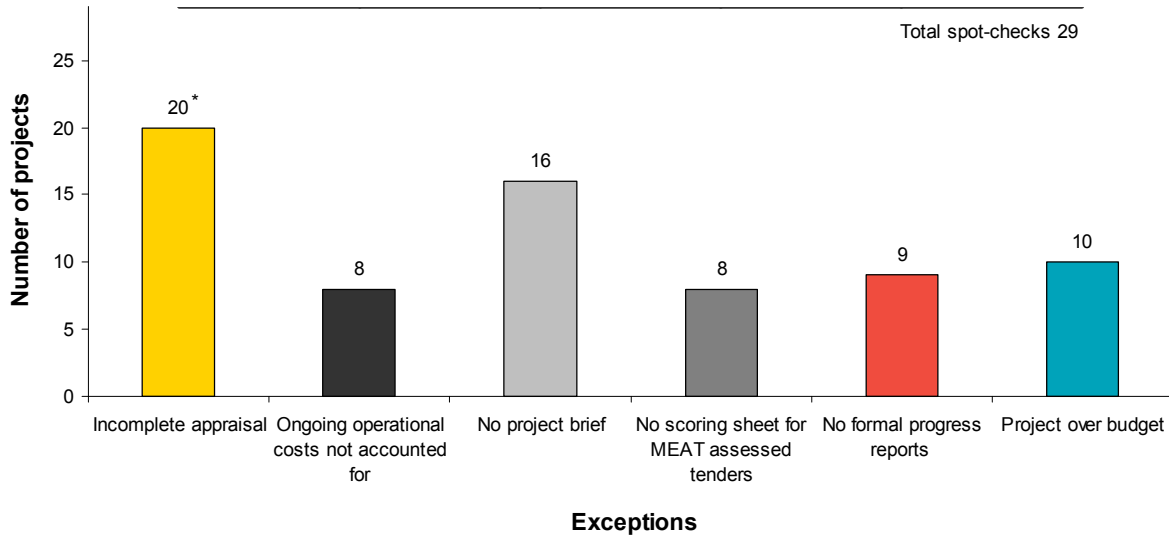


Figure 4.1 - Non-compliance areas for water capital projects

* Of the 20 projects that had an incomplete appraisal, 17 had completed a needs assessment and preliminary report. However, these documents did not address all the required elements for the appraisal stage as identified in the Department of Finance Guidelines.

² 102 exceptions/522 possible exceptions

Water Service Investment Programme (WSIP)

The range of expenditure on WSIP projects reviewed was:

Expenditure Range	Number of Projects	Total Value
€0 to €0.5 million	1	€440,000
€0.5 million to €5 million	7	€22,556,327
€5 million to €30 million	6	€42,412,000
€30+ million	1	€35,700,000
Total	15	€101,108,327

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of WSIP capital projects.

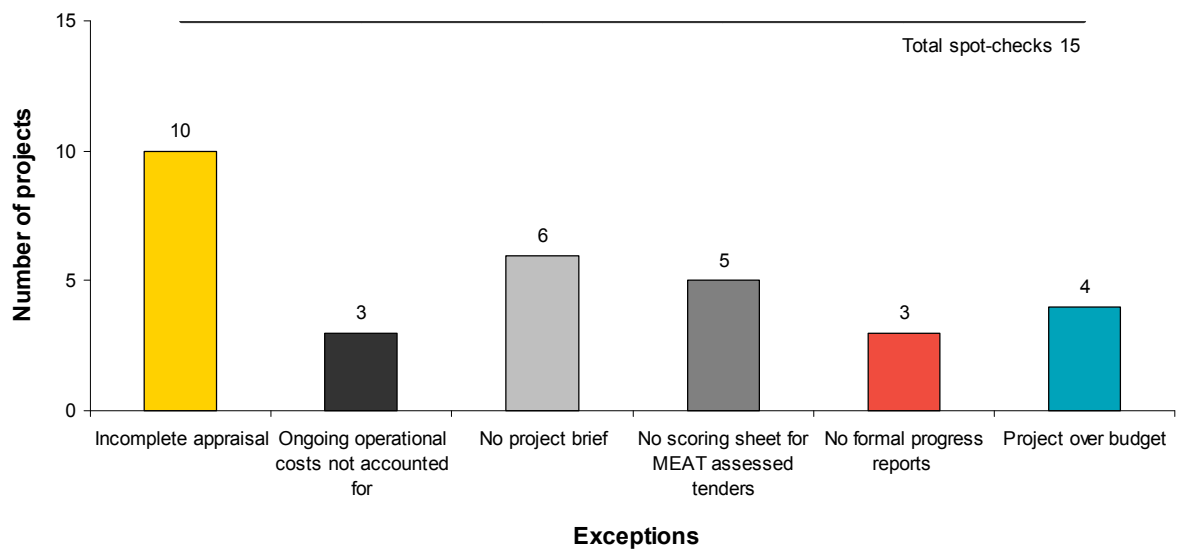


Figure 4.2 - Non-compliance areas for WSIP projects

Below we have outlined our findings from spot-checks of WSIP projects.

Level of compliance with Department of Finance prescribed appraisal activities

The spot-checks of projects under the WSIP revealed a significant number of exceptions in relation to the performance of appraisal activities. For a large number of projects, an incomplete appraisal was performed and in some cases no appraisal was undertaken. For instance some appraisals may have included some high-level details on anticipated costs for a project but would not have included on-going costs that would be incurred as part of the project, for example, the cost of operating a waste water treatment plant on a day-to-day basis. In many instances where a preliminary report was undertaken, the document did not address all the elements of the appraisal stage as outlined in the Department of Finance Guidelines.

Based on the Department of Finance guidelines there are a number of prescribed appraisal activities that should be performed at the appraisal stage of each capital project. The type of the project appraisal to be performed varies in accordance with the project's value. The procedures adopted by Water Services mirror those required under the Capital Appraisal Guidelines but in a significant number of instances do not meet the exact procedures set out in the guidelines and this is reflected in our findings as illustrated in Figure 4.1. For most of the projects reviewed in the sample, while the appraisal performed may not have been consistent with the Department of Finance guidelines, a type of appraisal was carried out. This ranged from a high-level assessment through to more detailed appraisals closer to the requirements as set out in the Finance guidelines such as preliminary reports, needs assessments, a cost-benefit analysis and a multi-criteria analysis.

Procurement activities generally strong but some procedural weaknesses on tendering activities

Based on the spot-check audits performed, project staff demonstrated a reasonable degree of knowledge of and compliance with national and EU procurement guidelines. However, a number of procedural exceptions were noted across a number of projects. Most frequent amongst these exceptions was no evidence of local authorities formally notifying and debriefing unsuccessful bidders for contracts. Another exception in relation to tendering activities which was encountered included the awarded tender price being above the approved budgeted cost yet the local authority did not seek approval for the additional costs from the Department.

There were also a number of procedural exceptions in relation to tendering activities. For a number of projects MEAT (most economically advantageous tender) was used as the basis for evaluating tenders. This means that received tenders are evaluated against a number of criteria, such as price, experience of the firm or personnel who submitted the bid, understanding of the work to be completed, the process which the tenderer will follow in performing the work etc. Where MEAT is used as the basis for evaluating received bids a scoring sheet is completed in order to record the scores awarded to the various bids under each of the appropriate evaluation criteria adopted. From the spot-checks performed procurement processes for a number of contracts used MEAT as the basis for scoring received bids. However there was no scoring used to evaluate received tenders for a number of projects. For one project the local authority entered into a joint venture arrangement with a developer prior to obtaining Departmental approval.

Informal project management

For a significant number of spot-checked projects there was a lack of formal project management activities. The majority of the projects reviewed commenced prior to the introduction of the 'Project Control System' (PCS) and did not adopt this project management tool during the project.

A large number of sampled projects had not prepared a project brief. In accordance with the Department of Finance guidelines this document is required to be prepared at the planning stage of

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a project. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants. While many projects did not have a project brief, the information expected to be contained within a project brief document was included across a number of other documents prepared by the project team. For instance, for a waste water treatment plant project, specifications and designs were included in a number of preliminary reports, cost-benefit analyses reports and also within tender documentation.

