

Internal Audit Report 2012/13

London Borough of Haringey

Alexandra Palace Regeneration Programme

Governance Arrangements

May 2013

This report has been prepared on the basis of the limitations set out on page 12

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Introduction

We have undertaken an internal audit of the Alexandra Palace Regeneration Programme Governance Arrangements.

Following formal approval by the Alexandra Park and Palace (APP) Board to create the Regeneration Working Group in September 2010, the APP Regeneration Programme has over the last twelve months completed its initial master-planning and consultation phase (May-June 2012) and has been subject to an independent Gateway review by Local Partnerships (July 2012).

The next phase of the regeneration programme will include taking decisions on key issues, including funding arrangements, market testing, investment and procurement that will influence the direction and phasing of future activities. It was therefore considered an opportune time to provide both Council and APP management with assurance that internal controls designed and placed into operation are adequate and effective in order to fulfil the statutory and stakeholder engagement governance requirements of the Palace and the Council.

This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or identify potential areas of improvement.

Alexandra Place is owned and run by a charity, the Alexandra Park and Palace Charitable Trust (APPCT), on behalf of the Council. The Palace was partly restored following a fire in the 1980s and there have been a number of previous regeneration schemes, the most recent in 2007, which involved handing the whole building over to a private developer. After a campaign, the scheme was subject to a successful legal challenge by a local community group and was subsequently dropped. In 2010, the APPCT Board formally resolved to drop the strategic objective of granting a long lease on the Palace to a developer.

Since that time, APPCT has taken a different approach. In early 2012, it commissioned the architects Terry Farrell Associates to prepare a masterplan which formed the basis of an extensive public consultation and focus groups with visitors, the local community and Londoners in general.

The masterplan outlines as a series of separate but related projects to regenerate the whole of the Palace. These include:

- A Heritage Lottery Fund (HLF) major grants application for refurbishment of the historically-significant BBC Studios (A and B) as a learning resource and visitor attraction and restoration of the Victorian Theatre to create a flexible, 'as found' creative space that will host a range of commercial and learning/community events - both areas are currently derelict and inaccessible; and
- Commercially-funded investment for the existing events spaces/business and building/operating a hotel on a vacant site behind the listed facade.

In addition, a conservation management plan by Donald Insall Associates has helped the APPCT formulate a sensitive approach to the historic fabric. Overall, the aim is to create a new and sustainable future for the Palace, balancing commercial uses with public benefit recognising that the two are not mutually exclusive.

Over 2,000 responses were received to the public consultation held in May/June 2012, the vast majority (87%) of which were supportive, and rated proposals to restore the BBC Studios and the Theatre as top priorities.

The APPCT has received strong support for the HLF project from a number of local community groups and schools, and significant interest from potential business partners including major national cultural organisations.

The HLF Stage One bid was submitted on 30 November 2012 for a capital grant of £16.8 million to support the total project cost of £23.9 million. The balance is to be funded by APPCT (for the initial development phase, subject to Round One approval) and while additional fundraising will be planned, it is likely that the Council will need to contribute a significant sum to support the delivery phase should the Round Two application (expected to be submitted in mid-2014) be successful.

Feedback from the HLF to date, which included a site visit in early February, has been encouraging with particular emphasis on the positive support provided by the Council's Leader and Chief Executive, who both attended all three hours of the site visit. Further feedback indicated that the group as a whole was very impressed by the potential of the project and that there were no major questions or issues to be addressed at this stage.

Key points of discussion focussed on the on-going financial sustainability of the project, support of the Council in terms of match funding and political support, and overall community benefit.

Subsequent to the completion of the field work for the audit, we were informed that the first stage of the HLF bid was successful. Procurement of the core consulting team will follow in consultation with the Council.

The HLF application is a potential catalyst that may encourage further development on the APP site and support plans to position APP as an attractive leisure, learning and entertainment-based destination, increase visitor numbers and accessibility to the site, and create a sustainable and (in the long term) financially independent future for the Palace.

The masterplan has also focussed on the possibility of developing a hotel behind the Grade II listed western façade, with an estimated capacity of between 120 and 200 bedrooms with unparalleled views over London.

APPCT is keen to see investment in the events and entertainment business and supporting infrastructure in order to fully exploit the Palace's potential as a unique and much loved London venue. Following a framework procurement process prepared by the Council, Knight Frank were appointed property advisors in February 2012 and, following a preliminary research and feasibility phase (which will be completed in mid-April), a soft market testing exercise will be conducted during May to understand market attitude and perception of the site.

