

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF CHORD
AUDIT DATE	FEBRUARY 2015

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of CHORD within Development and Infrastructure as part of the 2014/15 Internal Audit programme.

A review of the progress of the CHORD capital programme, the impact to date and lessons learned has been planned as part of the 2014-15 Internal Audit plan.

Project Initiation Documents (PID) were prepared for each of the waterfront towns and in June 2009 Argyll and Bute Council agreed a sum in the region of £30m for a programme of investment to assist regeneration and economic development of the waterfront towns.

The CHORD programme aim was to contribute to the creation of an attractive, well connected and modern economy. The objectives of the CHORD programme are listed as:

- *To improve the character, appearance and function of our towns for residents, visitors and investors.*
- *To make our towns places of economic vibrancy that creates employment and prosperity for the residents of Argyll and Bute.*

Details of the current plan are noted below:

Dunoon.

The Dunoon project has a revised budget of £ 9.55m (includes potential funding of £500k from Sportscotland) for the redevelopment of the Queens Hall which will include the town's library, community and leisure facilities. It will also incorporate the relocation of the offices for skills development Scotland and visit Scotland. The impact of this investment is aimed at improving the prospects of retail, leisure and hospitality businesses across the town. It is anticipated new activities will move into the area with increased patronage and tourism spending.

Campbeltown

The Campbeltown project has a Council contribution of £6.5 million towards the regeneration of kinloch road, the enhancement of the berthing facility and town centre heritage initiative. The kinloch road regeneration project included a contribution towards ACHA, Kintyre renewables HUB and towards the relocation and remediation of the former roads depot site. Benefits from these developments are expected in terms of housing, tourism and retail growth.

Helensburgh

The Helensburgh project has a revised budget of £7,23m (includes £350k contribution from SPT and £220k from S75 Agreement) towards the enhancement of the town centres public realm and the West Bay Esplanade. Developments include a more sustainable traffic management scheme in the town centre by reducing traffic in the main streets thus enhancing pedestrian movement, creating event space and a street café culture. The benefits are increased turnover and employment in the retail and hospitality sectors and improved character and appearance of Helensburgh Town centre and the West Bay Esplanade.

Oban

The Oban project has a Council contribution of £6.9 million. Developments include the reconfiguration of Oban Bay Harbour to better meet the needs of users and this includes a transit berthing facility, maritime visitor centre facility and Public Realm works.

Rothesay

The Rothesay project has a Council contribution of £2.4 m towards the town centre heritage initiative and to the redevelopment of Rothesay Pavilion as a community and cultural heritage facility. In addition approximately £6m of external funding has been raised to date.

2. AUDIT SCOPE AND OBJECTIVES

The scope and objectives of the audit are limited to:

- Review business cases for each of the 5 town centres.
- Review progress to date on projects and compare against agreed timescales
- Review governance arrangements.
- Review internal and external communication processes

3. RISKS CONSIDERED

- Projects have appropriate corporate and political support and input
- Reputational risk to the Council in not delivering project
- Inadequate governance arrangements.
- Insufficient external funding
- Full business cases fail to achieve approval
- Insufficient capacity/skills for dealing with number of projects
- Delivery timeline

4. AUDIT OPINION

The level of assurance given for this report is Limited.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This 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.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major 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 - minor recommendations 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.

5. FINDINGS

The following findings were generated by the audit:

Review Project Documentation

- It was evidenced that project management documentation relating to original CHORD projects approved in 2008 followed Prince 2 project management principles.
- It was evidenced that Outline Business Cases (OBC) were prepared for each project and were subject to independent review. It was noted that the independent review conclusions supported the outline business cases.
- Documentation reviewed included the Project Initiation Document (PID) comprising of Project Plan, Initial Risk Register, Communications Plan, Resource Allocation and Project Scope which were all found to be available and complete for the original projects approved by Council in November 2008.

