

Internal Audit Report 2014/2015

Rose Hill Community Centre

January 2015

Oxford City Council

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Distribution List – TO BE UPDATED

For action:

For information:

Nigel Kennedy, Head of Finance

Ian Brooke, Head of Leisure, Parks and Communities

David Edwards, Executive Director, City Regeneration & Housing

Jackie Yates, Executive Director, Organisational Development & Corporate Services

This report has been prepared by PwC in accordance with our engagement letter dated 08/07/13.

This report has been produced based on information provided by Oxford City Council and their supply chain, in the form of project documentation, the completion of questionnaires and discussions held during meetings on 8 & 9 December 2014 at Oxford City Council offices.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. *Executive summary*

Headlines / summary of findings:

Background

The development of the Rose Hill Community Centre is a major capital works programme being undertaken by Oxford City Council (the Council). It is anticipated that the new community centre will be completed in December 2015 with the opening planned for January 2016.

The initial tenders were received in March 2014 and were over the £3.486M included in the capital budget for construction. The tender documents were re-issued in July 2014 and only two tenders were received, neither of which fell within the existing budget figure. In September, the Project Manager made a request to the City Executive Board (CEB) for an increase of £0.478M to the project budget giving a revised total cost for the project of £4.764M.

This review was performed at the request of management and in addition to the Internal Audit plan agreed by the Audit and Governance Committee. We have considered the management of the Rose Hill Community Centre project, particularly between the period Q3 2012 and Q1 2014, and the factors that have contributed to the project overspend. We have reviewed project documentation provided by the Council and their external suppliers, and obtained information from Project Team members through a questionnaire (Appendix 2) and face-to-face meetings on 8 and 9 December 2014 (Appendix 3).

The council uses an external teams to deliver high value projects that are led by an external project manager. This is a very common approach as it enables the council to attain specialist advice and mitigates many of the risk associated with what are often complex projects. This team is then managed by an internal client team.

Over the duration of this project and in response to a growing capital programme officers have developed more advanced project management procedures including clear gateways.

Summary of findings

Our review has identified a number of areas where processes for capital project management could be strengthened. We summarise our key findings as follows, with further details and recommendations set out in section 2:

- The economic upturn in the construction sector resulted in a range of new large construction projects becoming available to the main contractors operating in Oxford. The Council had successfully used the 'Open' tender process on other similar projects. Using the 'Restricted' tender process could have encouraged more bidders although may have been challenged by SMEs and central government due to the sub-OJEU capital value;
- A bidders day to publicise the tender and invite potential interested organisations together with a contract price based on spring 2014 pricing may have provided an early indication that competition for

this project was unlikely to achieve competitive bids within the Council's approved budget;

- Immature contract documentation relating to the Works Information, resulted in a significant number of tender queries and clarifications, potentially dissuading a number of Economic Operators from submitting tenders;
- The need for clarity and understanding of the correct project roles and responsibilities, especially in relation to the internal acceptance of project scope / works information and monitoring of evolving project costs (inclusive of risk / contingency sums) against the approved budget within the Council's capital works programme;
- Significant changes in the project team members and professional advisors contributed to misunderstanding regarding roles, responsibilities and project governance;
- The process for establishing project costs is standard in this sector of industry, however more thought could have been given to the effect of specifying non-standard items on the project costs; and
- Despite the submission of project cost estimates as the project scope / design evolved, Oxford City Council team members do not appear to have measured these costs against the approved budget and taken the necessary action to reduce estimated costs or gain the required additional funding in advance of going to tender believing that the cost estimate would be driven down during the tender exercise
- Examples were also highlighted during the review that demonstrate the Project Team were adopting best practice approaches, such as in the extensive consultation process with stakeholders and end users during the design evolution and the methodology used for benchmarking and determining project cost estimates.

2. Detailed findings

1. Procurement

Choice of Procurement Process (Open versus Restricted List)

Oxford City Council (the Council) chose an Open procurement process for this piece of capital works investment, based on the following rationale:

‘The authority had recently successfully used the open route for previous construction related projects with no issues.

- *The Government strongly recommend that the open process is utilised by both central and local government for tenders.*
- *This process is helpful to smaller local organisations that are often unable to compete with larger national organisations at selection stage.*
- *The tender process timeline can be shortened.’*

This Open process was advertised via the South East Business Portal (which has national coverage), however only 2 tenders were received.

