

DERBY CITY COUNCIL**DERWENT COMMUNITY TEAM****Joint response to recommendations from NDC Project Appraisal Internal Audit Report from Derby City Council (Accountable Body) and Derwent Community Team****1 Introduction & Background**

- 1.1 This response reflects the position at 23 May 2008, to coincide with the review meeting between DCC as the accountable body, Derwent Community Team and Government Office East Midlands (GOEM).
- 1.2 The internal audit report identified fourteen recommendations. The recommendations reflect three key areas for consideration:
- Conflict of Interest
 - The role of the accountable body.
 - Project control (12 recommendations).
- 1.3 The conflict of interest recommendation had already been addressed at the time of the completed audit report.
- 1.4 The report identified the principle role of the accountable body as; 'ensuring that Derwent New Deal for Communities (Derwent NDC) is properly constituted, has the right people in place, and systems provide for regularity and propriety'.
- 1.5 Specific comments relating to project appraisal indicated that DCT should review their processes and that the Accountable Body should ensure that adequate systems are in place to appraise and approve projects, and that sample checks are applied in order to ensure compliance.
- 1.6 The main findings focus on the lack of evidence that non-compliance was challenged and that there are risks given that Derwent NDC reporting is not integrated into the Council's reporting structure.
- 1.7 The key recommendations to address are therefore:
- Derwent Community Team should review the project application and appraisal process in line with NDC's and national best practise
 - The accountable body should review its role and obligations in the partnership
 - The accountable body should review the accountable body agreement to ensure it has met its responsibilities and that mechanisms are in place to ensure adherence

2 Approach

- 2.1 Although the audit report focused upon the project appraisal process, the recommendation for the Accountable Body was more wide reaching. It was recommended that the Accountable Body complete an overarching review of its governance arrangements with Derwent NDC. This would also incorporate actions of Derwent Community Team in response to the specific project control recommendations. Relevant officers from DCC and DCT have been identified to progress action within the proposed action plan.

2.2 As a starting point, the main focus will surround a review of the accountable body agreement with DCLG NDC Financial Guidance *[cross ref 1.4]*. Taking this and the recommendations into account, the response will highlight five key areas. These are:

- Representation and position within Derwent NDC Board structure *[cross ref 1.4]*
- The appraisal process for new projects *[cross ref 1.4 & 1.7]*
- Compliance review with DCLG Guidance and AB Agreement *[cross ref 1.5]*
- The formal relationship between NDC and the Accountable Body *[cross ref 1.6]*
- The accountable body agreement *[cross ref 1.7]*

3 Actions

3.1 The action plan sets out the proposed actions to address the recommendations in the audit report. Each action is matched against the five focus areas. The review to assess the status and compliance of the accountable body agreement against DCLG NDC Financial Guidance has already been completed. The findings form part of the action plan.

4 Positive progress so far (as at 23 May 2008)

4.1 It is important that the Accountable Body position and DCT processes are reviewed in some detail to ensure we move forward positively. Key weaknesses have already been promptly addressed through immediate action, with subsequent actions being completed or in progress.

4.2 A review of Accountable Body roles during March/April 2008 identified considerable compliance but also highlighted weaknesses which are being addressed through the action plan.

4.3 The relationship between Derwent Community Team (DCT), Derwent NDC Board, GOEM and the Accountable Body has been developed over the past year to a position where challenge is both requested and accepted. This relationship did not exist under the former Director of DCT. More formal management reporting lines have also been implemented:

- The DCT Programme Team Manager has a dotted line professional management reporting link into the Assistant Director (Corporate Finance) and has begun a phase of quarterly review meetings
- The Head of Finance (Regeneration & Community) is taking a more strategic and active role in DCT activities and Derwent NDC Board. Regular monthly meetings have been set up with the DCT Programme Team Manager
- The Director of DCT is to give a presentation on the overall position of Derwent New Deal and their forward looking delivery plan to Council Cabinet

4.4 Government Office and the Accountable Body are established as key partners in the interim project appraisal process. A review of the project appraisal process has been completed by GOEM and the Accountable Body. The arrangements reflect improved operational procedures.

5 Next Key Steps (23 May 2008 onwards)

- 5.1 The draft response and action plan was reviewed by GOEM at the meeting with DCC and DCT on 23 May 2008. GOEM considered the actions to date to be satisfactory, and the action plan to be appropriate in terms of addressing the recommendations of the Audit Report.
- 5.2 Progress will be reviewed at the end of June and the end of July by the Head of Finance (Regeneration & Community), the Director of DCT and the DCT Programme Team Manager.
- 5.3 Complete relevant key actions on the action plan and formally sign the 2008/09 funding agreement

