



INTERNAL AUDIT, RISK & COMPLIANCE SERVICES

Argyll & Bute Council

Internal audit report – Campbeltown Community Project
– Post Implementation Review

3 December 2010

Report Number 001

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ADVISORY

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Donald MacVicar	Head of Community & Culture
Allan Redpath	Property Manager – Facility Services
Jim Anderson	Performance Manager - Facility Services

For information

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Sally Loudon	Chief Executive
Bruce West	Head of Strategic Finance
Ian Nisbet	Chief Internal Auditor

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Executive summary

Summary of objective and scope

In accordance with the 2009-10 internal audit plan of Argyll & Bute Council ('the Council'), as approved by the audit committee, a post implementation review ("PIR") of the Campbeltown Community Project was completed.

The specific objective, scope and approach in respect of this internal audit are detailed in Appendix 1.

Background

The Campbeltown Community Project ("the project") arose following a series of structural issues resulted in the closure of the Campbeltown swimming pool in November 2000. Following extensive public consultation and site evaluation, it was agreed that a project would be implemented to bring a number of facilities together, thus enabling the Council to maximise both the benefits for the Campbeltown community with the funding available. These facilities included a swimming pool, library, crèche and gym.

The Council approved a competition, supported by the Royal Incorporation of Architects Scotland ("RIAS"), to determine the design of the new facility. This approval initiated a pre-design, budget development and tendering phase that was evidenced through Council papers and meeting minutes.

Summary of findings

Financial Overview

The Council agreed, in principle, to support the Campbeltown Community Project at a meeting on 10 May 2001. This included initial approval of £2 million capital funding. The table below summarises the original projected budget (2001), revised project budget (2003) and the final costs of the project, together with the resultant funding position.

	January 2001 Original Budget £ million	December 2003 Revised Budget £ million	December 2007 Final Costs £million
Main Construction Costs	£5.9	£6.98	£8.32
Capital Expenditure Total	£6.29	£7.57	£9.69
External Funding Total	£4.23	£3.04	£3.57
Argyll & Bute Council Net Cost	£2.06	£4.53	£6.12
Provision in Capital Plan		£2.06	£2.06

Funding Shortfall	£2.47	£4.06
<i>Source: Argyll & Bute Council Meeting 17th December 2003/ Argyll & Bute Community Services Executive Meeting 20th December 2007.</i>		

In January 2003, the Council's strategic policy committee received an update advising that following some revisions of project design (amounting to £800,000); the total project budget would be £6.29 million. The approval to proceed to the full tendering stage was given at the May 2003 meeting of the strategic policy committee.

It was only at this time that the future revenue operating costs of the new facility were considered in detail. Taking into account the transfer of existing budgets for the crèche and library the future revenue operating costs were estimated to be £416,000 annually (representing a net increase of £298,303). It was also reported to Council that these had not been incorporated into the Council's future revenue budgets.

The overall revised cost of the project was estimated in December 2003 at around £7.6 million. This was to be financed by external funding of £3.04 million, with a capital cost to the Council of £4.53 million. This position took into account a funding shortfall of as a result of the application for European Regional Development Funding ("ERDF") of £2.3 million, resulting in only £1.1 million being agreed. In addition, costs increased due to additional costs of around £1.3 million of unbudgeted items became apparent and the tender element was higher than estimated.

Capital costs were finally estimated in December 2007 to be £9.7 million or 28% higher than the original budget. This was split between external funding £3,569,339 (£531,339 higher due to increased external funding secured during project delivery) and a final net cost to the Council of £6.1 million or 34% (£1.6

million) higher than envisaged in December 2003 and over three times as much as envisaged in the original budget developed in January 2001.