Commentary received from project team personnel expressed a number of views as to why this happened:

- Tender value was difficultly positioned within the marketplace (Oxfordshire and surrounding areas), i.e. too high a tender value for the smaller contractors, too small for the bigger contractors;
- The target audience (mid-size contractors) within the marketplace had recently been saturated with ~£40M of capital investment over the previous 12 month period from Oxford City Council, notwithstanding investment from other private and public bodies, e.g. Oxford University; and
- The uncertainty associated with the Open procedure was a deterrent to a number of the larger contractors, who might well have then engaged smaller contracting entities through sub-contracts. This uncertainty was described against a background of not knowing how many other tenderers they were competing against and judging this against their risk appetite. These companies would appear to be more comfortable with the standard restricted process of a PQQ followed by ITT / ITN, with which they are familiar and can justify levels of effort commensurate with each stage of the procurement process.

Choice of Procurement Vehicle (South East Business Portal)

The Council has no frameworks of its own for Capital Works delivery, however there are a number of smaller frameworks for minor / measured term works such as plumbing / housing maintenance.

¹ Report to Exec Director, Community Services – Contract Award Request

The Council has several options in relation to Capital Works procurement vehicles:

- The South East Business Portal can be used as the hosting site for the procurement, whereby Tender / Contract Documents are uploaded, tender queries received and responded to and tenderers notified of the results of the procurement action. This would allow them to advertise opportunities on an Open / Restricted basis, following the Public Procurement Regulations, for opportunities under or over the OJEU thresholds;
- Local Government Framework – Hampshire County Council;
- Central Government Framework – HCA (Housing); and
- Central Government Framework – IESE (Improvements and Efficiency South East).

It was felt by the Procurement Team that the Stakeholders wanted to see a quick progression to commencement of work on site, to demonstrate to the community that the Council was fulfilling its obligations. Hence the decision to use an Open procedure through the South East Business Portal.

The Procurement Team outlined the feedback they had received from the marketplace after conducting post-tender research into the low number of responses. This feedback indicated that there was a perception regarding higher competition from an Open competition, making the tendering costs uneconomical. It could therefore be suggested that using the existing Frameworks with prequalified contractors may have resulted in a higher number of tender returns, resulting in a higher degree of competitive tension, even if an Open process was still followed.

This option would have only been apparent if the marketplace had been tested / consulted in advance of the commencement of the Rose Hill procurement.

Procurement Strategy Documentation

There is an absence of a specific report outlining the rationale and decision making process in relation to initiating the procurement process. Instead discussions and decisions have been documented in the minutes of Project Board meetings.

A key recommendation for future procurements is to prepare a specific document that clearly outlines the rationale for decisions and the conclusions drawn.

This should also include consideration as to how each procurement action sits within and or compliments the Council's overall capital works programme. The Procurement Team personnel spoken to indicated that they have no role within the programming / strategy of Capital Works Programmes. Given the clear dependency between these functions, it may add value to have representatives of the Procurement Team involved.

Events during the Tender Period

Members of the Procurement Team expressed concern regarding the volume of iterations of tender / contract documentation after uploading to the South East Business Portal. Furthermore they also expressed concerns at the volume of queries requiring clarification on the content of the documentation.

Having reviewed a selection of tender queries, the majority focused on errors / ambiguities / omissions within the original tender package. If this selection is representative of all tender queries received / clarifications issued, clearly a large amount of time for both the Procurement Team and the tenderers would have been taken up with managing version / document control, as opposed to assessing, understanding and responding to the opportunity. It could reasonably be expected that some potential tenderers decided not to respond to the tender opportunity due to the high number of changes / queries, contributing to two key

issues:

- Low number of tenders returned; and
- Higher than expected tender values, based on a perception of a high risk opportunity being weighed against risk appetites.

Whilst tender queries and clarifications are always expected, a large number of queries, coupled with a high volume of document revisions could lead to a conclusion that the tender package was not adequately matured / reviewed prior to release. This perception has been echoed by the Procurement Team.