- It was noted that the Oban Development Road project was withdrawn from CHORD by the Council. This decision was taken in order to enable the CHORD team to focus on delivering the Oban harbour area of Oban. A full business case has been developed and agreed for both the Oban Public Realm works and for Oban North Pier Maritime visitors centre.
- Full business cases documentation was evidenced as being in place for all projects with the exception of Rothesay Pavilion and Oban Transit Berthing Facility as these projects have not reached this stage. For those projects where full business cases were prepared they have set out the required elements namely:
 - Does the project meet the required CHORD objectives
 - Project Scope
 - Project Constraints e.g. budgets
 - Strategic Benefits
 - Strategic Risks
 - Critical success factors
 - Affordability
 - Monitoring
 - Achievability

Review progress to date on projects and compare against agreed timescales

- The table below details project information and highlights key milestones and the associated timescales.

No	PROJECT	PID approved	PID Date for Full Business Case Approval	Actual Full Business Case Approval	Original Completion Date per PID	Latest Estd completion date
1	Campbeltown Transit Berthing Facility	June 2009	May 2013	May 2014	Not stated in PID	May 2015
2	Campbeltown - Kinloch Road Regeneration	June 2009	May 2010	April 2010	December 2012	April 2013
n/a	Oban Bay/ Harbour – Originally one full business case, now 3 FBC's-see below	June 2009	December 2009	N/A	N/A	N/A
3	Oban Public realm – Phases 1 and 2 i.e. Stafford street	No PID	n/a	September 2014	November 2014	Phase 1 June 2015 Phase 2 April 2016
4	Oban North Pier Maritime visitor facility	No PID	n/a	September 2014	April 2015	December 2015
5	Oban Transit Berthing Facility(pontoons)	No PID	n/a	To be prepared	n/a	Not yet known
6	Oban –McCaigs Tower Lighting	No PID required	n/a	August 2013	December 2013	December 2013
7	Rothesay Pavilion	June 2009	July 2010	To be prepared	May 2014	July 2017
8	Helensburgh - Town Centre /West Bay	June 2009	October 2011	September 2011	October 2012	March 2015
9	Dunoon Waterfront Queens Hall	June 2010	February 2012	February 2012	Summer 2014	January 2017

- The table shows that all original PID's were signed off in June 2009 for each of the CHORD projects with the exception of the Dunoon Waterfront which was signed off in June 2010.
- Since 2009 two projects have been completed namely the Campbeltown Kinloch Road Development and McCaigs Tower structural lighting.
- It was noted in respect of the Campbeltown Berthing facility the preparation of the full business case was behind schedule. Progress reports highlighted revisions to design proposals and additional modelling requirements which also required updated costings to be prepared.
- The initial Oban Development Road project was withdrawn in 2010 .The project had contained 4 separate projects including various road development proposals but these were deemed not viable in their existing form. Elements of the road development work were transferred to Roads budget and /or have been incorporated into current Oban Bay Public Realm CHORD project. A review of documentation indicates a substantial level of consultation and redesign activity between the period 2011 and 2014, at which point current full business cases were agreed.
- Dunoon CHORD shows a revised completion date of January 2017 against a target date of summer 2014. A PID was agreed June 2010 and a Business Case agreed February 2012. During this period a review was carried out resulting in revisions to the original project brief and additional consultation. Property acquisition delays have also inhibited progress, in one instance resulting in Compulsory Purchase Order (CPO) proceedings which are currently on-going.
- Interviews were held with current project managers and project documentation was reviewed in order to identify the contributing factors to project slippage. Documents reviewed included, project board papers, area committee papers, programme management board papers and highlight/progress reports. A number of themes were identified :
 - **Resources and Skills.** It was noted from highlight reports that issues existed in relation to resourcing and skills set. The number of CHORD projects running concurrently has also been noted as an issue. Project managers were not assigned fully to the CHORD projects and in the initial stages of the programme many of the CHORD projects were managed by officers who had limited project experience and were still required to fulfil their substantive role.
 - **Changes to Project Brief.** It was noted that there were numerous changes to project briefs which contributed to project delays due to the requirement for design changes, renewed consultation and revised funding / costing arrangements.