Total contractor costs were £1.9 million higher than the original tender. These costs were reviewed and approved by the strategic policy committee in February 2007. While a number of the costs could not have been predicted, there remain a number that were either avoidable or may have been recoverable if pursued. The main cost overruns included:

- design development costs of £0.3 million not included at the tender stage;
- works outwith the scope of the original contract of £0.3 million not considered during design phase that could not have been predicted;
- bills of quantity errors of £0.3 million that should have been incorporated into design at the tender stage;
- contractual claims settlement costs of £0.6 million; and
- cladding render failure costs of £0.2 million.

Notwithstanding the financial issues identified, as of December 2007, the building cost information service (UK's leading source of construction costs) indicated present day costs of the building alone would be in excess of £8.85 million, compared to actual construction costs of £8.32 million (excluding render replacement costs).

In terms of the worst case cost scenario, using the building cost information service, the overall project costs were estimated to exceed £13m to build a similar facility at 2007 costs versus £9.7 million actual total cost. This was deemed by management to indicate the actual costs represent good value.

- practical completion certificate was signed in July 2006 with the site starting to operate in late August 2006.
- The facility was originally scheduled to open spring / summer 2004 which translates to a delay of 26 months later than originally planned.

The late opening of the facility by over two years was primarily due to a delayed start of the project caused by difficulties in receiving planning permission, the availability of construction staff due to a buoyant construction market and an ongoing claim settlement issue between the main contractor and the architect.

Since the completion of the project the new building has won several major awards, including the Civic Trust and RCIS. In addition, attendance rates for the swimming pool and wider facilities have increased and the facility has provided a landmark building for the community, source of employment and focal point for tourism and continued economic development in area.

Project management process

As part of this post implementation review we considered the project's key processes, including capital investment appraisal, supplier selection and capital project management controls.

We identified that the project sponsor and project manager changed immediately prior to construction commencing. Notwithstanding this change, it was evidenced that the project governance and financial management controls established by the project team were deemed, overall, to be robust with some areas of good practice identified. These included files and documentation retention, progress monitoring, stakeholder engagement and cost monitoring. In particular, the approach adopted by the project team to address the settlement issues between the main contractor and architect was pragmatic and potentially avoided further delays.

Project management and delivery

The concept of a new swimming pool in Campbeltown was first formally considered in January 2001 at the Council's committee where it was recommended that it be included within the capital program for 2001-02. The timeline for the project thereafter included the following key dates:

- concept of new swimming pool included in capital plan (January 2001);
- public consultations commenced (March 2001) and ended twelve months later;
- £2 million capital commitment by the Council allocated to Campbeltown project (May 2001);
- consultants and feasibility studies commissioned (November 2001);
- detailed design considerations and external funding search ongoing in intervening period with detailed feedback on progress to policy development group (Leisure) (February 2003);
- approval to proceed with tenders given at strategic policy committee (May 2003);
- project construction was originally planned to commence in September 2003, but commenced only after planning permission in February 2004; and

Our consideration of the project management process adopted did identify a number of weaknesses in respect of key processes and controls. These included:

- it was unclear how the project was aligned to the corporate and strategic objectives of the Council, linked to the Council’s asset management strategy or factored into service improvement plans;
- detailed business cases were not available outlining capital and revenue lifecycle costs for the project;
- the success criterion or benefits analysis of the capital investment were unclear, other than anecdotal social and economic benefits to the area alongside the creation of an iconic designed landmark for the community; and
- risk management or contingency planning was not evident during the evaluation or delivery phases of the project.

Current capital projects policies and procedures

While the issues identified above were evident at the time of the project, we reviewed the Council’s current policies and procedures. This included the:

- corporate asset management strategy;
- capital programme planning & management guide;
- procurement strategy; and
- project management guidelines.

These new policies and procedures appear to have addressed the majority of issues identified.

Findings and recommendations

The findings identified during the course of this internal audit are summarised below and later in the report in detail. Classification of internal audit findings is detailed in Appendix 2.

