

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	8 May 2018
REPORT TITLE	Internal Audit Report AC1818 – Capital Plan
REPORT NUMBER	IA/AC1818
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Capital Plan.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Capital Plan.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or

Place, or Enabling Technology, or on the Design Principles of the Target Operating Module.

- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1818 – Capital Plan.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report Capital Plan

Issued to:

Steven Whyte, Director of Resources

Fraser Bell, Chief Officer – Governance

Sandra Buthlay, Interim Chief Officer – Finance

Craig Innes, Head of Commercial & Procurement Services

John-Paul Cleary, Senior Programme Manager, Commercial & Procurement Services

External Audit

EXECUTIVE SUMMARY

The objective of this audit was to ensure that robust procedures are in place for setting, progressing and monitoring the Capital Programme. A review of Capital Programme Governance reported to the Audit, Risk and Scrutiny Committee of 27 June 2017 highlighted the need for improved Project Management Governance and Principles to be applied to Capital Plan Projects. The audit therefore focused on ensuring that the new processes are being applied and to provide assurance over setting and delivery of the Capital Plan.

New processes have been implemented, and provide a robust framework for managing the Capital Programme. However, some projects which commenced prior to implementation have still to ensure all of the documentation is updated, and a small number of actions identified in the Programme Management Office's (PMO) reviews of the process and individual programmes have still to be completed. The PMO anticipates concluding these by June 2018.

Project documentation to support and document approval of changes to timing and costs is not always being completed consistently and retained. Project cost forecasts are not well completed, and the impact of risks on the outturn is not always being factored in to project cost monitoring timeously. The PMO, with support from the Director of Resources and Chief Officer – Finance, will remind project sponsors and managers of the requirements, and reinforce these through quality control checks.

1. INTRODUCTION

1.1 Financial Regulations require that the Council's Capital Programme be developed in accordance with instructions from the Head of Finance who then submits this to Full Council for approval.

1.2 The Council's 5 year Capital Budget (at the time of testing) was approved at Full Council on 22 February 2017:

Year	Non-Housing Capital Programme £'000	Housing Capital Programme £'000
2017/18	£239,518	£55,318
2018/19	£214,429	£30,078
2019/20	£139,213	£24,632
2020/21	£76,458	£24,914
2021/22	£37,555	£25,556
5 year total	£707,173	£160,498

1.3 The objective of this audit was to ensure that robust procedures are in place for setting, progressing and monitoring the Capital Programme. A review of Capital Programme Governance reported to the Audit, Risk and Scrutiny Committee of 27 June 2017 highlighted the need for improved Project Management Governance and Principles to be applied to Capital Plan Projects. The audit therefore focused on ensuring that the new processes are being applied and to provide assurance over setting and delivery of the Capital Plan.

1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Steven Whyte – Director of Resources, and John-Paul Cleary – Senior Programme Manager, Commercial & Procurement Services.

2. FINDINGS AND RECOMMENDATIONS

2.1 Project Approval and Management

2.1.1 New processes were put in place following the review of Capital Programme Governance reported to the Audit, Risk and Scrutiny Committee on 27 June 2017, with the support of the Programme Management Office (PMO), in order to apply additional Project Management governance and principles to Capital Plan Projects. There is a new Governance Structure (comprising 6 Programme Boards), terms of reference detailing guidance and responsibilities, and training packages are being provided to appropriate staff.

2.1.2 The revised Project Management Process has 4 stages (Define, Implement, Close, Measure), within which each Project must pass 7 Gate stages in order to proceed. Although the previous methodology followed a similar process, it included only 4 Gate stages through which a project had to pass to ensure it had been properly defined and managed:

Stage	Previous Gates	Current Gates
Define	Approve Proposal Approve Business Case	Approve Proposal Approve Business Case
Implement		Approve Project Initiation Document (PID), Designs and Plans Approve Procurement Six Monthly Reviews
Close	Project Close	Project Close
Measure	Benefits Review	Benefits Review

2.1.3 The Programme Management Toolkit on the Zone provides further guidance for each of the stages and Gates. Although the PMO home page and Project Management Process Diagram have been updated on the Zone to show the new Gates, the “Project Review Points: The Gates” page on the Zone has not yet been updated to show the new gates, and includes only 4 Gate stages. All guidance should be finalised providing a clear reference point for staff and giving Management assurance over the processes to be followed.

