



**Internal Audit Report**

**Chief Executive's Unit**

**Review of Contract Management**

February 2010

## **1. BACKGROUND**

- 1.1 This report has been prepared as a result of the Internal Audit review of Capital contracts/Contract Management as part of the 2009-10 Internal Audit programme.
- 1.2 The Organisational Development Policy and Performance Group (PPG) considered a report dated 30 January 2009 by the Head of Roads and Amenity Services outlining the history of the Port Askaig redevelopment project and reporting on the contractual issues associated with the completed Phase 2 Marine Works contract, customer expectations and project management issues. The Executive Committee, at its meeting on 19 March 2009, agreed to a recommendation made by the PPG that this project be the subject of a financial audit and referred this to the Audit Committee for attention with a request that they report back to the Executive with their findings.
- 1.3 Internal Audit carried out a review of the Port Askaig redevelopment project and this was considered by the Audit Committee in September 2009
- 1.4 The Audit Committee agreed that, rather than wait for the next post completion audit, Internal Audit would investigate the current status of Process and Contract Management for ongoing projects to see whether or not processes that have been put in place for Contract Management are robust and effective.

## **2 AUDIT SCOPE AND OBJECTIVES**

- 2.1 The objective and scope of the audit is to look at Capital Projects in entirety. This will involve the recording of the process from project inception to project completion.

The following areas will be reviewed and investigated:

- Capital planning.
- Gateway process and use of business cases IBC, OBC and FBC and Benchmark Sheets; challenge and approval thereof.
- Procurement and Tendering Process
- Project Plans
- Project Management including individual contract management
- Completed project handover process and responsibilities.

## **3 AUDIT APPROACH**

- 3.1 We carried out initial desktop research to set out the process by which a project should be identified; included in capital plans; approved; procured; planned; managed and monitored and completion signed off.
- 3.2 At least three different Heads of Service have responsibility for the

management of contract works capital contracts but equally specialist vehicles or IT projects are subject to the same processes. Three current capital projects were selected and a questionnaire, devised from the information obtained by the desktop research and objectives and scope set out above, submitted to the appropriate Head of Service for completion with supporting evidence. These questionnaires were then evaluated.

## 4 **AMENDED PROCESS**

### 4.1 Project Initiation

Capital Works Projects can only proceed if they have been included in a Service Capital Plan. Annually each Service prepares a proposed Capital Plan on a three year rolling basis. This is done around October each year and submitted to the Asset Management Strategic Board (AMSB). The proposed plan should include all capital projects envisaged in the next three years and required to meet the Council's Corporate Plan objectives supported by the Asset Management Strategy (AMS) and Corporate Asset Management Plan (CAMP).

Each project will have a project sponsor and this will be the Head of Service unless an alternative person has been delegated this responsibility. No Project Sponsor may proceed to commit any expenditure to a project until it has satisfied the requirements of the Capital Projects Business Gateway process, full details of which are explained in the Capital Programme Planning and Management Guide.

The first stage in this process is that the Project Manager, if one appointed, or the Project Sponsor will prepare an Initial Business Case (IBC) for submission to the AMSB. The AMSB meets quarterly to consider IBC's and assess and rate each IBC before presenting the proposals to the Strategic Management Team (SMT)/Executive Committee for approval. An IBC has four key areas to address, namely, Impact; Affordability; Deliverability and Risk and includes a Benchmarking Sheet for Project Monitoring Purposes. For Asset Sustainability projects approval of the IBC means approval of the project and the project would move to the procurement/tender stage. Asset Sustainability Projects are those required to maintain the status quo and are not expected to be in excess of £250k.

For Service Development or Strategic Change projects the approval of the IBC only moves the project to the next gateway, the Outline Business Case (OBC), with a limit on the spend to achieve that stage. OBC's are submitted to the AMSB and will be assessed and rated similarly to an IBC but more detail is expected especially in support of the option appraisal aspects as well as life cycle revenue and capital costs. The challenge aspects at OBC stage are expected to be rigorous both by the AMSB and SMT/Executive Committee. The OBC will normally be prepared by the project manager and submitted by the project sponsor. The project board and project plan if not included in the IBC should be selected and prepared at this stage. While not essential it is anticipated that all impediments to the project will have been recognised and dealt with by this stage. Where impediments remain then the risk should be clearly stated. "Clean" OBC's are more likely to succeed than risky OBC's. When approval for an OBC has been given and the project does not exceed

£1m the project would move to procurement/tender stage. For projects over £1m in value the approval of the OBC signals the move to Final Business Case (FBC). This involves the appointment of an independent senior manager to examine the OBC to confirm the robustness of all the assumptions made in the OBC. When signed off by the independent examiner the FBC will be submitted to the AMSB who will further challenge the assumptions and make recommendations to SMT/Executive Committee. When the FBC is approved the project will move to procurement/tender stage.

#### 4.2 Project Procurement/Tender Stage

This stage of the project is largely controlled by the Council's Constitution and in particular the Contract Standing Orders. There are various thresholds when actions should be taken and these vary for goods and services and for contract works. For our purposes here we are considering only contract works contracts. In assessing project value all contracts included in the project require to be aggregated. For projects for contract works less than £349,731 the Council continues to use Constructionline approved contractors and consultants. For projects valued in excess of £349,731 all contracts must be advertised on Scottish Government's official national portal for public sector opportunities viz. [www.Publiccontractsscotland.gov.uk](http://www.Publiccontractsscotland.gov.uk). Projects in excess of £3,497,313 also require to be advertised in the official journal of the European Union (OJEU). Where there are some smaller contracts within a larger project provided they do not individually exceed 1m. Euro or 20% of the project value in aggregate the advertising rules do not apply.