Post Tender Evaluation and Assessment

The Council received two tenders in response to its request from Beard and Kinglerlee. It is understood that an iterative process was followed after the tenders were returned in order to maximise the Works Information requirements and tendered sums against the Council's budget. This process is covered in depth within the Council's and The Clarkson Alliance's (external project managers) documentation so will not be repeated here². We noted a number of specific issues which are worthy of attention. These issues are:

- Revision of Qualitative Scores – An amendment was made to Kinglerlee's qualitative score based on the post-tender deadline submission of an omitted Risk Register. This additional assessment changed their quality / technical score from 36.05% to 40.4%.
 - It is recommended that post-submission compliance checks are carried out on Tenderer's submissions to ensure all required documentation has been correctly submitted. The Public Procurement Regulations permit the post-deadline submission of material where it is clear that an administrative error has occurred, such as a missing document or a blank one. Normally these omissions / errors are captured during the compliance check and the tenderer given an opportunity to submit the omitted material, within a strict timeline. It is recommended that no assessment, qualitative or commercial, is carried out until it is deemed that a fully compliant tender has been received. This would be considered best practice.
- Adjustment of tendered sums – Beard adjusted their tender sum to include items previously not priced, increasing from £4.198M to £4.250M.
 - It could be considered contrary to best practice under an Open (or indeed Restricted tender process) to adjust tendered sums after the tenders are received, especially where no clear arithmetic errors have been identified. Any post tender adjustments following an iterative process to ensure all tenderers are progressing forward on an even basis would be more suited to a Competitive Dialogue procedure, as outlined within the Public Procurement Regulations.
- Inability to conclude Evaluation – The Report indicated that the evaluation could not be concluded due to the tendered sums still being higher than the Council's approved budget.
 - It is recommended that the Council maintains a degree of separation between the conclusion of an evaluation / assessment process and the awarding of a contract. Compliant tenders should be evaluated until a preferred bidder / most economically advantageous tender is

² Report to Exec Director, Community Services – Contract Award Request

identified. The awarding of a contract and budgetary approval is a separate issue.

Recommendations

- Future procurement actions should be preceded by marketplace consultation to aid in determining the most suitable procurement vehicle.
 - The choice between an Open or Restricted procedure should be considered against not only time constraints, but the likelihood of achieving engagement from the marketplace and achieving the correct balance of competitive tension.
 - The Council should review the Frameworks it has access to and determine, for the current and forthcoming Capital Works Investment programme, if these Frameworks offer the most suitable vehicle or if indeed an Oxford City Council Capital Works Framework would be more beneficial. This would yield the best results where the Capital Works pipeline is well defined and aligned and continuous projects can be procured. One-off or intermittent projects may well be better suited to the South East Business Portal but yield less advantageous results.
 - Development of a specific Procurement Strategy Document, as opposed to records of discussions from meetings, that provides an auditable and transparent narrative of the options and decisions taken, along with the rationale, for future tender actions.
 - Identification of a clear and accountable process for reviewing the completeness and maturity of tender documentation prior to release to the marketplace.
 - Future procurement processes should provide the required separation between the tender evaluation / assessment process and contract award.
 - Ensure all aspects of the Public Procurement Regulations are complied with, especially with regard to understanding the legal difference between what is deemed a Clarification and a Change.
 - Apply best practice such as a compliance check on the tender submission if this has not already been implemented as part of the Council's new Capital Gateway Process.
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2. Project Scope & Documentation

Roles during the evolution of the project scope and contract documentation

In relation to team member roles during the evolution of the project scope and contract documentation the following were noted:

- A referendum was held with the Community to establish need. This was flag ship development and a key objective was to keep the community on board. There are examples where councils have not done this and ended up with poorly used facilities.
- The Internal Client Project Manager believed they had no involvement in the development of the project scope, as this had been managed by another prior to his appointment as Internal Client PM (see Finding 4: Governance - Roles & Responsibilities). The agreed project scope was issued to the external supply chain, consisting of Designers and Project & Cost Managers. The Internal Client PM also stated that they reviewed the Room Data Sheets (Works Information);
- The External Project Manager stated that the Works Information was developed from the scheme designs, approved by the Project Board;
- The Procurement Team stated they had no involvement in the development or management of the project scope and the subsequent Works Information within the Contract Documentation; and
- The Finance Lead stated they had no involvement in the development or management of the project scope and the subsequent Works Information within the Contract Documentation.

