

Public Document Pack

ADDITIONAL CIRCULATION



To: Councillor Crockett, Convener; Councillor Donnelly, Vice-Convener; Lord Provost Peter Stephen; and Councillors Cassie, Cooney, Farquharson, Hunter, McDonald, Penny, Reynolds, Jennifer Stewart, John Stewart, Kevin Stewart, Wendy Stuart and John West.

Town House,
ABERDEEN 16 September, 2010

AUDIT AND RISK COMMITTEE

The undernoted items are circulated in connection with the meeting of the **AUDIT AND RISK COMMITTEE** to be held here in the Town House on **TUESDAY, 21 SEPTEMBER 2010 at 2.00 pm.**

JANE G. MACEACHRAN
HEAD OF LEGAL AND DEMOCRATIC SERVICES

B U S I N E S S

- 4.3 Annual Governance Statement - Report by Head of Finance (Pages 1 - 10)
- 4.7 Internal Audit Outsourced Activity Progress Report - Report by Pricewaterhouse Coopers (Pages 11 - 44)

ITEMS WHICH THE COMMITTEE MAY WISH TO CONSIDER IN PRIVATE

- 5.2 Refurbishment of Kepplehills Garages - Report by Director of Housing and Environment (Pages 45 - 50)
- 5.5 Internal Audit Outsourced Activity - Full Audit Reports - Report by Pricewaterhouse Coopers (Pages 51 - 106)

www.aberdeencity.gov.uk

Should you require any further information about this agenda, please contact Karen Riddoch, tel. (52)2723 or email kariddoch@aberdeencity.gov.uk

This page is intentionally left blank

ABERDEEN CITY COUNCIL

COMMITTEE	Audit and Risk
DATE	21 September 2010
REPORT BY:	Head of Finance
TITLE OF REPORT	Annual Governance Statement
REPORT NUMBER:	CG/10/108

1. **PURPOSE OF REPORT**

- 1.1 To seek approval from the Committee on the content of the Annual Governance Statement. An initial Statement was prepared for inclusion within the draft Annual Accounts, and final Statement, following external audit scrutiny, now requires to be approved for inclusion within the final Annual Accounts.

2. **RECOMMENDATION(S)**

- 2.1 It is recommended that the Committee:
a) approve the Annual Governance Statement for inclusion in the Council Accounts for financial year 2009/10.

3. **FINANCIAL IMPLICATIONS**

- 3.1 There are no financial implications arising directly from this report.

4. **SERVICE & COMMUNITY IMPACT**

- 4.1 By approving this statement this will enable the Head of Finance to incorporate into the Council's Annual Accounts a single statement, where two statements were previously included.
- 4.2 This would ensure that the Council uses an approach which is seen as best practice and in line with the External Auditors recommendations.

5. **OTHER IMPLICATIONS**

- 5.1 The adoption of the Annual Governance Statement moves the Council towards the adoption of the Solace / Cipfa guidance on 'Delivering Good Governance in Local Government'.

6. REPORT

Background

- 6.1 In the past the Council has, as part of its Annual Accounts process, prepared for inclusion a Governance Statement and a Statement on the System of Internal Financial Controls.
- 6.2 The latter of these was a requirement of the Accounting Code (the Statement of Recommended Practice or SORP) which has to be followed in the preparation of the accounts, and this was subject to the regular external audit process.
- 6.3 The SORP in 2008, for the 2008/09 financial year, amended the requirements in England and Wales to make it mandatory for the inclusion of an Annual Governance Statement. In Scotland however the minimum requirement remained as was and this meant that the Council could produce simply the Statement on the System of Internal Financial Controls. In accordance with the SORP this is how the Council approached the annual accounts for 2008/09.
- 6.4 In their reporting the external auditors recommended that the Council should move to adopt the Annual Governance Statement on a voluntary basis as it was seen as best practice in carrying out a review of the different aspects of governance. This approach would incorporate a review of the financial control environment.

2009/10

- 6.5 The Council has approached the annual review process differently in 2009/10 and has not only issued a comprehensive review document to all Heads of Service but has done so in order to prepare an Annual Governance Statement.
- 6.6 The annual review has drawn information from Heads of Service, specific information and audit opinion from the Internal Audit Manager and from a review (self assessment) by Finance of the previous year Statement on the System of Internal Financial Control.
- 6.7 The statement covers the full extent of the Council and its interrelation with other organisations, which are part of its 'Group', and in so doing assurance has been sought by obtaining specific statements from the individual companies or through the review of their draft accounts / internal control statements for the same period.
- 6.8 The draft Annual Accounts were prepared with the inclusion of a Statement that had been approved by the Corporate Management Team.

6.9 Attached at appendix A is the proposed Annual Governance Statement for approval by the Committee. This has been amended from the Statement included in the draft Annual Accounts following the scrutiny and recommendations from External Audit.

6.10 It should be noted that the Statement has been produced by management and is not an independent expression of audit opinion.

7. **REPORT AUTHOR DETAILS**

Jonathan Belford, Corporate Accounting Manager

jbelford@aberdeencity.gov.uk

01224 522573

8. **BACKGROUND PAPERS**

'Delivering Good Governance in Local Government, Framework' CIPFA & SOLACE, 2007;

'Delivering Good Governance in Local Government, Guidance Note for Scottish Local Authorities' CIPFA & SOLACE, 2008

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Aberdeen City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically efficiently and effectively. The Council has a duty under section 96 of the Local Government (Scotland) Act 1973 to keep accounts, and section 12 of the Local Government in Scotland Act 2003 sets out the statutory duty for Scottish local authorities to follow proper accounting practices.

In discharging this overall responsibility the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and ensuring arrangements are made for the management of risk.

The CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government' sets out a standard for good corporate governance and this Annual Governance Statement follows the principles contained therein. The Statement explains how Aberdeen City Council has complied with the standard and meets the requirements of relevant legislation and current good practice.

Aberdeen City Council has approved and adopted a code of corporate governance. A copy of the code is on our website at www.aberdeencity.gov.uk¹ or can be obtained from the Office of the Chief Executive, Town House, Broad Street, Aberdeen, AB10 1FY. This statement explains how Aberdeen City Council has complied with the code.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Aberdeen City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

A governance framework has been in place at Aberdeen City Council for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

¹ A copy of the Local Code can be obtained at: (copy the following link into your web-browser)
http://committees.aberdeencity.gov.uk/acc_data/committee%20reports/cs_sta_r2h_060425.pdf

ANNUAL GOVERNANCE STATEMENT

The Governance Framework

The Local Code of Corporate Governance was revised and updated in 2006 and has been developed to set out the arrangements which the Council has put in place, and the arrangements which the Council is developing, to ensure that the Council complies with the principles of corporate governance.

These principles are openness, inclusivity, integrity and accountability, and they are intended to be demonstrated through a wide range of actions, policies and approaches under the headings of –

- Community focus
- Service delivery arrangements
- Structures and processes
- Risk management and internal control
- Standards of conduct

The Local Code currently structures its approach to corporate governance by reference to the 5 headings listed above. The Council demonstrates its commitment under these headings as follows:-

Community Focus

Extensive involvement of the public, service users, community planning partners and other external stakeholders in the development and maintenance of a comprehensive and coherent structure of community, corporate, service and neighbourhood planning, and in the Best Value review of individual services

A detailed, structured and coherent set of processes for performance management and reporting at all levels, and the adoption of a strategy for Public Performance Reporting

Its continuing work on Citizen Relationship Management involving 3 workstreams of customer care training, the development of a City-wide contact centre, and the establishment of a network of local customer access points

The use of a Citizens Panel, and of a number of Community Planning Forums to monitor the delivery and review of the Community Plan

The adoption of a Tenant Participation Strategy, and annual consultation with Council house tenants on rent-setting

The opportunity for individual citizens to make their views known through the Council's Comments Card system and its Website.

Service Delivery Arrangements

Developing a culture of high performance through appraisal and performance monitoring

Setting, and measuring achievement against, performance targets at community planning, corporate planning and service planning levels

Allocating resources to priority service areas through the process of developing service plans linked to budget plans

Responding positively to external scrutiny and implementing agreed actions arising from audits/inspections

Adopting a strategy for mainstreaming equality

Pursuing the development and implementation of service standards

Carry out Best Value service review and option appraisal.