In many instances, the local authorities engaged in exception reporting as opposed to progress reporting. For a large number of projects there were no formal reports prepared by project staff in order to track the progress of a project against cost, quality and time profiles. However, there were some good examples of projects where detailed reports containing information on costs (and comparisons to budgeted costs); overall project progress; and information on significant project issues were prepared on a regular (bi-weekly or monthly) basis. For some WSIP projects there were no formally established project management structures in place to manage the project. For example, there was no project steering committee for a number of projects.

Frequently, WSIP projects were completed over budget and after the due date for completion. Furthermore, there was no evidence of formal communication to the Department as to the reasons for projects exceeding their budgets and delays in completing works and potential solutions to avoid similar outcomes in future. A number of reasons were provided to the auditors on reasons for delays in project completion, including, poor weather and the requirement for additional unanticipated civil works (for example, soft rock requiring additional foundation support). Frequently delays in the completion of works were found to have a consequential impact on the project budget.

Rural Water Programme (RWP)

The range of expenditure on RWP projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	1	€350,000
€0.5 million to €5 million	12	€18,068,940
€5 million to €30 million	1	€6,099,469
Total	14	€24,518,409

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of RWP capital projects.

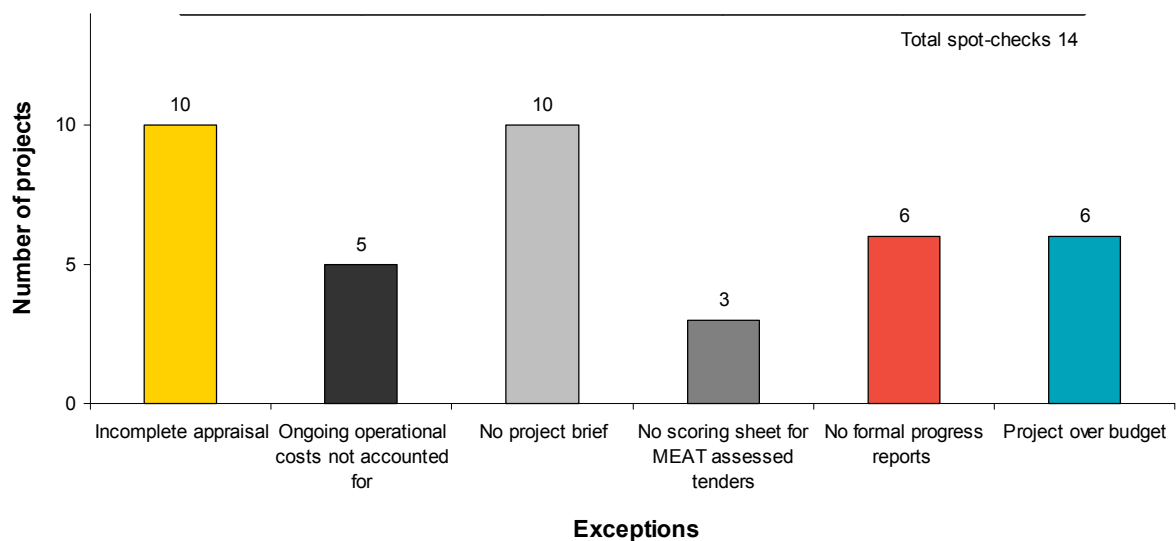


Figure 4.3 - Non-compliance areas for RWP projects

Below we have outlined our findings from spot-checks of Rural Water Programme projects.

Inconsistent application of appraisal procedures

An incomplete appraisal was performed for a large number of Rural Water Programme projects reviewed. For most of the projects reviewed in the sample, while the appraisal performed may not have been consistent with the Department of Finance guidelines, a type of appraisal was carried out. Incomplete appraisals typically did not include detailed information on future price increases, operational costs and variations in project outputs. In addition for some projects, timelines and budgeted costs were not determined prior to the receipt of submitted tenders from prospective contractors.

Informal approach to project management

A large proportion of projects funded as part of the rural water programme were group water scheme projects (devolved projects). These projects involve a group of private individuals in a particular area forming a project group to upgrade and/or develop water infrastructure for their residences. Funding is made to such a group following application to and approval from their administering local authority. For a significant number of devolved projects, there was a lack of formal project management activities. For instance, there was no apparent formal oversight on the part of the local authority in relation to how money granted to various group water schemes was administered and how projects were completed. In addition, formal reporting structures from the group water scheme to the local authority were not established at the outset of the project and updates were frequently informal and ad-hoc.

Owing to the nature of devolved projects, it is difficult for local authorities to ensure that project management structures and reporting formats are consistent with Department of Finance guidelines.

A number of exceptions relating to tendering procedures

Based on the spot-check audits performed, project staff demonstrated a high degree of knowledge of and compliance with national and EU procurement guidelines. However, a number of procedural exceptions were noted across a number of projects. Most frequent amongst these exceptions was no evidence of local authorities formally notifying and debriefing unsuccessful bidders for contracts. Another exception in relation to tendering activities which was encountered included the awarded tender price being above the approved budgeted cost yet the local authority did not seek approval for the additional costs from the Department.

For a small number of projects MEAT was used as the basis for evaluating tenders. Where MEAT is used as the basis for evaluating received bids a scoring sheet is completed in order to record the scores awarded to the various bids under each of the appropriate evaluation criteria adopted. From the spot-checks performed procurement processes for a number of contracts used MEAT as the basis for scoring received bids. However, there was no evidence of a scoring sheet on the project file which is used to evaluate received tenders for these projects.

For the majority of group water schemes the local authority did not appear to have any significant oversight into how procurement and tendering activities were administered by the group. For a number of projects the local authority acted in an advisory capacity to the group on how tendering and procurement activities should be carried out. However, there were no formal reports to the local authority on the actual performance of tendering and procurement activities and the outcomes of same.

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For a number of projects there was no evidence that the unsuccessful bidders were notified and debriefed. Public procurement guidelines for small procurements state that at minimum, unsuccessful candidates should be informed of the outcome of their application or tender. It is good practice to give reason for the unsuccessful bid by reference to their relative performance under the relevant evaluation criteria used in the competition, for example, uncompetitive on price. For a number of different spot-checked projects a letter was sent by the local authority to each of the firms who had submitted a tender for a particular contract and which anonymously listed the prices submitted by each bidder for a particular contract. However, for MEAT based competitions - where other factors as well as price are also included as a means of evaluating a tender - this does not constitute a notice of an unsuccessful bid to a tenderer given that only price information is relayed in the letter to the tenderer.

For a small number of projects the local authority only advertised in the local media as part of the tendering process. While contracting authorities are not required to advertise on the national public procurement website - etenders.gov.ie - for requirements below €50,000 they are encouraged to do so if the anticipated response would not be disproportionate, having regard to the value of the requirement. Many other projects were found to follow good practice in relation to procurement advertising in particular the national press, the e-tenders web-site and on the Official Journal of the EU (OJEU).

Other identified exceptions

Frequently, RWP projects were completed over budget and after the due date for completion. A number of reasons were provided to the auditors on reasons for delays in project completion, including, poor weather and the requirement for additional unanticipated civil works. Frequently delays in the completion of works were found to have a consequential impact on the project budget.

5. Waste Capital Projects

The range of expenditure Waste projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	6	€1,781,018
€0.5 million to €5 million	9	€12,707,975
€5 million to €30 million	1	€6,136,141
Total	16	€20,625,134

For waste capital expenditure projects there were two programmes where spot-checks were performed, including:

- ▶ Material Recovery Facilities
- ▶ Civic Amenity Sites.

16 waste capital projects with a total spend of €20,625,134 were audited. An exception rate of 34.8%³ was identified at programme level.

The majority of waste project reviewed commenced prior to DEHLG funding becoming available for such projects on foot of regional waste strategic plans compiled between 1999 and 2002. Grants became available for projects of this nature during the project implementation stage, and thus Department of Finance guidelines were not incorporated by local authorities in the project appraisal and planning stages. This is reflected in the high exception rate of 34.8%.

The chart overleaf outlines the most frequently occurring exceptions identified during the spot-checks of waste capital projects.