Control over the project scope and mitigation of 'Scope Creep'

In relation to the control over the project scope and mitigation of 'Scope Creep', which could have a knock-on effect on costs, we note the following:

- There was a significant change in personnel mid-way through 2013 (discussed in detail in Finding 4) as the project scope was being finalised with stakeholders and end-users. This was undertaken to strengthen the project governance, but the downside to such changes is a loss in continuity. ;
- We were advised that there was significant consultation (with the Community and other stakeholders) with regard to the usages of the building and its shape and form. This process formed the basis of the project scope and facilitated the development of the detailed Designs, with the final output being the individual Room Data Sheets, these forming the basis of the Works Information. This extensive consultation is considered best practice to ensure the end-users requirements are considered throughout the design evolution process; and
- There does not appear to be any flaws in the process that led to the development of the Works Information but the impact of the consultation process, where end-users had a significant say in the development of the 'specification', may have had a detrimental impact on the project's approved budget. One example cited in relation to the impact of this consultation was the increase in the building size, from 1,810m² to 2,022m².

Adequacy of review of the Contract Documentation

In relation to the adequacy of review of the Contract Documentation that was subsequently released to the

marketplace, we note the following:

- Through discussions with the Internal Client PM, as to who was responsible for reviewing the Designs and Works Information element of the Contract Documentation, the Internal Client PM could not identify who within the Council was responsible or who undertook the review and sign-off of the documentation prior to release;
- The Internal Client PM was unaware of any missing information from the documentation provided by the external suppliers or a lack of maturity within the documentation prior to release to tender;
- The Internal Client PM believed that the external supplier responsible for developing the contract documentation was inexperienced with the Public Procurement Regulations and that this may have contributed to the friction between the external supplier (The Clarkson Alliance) and OCC's internal Procurement Team;
- The Procurement Team reviewed the tender package / contract documentation, but may not have been suitably qualified or experienced to review the Works Information elements; and
- Designs were submitted to the Council during the design development stage and recorded as being signed off on 17 January 2014.

Recommendations

- Strict control of how the developing scope is monitored against the project brief to ensure that end-users requirements are carefully scrutinised against affordability restrictions and the final scope does not represent a 'wish list' that is significantly over engineered / specified from the original brief / requirements. This should be carried out prior to issue and repeated quarterly, as a minimum.
 - Clarity is required in relation to Client project team roles in order to identify accountability and responsibility for reviewing and accepting technical elements of Contract Documentation.
 - The Council should ensure external suppliers, especially those tasked with the development of procurement documentation should be familiar with the requirements and processes within the Public Procurement Regulations (or applicable procurement laws) in order to ensure those documents are fit for purpose.
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3. Project Budget & Control

In order for a Contracting Authority (Client) to maintain control over their budget, regular monitoring of scope costs against budget is required.

It has been well documented within the tender reports that the tender costs received for the Works were in excess of the Council's budget and how this was managed post-tender. In this review we therefore focussed on how the costs were monitored against the budget prior to the tender process.

The Clarkson Alliance (TCA) was appointed during Q3/Q4 2012 to provide Project and Cost Management services in respect of the Rose Hill Community Centre. Prior to TCA's appointment the Council's budget was ~£3.03M. One of the first activities TCA undertook was a revised (Stage D) cost estimate. On the basis of this new estimate, the City Executive Board gave delegated authority to the Executive Director of Community Services in December 2012, to progress the award for a construction contract for the community centre, with a budget of £3.486M.

The cost estimates provided by TCA evolved throughout the development of the project scope. The basis of their cost estimates ranged from rates (per sq. meter) for similar use structures, to the use of SPONS Estimating Guidelines (standard estimating guides for Building & Civil Engineering projects) as well as benchmarking with similar projects.

Throughout 2013, TCA provided the Council with a number of cost estimate updates as the project scope / design developed, from Stage D through to Stage G, which represented the final cost estimate prior to the release of the contract documentation to the marketplace.

The Stage G (Pre-Tender) Estimate was calculated at £3.686M, approximately £200k (6%) higher than the Council's budget. The Project Board took the decision to go ahead with the tender action, despite this increase. At the conclusion of the tender period, the two tendered sums received for the Works were both in excess of the approved budget (£3.486M) at £4.198M and £4.580M.