ANNUAL GOVERNANCE STATEMENT

Structures and Processes

- Completing fundamental restructuring of the organisation
- Clarifying roles, responsibilities, accountabilities and relationships, at elected member and officer levels and embedding a culture of accountability throughout the organisation
- Developing and ensuring adherence to robust evidenced management systems for the efficient and effective management of resources
- Providing training for elected members
- Setting out clearly all policies and processes which govern the work of the Council.

Risk Management and Internal Control

- Having in place a Risk Management Strategy
- Having in place processes for assessing, prioritising and managing risk at corporate and service levels, including the creation of a Strategic Risk Register and Service Risk Registers
- Ensuring that the management of risk forms an input into the corporate and service planning
- Having in place effective and structured internal audit arrangements
- Working effectively with external auditors and statutory inspectors
- Ensuring that services are delivered by trained and experienced people
- Developing its business continuity planning
- Annually preparing balanced budgets for each Council account
- Regularly monitoring the budgets of the Council and routinely reported to Service Committees and Finance and Resources Committee
- Working jointly with other public sector bodies in the area to maximise the effective use of the joint resources
- Creating a standardised approach to project management
- Having in place Financial Regulations and a Treasury Management policy
- Having in place a Health and Safety Policy and Action Plan.

Standards of Conduct

- Having in place a Local Statement of Organisational Culture
- Having in place arrangements to observe the requirements of the National Code of Conduct for Councillors
- Having policies to deal with fraud and corruption, whistle-blowing, complaints and discipline/ grievance issues

ANNUAL GOVERNANCE STATEMENT**Review of Effectiveness**

Aberdeen City Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

In 2008/09 the principal driver for review was the Accounts Commission holding a Hearing on Aberdeen City Council's audit of Best Value and Community Planning and this work continued in 2009/10 through the implementation of certain key recommendations.

The Council has reviewed and made approvals in a number of areas, including introducing a new organisational and management structure to ensure the Council is organised to deliver Best Value, to strengthen overall accountability and its ability to deliver effectively the commitments set out in 'Vibrant, Dynamic and Forward Looking' and the Single Outcome Agreement.

The Council has a statutory requirement to appoint a Chief Social Work Officer. In order to strengthen the governance and leadership arrangements within Social Care and Wellbeing this role, which was previously discharged at Head of Service level, has been moved during the year to be the personal responsibility of the Director.

The requirement of every local authority to appoint a professionally qualified Chief Social Work Officer (CSWO) is contained within Section 45 of the Local Government (Scotland) Act 1994. The particular qualifications are set down in regulations. This is one of a number of statutory requirements in relation to posts, roles or duties, with which local authorities must comply.

The minimum qualifications for the post are prescribed in Regulations. There is an expectation that holders of this post will be registered as a social worker with the Scottish Social Services Council.

The over objective of the CSWO is to ensure the provision of effective, professional advice to local authorities - elected members and officers - in the authority's provision of social work services. The post should also assist authorities in understanding the complexities of social work service delivery and the key role social work plays in contributing to the achievements of national outcomes, local outcomes, overall performance improvement and the management of corporate risk.

At Head of Service level a revised structure has been introduced in the latter part of the year for which there has been a complete review and revision of job descriptions, roles and remits. Other statutory posts, namely the Monitoring Officer² and Chief Financial Officer³, remain at Head of Service level and both are members of the Corporate Management Team.

This is particularly important as CIPFA has recently (April 2010) published 'the role of the chief financial officer in local government' in which it sets out five principles that define the core activities and behaviours that belong to the role of the chief financial officer (CFO). The principles are:

² **Monitoring Officer** – as required by s.5 of the Local Government & Housing Act 1989

³ **Chief Financial Officer** – as required by s.95 of the Local Government (Scotland) Act 1973

ANNUAL GOVERNANCE STATEMENT

- i) the CFO is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver those strategic objectives sustainably and in the public interest;
- ii) the CFO must be actively involved in, and bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the financial strategy;
- iii) the CFO must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- iv) must lead and direct a finance function that is resourced to be fit for purpose; and
- v) must be professionally qualified and suitably experienced.

The effectiveness of the Council's arrangements can be evidenced through the relationship that the chief financial officer had throughout the year with the Council and its officers, being a full member of the Corporate Management Team, being in attendance to advise not only the Council at its meetings, but the Audit and Risk Committee and the Finance and Resources Committee,

A qualified accountant with many years experience at a senior level the CFO was responsible for a finance team where the only exception to the role was the day to day responsibility for the Internal Audit Function. Fundamentally all reports were provided to the CFO during the year and this extended to all Council reports under Standing Orders and Financial Regulations requirements, providing a process by which influence could be brought to bear in relation to all business decisions.

In reviewing this it has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010).

During 2009/10 a revision of the Council's decision making structure was effected and new Standing Orders were adopted. The revised Committee structure now follows and supports the organisational and management structure, incorporating a culture of accountability that has been introduced throughout the Council. Clarification of Service Committee 'Orders of Reference' and the link to the Finance and Resources Committee in relation to budget setting and monitoring has also been achieved.

In revising the Committee structure the Audit and Risk Committee has been formed and takes over responsibilities from the Scrutiny Panel. The purpose of Audit and Risk includes ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor.

In the second half of the year the Audit and Risk Committee considered the effectiveness of internal audit and reached the conclusion that officers progress the outsourcing of the internal audit function. This resulted in the Council going out to tender for internal audit services, with the preferred supplier being identified early in 2010/11.

ANNUAL GOVERNANCE STATEMENT

The wider review of the effectiveness of Council governance is informed by:

- (i) a review of the work of Internal Audit by the Internal Audit Manager and the audit opinion contained therein;
- (ii) assurance statements on internal control received from senior management;
- (iii) the work of managers and finance staff;
- (iv) internal audit reports from across the Council;
- (v) external audit reports and annual audit letter;
- (vi) reports from external review bodies such as the Controller of Audit and Audit Scotland, Her Majesty's Inspectorate of Education (HMIE) and the Social Work Inspection Agency (SWIA); and
- (vii) governance arrangements being in place within the Council's subsidiary and associated companies.

In future the work of the Local Area Network (LAN), comprised of representatives from all the scrutiny bodies who engage in the Council, will become more important in this process. A key objective of the LAN is for the production of a three year Assurance and Improvement Plan (AIP) commencing April 2010. This marks a move away from standard cyclical inspection and benefits the Council by having a shared assessment of risks for the Council and planned and proportionate external scrutiny agreed.

Significant Governance Issues

While the review of effectiveness allows the Council to place reasonable reliance on the Council's systems of internal control the Council continues to address control weaknesses identified during audits and good progress is being made in the implementation of recommendations.

The exceptions highlighted have been, or will be, addressed through the actions set out below.

Issue Ref.	Issue Description	Source of Evidence	Action
1	Improvement required in relation to the rollout of updated financial monitoring arrangements. This includes training, service engagement and regularising the process each month.	Head of Service Assurance Statements	A new approach to training and a review of the financial systems is being undertaken to aid understanding and use. The monitoring timetable including the reporting arrangements for Services and Committees has been clarified.
2.	Realignment of financial system to revised Council operational structure	Review of 2008/09 Statement on the System of Internal Financial Control	Following the appointment of Heads of Service and clarification of portfolios a structured approach to financial planning is being undertaken by the Council and this is underpinned by the completion of realignment work on the financial systems.