³ 89 exceptions/256 possible exceptions

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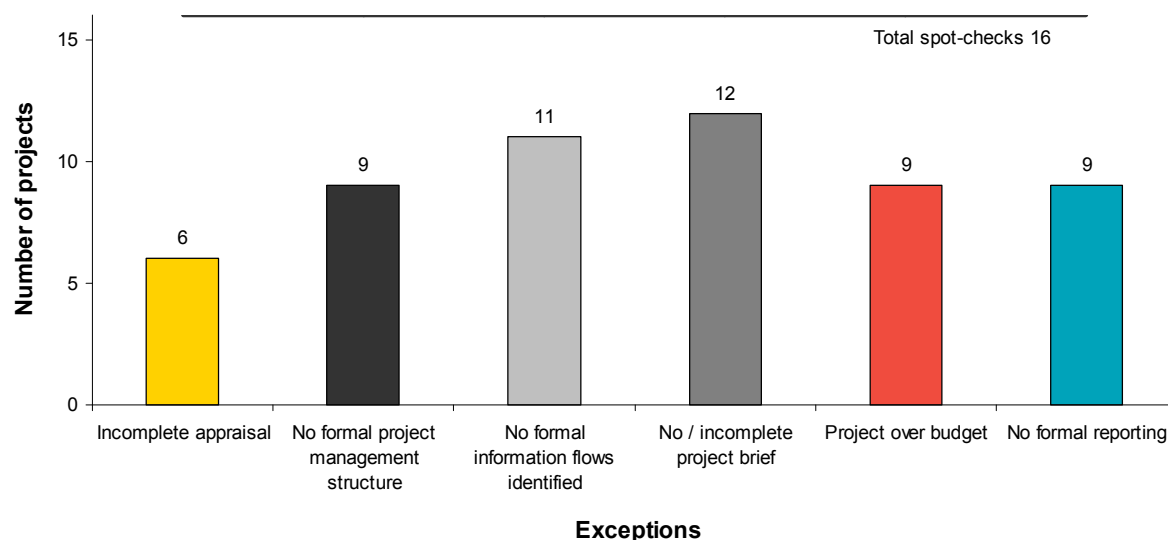


Figure 5.1 - Non-compliance areas for waste capital projects

Below we have outlined our findings from spot-checks of waste capital projects.

Level of compliance with Department of Finance prescribed activities

For the majority of waste capital projects there was no formal appraisal document prepared at the outset of the project. A number of local authorities indicated that a grant application form was completed in place of a formal appraisal document. While this application form included details on budgeted project costs and the costs applicable to various project cost-centres and an indicative timeline for the completion of the project, there were a number of other information requirements that were not included that would be expected to be part of a formal appraisal as outlined in the Department of Finance guidelines. For instance value-for-money considerations (at a high level) were not considered as part of the grant application form. In addition, a formal appraisal would usually be expected to be prepared prior to the completion of a grant application in order to ascertain the overall viability of a project. However, in the case of certain waste capital projects the local authorities, under the direction of the Department, were required to develop and/or upgrade certain infrastructure in order to be compliant with various EU directives in relation to waste management. Consequently, appraisal activities with the objective of determining the viability and requirements for some waste infrastructure projects were not carried out. A number of local authorities relayed this information to the auditors in relation to a lack of formal documentation at the appraisal stage of a project.

No evidence of Departmental approval for a project

For a small number of projects the local authority could not provide supporting evidence of budget approval from the Department. This approval enables the local authority to proceed with a project to the planning stage. Such documentation was maintained for the majority of projects where spot-checks were performed. The absence of such documentation could usually be explained by a lack of project document retention procedures at local authority level.

Informal project management structure

For a significant number of spot-checked projects there was a lack of formal project management activities. For some waste capital projects there were no formally established project management

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structures in place to manage the project. For example, there was no project steering committee for a number of projects. In addition, for a large number of projects there were no formal reports prepared by project staff in order to track the progress of a project against cost, quality and time profiles. However, there were some good examples of projects where detailed reports containing information on costs (and comparisons to budgeted costs); overall project progress; and information on significant project issues were prepared on a regular (bi-weekly or monthly) basis.

No defined information flows

For a number of waste capital projects project information flows tended to be informal and ad hoc in terms of content and frequency. During the planning stage of some projects information was supplied as and when certain milestones in the project occurred e.g. completion of design documents and preparation of tender documents.

Absence of project brief document

In addition, a large number of sampled projects had not prepared a project brief. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants. While many projects did not have a project brief, the information expected to be contained within a project brief document was included across a number of other documents prepared by the project team. For a smaller number of other projects a project brief was prepared but with some omissions. For instance, the brief may not have included cost limits for the project or the exact scope of works for external consultants was not prepared in detail.

High level of compliance with procurement guidelines with some tendering exceptions noted

For a number of projects the local authority was unable to provide evidence of tender documentation (which would usually include the form of tender; design specifications; etc.) which was sent out to contractors who had formally expressed an interest in bidding for the tender. For the majority of projects detailed, tender documentation was usually prepared by the external consulting engineering firm retained by the local authority for a particular project.

For a small number of projects the local authority was unable to provide a copy of the report on tenders. This report contains an evaluation of the various bids received for a particular contract and includes a recommendation to the local authority on which bidder should be awarded the contract. The report was usually prepared by the consultant engineers retained for the project. In the absence of the report on tenders, the review team were unable to determine the basis for the evaluation of tenders and to ascertain whether or not the most economically advantageous tender was awarded the contract.

Projects over budget

A number of projects were not completed within the approved budgeted cost. Based on the sample spot-checks performed, cost overruns were usually attributable to changes in the scope of works to be performed. A number of the cost overruns thus appeared to relate to inaccurate planning and design outputs which were performed at the outset of the project, given that project costs were prepared on the basis of such designs. For a small number of other waste projects cost overruns appeared to be unavoidable. For example, the Waste Electronic and Electrical Equipment (WEEE) Directive impacted the construction of projects (which was not in place at the time of project design) and resulted in additional expenditure being incurred as a result of the construction of additional infrastructure to facilitate the processing of WEEE materials.

6. Fire and Emergency Capital Projects

The range of expenditure on fire and emergency projects reviewed was:

Expenditure Range	Number of Projects	Total Value
€0 to €0.5 million	2	€530,000
€0.5 million to €5 million	3	€2,620,000
Total	5	€3,150,000

For fire and emergency capital expenditure projects spot-checks were performed in relation to the construction and development of fire stations.

5 fire and emergency capital projects with a total spend of €3,150,000 were audited. An exception rate of 26.3%⁴ was identified at programme level.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of fire and emergency capital projects.

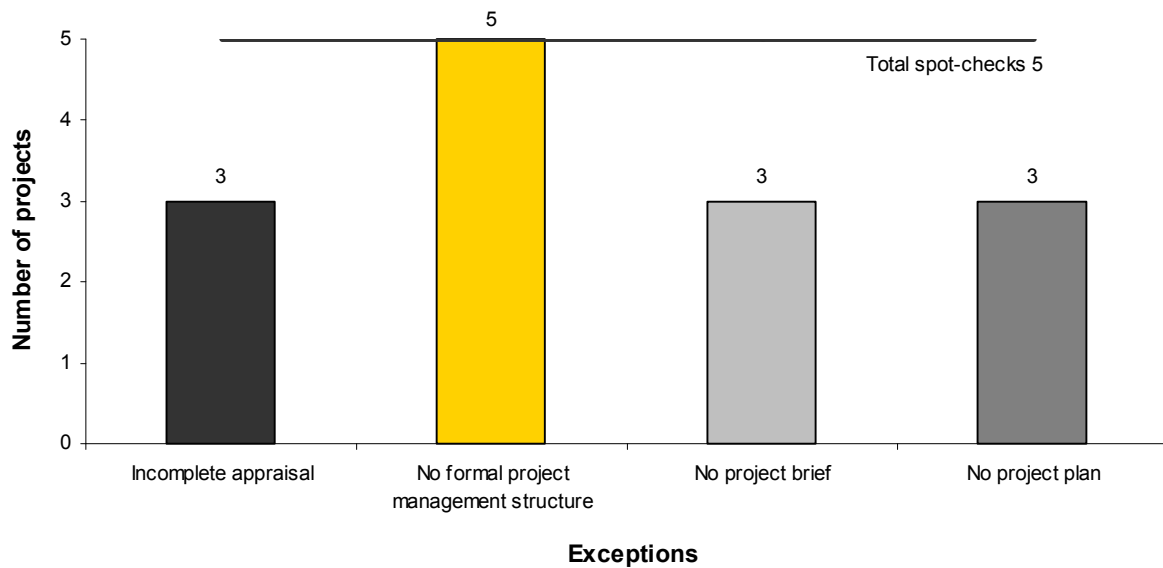


Figure 6.1 - Non-compliance areas for fire and emergency capital projects

⁴ 25 exceptions/95 possible exceptions

Below we have outlined our findings from spot-checks of fire and emergency capital projects.