From reviewing the documentation and discussion with the various project team members, the following has been noted:

- From December 2012 to January 2014, there does not appear to have been any update to the Council's approved budget to coincide with the increasing construction cost estimates submitted by TCA, with neither of the following key responses occurring:
 - The project scope was not reduced to bring the cost estimate in line with the approved budget; or
 - The Council's budget was not increased to match the Cost Manager's Pre-Tender Estimate;
- In October 2013 a full review of the PID, risk register and finances were undertaken. At this time the external project manager and cost consultant did not raise the budget increases which was a key factor for making changes to the external support team.
- The Project Board took the decision to proceed to the marketplace with the Project Scope at a higher cost estimate than the approved budget; we understand this decision was taken in the hope that the competitive tension in the marketplace would drive prices lower (only ~6% required) and the Council could then deliver the project within the budget;
- A number of project team members, and the tenderers themselves, have pointed to a number of non-standard items specified within the Works Information, which had driven the costs up. The

construction companies were though asked to provide suitable alternatives to ensure that the quality was achieved, but they could use their experience and supply chain to bring costs down. The tenderers identified a number of opportunities for value engineering out the non-standard items and achieving time and cost savings; and

- The Project Risk Allowance for the construction costs was reduced from 6.7% to 4.5% from Stage D to Stage G. Normally this kind of reduction in risk allowance follows best practice, whereby design maturity and risk reduction processes have given greater confidence to the project in order to remove uncertainty from the overall costs. However it could be suggested in this particular instance, that risk and uncertainty still remained within the contract documentation, demonstrated by the high number of tender queries and document revisions.

Recommendation

- Stricter budgetary control during the design development phase in order to ensure a realistic budget for the approved scope, not just at key project gateways.
 - Greater understanding through marketplace consultation, of the economic conditions in advance of releasing a tender package.
 - Greater understanding of the effect of 'non-standard' items on the project cost.
 - Review the role of the Project Board with regard to allowing tender documents to be issued to the marketplace where the Pre-Tender Estimate is in excess of the approved budget. What body / person within the project team / Council is empowered to make this decision?
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4. Governance – Roles & Responsibilities

The previous sections have highlighted a number of issues in relation to the composition of the project team and the roles and responsibilities.

In Q3 2013 the Council underwent a corporate restructure. As a result the Project was transferred from the Corporate Assets department, under Steve Sprasson (Project Sponsor) to Community, Leisure and Parks, under the direction of Ian Brooke, Head of Leisure, Parks and Communities.

Other personnel changes also occurred:

- Mark Spriggs, OCC's Communities Officer, who had been responsible for the development of the project scope, handed over the responsibility for the project scope development and evolution to The Clarkson Alliance (TCA) / ADP Architects around Q3/Q4 2012;
- Nick Twigg was appointed the Internal Project Manager in January 2014. This role was also called the 'Intelligent Client' by a number of the project team and had significant responsibility for liaising between the external suppliers and the internal team members;
- Significant realignment of resources within TCA, took place in Q1 2014 based on a perceived lack of performance, dating back to Q4 2013. The Project Manager and Cost Manager were replaced. This resource change occurred during the initial procurement process, whilst the team were trying to manage significant volumes of tender queries;
- Within ADP Architects, a key partner who had taken significant ownership of stakeholder engagement during the consultation with the local community and the outline development of the project scope, was replaced around Q3 2013; and
- In the Finance team, Emma Burson replaced Jonathan Marks in January / February 2014 as the Finance Lead.

Despite the creation of a Project Initiation Document, which detailed the roles and responsibilities of each project team member / role, the responses to the questionnaire and the discussions held with project personnel have highlighted a number of key areas that give cause for concern:

- Budgetary Control – There appears to have been a lack of clarity over responsibility / ownership with regard to monitoring and managing the budget. Whilst it would appear that external suppliers such as TCA were providing updated project cost estimates throughout 2013 as the project progressed through design stages, stringent reviews of these costs against the project budget would have been expected to have been undertaken / monitored by the Finance Department; and
- Release of Tender Documentation – As documented previously, it is widely believed that significant difficulties arose during the procurement phase because of an immaturity with the tender package and contract documentation. The Internal Project Manager stated that he felt nothing fundamental was missing from the documentation, but that he could not recall a formal sign off / acceptance process of the information supplied by the external project manager in advance of release to the marketplace.