ANNUAL GOVERNANCE STATEMENT

Issue Ref.	Issue Description	Source of Evidence	Action
3.	The Local Code of Corporate Governance has still to be refreshed to fully incorporate the Cipfa / Solace guidance.	Corporate Policy and Performance report OCE/10/033 dated 21 January 2010, and Committee Business Statement	Work is progressing to prepare an updated Local Code of Corporate Governance reflective of the changes made to the governance arrangements of the Council over the past two years. An update on preparations to revise the Code will be presented to the Council's Corporate Policy and Performance Committee in September 2010. The work is being led by the Office of Chief Executive.
4.	ICT Asset Register; this was not operating at the desired level of accuracy throughout the financial year and it was only at February 2010 that upgrades were applied and improved accuracy was achieved	Review of the weaknesses highlighted in the Statement on the System of Internal Financial Control for 2008/09, based upon an Internal Audit report previously issued	Having achieved a level of accuracy that ICT have been satisfied with, the next stage is to continue the development of the system to further improve that accuracy. This is particularly important in light of increased use of mobile technology and the office moves that are presently taking place.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Councillor John Stewart
Leader of the Council

Sue Bruce
Chief Executive

on behalf of Aberdeen City Council
September 2010

Aberdeen City Council

Internal Audit Outsourced Activity 2009-10

Programme and Project Management

Contents

Section	Page
1. Our Assurance Statement	1
2. Background and Scope	3
3. Summary of Projects Reviewed	6
4. Detailed Findings	9
5. Recommendations.....	20
Appendix 1 – Project Management Lifecycle	26
Appendix 2 – Implementing a PMO.....	27
Appendix 3 – Terms of Reference.....	29
Appendix 4 – Risk Ratings	30
Appendix 5 – Limitations and Responsibilities	31

1. Our Assurance Statement

1.01 We provide an assurance statement on the adequacy and effectiveness of internal control in relation to the area under review. Our statement is based on the work performed as set out in the agreed terms of reference at Appendix 3 and is subject to the inherent limitations set out at Appendix 5. Definitions for the categorisation of findings are set out at Appendix 4.

Assurance Statement

There are a large number of projects undertaken across the Council which aim to drive forward organisational change. These projects are generally undertaken within Directorates by a variety of project teams, each with a range of project management skills. Overall our review highlighted that there are a number of areas where further development is required to optimise the use of resources – both financial and staffing – in successful project delivery.

We recognise that the Council has recently established a new Programme Management Office (PMO) within the Corporate Governance Directorate under the supervision of the new Head of Customer Service and Performance. This will be a key driver for securing the achievement of the improvements set out below and aligning Council arrangement to best practice design for effective Programme and Project Management. The key areas identified for improvement by our review are consistent with and support the areas already identified for change by the Director of Corporate Governance and relate to:

- Moving from a project to programme approach to ensure strategic alignment and better understanding and effective project interdependencies;
- Clearer definition of the scope and the benefits to be derived from each project;
- Improved stakeholder buy-in, commitment and support for the successful delivery of projects;
- Detailed consideration and appropriate allocation of resources to projects and project teams, particularly in priority areas; and
- Improved project governance arrangements, including clear definition of the project board, identification of a project sponsor and dedicated project managers; and clearer emphasis on identifying and managing project risks.

Analysis of Recommendations by Risk Rating

Critical	-
High	-
Medium	10
Low	-
Total	10

- 1.02 Our detailed findings and recommendations are set out in sections 4 and 5 of this report. Management responses are included which identify actions to be taken, responsibility and timeframe. This report has been issued in draft and therefore findings are subject to amendment or withdrawal. Our definitive opinions and conclusions will be those contained in the final report.

Follow-up

- 1.03 In light of the findings of this audit we would recommend that follow-up work to confirm the implementation of agreed management actions is conducted within the next 12 months.

2. Background and Scope

Introduction

- 2.01 The review of Programme and Project Management has been carried out at the request of management as part of the Outsourced Internal Audit Activity carried out by PwC.
- 2.02 This report has been prepared solely for Aberdeen City Council (ACC) in accordance with the terms and conditions set out in our engagement contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

- 2.03 Programmes of work require the coming together of various outputs, via individual projects, to deliver effective outcomes. Change programmes require a structured approach to make better use of resource and achieve a better return on any investment being made. Project Management supports the delivery of such programmes and ensures that there is a clear focus on the delivery of key outcomes within time, cost and quality constraints. Effective project management underpins successful project delivery and minimises the potential for delay or occurrence of unnecessary cost overruns.

Approach and scope

- 2.04 The objective of this review was to assess the extent to which a robust programme and project methodology has been developed and is being consistently applied within the Council. We sampled a total of 5 key strategic projects in order to obtain a balanced view of the project management arrangements within ACC. An overview of the projects sampled is outlined in **Section 3**. Our review compared existing arrangements against best practice and the PwC 'Six Pillars of Project Excellence' model. Our findings have been outlined in **Section 4**.

Current Position (August 2010)

- 2.05 Since undertaking our fieldwork in May 2010, the new Directorate and Head of Service remits have been finalised and implemented and the post of Head of Customer Service and Performance has been established within the Corporate Governance Directorate. A key initial task for the new post holder has been to set up and establish a Programme Management Office (PMO).

- 2.06 Once fully established the PMO will have a key role in supporting the Council transform the effectiveness of the management of its project activity. A significant number of the weaknesses identified in our report will be resolved through the establishment of a central PMO function to drive consistency and improve the management of projects under a programme structure.
- 2.07 The key findings and recommendations within this report are based on a detailed review of a sample of projects already underway within the Council as set out in **Section 3** of this report. These findings reflect the status of arrangements within the Council subsequent to the creation of the PMO which will provide a new framework for both existing projects and all new activity. Key elements of the role of the PMO have been defined as:
- Reporting and forecasting
 - Programme plan tracking and monitoring
 - Financial management
 - Risk and issue management
 - Dependency management
 - Communications;
 - Stakeholder management
- 2.08 A significant shift in culture and direction and support for this approach from the most senior levels will continue to be key to the success of this approach in order to mandate and embed the move from projects to programmes, supported by the Programme Management Office.
- 2.09 We will continue to monitor progress in this area and the effectiveness of the new structure through our ongoing follow-up work.

Staff involved in this review

2.09 We would like to thank the following staff members for their assistance with this review:

Name of client staff	Role
Stewart Carruth	Director of Corporate Governance
Gordon McIntosh	Director of Enterprise, Planning and Infrastructure
Rhona Atkinson	Head of Service- Service, Design and Development
Chris Copner	Business Transformation Manager
Malcolm Matheson	Project Leader
Anne Griffiths	Educational ICT Technical Support Team Leader
Dave Young	Account Manager
Graeme Traill	3Rs Education Advisor
Brian Morgan	Service Manager – Communities
Sharon McNutt	Project Officer 3Rs
Graham Wark	Managing Director, Sports Trust
Dave Sharman	Area Manager, Sports Trust
Steve Russell	Area Manager, Sports Trust
Alun Williams	Acting Team Leader Strategic Programmes
Margaret Bochel	Head of Planning and Infrastructure
Hugh Murdoch	Head of Asset Management and Operations
Mark Armstrong	Head of Service - Communities, Culture and Sport
Ciaran Monaghan	Head of Service - Office of Chief Executive
Jacqui Gale	Customer Service Development Manager
Sandra Massey	Operations Manager
David Wright	Service Manager – Communities
Lone Pederson	Project Executive

3. Summary of Projects Reviewed

3.01 As noted in paragraphs 2.04, we sampled a total of 5 projects in order to obtain a representative view of the complexities, issues and project management arrangements that existed across the Council. A brief summary of the background to each project is presented below.

Transfer of Sport Facilities to the Sport Aberdeen

3.02 ACC's Sport and Physical Activity Strategy "Fit for the Future" is underpinned by the key objective of increased sporting participation across Aberdeen. In support of the strategy an option appraisal was undertaken in early 2007 by external advisors to review the options available for the future of all 33 sport facilities and their related services. Consideration was given to:

- retaining the facilities under ACC management;
- setting up a partnership with an existing sports trust;
- taking on private sector management or
- transferring the facilities into a charitable trust.

The report advised, and it was later agreed by the Council in early 2008, that the most appropriate management option was to transfer facilities to an arms-length trust – "Sport Aberdeen". The benefits set out at the start of the project through the creation of this charitable, incorporated organisation were financial savings: arising from VAT, Non-Domestic Rates and improved efficiency.