Inconsistent application of appraisal procedures

An appraisal was performed for all fire and emergency capital expenditure projects reviewed. However, in some instances the appraisal performed did not meet all criteria as outlined in the Department of Finance Guidelines. Incomplete appraisals typically did not include detailed information on timelines and budgeted costs.

Lack of formal project management structures

For some fire and emergency capital projects there were no formally established project management structures in place to manage the project. In addition, for some projects there were no formal reports prepared by project staff in order to track the progress of a project against cost, quality and time profiles.

Lack of formal project progress reports

For some fire and emergency capital projects information flows tended to be informal and ad hoc in terms of content and frequency. During the planning stage of some projects information was supplied as and when certain milestones in the project occurred e.g. completion of design documents and preparation of tender documents. Overall, project teams tended to incorporate exception reporting as opposed to progress reporting.

Absence of project brief

For a number of sampled projects no project brief document had been prepared by the local authority responsible for the project. The project brief aims to set out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants, for example. While certain projects did not have a project brief, the information expected to be contained within a project brief document was included across a number of other documents prepared by the project team. In addition, for some smaller projects a project brief was prepared but with some omissions. For instance, the brief may not have included cost limits for the project or the exact scope of works for external consultants was not prepared in detail.

Failure to complete project within approved budgeted cost

A number of projects were not completed within the approved budgeted cost. Based on the sample spot-checks performed cost overruns were usually attributable to changes in the scope of works to be performed largely through unforeseen events. For example, for one particular project additional renovation costs were incurred due a roof leak and the requirement to repair a faulty heating system. In this particular instance The Chief Fire Officer prepared a submission to the Department for an increase in the approved budget.

7. Local Authority Library Capital Projects

The range of expenditure on local authority library capital expenditure projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	2	€692,500
€0.5 million to €5 million	1	€662,556
Total	3	€1,355,056

For local authority library capital expenditure projects spot-checks were performed in relation to the construction and refurbishment of libraries.

3 local authority library capital projects with a total spend of €1,355,056 were audited. An exception rate of 24.6%⁵ was identified at programme level.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of waste capital projects.

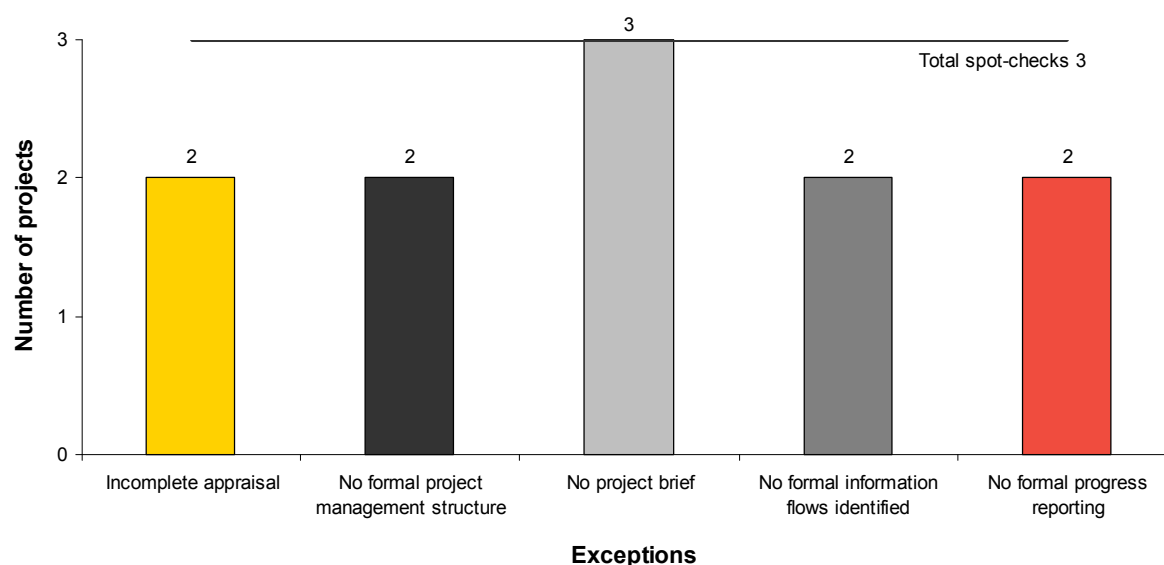


Figure 7.1 - Non-compliance areas for local authority library capital projects

Below we have outlined our findings from spot-checks of local authority library capital projects.

Level of compliance with Department of Finance appraisal guidelines

For a small number of projects, local authorities indicated that a grant application form was completed in place of a formal appraisal document. While this application form included details on budgeted project costs and the costs applicable to various project cost-centres and an indicative timeline for the completion of the project, there were a number of other information requirements

⁵ 14 exceptions/57 possible exceptions

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that were not included that would be expected to be part of a formal appraisal as outlined in the Department of Finance guidelines. For instance value-for-money considerations (at a high level) were not considered as part of the grant application form. In addition, a formal appraisal would usually be expected to be prepared prior to the completion of a grant application in order to ascertain the overall viability of a project. For one local authority library capital project the local authority was responsible for only one component of a larger capital project. This project related to the refurbishment of a library roof which was being carried out as part of a larger capital project managed under the auspices of the Office of Public Works (i.e. the construction of a visitor centre). Consequently, the local authority confirmed to the auditors that while the council made a contribution to the total project cost (i.e. by paying for the cost of the refurbished library roof), the project was planned and managed by the Office of Public Works (OPW). Thus, the local authority had not performed detailed appraisal activities as they claimed that it was the responsibility of the OPW to prepare a detailed appraisal and consider value-for-money issues for the library refurbishment.

Lack of formal project management structure

For some local authority library capital projects there were no formally established project management structures in place to manage the project. In addition, for some projects there were no formal reports prepared by project staff in order to track the progress of a project against cost, quality and time profiles. For example, for the project involving the refurbishment of a roof outlined above, there was no active project manager assigned to the project within the local authority.

No formally identified information flows

For some local authority library capital projects information flows tended to be informal and ad hoc in terms of content and frequency. During the planning stage of some projects information was supplied as and when certain milestones in the project occurred e.g. completion of design documents and preparation of tender documents.

Absence of project brief document

For a relatively high number of sample projects a project brief was not prepared. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants, for example. According to the Department of Finance guidelines a project brief must be prepared for all capital expenditure projects. While many projects did not have a project brief, the information expected to be contained within a project brief document was included across a number of other documents prepared by the project team. For a smaller number of other projects a project brief was prepared but with some omissions. For instance, the brief may not have included cost limits for the project or the exact scope of works for external consultants was not prepared in detail.

Failure to complete project within approved budgeted cost

A relatively high number of projects were not completed within the approved budgeted cost. Budget overruns were mainly due to the cost of performing additional work that was outside of the original scope of the project. For one project the requirement to perform out-of-scope work occurred after the completion of the first phase of the project. The local authority confirmed that the additional work was required to be completed in order for the second phase of the project to begin.

8. Local Services Capital Projects

The range of expenditure on local services capital expenditure projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	5	€1,109,075
Total	5	€1,109,075

For local services capital expenditure projects spot-checks were performed in relation to the construction and refurbishment of a range of civic infrastructure including the construction of playgrounds and amenity centres.

5 local services capital projects with a total spend of €1,109,075 were audited. An exception rate of 10.5%⁶ was identified at programme level.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of local services capital projects.