- **Procurement** .It was noted that in some instances tendering processes were delayed due to potential legal challenge and revision to scope.
- **Contractor Performance**. It was noted that poor contractor performance was a contributing factor in one instance.
- **Land and Property acquisition**. It was noted that the requirement to purchase land/property to allow projects to proceed has contributed to delays, with the requirement in some cases to initiate compulsory purchase order proceedings.
- **Partner Funding**. It was noted that the requirement to secure external funding and negotiations with funding partners has also contributed to delays, however it should be noted that the CHORD team has successfully secured in excess of £6.3m across a range of projects.
- **Staff Turnover**. It was noted that there was a significant level of staff turnover in respect of project managers which contributed to delays prior to January 2015. Out of the 5 CHORD projects areas 3 of these have had changes in project managers within the last 12 months.
- **Project Governance**. It was noted that in Nov 2013 Council agreed to dissolve CHORD project Boards and CHORD programme management boards with management responsibility being passed to the Area Committees and the policy and resources committee. This is a deviation from recommended Prince 2 principles.
- **Project Complexity**: Projects are complex in nature and required input from various departments and services within the Council. A number of other corporate initiatives including Process for Change and Office Rationalisation were running concurrently which in some instances impacted on specific scope and timeline.

Review governance arrangements

- The governance arrangements were outlined by the CHORD programme management board on the 2nd March 2009. The reporting mechanism laid out the process for project governance .A review of available documentation provides assurance that governance arrangements in terms of process were adhered to whereby project teams reported to projects boards who in turn reported to programme management boards and project executive. However, for the period up to 2013 it was noted that documentation was inconsistent, in some instances being limited in content and not evidenced as following a critical path.
- Prince 2 principles stipulate that a project board should display 4 key characteristics namely authority, credibility, ability to delegate and availability.
 - The project boards, until they were dissolved in November 2013, included representation from senior members and officers.
 - It was noted that the project boards were dissolved during 2013 and governance responsibilities were passed to the respective Area Committee which have a wide ranging role in addition to their CHORD remit. Prince 2 principles stipulate that large capital projects should have a dedicated project board.
 - Programme management boards were also dissolved during 2013 and governance responsibilities passed to the policies and resources committee. As with the Area Committees the Policy and Resources committee has a wider remit. It was evidenced that the CHORD programme manager regularly attends this committee and presents a progress report on all the CHORD projects.
 - In addition it was evidenced that the CHORD programme manager attends the Development and Infrastructure Services Strategic Projects Management Team and presents a report on the progress of all CHORD projects.
- The Council agreed that “where possible managers for large capital projects should hold Prince 2 accreditation”. It was noted that not all the project managers assigned to the CHORD programme had Prince 2 accreditation for the full time of the CHORD project.

- Governance arrangements stipulated that the programme manager and the projects manager would maintain a central records system which would contain all programme development records to provide an audit trail to support each deliverable stage. A review of the system showed that there is an inconsistent approach over the 6 years of the CHORD project in the recording of files for each of the 5 waterfront projects.
- In the initial stages highlight reports were prepared on an exception basis. Since governance responsibilities were passed to Area Committees, reports are prepared every 2 months and cover the following headings:
 - Headlines
 - Major Issues
 - Progress against Plan
 - Financial costs against budget
 - Risk Register
 - 4 Week Horizon
- Review of the highlight reports showed detailed information against each of the sub headings post 2013. Prior to this, content was inconsistent and varied in level of detail.
- A review of the CHORD pyramid scorecard data shows there are various measures, however, it was noted that only one related to current progress/performance and the remainder to post completion outcomes.