3.03 The need for a dedicated project manager was identified at the outset but no suitable single candidate could be recruited for the project at the time. This role has – over the life of the project – been fulfilled by 3 Council Officers. A Project Board was set up to deliver the project, the key tasks of which included transferring the assets and transfer of staff (under TUPE) to the Trust, within an initial timeframe of 12 months (April 2009). However the completion of the project at the time of our review (March 2010) had still to be achieved following a series of delays due to the need to establish enhanced governance requirements, as a result of the early appointment of the Sport Aberdeen Board (in March 2009) and budgeting negotiations between the Trust and the Council.

Transfer of Hazelhead Golf Course to Sport Aberdeen

- 3.04 The former Education and Leisure Committee approved, in May 2006, an option appraisal exercise to assess the future of the management of the Hazelhead Golf Course due to the large scale capital costs attributable to improving the facility and upgrading in the future. The options appraisal exercise was stand alone and separate from the transfer of sports assets noted in **paragraph 3.02** above. This is an Aberdeen City Council municipal facility (containing 3 courses) which has a private members club on-site. It was designated as a Corporate Management Team “key task” in August 2007 and the major projects team was instructed to manage the option appraisal exercise (**see paragraph 4.03**). The Council considered 2 options: to retain the golf course, its management and upkeep or to lease the land and transfer the provision of these services to a 3rd party.
- 3.05 A Project Board was set up to oversee the options appraisal exercise, appointing an external client advisor who prepared the Invitation to Tender. Offers were received for the lease of this land during November 2007 to August 2008, although ultimately the procurement process was not successful in appointing a contractor due to economic and market changes. All potential tenders were withdrawn and the Council resolved in May 2009 for Hazelhead Golf Course to be transferred to Sport Aberdeen. The transfer is pending the completion of the transfers noted at **paragraph 3.02** above.

Identity Management (IDM)

- 3.06 Identity Management Project (IDM) is an IT led project which aims to streamline internal processes by linking the various databases that exist across the Council containing employee data. The project aims to implement a single input source that will automatically update each Council employee database. The project procured Novell IDM software to deliver this functionality, with the software going live in November 2008. The project scope did not fully define the data cleansing requirements and operational support required to ensure that the IDM tool could be used effectively, and the project has been delayed while data cleansing exercises are carried out by respective HR services. IT have to date been unable to “handover” the administration of the IDM software and system to HR and Payroll. The IDM tool will be used to control employee IT rights by restricting system access depending on their job role and automatically amending and disabling accounts when an employee moves roles or leaves the Council respectively.

3Rs Project – Information and Communication Technology (ICT) delivery

- 3.07 In common with many other local authorities, Aberdeen City has faced financial constraints that have limited its capacity to invest in the school estate to the required extent. As a result, there is now an urgent need for significant investment in school estate to address noted deficiencies in provision. The 3Rs Project (Reorganise, Renovate, Rebuild) is Aberdeen City Council's project to see Aberdeen's schools made fit for the 21st century. This is part of the Council's Community Plan (*aberdeen futures*) which sets out the vision for promoting social inclusion by widening access to learning and encouraging lifelong learning. It also involves the realignment of council services on a neighbourhood basis.
- 3.08 The 3Rs project involves the delivery of 10 new schools, 2 secondary and 8 primary, under a PFI contract. The construction, operation and funding of the schools is undertaken by a private consortium with the council meeting consortium costs through a unitary charge payment over the 30-year life of the schools.

- 3.09 Information and Communication Technology (ICT) is a key element of the Council's provision in these schools. The ICT department were tasked with specifying, procuring and installing ICT equipment and part of the ICT infrastructure. At the time of our review (March 2010) 2 of the 10 schools had been completed.

Woodside Fountain Centre & Customer Access Point

- 3.10 The Woodside Fountain Centre is a capital build project, initiated as part of the Council's Neighbourhood Community Action Plan for the Woodside area (as a direct output of the community planning agenda). The Council aimed to increase community facilities and access to services through the provision of a Customer Access Point – a one stop shop model for access to council services. The Council identified after initial funding was agreed that the provision of services at Woodside could be extended and, in-line with the Council's regeneration strategy, the scope of the project was expanded. This included an extension to the existing Woodside Community Centre to provide accommodation for the Customer Access Point and also additionally for a range of services to the local community which aimed to improve service provision and integration. The Centre opened in September 2009 and now houses Council services as well as community groups such as the Citizen's Advice Bureau, Drug Action Team and the Credit Union.
- 3.11 A multi agency Project Board was established to lead this work and an in-house dedicated Project Manager was appointed to co-ordinate the build. The project was delivered successfully, running close to schedule and within budget.

4. Detailed Findings

Project Management Guidelines

- 4.01 ACC has a comprehensive set of project management guidelines that are available to Council staff from a web page on the Council's intranet (the Zone). The purpose of these guidelines is to provide a corporate approach to project management. The guidelines are designed to be used where industry standards particular to the project are not available. The project lifecycle included within ACC's project management guidelines has been replicated in **Appendix 1**, which sets out the following key stages to project management:
1. Getting started – defining project requirements and obtaining approval for the project to proceed
 2. Plan and do – initiation of the project and its governance structure
 3. Co-ordination and monitoring of project tasks – review of documentation and managing risks and resources
 4. Conclusion – project closure and post implementation review.

Programme and Project Management Structure

- 4.02 Projects may be initiated within ACC to resolve a particular problem or as part of an overall programme of continuous improvement. Currently, there are a number - and a variety of - programmes and projects which are underway across the Council. Management of these projects falls to each of the 6 individual council service directorates. Day to day responsibility for projects may be delivered by a designated project manager (either contracted externally to perform this role or by a member of existing personnel with appropriate skills) or by an existing member of the team, in addition to their daily duties. In delivering projects, all services should adopt an approved project management methodology and acknowledge that a number of Council officers are PRINCE2 trained.
- 4.03 Whilst projects are usually delivered by service teams, there also exists a "major projects team". This team provides co-ordination, prioritisation and project management advice for the delivery of "major projects". This group sits within Enterprise, Planning and Infrastructure. Projects may be referred to this team if they are of significant risk, expenditure or public exposure. For example, the investigation of options for the redevelopment of Hazlehead Golf Course (**paragraph 3.04**) was delivered by this team due to the public interest in the project.

4.04 Whilst the major projects team are involved in a number of strategic projects, the remit of this team is not Council-wide and therefore does not have a complete overview of the population of projects undertaken by the Council at any one time. Our review highlighted that there is currently a breath of change happening across ACC which is being delivered in project 'silos'. It was particularly difficult to establish a population of projects to sample for our review, as there are many projects operating within each service. We would however acknowledge the steps being taken to ensure that at a Corporate and Directorate level there is clear transparency and monitoring of the:

- Number of projects being undertaken;
- Progress in achieving objectives for each project;
- Total costs and investment inherent in each project; and
- The effective management of interdependencies and prioritisation of projects in order to minimise any delays or potential conflicts.

4.05 Whilst the Council have access to many skilled, able and willing project managers in each of the services, the overall co-ordination, management and allocation of resources to individual and strategically important projects needs to be enhanced. Given the challenging business environment in which the Council is operating new projects are constantly being developed as services seek new ways to reduce costs, improve processes, increase productivity, and meet service standards. Managing these diverse projects along with their people, resources, technology, and communication is a difficult endeavour. Given these challenges we are supportive of the Council's proposal to establish a Programme Management Office (PMO) as a solution for establishing a more effective structure for managing, co-ordinating and prioritising resources across a large portfolio of projects.

4.06 Launching a PMO is however a challenging process which requires the absolute commitment and support of senior management within the Council. Just like any other organisational change project, this needs to be implemented in an appropriate manner with key stakeholder involvement at all stages and a clear clarity of purpose. If it is used to proactively assist Project Managers and their teams and it will become a valuable and essential asset.

4.07 If implemented successfully a PMO can work as an extremely important management discipline and tool which will provide:

- A common planning and reporting processes to project teams and senior management,
- Bring structure and support to evaluating, justifying, defining, planning, tracking and executing projects; and
- A mechanism for resolving conflicts caused by limited resources and other constraints.