	High	Medium	Low
Number of internal audit findings	-	3	5

During the course of our review, based on the scope of work completed, we identified three weaknesses graded ‘medium’ around the processes and controls to manage capital projects. All the findings and recommendations were discussed with management who have accepted the findings and have agreed actions to address the recommendations.

Executive summary

Summary of internal audit findings

Ref #	Description of internal audit findings	Rating of internal audit findings			Target date
		High	Medium	Low	
	<i>Campbeltown community project</i>				
1	Cladding contractual claim – no clear approach was evident from our discussions with management to follow up and resolve the potential contractual claim of £250,000 linked to the cladding failure on the building.				N/a
2	Outstanding external funding – an outstanding balance of £12,000 remains to be paid by sportscotland linked to the original approved external funding from this body. However, no formal process to follow this up was evident.				N/a
3	Certificate of making good defects – this critical project management step remains outstanding even a number of years following practical completion and handover of the facility.				30 November 2010
	<i>Capital policies and procedures</i>				
4	Business case procurement strategy. There was no evidence within the original project that the procurement strategy to be adopted was approved as part of the original business case.				Actioned
5	Pre-approval due diligence. The role of health and safety or environmental functions during the design and project planning phases of the project was unclear at the time of the project and remains unclear in current guidance.				Actioned
6	Legal function roles and responsibilities. The role of the legal function during the design, planning, delivery and completion phases of the project was unclear at the time of the project and remains unclear in current guidance.				Actioned

Ref #	Description of internal audit findings	Rating of internal audit findings			Target date
		High	Medium	Low	
7	Health and safety roles and responsibilities. The role of health and safety or environmental functions during the project delivery phase was unclear and remains unclear in current guidance, particularly in relation to auditing a main contractor for adherence to Construction Design and Management (CDM) regulations 2007.				Actioned
8	Project completion phase. It is unclear in current guidance the formal steps that should be taken in order to complete projects both in terms of ensuring contractors fulfil all obligations and the ultimate end user accepts ownership .				Actioned

Internal audit findings to be actioned

1. Cladding contractual claim		Rating of internal audit finding: Medium
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>A significant technical fault was identified when the cladding render failed on the building facade. The Building Research Establishment (“BRE”) undertook an independent assessment of the failure to identify the root cause. Whilst the report took 12 months to finalise it absolved the main contractor, who then recovered all their costs.</p> <p>To date the matter has not been progressed any further. There remains a potential contractor claim, in the region of £250,000, against the architect; however no decision has been made within the Council as to how to take this forward.</p> <p>We understand that the Council has received advice indicating that the course of action should be against the architect and not the render manufacturer.</p>	<p>Given the advice received, management should agree a plan to progress matters to resolution.</p>	<p>Regarding potential legal action to recover the cladding claim is concerned our External Legal advisers and our own Legal Services have now confirmed that there is no likelihood of winning a case and the matter is now complete.</p>
3. Certificate of making good defects		Rating of internal audit finding: Medium
Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>Nearing completion, the project experienced a number of technical issues affecting the biomass boilers, pool floating floor, leaks, valve and pump related systems. Whilst the majority of issues did not impact the opening or operation of the facility, a number of ongoing technical issues remain, predominately leaks. During the internal audit, leaks occurred that were sufficient to close the crèche for the day.</p> <p>The ‘Practical Completion Certificate’ was approved to allow access to the building, however the final ‘Certificate of Making Good Defects’ remains outstanding. The</p>	<p>Management should determine a resolution path, that includes the results from the BRE investigation, and then ensure it is tracked to confirm final resolution of the issues.</p>	<p>A report is being prepared by BRE, which is expected by 30 November 2010.</p>