Recommendations

- Stringent review should be undertaken of internal and external project members' qualifications and experience of working on projects of a similar scope, scale and complexity to ensure future projects are correctly resourced.
 - Implementation of quarterly refreshers, as part of team-building exercises with project teams, to ensure all key project roles are clearly understood and that any grey areas can be explored and resolved within a collaborative working environment.
 - Ensure lines of communication and delegated authorities are clearly understood, especially in relation to acceptance of work product from external suppliers.
 - Development and implementation of processes to support the review of project documentation and ensure appropriate stakeholder engagement (to cover, experience, qualification and business function). For example, part of the process could include across-function workshop to review contract documentation in advance of release.
 - Closer monitoring, at least in the short term, of external suppliers to avoid a culture of passing all responsibility outside of the Council's governance.
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5. Performance Management

During our discussions and review of documentation, we considered the effectiveness of the management processes and controls to monitor project performance against original objectives and budget, and actions taken to address variations.

- Members of the Procurement Team took responsibility for ensuring the procurement process adopted was in line with the Council's internal policies, procurement regulations and legislation. Furthermore members of the Procurement Team escalated issues associated with a perceived under-performance of the external project management staff in relation to their management of the tender process. This escalation resulted in the replacement of the resources from the external supplier. The proactive manner in which this issue was identified and addressed should be recognised;
- The Project Sponsor stated that performance management was undertaken at each Board with the external project manager for TCA.
- The Internal Project Manager indicated that the External Project Manager (TCA), were undertaking the management processes and outlined how issues were raised and addressed at the monthly Project Board meetings, at which multiple stakeholders and project team members attended. Significant reliance is being placed on external suppliers to carry out key governance tasks for the Council, with no description provided of how the Council monitored this;
- The Finance Lead indicated that since her appointment in Q1 2014, she monitored and managed the impact of the over-budget costs that were returned at tender, throughout the valuation exercise, reporting to the City Executive Board and acquiring additional funds to allow the contract to be awarded. This is clear evidence of the positive impact that a change in project personnel can bring; and
- The external project managers (TCA) outlined the implementation of a software package, Conject, which is designed to assist with the administration of contracts under the NEC (New Engineering Contract) suite of contracts. Consideration should be given to assess the suitability of this product as a management tool during the design and procurement phases of a project. TCA also made reference to their internal QMS procedures, however without a more detailed review it is difficult to assess the applicability of this as a Performance Management tool for the Council or if these QMS procedures are more of a quality assurance / control mechanism for The Clarkson Alliance.

Recommendations

- The Council should review their procedures for future capital works governance and seek to ensure that these key areas for project performance management are undertaken by Council staff where appropriate. If an external supplier is to be used to undertake performance management tasks, the Council should identify an internal Council resource to monitor and audit the external supplier's work outputs.
 - Clarity is required in relation to Client project team roles in order to identify accountability and responsibility for reviewing and managing project performance indicators.
 - Key milestones within the project lifecycle need to be identified at the appropriate time, key issues such as performance to programme, financial approvals, suitability of critical resources and a critical review of project scope against objectives should be assessed and measured. This may have already been addressed by the Council as part of the implementation of the Capital Gateway Process, which did not form part of this review.
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6. Risk Management Procedures

It is clear that procedures were in place throughout the project to identify, assess, catalogue and communicate risk throughout the project team and stakeholders. Examples of the Project Risk Register have been submitted which follows a standard matrix structure along with Red / Amber / Green (RAG) coding to each risk item based on its likelihood to occur / consequences of occurrence.

Both the internal and external project managers have outlined how they met to review and manage this register, with issues then being flagged at the monthly project board meetings for action, as appropriate. Despite this process being in place, the effectiveness of the interventions at Project Board level was uncertain which may have contributed to escalating costs which were not managed effectively, resulting in the protracted procurement process and the need to gain additional funding to allow the contract to be awarded.

The Clarkson Alliance has indicated that a construction stage risk register has already been developed, which if pro-actively implemented, has the potential to help monitor and avoid issues that could delay the programme or increase costs during the construction / delivery stage.

Recommendations

- Developed Risk Registers are fully implemented and used as a key management tool and not simply completed in order to adhere to organisational process.
 - The personnel representing the Project Board are empowered to act when risks are escalated to the Project Board to ensure remedial action is taken.
 - Review how the new Capital Gateway Process addresses risks and issues and consider how it fits with the overall project assurance approach.
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Appendix 1 – Terms of Reference

To: Nigel Kennedy, Head of Finance
Ian Brooke, Head of Leisure, Parks and Communities

From: Kate Mulhearn, Internal Audit Manager

This review is being undertaken in addition to the 2014/15 internal audit plan at the request of management.

Background.