4.08 Immediate improvements that you should be able to implement will include:

- The PMO should have the authority and remit to assess the number and scale of projects currently undertaken and the resource requirements of these. This assessment should include a detailed review of whether projects currently underway address service improvement agendas and contribute to Council objectives. Projects that do not add value to the Council's vision should not be continued.
- The PMO should also ensure that appropriate management and governance structures are in place for each project, ensuring that all projects give a clear articulation of business requirement and quantifiable benefits prior to approval.
- The PMO, with the support of Directors and Heads of Service should have responsibility for providing clear communication across the Council, outlining the change in approach to programme management, as well as roles & responsibilities

Continuous Learning

4.09 ACC project management guidelines recommend that post project, a post implementation review should be conducted. The purpose of such a review is to revisit the original project objectives, review performance against time and costs and consider what worked well and what lessons have been learned. During our review we observed that such reviews are not routinely carried out. We also observed that where these had been considered, actions were not taken to mitigate the risks of reoccurrence. **Recommendation 5.10.**

Six Pillars' Approach

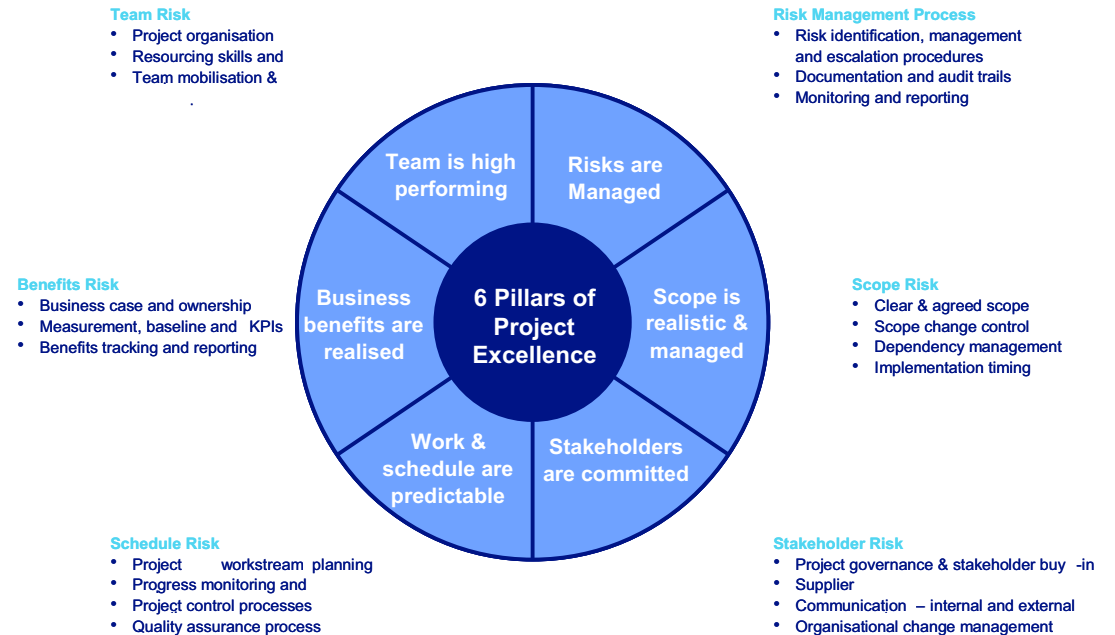
4.10 We have used PwC's 'Six Pillars' Approach to review the selected sample of projects and to identify those areas where existing project management disciplines and approaches need to be enhanced. The six pillars approach considers the following areas:

- **Stakeholder Management** – understanding key stakeholders and initial findings on whether they are bought into the Programme on key decisions and that an appropriate level of oversight from senior management exists
- **Business Benefits** – initial focus on financial management and whether benefits are clearly communicated
- **Work & Schedule** - a structured methodology to support the Programme is in place and appropriate level of resources are available to meet key deadlines
- **Team** – understand resources and assess whether Team composition is in line with making the Programme a success
- **Scope** – assess whether the scope of the Programme is clear and change is being controlled effectively
- **Risk Management** – assess whether risks are documented, monitored and clearly communicated to the Project Sponsor or Board

The Six Pillars of Project Excellence

4.11 We have used PwC's 'Six Pillars' Approach to review the project implementation which consists of reviewing the following areas:

1. **Risk Management** – assess whether risks are documented, monitored and clearly communicated to the Steering Committee
2. **Scope** – assess whether the scope of the project is clear and change is being controlled effectively
3. **Stakeholder Management** – assessing whether stakeholders are bought into the project and involved in key decisions
4. **Work & Schedule** – ensuring that a structured methodology to support the Programme is in place and an appropriate level of resources are available to meet key deadlines
5. **Business Benefits** – initial focus on financial management and whether benefits are clearly communicated
6. **Team** – understand resources and assess whether team composition is adequate to make the project a success



Risks are Managed

Best Practice Requirements

The '**Risks are Managed**' component addresses the processes within the project to identify and evaluate the project risks in a timely manner and implement appropriate mitigation and avoidance strategies. Our evaluation covered the risk management process for the project, focusing on the following key steps:

- Risk identification
- Risk assessment and prioritisation
- Risk response planning
- Risk monitoring and reporting



Our findings

- 4.12 All projects, regardless of magnitude or complexity, are exposed to an element of risk. These risks should be identified, monitored and managed if a project is to be successful. In order to effectively manage risks there must be up-to-date information about risks, a decision-making process supported by a framework of risk analysis and evaluation, a process in place to monitor risks and an appropriate balance of control in place to deal with the risks identified.
- 4.13 Formal risk assessments were undertaken for most of the projects that we reviewed and documented in a risk register. An assessment of each risk and the respective impact on the project was undertaken with individuals assigned to manage each risk identified. Risk registers were reported to various working groups or project boards and their contents considered.
- 4.14 However our review highlighted occasions where project risks were not fully considered throughout the life of projects, nor in the correct level of detail. In particular we noted:
- **IDM and Sports Trust Projects** – the risk register had been created but not updated through the life of the project.
 - **Hazelhead project** – the project board did not adequately assess the risks associated with inviting only 2 bidders to tender. Whilst we accept that the change in the external economic conditions could not have been anticipated, there would have been inherent risks associated with only inviting 2 parties to bid irrespective. The implications and risks of inviting only 2 bidders should have been more rigorously assessed at the point the original decision was made.

Recommendation 5.03

Scope is Realistic and Managed

Best Practice Requirements

The 'Scope is Realistic and Managed' component addresses the definition of project boundaries and the processes for managing changes to the project scope. Our assessment reviewed the processes in place to ensure that the project scope was understood, consistent with the project objectives and endorsed by project stakeholders. Scope change control was also addressed, including evaluation of the impact of proposed changes to the boundaries of the project and approval processes:

- Scope definition
- Scope communication, verification and approval
- Scope change control



Our findings

- 4.15 Eventual project success (or failure) depends heavily on the robustness of project definition. Poorly defined projects will always deliver a sub-optimal result regardless of how well the project is executed. To ensure that projects run to time, and on budget, and deliver the intended benefits, a robust project scope must exist. We observed from the projects reviewed that a robustly defined scope did not always exist.

For example, the **IDM project** did not fully consider the inputs required for the successful delivery of the project (for example data cleansing requirements from HR).

Recommendation 5.04

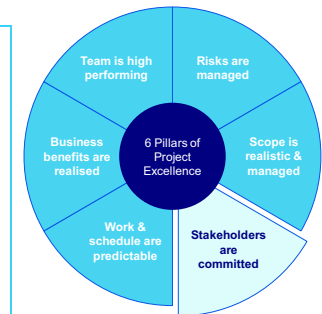
- 4.16 Each project must outline the costs of the project in the business case. Project managers are responsible for developing the information in the business case with the help from finance and other specialists. The business case will be approved by the budget holder and/or the project board. Our review also noted that costs are not always fully considered for each stage of a project at the business case stage.
- **Sports Trust Project** – the costs in the original budget submission did not include back office support costs (HR, legal, finance, IT etc). This has subsequently contributed to a delay in project progress as negotiations are ongoing.
 - **Woodside Fountain Project** – insufficient consideration was given to assessing the costs of delivering the defined building to meet the project scope prior to the submission of the business case. This resulted in requests for further funding based on architect costings.