The soft market testing exercise will gather comments and feedback from the market, prior to implementing a marketing strategy and procurement process.

This soft market testing exercise, by invitation only, is to cover the following key areas:

- Assessing levels of market interest - in particular whether there could potentially be appetite from a single development partner (or consortium) for taking a holistic approach towards the delivery of APPCT's aspirations;
- Obtaining views on the potential range and mix of uses for this unique location; and
- Assessing potential structures for partnering and engagement with APPCT.

Legal advice will also be a critical part of the regeneration programme's future activities, providing clarification on potential usage and development. Bates Wells & Braithwaite have been appointed to advise APPCT and work in this area is progressing.

A sense check on vision, brand and values is also currently being carried out by marketing consultant Jo Bergdahl to review the alignment of the current vision with the current and future direction of the regeneration programme as the APPCT approach major communication activities with stakeholders, clients, the public and the market over the coming months.

The agreed objective and scope of our work is set out in the Audit Brief issued on 20 March 2013.

Key Findings

Control Environment

- The APPCT Board, chaired by Cllr Matt Cooke, meets quarterly.*/**
- The APTL Board, chaired by Cllr Matt Cooke, meets quarterly.*/**
- The Statutory Advisory Committee (SAC) chaired by Mr Denis Heathcote, and the Consultative Committee (CC) chaired by Mr Colin Marr, hold joint and separate quarterly meetings.*
- The Finance, Resources & Audit Committee (FRAC), chaired by Mr Rick Wills, meets quarterly.*/**
- The Alexandra Park & Palace Regeneration Working Group (RWG), chaired by the Council's Director of Place and Sustainability, meets monthly.*


- The APPCT/APTL Chief Executive has a one to one with the Council's Chief Executive each month.
- Alexandra Park & Palace Regeneration Strategy Workshops are held every six months or so.**
 - * These bodies are all formally constituted and meetings are minuted.
 - ** Per the APPCT/APTL Chief Executive, these boards are currently being strengthened with external representation.
- A Gateway review was undertaken by Local Partnerships in July 2012, and a further review is proposed for October 2013.
- Financial policies and procedures have not all been updated to reflect the requirements of the new accounting system (installed in September 2012) and current legislation current legislation (e.g. EU procurement thresholds etc.).

Delegation of Authority and Accountability / Decision Making

- The Programme Senior Responsible Owner (SRO or programme sponsor) ultimately responsible for the APP Regeneration Programme has not been formally designated and communicated to all relevant stakeholders.
- The Terms of Reference and membership of the RWG were approved by the APPCT Board on 6 September 2010.
- This Terms of Reference indicates the role of the RWG to be 'in a non-decision making capacity'.
- The responsibilities and membership of the RWG has not been reviewed and updated to reflect the current governance arrangements following the appointment of the Chief Executive to APPCT and APTL, the APP Director of Regeneration and Property (due to commence on 22 April 2013) and the new Chief Executive at the Council.
- Highlight reports, risk logs and road maps are maintained and issued for discussion at the monthly RWG meetings.
- A detailed risk register for the HLF bid (covering development, delivery and post completion) is held by the APP Regeneration Programme Manager and a similar risk register is to be produced and maintained for the property advice stream should the soft market testing prove successful.
- The Programme Brief & Initiation Document (PID) was signed off by the RWG on 6 September 2011.
- The PID has not been reviewed and updated to formalise roles and responsibilities, accountabilities and reporting lines following the significant structural and personnel changes that have occurred at both APPCT and the Council.

Stakeholder Consultation

- Alongside the public consultation exercise which received an 87% positive response, a broad range of community, education and cultural groups were contacted and/or met with to explain the regeneration plans during the second half of 2012.
- A stakeholder list has been established to manage contacts and communication activities and this is reviewed and updated on a regular basis.
- Thirty-three letters in support of the HLF Stage One application were received from groups including resident associations, Alexandra Palace Television Society, Architectural Heritage Fund, Hornsey Historical Society, youth media charity Exposure, and major cultural players such as English National Opera and Complicite.
- Over 800 people attended the Open House day in September 2012, and engagement activities have continued since the HLF submission to raise awareness, provide updates on progress and explore potential funding and support opportunities through bodies like the Greater London Authority and UK Trade and Investment.

Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
				

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Control Environment	Amber	Amber	0	1	0
Delegation of Authority and Accountability	Amber	Amber	3	0	0
Decision Making	Amber	Amber	1*	0	0
Stakeholder Consultation	Green	Green	0	0	0
Total			4	1	0

* Recommendations also raised under Area 02.