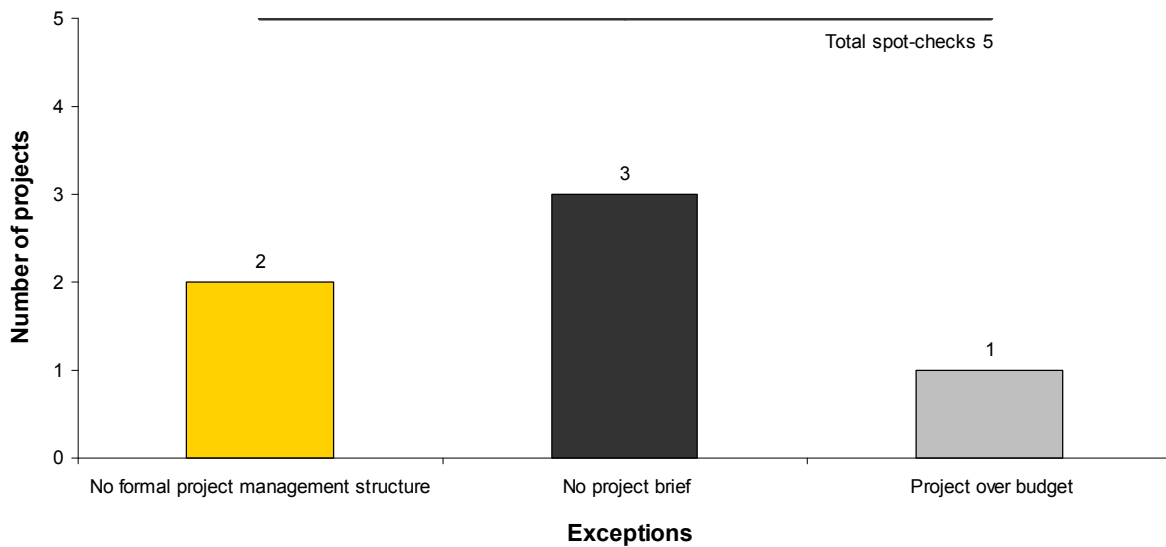


Figure 8.1 - Non-compliance areas for local services capital projects

⁶10 exceptions/95 possible exceptions

Below we have outlined our findings from spot-checks of local services capital projects.

No simple assessment

For the majority of local services capital projects there was no simple assessment document prepared at the outset of the project. A number of local authorities indicated that a grant application form was completed in place of a formal appraisal document. While this application form included details on budgeted project costs and the costs applicable to various project cost-centres and an indicative timeline for the completion of the project, there were a number of other information requirements that were not included that would be expected to be part of a formal simple assessment document which is required as part of the Department of Finance guidelines.

Project management structures not formally identified

The project management structure was not formalised. A team was assembled to manage the project. However, roles and responsibilities of the various personnel assigned to the assignment were not formally documented at the outset of the project.

Absence of project brief document

For a relatively high number of sample projects a project brief was not prepared. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants, for example. According to the Department of Finance guidelines a project brief must be prepared for all capital expenditure projects.

Failure to comply with some procurement tendering guidelines

Based on the spot-check audits performed by Ernst & Young, project staff demonstrated knowledge of and compliance with national and EU procurement guidelines. However, a number of procedural exceptions were noted across a number of projects. For one particular project the tender documentation supplied by the local authority did not specify the method and criteria for selecting suppliers and for awarding contracts. The auditors could not confirm whether MEAT or lowest price was the method used evaluating received proposals or, if MEAT was the basis on whether or bids were evaluated, whether the selected supplier was the most economically advantageous tenderer.

Project exceeded approved budgeted cost

The majority of local service capital projects were completed within the approved budgeted cost. One project from the sample was found to exceed the initial budgeted cost. The cost overrun for this project was attributable to changes in the scope of works to be performed. The cost overrun related to an error in the initial design of the project which was prepared at the outset of the project. Cost estimates for the project were based on this initial design. However, the project - the construction of a playground - went over budget due to the unforeseen necessity to reroute ESB cables and a water main and the depth of the safety surfacing had to be increased.

9. Urban Regeneration Capital Projects

The range of expenditure on urban regeneration capital expenditure projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	1	€322,000
€0.5 million to €5 million	2	€2,928,561
Total	3	€3,250,561

For urban regeneration capital expenditure projects spot-checks were performed on a mixture of construction and rebuilding projects.

3 urban regeneration capital projects with a total spend of €3,250,561 were audited. An exception rate of 12.3%⁷ was identified at programme level.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of urban regeneration capital projects.

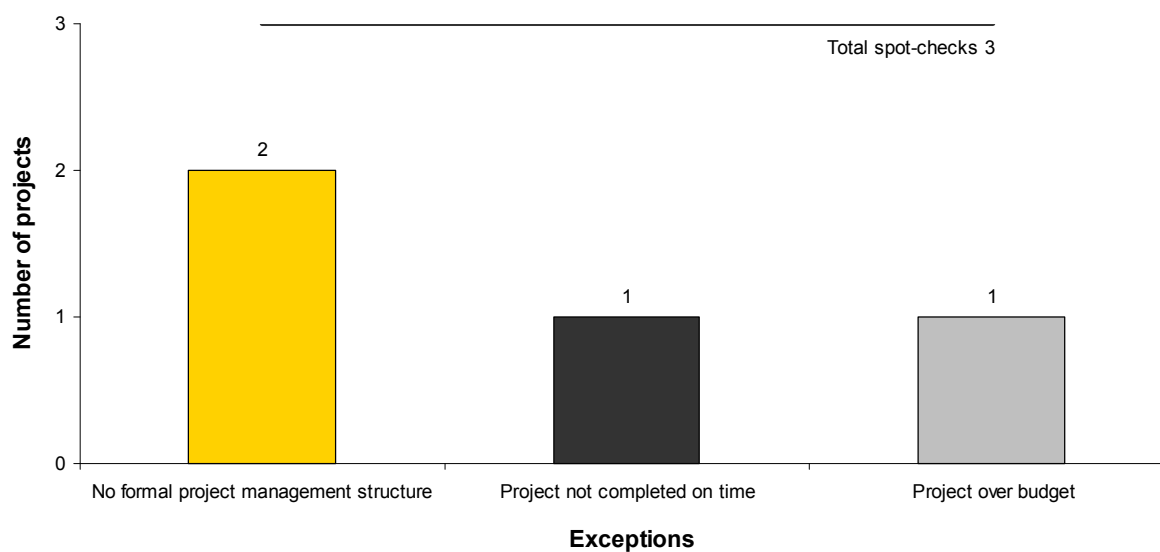


Figure 9.1 - Non-compliance areas for urban regeneration capital projects

⁷ 7 exceptions/57 possible exceptions

Below we have outlined our findings from spot-checks of urban regeneration capital projects.

No simple assessment appraisal completed

For a number of urban regeneration capital projects there was no simple assessment document prepared at the outset of the project. A number of local authorities indicated that a grant application form was completed in place of a formal appraisal document. While this application form included details on budgeted project costs and the costs applicable to various project cost-centres and an indicative timeline for the completion of the project, there were a number of other information requirements that were not included that would be expected to be part of a formal simple assessment document which is required as part of the Department of Finance guidelines.

Project management structure not formally identified

The project management structure was not formalised. A team was assembled to manage the project. However, roles and responsibilities of the various personnel assigned to the assignment were not formally documented at the outset of the project.

Project brief document not prepared

For most of the sampled projects a project brief was not prepared. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants, for example. According to the Department of Finance guidelines a project brief must be prepared for all capital expenditure projects.

Formal project monitoring activities not performed

The cost overrun for a one particular project was attributable to changes in the scope of works to be performed. The cost overrun related to a request by the roads department to a change in traffic lights and sequencing that was not included in the original scope of work. The same project was delayed by a number of months due the requirement to reroute ESB cabling which in turn was also delayed. The combined effect resulted in a significant cost overrun on the final project cost.

10. National Parks Capital Projects

The range of expenditure on national parks projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	10	€1,555,000
Total	10	€1,555,000

For national parks capital expenditure projects spot-checks were performed on infrastructure projects in a number of national parks such as the maintenance walkways; cottages; and foot-bridges.

National parks capital expenditure projects are undertaken by the National Park and Wildlife Services (NPWS), a section of the Department of the Environment, Heritage and Local Government.

10 national park capital projects with a total spend of €1,555,000 were audited. An exception rate of 20%⁸ was identified at programme level.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of national park capital projects.