Recommendation 5.05

Stakeholders are Committed

Best Practice Requirements

The 'Stakeholders are committed' component addresses the identifying, informing and influencing of those individuals and groups impacted by the project or who may impact the project. Stakeholders considered should include both internal and external parties involved directly in the project as well as individuals and groups who have less direct associations (for example customers, regulators, business partners). We assessed whether the project objectives were understood, recognised and supported by all project stakeholders and stakeholder related risks are effectively managed. In particular we considered: Stakeholder identification, Stakeholder commitment, Stakeholder communication and information distribution and Organisational change management.



Our findings

4.17 In order for a project to be successful, there must be a level of buy in from its intended user. We noted from our review of several projects that the views of stakeholders are not always considered in full or at the right stage in the project to ensure successful delivery. Furthermore we noted that communications plans are not widely used: although we acknowledge that these were available for the Hazelhead Golf Course and Woodside Fountain Centre projects.

- **3Rs Project** – the IT department were not sufficiently involved in early stages of the central 3Rs project planning in order to give them sufficient time to prepare for and assess the implementation of technical IT infrastructure. This impacted on their ability to procure ICT in advance and to be involved in the specifications of the ICT infrastructure.
- **IDM Project** – stakeholders were not fully consulted in the creation of the IDM scope or during the required implementation phases. As a result the solution that is being implemented has not had the full level of support from HR as they were not included within consultation for the original scope of the work.
- **Sports Trust Project** – we noted that stakeholders (i.e. operational staff who would deliver the project) were not consulted at the outset.

Recommendation 5.08

4.18 Whilst noting the above exceptions we did however identify that on certain projects there had been strong stakeholder engagement. For example, in the **Woodside Project**, members of the community groups, public and council groups were continually engaged through a series of meetings and public forums. Monthly Steering Committee meetings comprised members from all of these groups and facilitated discussion of emerging issues and monitored the project progress.

Work & Schedule are Predictable

Best Practice Requirements

The 'Work and Schedule is Predictable' component addresses the production and delivery of the range of project services and deliverables. The success key also encompasses the processes to ensure that services and deliverables met are specified within performance and acceptance requirements in each of the following areas.

- Project standards & framework
- Project time management
- Project cost management
- Project quality management
- Project progress monitoring
- Project administration & support
- Acceptance of project products and deliverables



Our findings

- 4.19 Project plans should be action based and identify the major activities of the project and the agreed order in which they should occur. We observed that the use of Microsoft Project to create "gant charts" is commonly used by ACC to outline the milestones that should be achieved. Whilst it is imperative to set key milestones and work toward these, this should not be at the compromise of the quality of activity undertaken.
- **Sports Trust Project** – in this project, for example, a project milestone "staff consultation" was reported as a completed action to the project board. However the substance of this was that only 10% of the staff population were included in this consultation process. In addition, an independent Board of Directors was appointed to the Trust whilst other key activities were still being taken forward by the Council. This has served to create another level of governance that has subsequently held up progress with key decision making.
- 4.20 Furthermore our review also highlighted that realistic timeframes are not always set for projects.
- **Sports Trust Project** – a timescale of 12 months was set. This has now been exceeded by over one year.
 - **Hazelhead Project** – project took 3 years to draw to a conclusion, longer than had been originally anticipated.

Recommendation 5.06.



Business Benefits are Realised

Best Practice Requirements

The 'Business Benefits are Realised' component addresses the initial definition, endorsement and estimation of planned business benefits, through to measurement, monitoring and realisation. Our evaluation was based on the philosophy that project stakeholders should understand, accept and take responsibility for the anticipated business benefits and actively manage realisation of business benefits throughout the entire project. The most effective projects involve a 'win-win' relationship and as such we reviewed the process of establishing, agreeing and monitoring the delivery organisation relationship to ensure that agreed delivery organisation benefits are realised through:

- Benefits Definition, - Benefits awareness and acceptance - Benefits estimation
- Benefits measurement and monitoring
- Benefits reporting
- Agreement of delivery organisation rights and obligations
- Establishing the delivery organisation relationship
- Monitoring delivery organisation benefits

Our findings

4.21 The business case for any project should define the vision for the project, demonstrating both its strategic fit with corporate objectives and the benefits expected to be gained. Our review highlighted that benefits are not always fully documented and defined at the outset.

- **Sports Trust Project** – we noted that the project benefits appear to be driven by financial savings and lacked a clear outcome based vision for the project (eg. sports development and enhanced community participation). We also observed that inadequate evaluation of the financial benefits was undertaken at the outset as some of the benefits (for example efficiency and VAT savings) have not been realised.
- **Woodside Project** – we noted that whilst the business case set out the vision for the community it did not clearly define what the costs of implementation would be - both capital and revenue.

Recommendation 5.09.



Team is High Performing

Best Practice Requirements

The 'Team is High Performing' component addresses the identification, mobilisation and development of human resources involved on the project. The good practice statements cover the initial tasks of securing the necessary resources, obtaining line management agreement to utilise business resources and building team commitment. Team related tasks performed throughout the project life include communication, developing team skills and knowledge, promoting performance improvement, providing suitable rewards / recognition and managing succession. Effective management of the project infrastructure, including accommodation, transport and equipment also supports a high performing team.

Our findings

- 4.22 The responsibility of a Project Manager is to deliver the objectives of the project and ensure delivery of the outlined benefits. They must ensure that the project is managed day to day and lead the project team. The role of the project team is to conduct the work prescribed in the project plan. Whilst we noted that project managers and clear project teams exist for some projects, this approach is not used consistently for all projects.
- 4.23 Whilst we noted good practice in the Woodside Fountain Centre project where an experienced project manager had been appointed, we noted that some project managers did not have the appropriate level of delegated authority to ensure that actions at key stages could be progressed and some projects which did not have a dedicated project manager to co-ordinate all strands of the project.
- **3Rs Project** – there was a lack of clear project management leadership by the ICT department, with project management being a shared responsibility between delivery teams (technical IT and IT procurement). Equally, we noted from review of internal audit work conducted previously that the central project team for 3Rs has suffered as a result of the project management role not being adequately resourced throughout the project lifecycle.
 - **Sports Trust Project** – the project manager role was fulfilled by 3 different people over the course of the project, resulting in different project management styles and leadership being deployed.

Recommendation 5.07

- 4.24 The project sponsor has ultimate responsibility for the project and is in control of the funding, providing leadership and direction throughout the project. Ideally there should be a representative of the management team for the particular service areas. It is important that the project sponsor is agreed amongst all services involved, as some projects may involve a number of services. Our review of the **IDM Project** noted that there was a lack of clarity around who the project sponsor was and that no full time project sponsor has ever existed in the project, but rather this position has been taken on by a series of “interim” sponsors. **Recommendation 5.02**
- 4.25 All projects require a structure that clearly defines the roles and responsibility of everyone involved. This should reflect the size and nature of the project. Project boards should be a decision making authority for projects and provide the overall direction - and be accountable - for the project success. Generally, we observed that project boards had been set up for most projects, albeit with varied membership. There appears to be however a lack of clarity as to what the purpose of a project board is and its remit. Our review of various projects highlighted that these boards do not always have the optimal membership. For example in the **3Rs Project** there was no representation from ICT, and in the **IDM Project** no dedicated project board exists. **Recommendation 5.01**

5. Recommendations

As the Council are already committed to establishing a Programme Management Office, we have included within this section a summary of those areas identified by our review where existing project management arrangements need to be improved and key best practice principles consistently applied in the following areas:

1. Project Board
2. Project Sponsor
3. Project Risk Management
4. Clear definition of project scope
5. Effective project cost budgeting and management
6. Project Planning
7. Resource Allocation
8. Stakeholder Management
9. Benefits Realisation
10. Lessons Learned

Management Response:

The recommendations within this report have been agreed with the Director of Corporate Governance. Implementation of the recommendations will be subject to a further follow up review by internal audit and the findings reported to the Audit and Risk Committee.