<u>Recommendation</u> The PMO should ensure up to date comprehensive guidance is published.		
<u>Service Response / Action</u> Agreed.		
<u>Implementation Date</u> Implemented	<u>Responsible Officer</u> Senior Programme Manager	<u>Grading</u> Significant within audited area

2.1.4 The PMO has made progress with implementing the 71 actions identified as part of its review, however in January 2018 there were 12 actions where the original due dates had not been met. The number of overdue actions has reduced to 8 following a further review by the PMO in March 2018. These include: ensuring all projects have all of the required project documentation; benefits realisation plans; reviews of interdependencies; a central database of lessons learned; further clarification of specific roles and responsibilities; communication with utilities companies; review of the closure process; and review of contingencies.

- 2.1.5 Until all projects have the full suite of supporting documentation there is a risk that the quality and consistency of application of the new process will vary, reducing assurance over capital programme governance.

<u>Recommendation</u> All recommendations in the implementation plan should be concluded.		
<u>Service Response / Action</u> Agreed. Work is progressing to conclude the remaining actions which include further development of the programme management process.		
<u>Implementation Date</u> June 2018	<u>Responsible Officer</u> Senior Programme Manager	<u>Grading</u> Significant within audited area

- 2.1.6 The PMO also undertook a number of in depth reviews of programme management and identified further action points specific to each Programme. Whilst the Capital Board has tracked progress with some actions, the PMO has still to follow up to obtain assurance that all of the actions have been implemented as planned.

<u>Recommendation</u> Programme Boards should ensure they can demonstrate that PMO review action points have been addressed.		
<u>Service Response / Action</u> Agreed. The PMO will review and follow up actions to demonstrate the progress made.		
<u>Implementation Date</u> June 2018	<u>Responsible Officer</u> Senior Programme Manager	<u>Grading</u> Significant within audited area

- 2.1.7 Officer representation on Programme Boards, and therefore the Boards' capacity may be constrained following staff changes. The Chair for the City Centre Programme Board left the Council on 31 December 2017 and the Chair of the AECC Programme Board has provided cover in the interim. There is a risk that chairing more than one Board might have an impact on capacity. The Service has stated that recruitment to the Target Operating Model is ongoing, interim appointments are being made, and the governance arrangements for the capital plan will be developed to take account of these changes.

- 2.1.8 Internal Audit sought to review 6 projects with planned expenditure in 2017/18 to ensure that they were prioritised and assessed for affordability, that there was a Business Case, and that the project spend was appropriately authorised at Committee:

Programme Board	Project
AECC	ACC Project Share
City Centre	Art Gallery Redevelopment Broad Street Provost Skene's House Refurbishment
Energy	Energy From Waste Procurement & Land Acquisition
Transportation	A96 Park & Choose / Dyce Drive Link Road

- 2.1.9 The Programme Manager was unable to provide documentation in respect of the AECC project within the period allocated for this audit. The remaining 5 projects' documentation was reviewed in detail.

- 2.1.10 A Business Case shows that projects are (or remain) viable, achievable and beneficial to the Council's priorities, and provide best value. In 4 cases there were Business Cases on file showing that the projects had been appropriately assessed prior to commencing.
- 2.1.11 Change control requests, or for significant changes revised Business Cases, should be completed if there is a requirement to change a project's scope, timing, budget or other key elements. This documentation shows that changes have been subject to appropriate scrutiny and approval, and that projects continue to offer best value.
- 2.1.12 The Broad Street project had originally formed part of a wider project, but no separate Business Case was set out when it was separately progressed.
- 2.1.13 The A96 project had a Business Case completed in 2011, outlining spend of £13 million, though this was incomplete as it did not have a full options analysis. This was superseded by a report to Full Council on 6 March 2013 which set out a revised cost of £15 million, but no revised Business Case is on file to support the change.
- 2.1.14 Changes to the timing of key elements within projects were not always supported by either a change control request or updated Business Cases.
- Art Gallery
 - 4 extension of time requests have been received from the contractor, with the third and fourth currently under review. There are no change requests on file covering the first and second, and the others present a risk which has still to be quantified, addressed and documented in the standard format.
 - Broad Street
 - Project Status Reports show that Construction and Project completion dates were deferred by 6 months, but there are no change requests covering these.
 - Energy from Waste
 - Project Status Reports show that that Conclusion of Procurement has been deferred by 6 months, but there is no change request covering this.
 - Other change control requests are on file for £61,000 of additional expenditure
- 2.1.15 Programme Managers have indicated that in some cases there may be limited merit to preparing change requests for circumstances which are outwith their control, which could then be superseded by changing circumstances. In some of the instances above decision making was escalated, therefore changes were not within the Capital Board's remit. However, comprehensive documentation should still be held for the project to demonstrate that appropriate consideration has been given to these changes, their impact, and appropriateness, in advance, regardless of where those decisions have been made.

Recommendation

All changes to projects should be supported by change control requests or a revised Business Case.

Service Response / Action

Agreed. Director of Resources to write and remind all project sponsors and managers of the need to comply.