In February 2014, Oxford City Council unveiled the final plans for the new Rose Hill Community Centre. The new community centre will bring together several existing services under one roof including the social club, advice centre and youth club. It will also provide a new doctor's surgery, a community gym, a fully equipped training kitchen and a new office for Thames Valley police. In addition, the existing sports pavilion will be demolished and new Sport England & Football Association compliant facilities will be provided in the new centre. It is anticipated that the new community centre will be completed during spring 2015.

The initial tenders were received in March 2014 and were over the current estimate of £4,286,000 included in the capital budget. The tender documents were re-issued in July 2014 and two tenders were received, neither of which fell within the existing budget figure. In September, the Project Manager made a request to the City Executive Board (CEB) for an increase of £478,000 to the project budget giving a revised total cost for the project of £4,764,000.

This review will assess the management of the Rose Hill Community Centre project to date and consider the factors that have contributed to the project overspend. We will compare to best practice capital project management processes and identify lessons learned for application to this and other capital projects.

Scope

This review will cover the following scope:

- Review the structure and governance (roles & responsibilities) of the project team through the evolution of the project to date, including engagement with key stakeholders
- Assess adequacy of project scope and sufficiency of detail to enable reliable estimates of budget, timescale and other resource requirements
- Review the procurement strategy and the decisions and direction taken as the project evolved
- Review the process for determining the original budget estimate. Assess whether the budget was approved in accordance with the Council's constitution and scheme of delegated authority
- Review the effectiveness of management processes and controls to monitor project performance against original objectives and budget, and actions taken to address variations
- Review risk management procedures, including project risk registers to ensure identification, communication and management of risks. Consider whether escalation processes are in place to enable poor performance to be identified and managed appropriately. Exceptions are reported to the Corporate Asset Management and Capital (CAMAC) Programme Board

Limitations of scope

The scope of our work will be limited to those areas outlined above.

Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given. Our deliverables are limited to those outlined within the scope above.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the procedures followed to manage the Rose Hill Community Centre project. We will prepare and submit an initial questionnaire to the project team. This will be followed up by meetings and review of documentation;
- Identify any strengths, weaknesses or risks; and
- Provide insight into opportunities for improvement.

Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Kate Mulhearn	Internal Audit Manager
Jonathan Wilson	Capital Project Services

Key contacts – Oxford City Council

Name	Title	Role	Responsibilities
Nigel Kennedy	Head of Finance	Audit Sponsor*	Review and approve terms of reference
Ian Brooke	Head of Leisure, Parks and Communities		Review draft report Review final report

* The audit sponsor should respond by email to the audit manager to confirm agreement with these Terms of Reference. By agreeing to the document, the responsible manager is confirming the following:

- Appropriateness of scope and any limitation;
- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation; and,
- Agreement with the timetable of reporting within the document and the audit reporting protocol within the Annual Audit plan.

Other Roles and Responsibilities – Oxford City Council

Name	Title	Responsibilities
David Edwards	Executive Director – City Regeneration & Housing	Approve terms of reference;
Jackie Yates	Executive Director – Organisational Development & Corporate Services	Receive draft and final reports
Peter Sloman	Chief Executive	Receive final report

Appendix 2 – Questionnaire Responses

Responses provided by:

Nicky Atkin	-	Oxford City Council: Procurement
Jane Lubbock	-	Oxford City Council: Procurement Lead
Caroline Wood	-	Oxford City Council: Procurement
Ian Brooke	-	Oxford City Council: Project Sponsor
Emma Burson	-	Oxford City Council Finance Lead
Nick Twigg	-	Oxford City Council: Internal Project Manager
Mike Davey	-	The Clarkson Alliance: External Project Manager

Project Team members were nominated by Nigel Kennedy, Oxford City Council, Director of Finance

Appendix 3 – Meetings with the Project Team

Meetings with Project Team Members:

Monday 8 December 2014

Nicky Atkin and Jane Lubbock

Nick Twigg

Mike Davey

Tuesday 9 December 2014

Ian Brooke

Emma Burson

Stephen Clarke (HRA Funding Profile)

Appendix 4 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the Rose Hill Community Centre, in accordance with the scope outlined within the Terms of Reference, subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment 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

Our assessment of controls is for the period specified only. 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 management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We 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.



In the event that, pursuant to a request which Oxford City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), Oxford City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Oxford City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, Oxford City Council discloses any this document 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.

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