Review Internal and external communication processes

- Project Initiation document outlined both the Internal and External communication plan which cover the following areas:
 - Project Board Meetings
 - Project Team Meetings
 - Information required at meetings
 - Community Engagement
 - Engagement with key stakeholders
- It was evidenced that requirements outlined in the plan were followed.
- It was noted that a protocol is in place for dealing with media enquiries which are routed via the communication team.

- It was noted that an overarching communication plan for all the CHORD projects is in place.
- The Council has a dedicated CHORD web page within the Council website and provides information relating to each of the projects.

Current CHORD project status against revised plans.

A review of the latest highlight reports completed in December 2014 is summarised below:

- **Campbeltown Berthing Facility.** Contractors on site and project on track and within budget as per projected completion date. Spend to date (Dec 14) is showing £369k against a total budget of £1.67m. Contractor on site in December 2014.
- **Oban Public Realm Phase 1 Stafford Street.** Project is currently on track and within budget. Spend to date for phase 1 is £250k against a total budget including phase 2 of £2.84 m. Stage 1 of a 2 stage construction phase was commenced in January 2015 with phase 1 projected to be complete by June 2015. A risk to timescale has been identified in relation to availability of materials.
- **Oban Public Realm Phase 2 North Pier to Station Square** Project is currently on track . Expenditure position is a part Phase 1 (above). Risks have been identified in relation to flood mitigation measures and site supervision requirements. Funding risks have also been identified in relation to additional requirement of approximately £750k of which Transport Scotland has in principle agreed a contribution of £300k.
- **North Pier Maritime Visitors Centre.** Project currently delayed by approximately 6 months due to Court Proceeding being raised against the Council. Spend to date is £160k against a total budget of £1.6m.
- **Oban Transit Berthing Facility** . Project is currently off track with no agreed completion date. Spend to date is zero against a total budget of £2.0m. A risk in relation to state aid has been identified and alternative options are being scoped by the CHORD team team prior to reporting back to the OLI Area Committee.
- **Rothesay Pavilion.** Project is currently on track and within budget. Spend to date is £382k against total budget of £8.674 m. Risk have been identified in relation to potential funding gap, currently £869k.

- **Dunoon Queens Hall** . Project is currently on track within budget. Spend to date is £254k against a total budget of £9.55m. Bute and Cowal Area committee agreed to increase the budget on 3rd February 2015 from £8.55m to cover increased risk and inflation. The papers note that a risk to funding exists regarding the application of £0.5m funding from Sportscotland.
- **Helensburgh** .Project is currently on track and within budget. Spending to date is £5.4 m against a total budget of £7.23m.
- The CHORD programme of projects remain complex and challenging in terms of delivery but a number of significant improvements have been put in place over the last 12 months to ensure their implementation is undertaken in line within revised timelines and budget. Critically project briefs have been firmed up for each project and a full compliment of appropriately qualified project managers have been recruited to take projects forward. Projects are carefully monitored through the Development and Infrastructure Strategic Projects DMT and improvements have been made to procurement, financial monitoring, databases and risk management.

6. CONCLUSION

This audit has provided a Limited level of assurance. A number of Lesson Learned themes were identified and are showing in Appendix 1. There are also two specific recommendations for improvement identified as part of the audit and these are set out in Appendix 2 together with the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the CHORD staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1. LESSONS LEARNED

Theme	Risk Impact	Management Response	Responsible person
1. Project Resources and Skills			
Resourcing and skills set Project managers were not assigned fully to the CHORD projects and in the initial stages of the programme many of the CHORD projects were managed by officers who had limited project experience and were still required to fulfil their substantive role	Inability to deliver or manage programme in an effective and efficient manner. Failure to adhere to Council agreed project management methodology.	A full complement of suitably qualified Project Managers has now been recruited and has been in place since early 2015. The Pavilion Project currently has a temporary Project Manager in place however a permanent position is currently being recruited.	CHORD Programme Manager
2. Project Scope /Brief			
It was noted that there were numerous changes to project briefs which contributed to project delays due to the requirement for redesign, renewed consultation and revised funding / costings	Failure to clearly define project brief and scope may lead to delay and deviation from agreed outcomes	Emphasis will be on clarity of briefs at outset of projects. CHORD projects now have a firmed up scope /brief and any deviations are tracked via Policy and Resources Committee.	CHORD Programme Manager