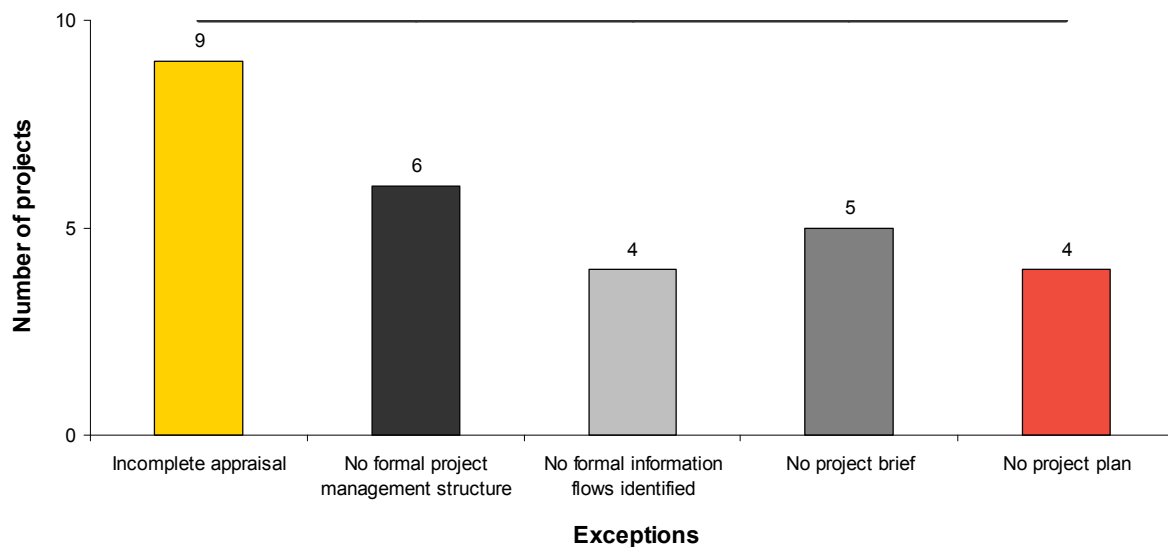


Figure 10.1 - Non-compliance areas for national parks capital projects

⁸ 38 exceptions/190 possible exceptions

Below we have outlined our findings from spot-checks of national parks capital projects.

No simple assessment and preliminary report completed

There was no simple assessment and/or preliminary report prepared at the outset of the project for a number of national park capital projects. Projects to be completed in the following year were proposed on an annual basis by each region. However, these proposals did not identify project justification and other information requirements that would be expected to be part of a formal simple assessment document which is required as part of the Department of Finance guidelines.

Information flows for team members not identified

For a number of projects updates, progress reports and other information flows from project staff to management tended to be informal and ad hoc in terms of frequency and detail. For example, information on the overall progress on projects tended to be primarily through conversations between the team personnel and the external consultant retained during the contract. In addition, verbal agreements existed regarding project planning, design and project costs.

Lack of formal project management structures

For some national park capital projects there were no formally established project management structures in place to manage the project. Personnel were assigned to a project on an ad-hoc basis and project team members and their roles and responsibilities were not defined.

Project brief and other documentary requirements arising from the Department of Finance guidelines not prepared

For most of the sampled projects a project brief was not prepared. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants, for example. According to the Department of Finance guidelines a project brief must be prepared for all capital expenditure projects. For a small number of projects team personnel were unaware of the requirement to prepare a project brief document. Similarly there was a lack of knowledge on the requirements of the Department of Finance guidelines in relation to the preparation of documents for capital expenditure projects.

11. National Monuments Capital Projects

The range of expenditure on national monuments projects reviewed was:

Expenditure Range	Number of Projects Reviewed	Total Value
€0 to €0.5 million	7	€126,782
Total	7	€126,782

For national monuments capital expenditure projects, spot-checks were performed on contracts for archaeological excavations (or writing up of related reports) carried out at national monuments in State care, including castles and churches.

National Monuments capital expenditure projects are undertaken by the National Monuments Services (NMS), a section of the Department of the Environment, Heritage and Local Government.

Seven national monument capital projects with a total spend of €126,782 were audited. An exception rate of 30.8%⁹ was identified at programme level.

Projects undertaken by the National Monument Service are difficult to scope in the appraisal and planning stages due to the inherent uncertainty associated with the developments of an excavation. The majority of projects evolve over the course of an excavation (in the implementation stage) depending on the findings during the excavation making it difficult to ascertain project budget, project plan and project timeline. This contributes to the high exception rate identified in the reviewed projects.

The chart below outlines the most frequently occurring exceptions identified during the spot-checks of national monument capital projects.

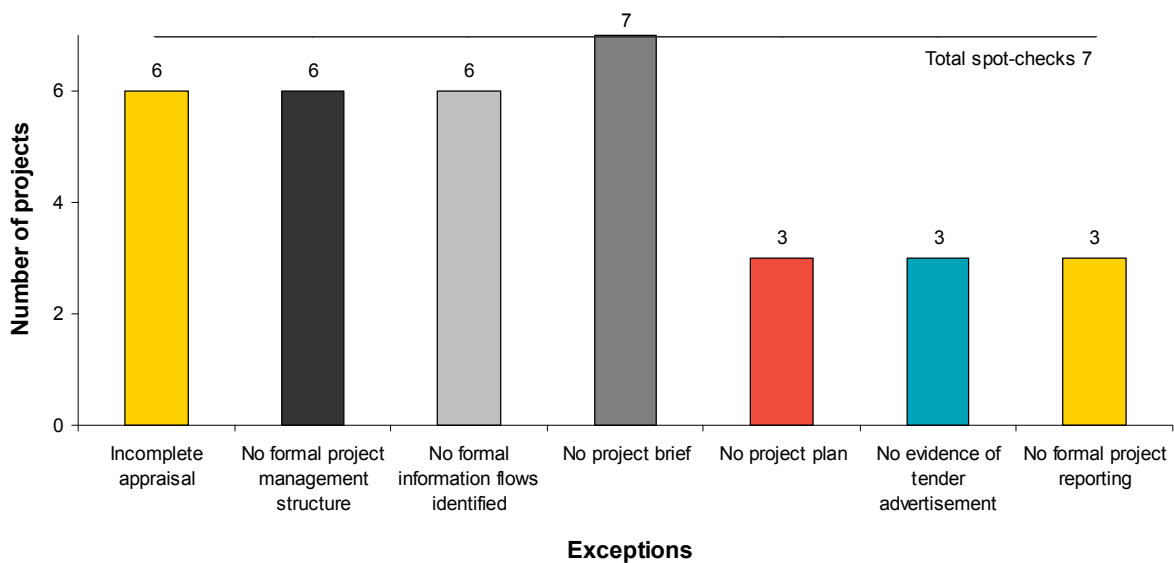


Figure 11.1 - Non-compliance areas for national monuments capital projects

⁹ 41 exceptions/133 possible exceptions

Below we have outlined our findings from spot-checks of national monuments capital projects.

Simple assessment appraisal document not prepared

The simple assessment for a number of projects was not appropriately completed. For instance, a high-level examination of value for money considerations and project timelines were not included in a number of simple assessments. It is worth noting that projects undertaken by the National Monument Service are characterised by a difficulty in scoping the appraisal and planning stages owing to the inherent uncertainty associated with excavations and related works. Furthermore, it was confirmed to the auditors that the majority of projects evolve over the course of an excavation (in the implementation stage) depending on the findings during the excavation making it difficult to ascertain project plan and project timeline.

Information flows for team members not identified

For a number of projects, progress reports and other information flows from project staff to management tended to be informal and ad hoc in terms of frequency and detail. Information on the overall progress on projects tended to be informal and primarily through conversations between the team personnel and external consultant retained during the contract.

Project brief document not prepared

For a number of the sampled projects a project brief was not prepared. The project brief sets out at a high level an overall description of the work to be performed; the programme for the completion of work; cost limits and targets of the project; and services to be provided by external consultants, for example. According to the Department of Finance guidelines a project brief must be prepared for all capital expenditure projects. For a small number of projects team personnel were unaware of the requirement to prepare a project brief document. For a number of other projects a number of other documents were prepared in place of a project brief and contained some of the information that is required in a project brief. However, there were also some omissions such as information on detailed project cost and target completion dates for projects. The lack of detailed information on project costs and timelines may be attributable to the difficulty in planning National Monuments capital projects. It was confirmed to the auditors that such projects evolve over the course of an excavation and therefore project costs can only be estimated for the initial phase of a project.

Formal project monitoring and reporting activities not performed

For a number of projects in the sample there were no formal reports completed during the course of the project. It was confirmed to the auditors that the standard practice for National Monument capital projects is for the contractor on the project to complete reports at the end of every season. There is therefore a risk that issues incurred in the course of the project may not be formally conveyed to the Department as soon as they occur. One of the key objectives of regular formal progress reports to the Department on overall project progress is to ensure effective issue escalation and that significant issues are conveyed in a timely manner.