Control weakness found		Specific Risk	Risk rating	Recommendation
Project Board				
5.01	All projects require a structure that clearly defines the roles and responsibly of everyone involved. This should reflect the size and nature of the project. Project boards should be a decision making authority for projects and provide the overall direction - and be accountable - for the project success. Generally, we observed that project boards had been set up for most projects, albeit with varied membership. There appears to be however a lack of clarity as to what the purpose of a project board is and its remit.	Project resources are not assessed to determine whether the team composition is adequate to make the project a success.	● Medium	Guidance should be issued to project managers and management on the use of Project Boards. This guidance should cover clear examples of when a Project Board is required and outline key membership.
Project Sponsor				
5.02	The project sponsor has ultimate responsibility for the project and is in control of the funding, providing leadership and direction throughout the project. Ideally there should be a representative of the management team for the particular service areas.	Project resources are not assessed to determine whether the team composition is adequate to make the project a success.	● Medium	To ensure that there is clear and defined project leadership, there should be a clear decision at the start as to who the project sponsor is and what the respective roles of the sponsor and the project manager are. The project sponsor should be a key beneficiary of the project outputs, and not necessarily be from the team responsible for delivering it.

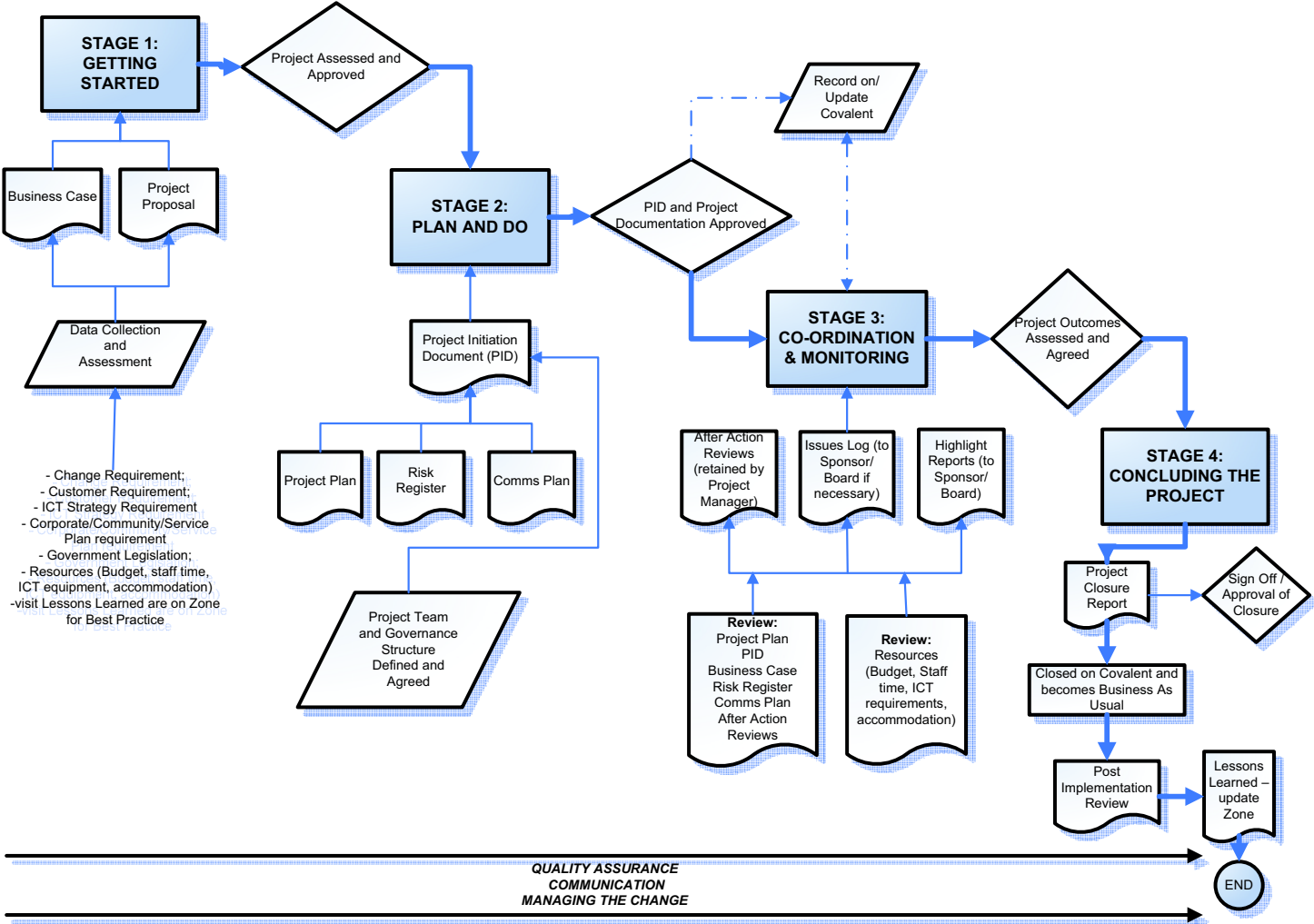
Control weakness found	Specific Risk	Risk rating	Recommendation
Project Risk Management			
5.03 All projects regardless of magnitude or complexity are exposed to an element of risk. These risks should be identified, monitored and managed. Our review highlighted occasions where project risks were not fully considered throughout the life of projects, nor in the correct level of detail.	Risks are not documented, monitored or clearly communicated to stakeholders.	● Medium	The importance of risk management for each project should be set via “tone at the top” through project board and project sponsor emphasis. Risk registers should be generated with consultation with the project team and other stakeholders. These risk registers should be action based and subject to regular review and evaluation to ensure that attention can be focussed on areas which could pose the greatest risk for failure to project delivery.
Project Scope			
5.04 Eventual project success (or failure) depends heavily on the robustness of project definition. Poorly defined projects will always deliver a sub-optimal result regardless of how well the project is executed. To ensure that projects run to time, and on budget, and deliver the intended benefits, a robust project scope must exist.	The scope of the project is not clear and change is not being controlled effectively.	● Medium	Project Managers should take responsibility for establishing the scope of each project and considering the key factors that are likely to influence the overall success of the project. The project scope should be reviewed and approved by the project sponsor and project board.

Control weakness found	Specific Risk	Risk rating	Recommendation
Effective Target Cost Budgeting and Management			
5.05 Each project must outline the costs of the project in the business case. Project managers are responsible for developing the information in the business case with the help from finance and other specialists. The business case will be approved by the budget holder and/ or the project board. Our review noted that costs are not always fully considered for each stage of a project at the business case stage.	There is limited focus on financial management and the monitoring of benefits realisation.	● Medium	Before projects are approved, project cost budgets should be prepared. These budgets should include all costs – both capital investment and recurring / non recurring revenue costs. Project Sponsors should take responsibility for reviewing the completeness of the project costs and which should be subject to scrutiny by the Project Board prior to approval.
Project Planning			
5.06 Project plans should be action based and identify the major activities of the project and the agreed order in which they should occur. We observed that the use of Microsoft Project to create “Gantt charts” is commonly used by ACC to outline the milestones that should be achieved. Whilst it is imperative to set key milestones and work toward these, this should not be at the compromise of the quality of activity undertaken.	A structure methodology to support the project is not in place and an appropriate level of resources are not available to meet key deadlines	● Medium	Project plans should be established from the initiation stage and be reviewed and updated as a matter of course by the Project Manager (with approval of the Project Sponsor). Project Boards should review and challenge the quality of the key tasks undertaken as well as the timely completion of projects. The PMO should also take an oversight role throughout the project lifecycle.