Action Plan

Action Ref	Potential weakness area	Risk/Action Required	How to address	Deadline	Responsible Officers
Representation and position within the NDC Board structure					
1 (a)	Derwent NDC Board support	Has attendance on NDC Boards been sufficient and appropriate? Previously limited to an advisory capacity by a Principal Accountant on NDC Board	(i) NDC Board to be attended by Head of Finance (R&C), with an advisory and challenge role	In place	HoF(R&C)
1 (b)	Other Boards/Groups	No Accountable Body officer sat on any of the previous project appraisal groups	(i) Head of Finance (R&C) constituted as member of project appraisal panel for projects >£100k. (ii) For projects <£100k, funding submissions and minutes of meetings to be sent to Head of Finance (R&C) for comments	In place In place	HoF(R&C) PTM-DCT
The project appraisal process					
2 (a)	Project funding agreements	Requirement to ensure all projects have a funding agreement in place prior to commencement (based on single year renewable agreements)	(i) Produce a project register of live projects	End June 08	PTM-DCT
			(ii) Agree minutes of Board meetings and match to signed funding agreements	Review on an on-going basis	HoF(R&C)
			(iii) Sign off by Director of DCT and HoF (R&C)	As necessary on an on-going basis	Director-DCT, HoF(R&C)

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Action Ref	Potential weakness area	Risk/Action Required	How to address	Deadline	Responsible Officers
2(a) continued			(iv) develop revised funding agreements for future projects to ensure there are clear clauses in relation to procurement, outputs, evaluations and release of grant	End June 08	PTM-DCT
2 (b)	Project Appraisal	The risk that the project appraisal toolkit was not formally approved by the AB and is no longer fit for purpose	(i) Temporary arrangement should be set up to appraise projects until the revised process is formalised and agreed	Arrangements in Place	Director-DCT, HoF(R&C)
			(ii) Revised formal processes to be circulated for comments and sign off DCT Board, GOEM and the Accountable Body	Mid May 08	PTM-DCT
		There is evidence that projects have been formally approved, but not that the appraisal process was followed	(iii) Adherence to the revised process to be checked	Delivered and to be checked on an on-going basis	HoF(R&C)
2 (c)	Project Monitoring & output reporting	The risk that the project monitoring processes are no longer fit for purpose	(i) A formal process is being drawn up by NDC officers to supplement the revised project appraisal process, including formal reporting to the Board	Mid May 08	PTM-DCT

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2 (c) continued			(ii) Specific focus should be on preparation of a project schedule for approval by the Accountable Body including the criteria for visits to check compliance and proposed corrective action to mitigate any risks	End June 08	PTM-DCT
2 (d)	Overall Project Appraisal Processes	Requirement for formal sign off of processes by the accountable body in line with the accountable body agreement	(iii) Revised processes on project appraisal, procurement guidance and the revised project funding agreements to be signed off by the Accountable Body	End July 08	HoF(R&C)
Compliance review with DCLG Guidance and AB Agreement					
3 (a)	Records	Ensure all records are retained correctly	(i) Commence a record retention audit	May 08	PTM-DCT
3 (b)	Procurement	Are NDC processes in line with corporate DCC processes and have they been followed	(i) Review procurement process to produce a gap analysis against grant conditions (ii) Revise future funding agreements to reflect procurement process to be followed by funded agencies	End May 08	PTM-DCT PTM-DCT
3 (c)	Asset Holding	The position regarding charge on assets needs to be established	(i) An updated asset register to be prepared	End July 08	PTM-DCT

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3 (c) continued			(ii) Options report on each asset to be prepared in order to establish a position on asset charges	End Sept 08	Director-DCT
3 (d)	Governance	Risk of decision taking outside of authority	Establish a scheme of delegation and seek approval from Board and AB	End July 08	Director-DCT
3 (e)	Payment Approvals	Level of delegation given to DCT officers for sign off of payments	(i) Prepare a formal S.O.D	End June 08	PTM-DCT
The formal relationship between NDC and the accountable body					
4 (a)	Lines of Management	Financial lines of management have not been formally agreed	(i) To agree a dotted line management relationship between the Assistant Director- Corporate Finance & Performance and the NDC Finance Manager	Completed and in place	AD-CF
			(ii) To formulate structured monthly and quarterly review sessions with the AB. Quarterly with the AD – CF and monthly with the HoF(R&C)	Completed and in place	AD-CF, HoF(R&C), PTM-DCT
4 (b)	The funding approvals and proposed delivery plan have not been approved by Cabinet	The audit report highlighted that because NDC sits outside of the Council's formal reporting structure it isn't being fully considered	(i) Produce a Cabinet report for July 2008	Early July to meet circulation deadlines	HoF(R&C)

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The accountable body agreement					
5 (a)	Maintenance and relevance of Accountable Body Agreement	The agreement for 2007/08 has not been formalised as there is a need to reflect the changing emphasis of NDC delivery. Given the change in emphasis into the sustainability phase, the standard accountable body agreement may not be appropriate	Given the recent levels of stability, a review of the funding agreement has begun for 2008/09. The focus will reflect the phase of the ten year plan	End June 08	HoF(R&C)

Responsible Officers:

HoF-R&C – Head of Regeneration & Community Finance, Derby City Council

AD(CF) – Assistant Director (Corporate Finance), Derby City Council

PTM-DCT – Programme Team Manager, Derwent Community Team

Director DCT – Director of Derwent Community Team