Appendices

Appendix A - Overview

The Department of Finance Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector, February 2005, sets out a detailed process for the delivery of public capital projects. Government Departments and Agencies must have regard to the guidelines in advancing their capital programmes. Consequently, there was an obligation on the Department to spot-check their projects to ensure that the guidelines are being implemented. The Department issued an Invitation to Tender (ITT) to invite a vendor to complete the following tasks:

- ▶ Carry out, and submit a report on the findings of, spot-checks of capital projects funded in whole or in part by the Department in 2006 and 2007
- ▶ Carry out and report on the findings of post project reviews of capital projects funded by the Department which were completed in 2006 and 2007
- ▶ Prepare associated guidance manual(s) and template documents/checklists
- ▶ Advise on appropriate spot-check mechanisms and deliver spot check and post project review training to certain Department staff.

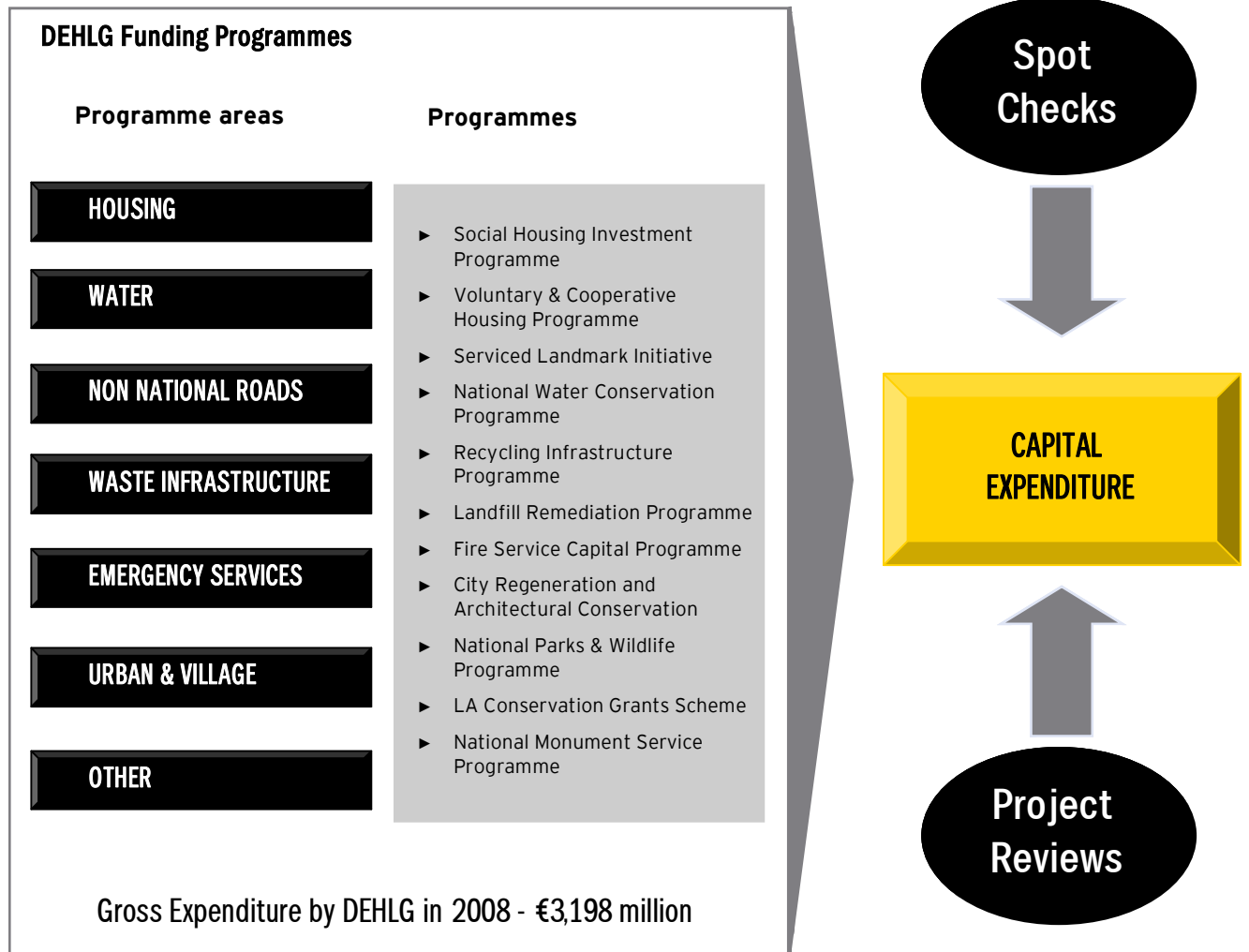
Arising from this obligation the Department retained Ernst & Young to perform spot-checks; post-project reviews, and associated training.

A.1 Context

Over the period 2007-2013, the National Development Plan (NDP) proposes investment of some €184 billion in Ireland's economic and social infrastructure, enterprise, science and agriculture sectors, and education, training and skills programmes. The Department of the Environment, Heritage and Local Government has a key role in administering the NDP. For the period 2006-2007 alone, the Department were directly responsible for approximately €5 billion of the €184 billion capital expenditure. Of planned expenditure, it is estimated that 16%, €32 billion will be administered by the Department of the Environment, Heritage and Local Government over the life of the plan.

The diagram overleaf identifies the various programme areas where expenditure will occur, such as water, housing and waste infrastructure and also lists some of the funded programmes under the NDP which will be administered by the Department. Under the relevant Department of Finance guidelines, sample projects within the various capital investment programmes are to be subjected to either spot-check audits or post-project reviews, or both.

Figure A.1: National Development Plan 2007-2013 sample capital expenditure programmes administered by the Department of Environment, Heritage and Local Government.



A.2 Terms of Reference

This final report provides the Department with an overview of the outcomes of spot-checks of capital projects performed by Ernst & Young. The report relates to spot-checks performed over the period September 1, 2008, to February 27, 2009. In total 143 spot-checks were performed over this period. Spot-checks of projects were completed based on the sample selected and agreed with the DEHLG.

Consistent with the Department of Finance guidelines, the Department has commissioned this project so that they may:

- ▶ Ensure (assess) compliance with the relevant requirements - Reviewing project progress to date to assess if practices were in line with the relevant guidelines and requirements. This involved a review of project processes and documentation, and discussions with key individuals to assess compliance in areas such as procurement, budgetary control and reporting arrangements.
- ▶ Reduce the risk of inadequately appraised projects - Reviewing the method of appraisal carried out on the project for compliance with the Department of Finance's 'Guidelines for Appraisal and Management of Capital Expenditure Proposals in the Public Sector'. Based on this review, our findings and recommendations are aimed at improving project appraisal and reducing the risk of inadequately appraised projects.
- ▶ Facilitate early learning lessons that might arise - Based on our findings (reported in the weekly summary reports to the DEHLG) arising from spot checks and the responses of management, we will advise the DEHLG on changes required to their process for the delivery of Capital Projects. This will ensure early learning of lessons so that maximum value is obtained from the spot-check process. (Subsequent spot checks on other projects will then examine the extent to which recommendations have been successfully implemented).
- ▶ Undertake any remedial actions on projects - Issues and recommendations noted from spot checks performed by Ernst & Young are to be implemented by the DEHLG on both current and future projects. This will enable the Department to identify projects which may not represent good value for money prior to irrevocable commitments on projects.

A.3 Sample Selection

As part of the initial stage in the project sample selection process, Ernst & Young met with the DEHLG in May 2008 to agree a methodology for sampling and selection of projects with regard to the execution and location of the on-the-spot (OTS) audits and post project review procedures to be performed on capital expenditure programmes.

A.3.1 Sample Selection Criteria

The key criteria utilised in selecting the sample was as follows:

- ▶ Geographical location/ Local Authorities/ County
- ▶ Level of approved expenditure
- ▶ Type of programme
- ▶ Stage of the project
- ▶ Project year split
- ▶ Value range of the project

Projects were initially selected randomly using a target testing method of sample extraction with a focus on high value contracts to achieve a minimum of 5% coverage of approved capital expenditure.

A.3.2 Sample Selection Process

The initial information provided under each programme was not of a consistent form to allow Ernst & Young to prepare a random sample using Ernst & Young random sampling software. Therefore, the agreed sampling method was one primarily based on a targeted approach to contracts of significant approved spend with due consideration given to the key remaining sample selection criteria.