Control weakness found	Specific Risk	Risk rating	Recommendation
Resource Allocation			
5.07 The responsibility of a Project Manager is to deliver the objectives of the project and ensure delivery of the outlined benefits. They must ensure that the project is managed day to day and lead the project team. The role of the project team is to do the work prescribed in the project plan. Whilst we noted that project managers and clear project teams exist for some projects, this is not the approach used consistently for all projects.	Failure to appoint key roles in a project in a timely manner may jeopardise the timely completion of the project.	● Medium	Project Managers should be appointed prior to the initiation stage. Careful consideration should be given by project sponsors as to the requirement to appoint a project manager on a full time basis and the workload implications for project managers who perform this role in addition to their day to day duties.
Stakeholder Involvement			
5.08 In order for a project to be successful, there must be a level of buy in from its intended user. We noted from our review of several projects that the views of stakeholders are not always considered in full or at the right stage in the project to ensure successful delivery.	Stakeholders are not bought into the project and are not involved in key decisions.	● Medium	Stakeholders should be involved in the project from the outset. Project Managers should take a lead in identifying who they key stakeholders are and ensuring that they are appropriately engaged throughout the project. This should be incorporated into a formal communications plan.

Control weakness found	Specific Risk	Risk rating	Recommendation
Benefits Realisation			
5.09 The business case for any project should define the vision for the project, demonstrating both its strategic fit with corporate objectives and the benefits expected to be gained. Our review highlighted that benefits are not always fully documented and defined at the outset.	There is limited focus on financial management and the monitoring of benefits realisation.	● Medium	Project Management guidance should be updated to include clearer guidance and direction on how to define and measure project benefits. This should include the requirements for a benefits realisation delivery plan for each project. This should stipulate that each project must outline the specific business benefits, how they will be achieved, accountability for achievement and timing. A formal benefits tracking process would ensure that major project deliverables are completed, anticipated cost savings are achieved and the associated business benefits are ultimately realised in a timely manner.
Lessons learned			
5.10 ACC project management guidelines recommend that post project; a post implementation review should be conducted. The purpose of this review is to revisit the original project objectives, review performance against time and costs and consider what worked well and what lessons have been learned. During our review we observed that such reviews are not routinely carried out. We also observed that where these had been considered, actions were not taken to mitigate the risks of reoccurrence.	There is no continuous improvement from projects undertaken.	● Medium	Reflection on the “lessons learned” from projects should be undertaken post completion and used to further develop and refine the Council’s project management methodology and approach.

Appendix 1 – Project Management Lifecycle



Appendix 2 – Implementing a PMO

Implementing a PMO is a project in itself, subject to the same pitfalls. The following four clearly defined steps can contribute to the successful implementation of a PMO:

Step One: Establish a vision

It is important from the outset that there is clear articulation of what will be different about the Council after the PMO has been established. Do not immediately skip to questions of what and how - What processes do we need to implement; How will we convince business unit project managers to use shared tools and techniques?

PMOs can guide and lead project portfolios, improve project execution, focus on benefits realisation, or all of the above. If, at the completion of a major project, the business units display an obvious lack of enthusiasm, it could be a symptom of your failure to align the project with your organisation's strategic business plans. A difference of opinion about whether or not a project was successful could indicate poor business case discipline or a failure to properly charter the project; schedule overruns could be attributed either to poor project execution or unmanaged contention for resources within a portfolio of projects. So, keep asking and answering the questions of why the Council believes it needs a PMO. The answer to all the subsequent what and how questions should be rooted in vision for the PMO.

Step two: Consider the culture

The most successful PMOs reflect the culture of the organisation in their role and placement. Given the size of the Council and extent of the project portfolio, it is probable that you will be seeking to establish a Centralised Enterprise Project Management Office. PMOs of this nature typically suit larger, more mature organisations that want the PMO to have greater power to enforce standards across projects and are willing to accept the greater risk this hands-on model carries in exchange for the promise of more dramatic results.

If this is the model you choose, you will need to spend more time and energy upfront to gain buy-in than you might have originally planned. Stakeholders throughout the Council should be actively involved in the development of the business case for establishing the PMO. To reduce issues of authority and ownership, establish a process for continuously communicating the role and functions of the PMO, as well as the metrics that will be used to measure its success.

Step three: Measure what matters

The expense involved in establishing and maintaining a PMO is small compared to the typical value of the project portfolio. Still, demonstrating that the Council will derive value from the office is essential to its acceptance and continued improvement. In addition to the obligatory metrics regarding the on time, on budget health of individual projects, consider a mix of metrics that support the three areas of PMO influence: doing things right, doing the right things, and capturing value.

Step four: Take the long view

Project funding, staffing levels, and even PMOs will come and go with changing business environments. Your goal is to embed the principles of project management and benefits realisation into the Council. Available evidence would suggest that project success rates can double in the second full year of a PMO's existence and can continue to climb for several more years. From the outset establish reasonable expectations about the rate of change and magnitude of improvement.

Completion

These four simple steps should put you on the path to improving project success rates and creating more business value from project investments. As with all projects, communicate constantly with stakeholders to address concerns and clear obstacles to implementation. Pay careful attention to limiting project scope to only that required to deliver the changes you envisioned. In summary to support the successful implementation of a PMO and its integration with the service directorates:





- ✓ The PMO should have senior level executive support
- ✓ A quality process for selecting project managers and teams should be established
- ✓ The PMO should serve as an "ambassador," communicating with all internal and external stakeholders.
- ✓ Project management methodologies, tools and templates should be standardised.
- ✓ A useful knowledge library of best practices is maintained as part of the PMO.
- ✓ The PMO is involved in all projects from start to finish (the degree of involvement can however vary).
- ✓ The Council's project portfolio is overseen and managed by the PMO.

Appendix 3 – Terms of Reference

Review: Programme and Project Management (25 days)	
Overall Objective The objective of this review will be to assess the extent to which a robust programme and project methodology has been developed and is being consistently applied. Our review will compare existing arrangements against best practice and the PwC 'Six Pillars of Project Excellence' model.	
Scope Our proposed approach is to evaluate the project management methodology, control and guidance currently in place within the Council. Specifically, we will review: <ul style="list-style-type: none"> • the procedures in place, on a sample basis, to control project schedules, cost and successful delivery; • the project management structure in place, including reporting requirements; and • Review the process for continuous improvement and ongoing effectiveness of projects through the use of post implementation (lessons learned) reviews. 	Risks <ul style="list-style-type: none"> ✓ Risks are not documented, monitored and clearly communicated to the Programme / Project Steering Committee ✓ The scope of the programme / project is not clear and change is not being controlled effectively ✓ Stakeholders are not bought into the project nor involved in key decisions ✓ A structured methodology to support the Programme / Project is not in place and an appropriate level of resources are not available to meet key deadlines ✓ There is limited focus on financial management and the monitoring of benefits realisation ✓ The programme / project resources are not assessed to determine whether the team composition is adequate to make the programme / project a success

Appendix 4 – Risk Ratings

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information Compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function or process objectives; has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives. However, implementation of the recommendation would improve overall control.

Appendix 5 – Limitations and Responsibilities

Limitations inherent to the internal auditor's work

We have undertaken our review of ACC's Programme and Project Management arrangements, subject to the following limitations.

Internal control

Internal control, no matter how well designed and operated, can provide only *reasonable* and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of Programme and Project Management arrangements is that at May 2010. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is the responsibility of Aberdeen City Council and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

In the event that, pursuant to a request which Aberdeen City Council has received under the Freedom of Information (Scotland) Act 2002, it is required to disclose any information contained in this report, it will notify PricewaterhouseCoopers (PwC) promptly and consult with PwC prior to disclosing such report. Aberdeen City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Aberdeen City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Aberdeen City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2010 PricewaterhouseCoopers LLP. All rights reserved. PricewaterhouseCoopers refers to the United Kingdom firm of PricewaterhouseCoopers LLP (a limited liability partnership) and other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Exempt information as described in paragraph(s) 1 of Schedule 7A of the Local Government (Scotland) Act 1973.

Document is Restricted

This page is intentionally left blank

Exempt information as described in paragraph(s) 1 of Schedule 7A
of the Local Government (Scotland) Act 1973.

Agenda Item 5.5

Document is Restricted

This page is intentionally left blank

Exempt information as described in paragraph(s) 1 of Schedule 7A of the Local Government (Scotland) Act 1973.

Document is Restricted

This page is intentionally left blank