Implementation Date

April 2018

Responsible Officer

Director of Resources

Grading

Significant within audited area

- 2.1.16 In each case the appropriate authorisation was sought where appropriate at Committee prior to expenditure being incurred.

2.2 Project Monitoring

- 2.2.1 Finance provides monthly ledger reports to Project Managers to aid in scrutiny of individual Projects. Thereafter Project Status Reports (PSR's) are prepared detailing milestones reviewed, expenditure and forecasts. Dashboards are then produced for Programme Boards, Highlight Reports produced to the Capital Board and a Summary Highlight Report provided to Corporate Management Team / Administration Leaders.
- 2.2.2 Capital Plan monitoring is included within the quarterly financial reports provided to Finance, Policy and Resources Committee. Internal Audit confirmed that with one minor exception these reports reconciled back to ledger data for the projects examined.
- 2.2.3 For the 5 projects reviewed (see 2.1.8) there was evidence that these are being reviewed regularly and PSR's produced (3 were reviewed from each). However, content and quality varies.
- 2.2.4 Minor errors or omissions in respect of dates and periods were identified in 4 of 15 PSR's reviewed. This has been resolved following changes to the PSR format.
- 2.2.5 Financial Monitoring should demonstrate expenditure to date, profiled future spend, and a full term forecast. Where there are anticipated variances against the budget, explanations and actions being taken to mitigate these should be provided.
- 2.2.6 In the Energy from Waste project, 2 out of 3 PSR's included the wrong funding figure due to a typographical error. This was resolved in the 3rd iteration.
- 2.2.7 For 4 out of 5 projects (all except the A96 project) Project Managers had used additional financial data to that provided by Finance to populate the PSR. Although including commitments or valuations of work in progress aids in demonstrating project implementation, it reduces comparability with financial ledger data, which is used in the Capital Plan reports to Finance, Policy and Resources Committee. Project Managers stated that they reviewed the ledger data for accuracy, however in one case (Art Gallery) an External Project Manager had taken over completion of the PSR and no similar review was being completed.
- 2.2.8 In these projects, other elements of the financial section of the PSR were also incomplete. Whilst actual spend to date had been completed, forecasts, monthly and future years' profiled spend had not been updated. As a result the impact of progress and expenditure to date on overall project costs and timing have not been taken into account in this section of the PSR. This data is used to update a status indicator (Red, Amber or Green), which in the cases reviewed did not therefore accurately reflect the financial status of the project at that point in time.
- 2.2.9 Each stage of the project and programme monitoring process summarises the stages beforehand, and detail is removed, therefore it is important that the Project Status Reports are completed consistently and correctly. The Programme Boards, Capital Board, CMT and Administration Leaders will not know if the Project Status Reports do not match the ledger or if they are not completed correctly, and may take assurance or make decisions on the basis of incorrect information.

Recommendation

The PMO should ensure Project Managers complete the financial section of the PSR fully and accurately.

Service Response / Action

Agreed. Project Managers have all received training and will be reminded of the

requirements including use of financial ledger data, profiling and forecasts. The PMO will implement quality control mechanisms to provide ongoing assurance and a letter from the Director of Resources will reinforce this.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
April 2018	Senior Programme Manager and Director of Resources	Significant within audited area

- 2.2.10 The PSR shows planned dates for project milestones, and a Red, Amber or Green status indicator for each. However, there is no record of actual completion dates. Where there have been delays the status will change to Amber or Red (though in one case reviewed an overdue milestone still had a Green indicator – Energy from Waste) until the issue is resolved, after which point the status becomes Green, whether the original due date was met or not. Including actual completion dates would aid in analysing progress and assist in the completion of post project reviews.

Recommendation

The PMO should review the PSR to provide additional clarity on progress.

Service Response / Action

Agreed. The format of the PSR will be reviewed to determine whether dates and status indicators provide sufficient detail.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
June 2018	Senior Programme Manager	Significant within audited area

- 2.2.11 In some cases forecasts were not being updated promptly following the identification of potential additional costs. Although the issues were typically being disclosed in narrative in reports to the Programme and Capital Boards, because the anticipated outcome was not known with certainty the potential impact on forecast expenditure was not factored in to the capital monitoring.

Recommendation

Forecasts should be updated promptly to take risk factors into account.

Service Response / Action

Agreed. It will not always be appropriate to update financial forecasts until there is more certainty, and there may be commercial sensitivities to take into account. Risk registers and changes should however be reported to the relevant programme board. Project Managers will be reminded of their responsibilities.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
April 2018	Senior Programme Manager and Director of Resources	Significant within audited area

AUDITORS: D Hughes
C Harvey
J Galloway

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.