Please refer to Appendix A for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Acknowledgement	We would like to thank both Council and APP management and staff for their time and co-operation during the course of the internal audit.
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Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer	Deadline
Control Environment							
1	<p>Examination of the financial policies and procedures made available identified that some documents have not been updated to reflect the requirements of the new accounting system (installed in September 2012) and current legislation.</p> <p>Discussion with the APP Director of Finance and Resources revealed that the intention was to review the limits built into the new accounting system once the system had bedded in and to then update the relevant policies and procedures.</p>	<p>Where financial policies and procedures are not updated to reflect current operational arrangements and regulatory requirements, there is an increased risk that APP employees will fail to understand their roles and responsibilities within predefined limits.</p> <p>Furthermore, well written policies and procedures allow management to guide operations without constant management intervention.</p>	<p>APP management should ensure that the financial policies and procedures are reviewed and updated to reflect the requirements of the new accounting system, current legislation (e.g. EU procurement thresholds etc.) and the Council's financial regulations as appropriate.</p> <p>The financial policies and procedures should be approved by the APPCT Board and the APTL Board on a regular basis.</p>	2	<p>Agreed. Policies and procedures will be updated for the new accounting system and current legislation. A joint workshop with relevant officers at the council is planned. Where appropriate SLA's will be put in place between APPCT and LBH.</p>	Director of Finance and Resources APPCT	End July 2013.
Delegation of Authority and Accountability							
2	<p>Although the PID signed off by the RWG on 6 September 2011 (see 4 below) refers to the Council's Director of Place and Sustainability as the Programme Sponsor, we were informed in discussions with various Council Directors and with APP Senior Management that the Programme SRO is not clearly designated and has not been communicated to the relevant Council and</p>	<p>Where the Programme SRO is not clearly defined and communicated, there is an increased risk of a lack of clear senior management ownership and leadership resulting in ad hoc practices, inefficient use of resources, required actions not being taken and the programme objectives not being achieved.</p>	<p>Senior management should ensure that the individual ultimately responsible for the programme is formally designated, agreed and communicated to all relevant stakeholders.</p> <p>Note that this individual should own and maintain the APP Regeneration Programme's business case and be able to devote sufficient time to</p>	1	<p>Agreed. The CEO of APPCT and LBH will discuss and agree relevant roles</p>	CEO APPCT/ CEO LBH	End July 2013.

Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer	Deadline
	<p>APP management.</p> <p>The Council's Project Management Framework states that 'The Project Sponsor is ultimately responsible ... and will:</p> <ul style="list-style-type: none"> • Show active commitment to the project by 'leading from the front'; • Review and approve project documentation (e.g. the Project Brief, Business Case, Project Initiation Document, etc.); • Receive project highlight reports and review progress of the project against the project plan and business case; • Resolve projects risks and issues; • Provide overall direction to the project manager; • Monitor and manage cost; and • Report to Management Team ... on the progress of the project. <p>Where there is a Project Board to oversee the project, the Project Sponsor and Manager report to the Board for input and approval of the points shown above.'</p>	<p>Furthermore, there is an increased possibility that an inadequate level of sponsorship and commitment to the programme could result in decision-making failures due to insufficient authority to be able to resolve issues as they arise.</p>	<p>provide clear and timely direction and decisions in ensuring that the agreed outcomes are delivered and benefits are realised.</p>				

Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer	Deadline
3	<p>Although the Terms of Reference and membership of the RWG were approved by the APPCT Board on 6 September 2010, it was identified that only two of the original seven members named are still in place.</p> <p>Discussion with both Council and APP management revealed that significant structural and personnel changes have occurred at both APPCT and the Council since the appointment of the Chief Executive to APPCT and APTL. The Terms of Reference of the RWG (in effect the Programme Board for the APP Regeneration Programme) has not been updated to reflect the changing responsibilities and membership of the current governance arrangements.</p>	<p>Where the Programme Board's Terms of Reference and membership are not reviewed, updated and approved on a periodic basis, there is an increased risk that lines of responsibility and accountabilities for the programme may not be clear, and inappropriate decisions and reporting disclosures may be made.</p>	<p>Senior management should ensure that the responsibilities and membership reflected in the Terms of Reference of the RWG are reviewed and updated to reflect the current governance arrangements following the appointment of the Chief Executive to APPCT and APTL, the APP Director of Regeneration and Property (due to commence on 22 September 2013) and the new Chief Executive at the Council.</p> <p>The updated Terms of Reference and membership of the RWG should then be approved by the APPCT Board.</p>	1	<p>Agreed.</p> <p>The opportunity will be taken to review the extent of external representation needed. The RWG will brainstorm the options initially.</p>	<p>CEO APPCT and Director of Place and Sustainability LBH</p>	<p>End July 2013.</p>
4	<p>Examination of documentation available for the programme identified that although the PID was signed off by the RWG on 6 September 2011 and that the minutes included the statement 'the PID would be a document that would be continually updated ...', the APP Regeneration Programme Manager (in role</p>	<p>Where this 'base' document is not updated and approved, there is an increased risk of lack of transparency regarding the justification, viability and appropriateness the programme.</p> <p>Furthermore, there is a risk that clear lines of</p>	<p>Management should ensure that the PID is reviewed and updated to reflect current regeneration programme objectives and scope, outcomes and benefits to be realised, team structure and relationships, membership etc.</p> <p>The updated PID (or possibly individual PIDs for each project</p>	1	<p>Agreed.</p> <p>Consideration will be given to the structure as well.</p>	<p>Director of Regeneration and Property APPCT</p>	<p>End July 2013.</p>





Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer	Deadline
	<p>since August 2012) stated that existence of this document was not known of until fairly recently. As a consequence, the PID has not been updated to reflect the significant structural and personnel changes have occurred since the appointment of the Chief Executive to APPCT and APTL.</p> <p>It should be noted however, that programme highlight reports, risk logs and road maps are issued by the APP Regeneration Programme Manager to enable review and discussion of progress at the monthly RWG meetings.</p> <p>The Council's Project Management Framework states that 'the PID gives the direction and scope of the project and forms the 'contract' between the project manager and the sponsor: its purpose is to prove that the project has a sound basis before committing resources to its delivery, and to act as a 'base' document against which the sponsor and the project manager can assess progress, project issues and the on-going viability of the project.'</p>	<p>responsibility and accountability, delegation limits, issue resolution, change request procedures, reporting disclosures, etc. are not appropriately determined, approved and communicated.</p>	<p>under the APP Regeneration Programme), together with key differences from the Council's Project Management Framework should then be approved by the RWG and the APPCT Board, and communicated to all relevant stakeholders involved in the management of the APP Regeneration Programme.</p>				

Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer	Deadline
Decision Making							
5	<p>The Terms of Reference of the RWG approved by the APPCT Board on 6 September 2010 states that 'The role of the Working Group will be in a non-decision making capacity and will report its findings and recommendations to the APPCT Board for its consideration... The Working Group will report any findings or seek endorsement of the APP Board via the Chief Executive of APPCT.'</p> <p>Examination of APPCT Board minutes identified that some documents (e.g. the PID referred to in 4 above and the two change control notices) may not have been reported to and therefore the decisions endorsed at the subsequent APPCT Board meeting.</p>	<p>Where authority is inappropriately delegated, there is an increased risk that the effectiveness of the RWG could be hampered.</p> <p>Furthermore, there is a risk that decisions may not be subjected to effective scrutiny and an appropriate assessment of managing risk.</p>	<p>In updating the Terms of Reference of the RWG in 3 above, senior management should determine, within the existing legal and regulatory framework, what delegated authority, if any, the RWG ought to have.</p>	1	Agreed.	CEO APPCT/ Director of Place and Sustainability LBH.	End July 2013.

Appendix A – Definition of Audit Opinions, Direction of Travel, Adequacy and Effectiveness Assessments, and Recommendation Priorities

Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

Adequacy and Effectiveness Assessments

Please note that adequacy and effectiveness are not connected. The adequacy assessment is made prior to the control effectiveness being tested.

The controls may be adequate but not operating effectively, or they may be partly adequate / inadequate and yet those that are in place may be operating effectively.

In general, partly adequate / inadequate controls can be considered to be of greater significance than when adequate controls are in place but not operating fully effectively, i.e. control gaps are a bigger issue than controls not being fully complied with.

	Adequacy	Effectiveness
	Existing controls are adequate to manage the risks in this area	Operation of existing controls is effective
	Existing controls are partly adequate to manage the risks in this area	Operation of existing controls is partly effective
	Existing controls are inadequate to manage the risks in this area	Operation of existing controls is ineffective

Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management and the audit committee.
Priority 2	Important issues to be addressed by management in their areas of responsibility.
Priority 3	Minor issues resolved on site with local management.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited
London
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