When advertising we are required to use one of two procedures. These are the Open or Restricted Procedures. Open procedures require us to send tender documents to every reply requesting their receipt and could involve an excessive number of responses. Restricted procedures imply a process of selection and the basis of this must be stated in the appropriate adverts; the responses are assessed and a restricted number qualify to receive the tender documents.

Tender opening procedures are defined in the Council's Constitution. The lowest qualifying tender will be accepted provided it is within 10% of the OBC assumed cost. Tenders in excess of 10% of the assumed cost will require to be referred to the Executive Committee if they are to be approved.

#### 4.3 Project Plans

A Project Plan will have been prepared with the OBC but if for any reason an OBC was approved without a project plan it must be prepared now. The key areas of this stage are:

Agree monitoring and control procedures within the needs of the Council's Capital Plan Monitoring regime.

Plan and Schedule work. Recognise key milestones, activities, resource needs, work packages, OBC comparison.

Evaluate risks. Probability, impact, action required.

#### 4.4 Project Management

Prince 2 sets out processes for this stage but also permits the use of other

standard work plans e.g. Institute of Civil Engineers (ICE), or Royal Institute of British Architects (RIBA). Since the Council's officers are usually qualified members of these bodies or the Royal Institute of Chartered Surveyors (RICS) then it is almost certain the forms of contract promoted by these bodies are the ones likely to be used. At this stage contract management follows the contractual requirements of the various forms of contract used but in addition is subject to the Council's monthly capital plan monitoring processes.

#### 4.5 Completed Project Handover

The Project Board or project managers are responsible for arranging the handover of a completed project to the operating Service and the completion of the Project Outcome Review.

### **5 SUMMARY OF MAIN FINDINGS**

- 5.1 Internal Audit found that The Benchmarking Sheet is an integral part of an Initial Business Case (IBC). In all three cases an IBC was approved by the Executive Committee when no Benchmarking sheet had been prepared.
- 5.3 The Audit found that The Executive Committee had not been advised that at the IBC stage a spend limit should be set to achieve an OBC having approved an IBC.
- 5.4 The Audit found that the new processes currently being implemented by the Asset Management Strategic Board were adopted but these changes are only now (last eight months) being driven forward.

### **6 ACTION PLAN**

The action plan attached at Appendix 2 has been compiled on the basis that the Council's accepted procedures and processes have not been followed in specific instances

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

### **7 OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES**

- 7.1 The work of the Asset Management Strategic Board has, over the last nine months, set new parameters which affect all aspects of Capital Contracts/Contract Management within the Council. These changes have and are being introduced progressively and our findings affect one matter which it was felt had been addressed but two which had still to be dealt with. It will be

of interest to the Audit Committee that the 2009-10 Review of Asset Management will be available in March 2010 and will provide a detailed picture of what has been achieved and what has yet to be done.

- 7.2 The Business Case gateway process has been followed as a result of the introduction of the draft Capital Programme Planning and Management Guide in 2007; this has yet to be issued as a final document with its supporting templates. This will be addressed by the AMSB.
- 7.3 During 2009/10 no large strategic change projects outside CHORD have been added to the capital plan under the auspices of the new guidelines therefore any project so reviewed will fail to a greater or lesser extent to meet the Council new process requirements e.g. the formation of Project Boards which is considered a fundamental improvement.
- 7.4 In the experience gained by Internal Audit when reviewing capital contracts in the past it is our opinion that the perception of poor project management can be attributed to a failure to establish a realistic net cost prior to a project being admitted to the Capital Plan. In the main projects were included in the capital plan prior to the final project specification and before it was deemed an affordable, deliverable, risk managed priority of the Council.

## **8 ACKNOWLEDGEMENTS**

- 8.1 Thanks are due to The Roads and Amenity Services, Facility Services and Community services for their co-operation and assistance during the Audit and the preparation of the report and action plan.
- 8.2 Argyll & Bute Council's internal audit department has prepared this report. Our work was limited to the scope in paragraph 2.1 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2**

**ACTION PLAN**

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
1	1.1 to 1.3	Medium	The Benchmarking Sheet is an integral part of an Initial Business Case (IBC). In all three cases an IBC was approved by the Executive Committee when no Benchmarking sheet had been prepared	The Asset Management Strategic Board is requested to ensure that the scoring and rating process they employ ensures that Benchmarking Sheets are completed for each IBC.	Internal Audit Manager on behalf of Audit Committee	31 March 2010
2	1.4 to 1.5	Medium	The Executive Committee were not advised to set a spend limit to achieve an OBC having approved an IBC.	The Executive Committee are recommended by the AMSB that where an IBC is being approved to permit progress to an OBC the spending limit to achieve an OBC submission is clearly defined.	Chairman AMSB	31 March 2010

ACTION PLAN NO	PARAGRAPH	GRADE	WEAKNESSES IDENTIFIED	AGREED ACTION	RESPONSIBLE OFFICER	DATE OF IMPLEMENTATION
3	1.1 to 1.5	Medium	There is a training issue for Members of the Executive who are required to approve business cases in respect of their understanding of what that entails.	The Asset Management Strategic Board is requested to organise training for the Executive Committee Members to provide a full understanding of their role in approving business cases at each gateway.	Internal Audit Manager on behalf of Audit Committee	31 March 2010
4	1.24	Medium	These processes have only been driven forward in the last 6 months. It was not possible to review the completed project handover for any of the projects.	Internal Audit will include a review of the projects in future annual audit plans.	Internal Audit Manager	5 March 2010