Theme	Risk Impact	Management Response	Responsible person
3. Governance			
<p>Project governance arrangements do not fully comply with Prince 2 principles which is the Council's agreed project management methodology. Project documentation is inconsistent in respect of content, detail and in some instances was not evidenced as following a critical path.</p>	<p>Increased risk of poor decision making. Increased risk of not being able to deliver agreed outcomes to scope, timescale and cost.</p>	<p>Council has agreed Area Committee project management responsibilities. CHORD projects are now scrutinised by the Development and Infrastructure Strategic Projects Department Management Team</p>	<p>CHORD Programme Manager</p>
4. Procurement			
<p>It was noted that in one instance tendering processes were delayed due to potential legal challenge and revision to scope.</p>	<p>Failure to adhere to Councils Procurement Policy may lead to legal challenge. Failure to clearly define project brief and scope may lead to delay and deviation from agreed outcomes.</p>	<p>Procurement policy is in place. A new manual has been implemented for use by project managers.</p>	<p>CHORD Programme Manager</p>

Theme	Risk Impact	Management Response	Responsible person
5. Staff Turnover			
It was noted that there was a significant level of staff turnover in respect of project managers.	Loss of project knowledge. Potential project slippage	This turnover of staff has been rectified following the recruitment of a full complement of Project Managers by May 2015. In addition regular meetings of all project managers; use of shared information; use of manuals to cover common procedures i.e. procurement; allows for skills to be shared and developed reducing the impact of future staff turnover.	CHORD Programme Manager
6. Records Management			
A review of record managements arrangements highlighted there is an inconsistent approach in the recording of files for each of the 5 waterfront projects	Failure to have a clear audit trail for documentation can lead to loss of information	The recording of the projects has been consolidated following the appointment of full time administrative support in february 2015.	CHORD Programme Manager

Theme	Risk Impact	Management Response	Responsible person
7. Contractor Performance			
It was noted that poor contractor performance was a contributing factor to project delay in one instance.	Failure of contractors to perform to agreed specification can lead to delays and cost over runs	Monitoring and review process in place to maintain contract performance.	CHORD Programme Manager
8. Project Complexity			
Projects are complex in nature and required input from various departments and services within the Council. A number of other corporate initiatives including Process for Change and Office Rationalisation were running concurrently which in some instances impacted on specific scope and timeline	Failure to consider impact of other initiatives, internal and external on project outcomes.	Project Manager and Programme Manager to ensure project Risk Register identifies any relevant issues.	CHORD Programme Manager CHORD Project Managers

APPENDIX 2.

Action Plan	Risk	Rating	Action	Responsible Person and Implementation Date
<p>Project Governance</p> <p>Project governance arrangements do not fully comply with Prince 2 principles which is the Council's agreed management methodology in respect of Project Board arrangements.</p>	<p>Roles and Responsibilities of Project Board have not been clearly defined.</p>	<p>Medium</p>	<p>Role of Project Board to be communicated to Area Committees and additional training provided where required.</p>	<p>CHORD Programme Manager</p> <p>30th June 2015</p>
<p>Project Complexity</p> <p>Projects are complex in nature and required input from various departments and services within the Council. A number of other corporate initiatives including Process for Change and Office Rationalisation were running concurrently which in some instances impacted on specific scope and timeline.</p>	<p>Project Outcomes are impacted by other internal /external initiatives</p>	<p>Medium</p>	<p>Programme Manager to ensure project Risk Register identifies any relevant issues</p>	<p>CHORD Programme Manager</p> <p>CHORD Project Managers</p> <p>30th June 2015.</p>

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