Housing and water projects provided the initial source for the sample selection process due to the high percentage of materiality attached to such capital programmes. The DEHLG assisted Ernst & Young with the process of selecting projects on a sample basis. Amendments to the number of projects as set out in the original Request for Tender were agreed with DEHLG officials. The sample selected represents the requirements as per the Request for Tender with a requisite number of projects from each programme area, geographical location, monetary value and stage of completion.

The following programmes were removed from the sample under the instruction of the Department:

- ▶ Affordable Housing
- ▶ Disability Services
- ▶ Non-national Roads.

Furthermore, as requested by the DEHLG, an extra programme was included that was not on the original request for tender - playgrounds and local services.

The sample coverage of 6.47% of the approved capital expenditure provides an additional level of assurance on the sample as it exceeds the originally agreed 5% coverage required.

The selection process for Post Project Reviews was amended by the DEHLG and Ernst & Young where it was agreed that the 5% threshold (of approved capital expenditure) for completed projects was to be excluded in the sampling methodology. The final agreed sample includes a total of 143 on-the-spot (OTS) audits and 20 Post Project Reviews (an on-the-spot audit was also performed as part of each of the 20 post-project reviews). The original sample coverage for on-the-spot projects is set out according to each programme as follows:

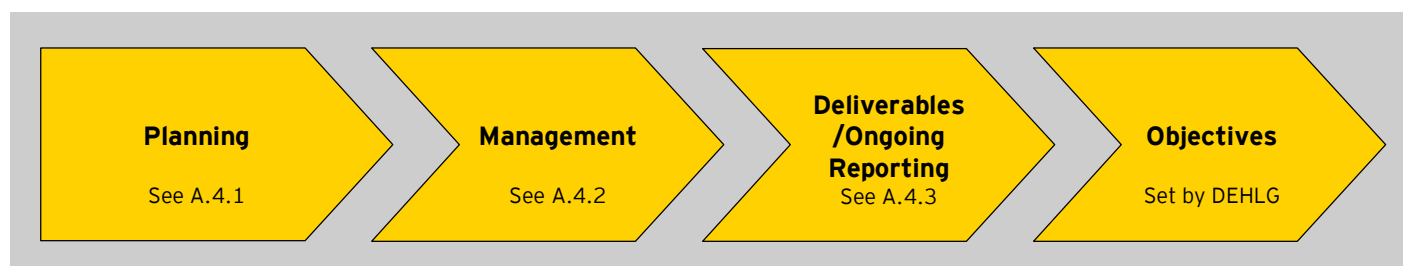
Programme	€
Housing Capital Projects	173,027,657
Water Capital Projects	125,625,736
Waste Capital Projects	20,625,134
Fire and Emergency Capital Projects	3,150,000
Local Authority Library Capital Projects	1,355,056
Local Services Capital Projects	1,109,075
Urban Regeneration Capital Projects	3,250,561
National Parks Capital Projects	1,555,000
National Monuments Capital Projects	126,782
Total	329,825,001
Total Approved Expenditure on Capital Programmes	5,095,626,000
Coverage obtained from On-the-Spot Audits ¹⁰	6.47%

¹⁰ Excluding post-project reviews.

A.4 Approach

The diagram provides a useful high level overview of project approach and scope.

Figure A.2: Ernst & Young capital expenditure review project methodology



This is a most significant assignment and requires careful planning and a detailed methodology which:

- ▶ Meets your deliverable requirements - on-the-spot audits, post-project reviews, manuals and templates, and training.
- ▶ Meet your objectives/requirements relating to compliance, risk, learning and remedial actions.
- ▶ Integrates all of the relevant guidelines from the Department of Finance and the DEHLG.
- ▶ Provides a level of assurance across project types, project values and project stages.

Ultimately, the DEHLG is looking for compliance and performance from the Local Authorities.

Critical components in our approach for assignment delivery include the following:

A.4.1 Planning

Key tasks include

- ▶ Ensuring that the appropriate level of resource with the right skills were allocated to the spot-checks.
- ▶ Identifying a representative sample of projects for spot checking with supporting rationale.
- ▶ Developing an overall structured methodology.
- ▶ Developing templates and checklists to deal with the complexities of the various guidelines.
- ▶ Developing a document management and quality control system to underpin file preparation and reporting.

A.4.2 Management

Key tasks include:

- ▶ Managing the logistics and communication, including:
 - Letters issued by the DEHLG to appropriate personnel in the Local Authority notifying them of selection for audit and a follow-up letter from the Department identifying the week when

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the audit was to be performed. The Department informs each location of preparatory work to be performed prior to auditor visit.

- A phone call from Ernst & Young audit staff to the relevant contact in the Local Authority notifying them of the exact date of the audit and to confirm the documentary and procedural requirements to be followed for the audit.
- Interviewing project personnel performed by Ernst & Young audit staff project personnel. Local Authority personnel included engineers, architects and administrators as appropriate.

- ▶ Managing the review team
- ▶ Implementing a document management and quality control system to underpin file preparation
- ▶ Use of prepared interview templates. In carrying out spot- checks and post project reviews, the Ernst & Young audit team was required to have regard to relevant reference documents to inform the development of audit checklists. These are listed below in Table A.2.

Table A.2: Documentation Reviewed to Develop Audit Checklists

1.	Overview of procedures for the appraisal, management and review of capital schemes administered by DEHLG
2.	The Department of Finance's Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector published in February 2005
3.	The General Conditions of Sanction in respect of Multi-annual Capital Envelopes
4.	Public Private Partnership Guidelines
5.	National and EU Public Procurement Procedures
6.	Procedures for the Management and Administration of EU Structural Funds Programmes
7.	The Spot Check Guidelines drawn up by the Department of Finance
8.	The Draft Guidelines for Grants to non-Governmental Bodies drawn up by the Department of Finance
9.	Tax clearance requirements as set down by the Revenue Commissioners
10.	New Value for Money Arrangements introduced in October, 2005 in regard to the Management of ICT Projects and Consultancies and Capital Expenditure
11.	Value for Money and Policy Review Initiative Guidance Manual, Department of Finance, 7 March 2007
12.	Applicable Circulars provided by the DEHLG.

Ernst & Young consultants reviewed all of the above documents to determine their relevance for the various checklists. A specific checklist was developed for each programme area i.e. housing,

water, waste, etc. Once draft checklists were produced these were sent to the relevant section coordinators for review. Following on from this review process, amendments were made to the draft checklists and a final checklist was documented.

A.4.3 Ongoing Reporting

Key task:

- ▶ Defining a reporting framework and highlighting early lessons. This included the delivery of weekly update reports informing relevant DEHLG personnel on progress relating to spot-checks and relevant findings.

A.5 Training

One of the requirements of the engagement as identified in the invitation to tender was to *'Advise on appropriate spot-check mechanisms and deliver spot check and post project review training to certain Department staff'*.

Our approach to training was as follows:

- ▶ Provide training to Department officials in the carrying out of spot checks and post project reviews. This training was based on the guidance manual developed at the commencement of the assignment. This manual is consistent with existing guidelines e.g. "Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector", Department of Finance.
- ▶ Training sessions also covered the respective methodologies developed throughout the execution of the spot checks and post project reviews.
- ▶ Training was delivered by Ernst & Young management and auditors who performed spot-checks and was in the form of:
 - Two workshops held at Departmental offices which involved Ernst & Young auditors and management providing a detailed presentation into issues related to the performance of spot-check audits to more than 20 Local Government Auditors and DEHLG Internal Auditors in total. Presentations were given on issues such as:
 - The relevant guidelines and circulars for the performance of spot-checks;
 - The role of the auditor;
 - Guidance of logistical issues and other preparatory steps to be performed prior to the commencement of an audit;
 - Project management issues;
 - Detailed review of checklists to be used during spot-check reviews, including key steps to be performed in order to determine compliance with regulations and guidelines at the appraisal, planning and implementation stages of projects;
 - Issues encountered during the performance of spot-checks;
 - Ernst & Young lessons learnt from performing spot-checks;
 - Challenges encountered 'on the ground';

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- A number of formal meetings with and presentations to Department officials;
- ‘Shadowing’ of local government auditors with Ernst & Young auditors on the performance of spot-checks at local authority sites across the country.

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