<p>ongoing resolution process with the main contractor is being funded from retained payments. This is a diminishing source, which at the time of the internal audit had a balance of £12,000. Once depleted this will have to be either claimed directly from the main contractor (current responsible party) or the Council's own budgets. At the time of fieldwork no formal resolution process was in place.</p> <p>Following a week long shutdown of the pool in June 2010, significant remedial works have been undertaken. This has resulted in all leaks (with one exception) appearing to be stopped, with further work planned to stop the last leak. However, as both architect and contractor have failed to demonstrate an understanding of the root cause of water entering the structure, the Building Research Establishment (BRE) has been commissioned to carry out an investigation into the cause and identify long term solutions to the problem. The site based part of the investigation shall be carried out in late summer / early autumn 2010.</p> <p>We understand that the issue of the 'Making Good Defects Certificate' is linked (primarily) to the successful resolution of the leaks. The 'responsible party' for the leaks has yet to be conclusively identified.</p>	
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5. Pre approval due diligence	Rating of internal audit finding: Medium
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Finding(s) and impact	Recommendation(s)	Agreed Management action(s)
<p>We were unable to confirm either during the original project or as part of the current capital processes a formal approval of design or formal involvement in the application process of the Council's health and safety or environmental functions.</p> <p>It is a critical step of project design development that the relevant technical parties and potentially end users have signed off the final scope, design features or future revenue implications of a specific project before outline business case or full business case approval stages. We were able to identify a 'due diligence' schedule contained within the outline business case stage, but it was unclear if this would facilitate the challenge</p>	<p>Management should consider amending the capital investment guidelines and planning policies to ensure the relevant technical parties and potentially end users have signed off the final scope, design features or future revenue implications of a specific project before outline</p>	<p>The Capital Programme Planning Management Guide June 2010 covers the recommendation and is subject to regular update, with the last update being in April 2010.</p>

<p>of the technical scope and who would undertake the challenge of financial or technical elements of the project.</p> <p>The Council's procedures recognise that where building warrants are required, the drawings and scopes are passed to the health and safety team. However, this is not documented as a key due diligence step within existing policies; therefore it is at the discretion of the project manager.</p>	<p>and full business case approval stages.</p>	
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Appendix 1 – Objective, scope and approach

In accordance with the 2009-10 internal audit plan of Argyll & Bute Council ('the Council'), as approved by the audit committee, a post implementation review of Campbeltown community project was completed.

Objective

To undertake a post investment review of the Campbeltown community project.

Scope

Based on the objective outlined above, we considered:

- the processes to prepare and develop the associated business case and technical specification incorporating all financial and operational objectives of the project;
- whether the appropriate capital expenditure approval processes were adhered to and that there was compliance with the Council's standing orders and financial regulations;
- whether the processes to complete supplier selection, tendering and appointment were adhered to and that there was compliance with the Council's procurement and contract standing orders;
- the project governance structure adopted and the associated controls around monitoring progress and confirming key milestones in terms of the timetable and budget;

- that clearly defined and understood roles and responsibilities were effectively communicated;
- the funding arrangements established to support the project and how the associated budget was monitored and payments approved;
- the processes to communicate and engage with all stakeholders impacted by the community project;
- the processes for monitoring the realisation of the financial and operational objectives of the project and whether or not these were achieved;
- the status of recommendations highlighted in the 2004 internal audit report that reviewed progress with the community project; and
- on a sample basis (through testing) compliance with the identified policies and procedures.

Exclusion

The internal audit considered the key elements of the Prudential Code; however it recognises that the commencement of this project pre-dates the introduction of the code on 1 April 2004.

Approach

The internal audit was conducted by holding discussions with key members of the Council's staff, considering available documentation and procedures and performing tests as appropriate on a sample basis.

Staff members who participated in this review, included:

- Sandy MacTaggart, Executive Director, Development & Infrastructure;
- Donald MacVicar, Head of Community & Culture;
- Allan Redpath, Project Manager, Community Services;
- Jim Anderson, Performance Manager, Facility Services; and
- Ian Nisbet, Chief Internal Auditor, Chief Executives Unit.

Appendix 2 – Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

Rating	Definition
High	Observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.
Low	Observations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.