

Oxford City Council

Managing Capital Projects

Internal Audit Report
2014/2015

August 2015

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This report has been prepared by PwC in accordance with our engagement letter dated 25 June 2015.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the 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.

This document has been prepared only for Oxford City Council and solely for the purpose and on the terms agreed with Oxford City Council. We accept no liability to anyone else in connection with this document, and it may not be provided to anyone else.

1. Executive Summary

In 2014/15, the Council's Capital Programme spend was £48 million, a variance against the original budget (£63 million) of some £14 million. In November 2014, the Council implemented a new Capital Gateway process which is designed to help more closely track the delivery of capital projects and ensure appropriate capital project management. For projects that were already in progress, documentation was updated and the process was retrospectively applied.

In January 2015 we undertook a review of one of the Council's Capital Projects, Rosehill Community Centre, following a number of concerns raised by members. The review was requested by Management as a 'lessons learned' exercise. A number of recommendations were made including, greater clarity of officer project roles and responsibilities, adherence to the capital Gateway process and procurement strategy, the role of external advisors and the use of risk registers. These recommendations are now incorporated into the Gateway training.

In March 2015, we reviewed the governance processes over the capital programme and performed a high level review of the project management documentation for a sample of 20 projects with total budget expenditure of £13.4m.

We found the Gateway process to be robust and sufficient to allow for a structured approach to capital project management. The process documentation clearly sets out the requirements of project initiation, delivery and closure. All key areas such as risk management, procurement, budget monitoring and contract management are covered. The process requires allocation of responsibility for tasks which is key to good governance.

We noted a number of areas of good practice programme governance and saw evidence that controls were operating effectively:

- Capital project performance is monitored and challenged by the Capital Asset Management Group (CAMG), chaired by the Executive Director - Regeneration and Housing. Actions are identified to address variations in expected performance, including budget slippage. There is also a Capital Programme Management Group chaired by the Head of Housing and Property Services which reviews business cases and monitoring information prior to submission to CAMG.
- Escalation processes are in place to enable poor performance to be identified and managed appropriately. Exceptions are reported to Corporate Asset Management and Capital Board (CAMAC), chaired by the Executive Director - Regeneration and Housing. CAMAC is responsible for monitoring progress against the approved capital plan.

- Monthly budget monitoring reports are produced by Finance and sent to all members of the CAMG. These reports flag up variances against costs, timings and other issues. The report has a separate tab for each project and comments are provided by Project Managers in the summary tab explaining any variances or slippage and giving a general update on the status of the project.
- For each project a standard template monthly monitoring report is prepared which uses a cobweb diagram showing where the project is against the different elements of the Gateway processes. The monitoring spreadsheet has a red, amber and green rating system which is based on performance against the gateway process (i.e. completion of the relevant documentation) and actual completion of the project.

We have raised a number of recommendations, summarised as follows:

- greater clarity over whether a Project Initiation Document (PID) is required for each project, and whether it has been prepared
- consideration of whether the £100k threshold for the gateway process is appropriate; other factors may result in the project being considered higher risk such as public profile
- regarding budget slippage, further support and training may be needed to improve budget profiling, and challenge at the outset to ensure phasing is correct
- consideration of a corporate level risk around major capital projects given the increased activity in this area and the high profile nature of the projects
- future audits to deep dive into major projects, and/or hot reviews on a rolling sample basis going forward.

Management comment

Management welcome the report from PWC on the Capital Gateway process and the recommendations and advice contained within it. The embedding of the process was never going to be an immediate fix and the process is ongoing. Training is key to embedding the process and to date 20 project managers have been trained on the process with further training planned for September for Members and officers. As the PWC report highlights, there undoubtedly will be a variance in spend on the capital programme against that originally budgeted, especially given the size of the Councils capital programme and fluctuations in the current building market. The Gateway process should ensure that projects are appropriately approved, managed and monitored in a way that seeks to mitigate variances but where they do occur they are managed and reported accordingly.

2. *Background and scope*

Background

The Council had a capital programme for 2014/15 of £64m comprising around 140 capital projects. Out-turn expenditure in 2014/15 indicated a variance of around £15 million, the majority of which was slippage. The actual variance in the last month was reported as only £14 million giving some evidence that programme spend is monitored and variances, for whatever reason, are predicted. It was noted in the monitoring report that the spend of £48million had been significantly more than in the previous three years, which averaged around £19 million.

In order to improve management and control over the capital programme, in November 2014 the Capital Project Gateway Process (see Appendix 1) was introduced. The process is followed for all capital projects in excess of £100k and sets out the required procedures from the initial project idea through to funding bid, procurement, project monitoring and finally project close and lesson learning. The governance and assurance gateways are designed to ensure that the bids and a project's progress are monitored and assessed through a robust process.

Each governance and assurance gateway requires specific documentation to be completed and submitted for review which ensures that project details and associated business case are recorded so that any scheme can continue with all parties understanding the proposed outcomes. Roles and responsibilities for governing projects are also clearly defined thereby providing a structured approach to project management throughout the project lifecycle. Capital funding bids are submitted by September of any year, and funding is approved, ready for release during the following financial year.

Scope

This review considered the effectiveness of governance arrangements for the capital programme as a whole and the assurance procedures for initiating, delivering and closing capital projects, including response to budget slippage. We considered and, for a sample of projects, evaluated the extent to which the following areas provide assurance over the management of the capital programme:

- Governance of capital programme
- New capital projects are assessed and approved prior to funding approval.
- Projects are scoped in sufficient detail to enable reliable estimates of budget, timescale and other resource requirements.
- Progress of individual capital projects is monitored and risks are managed.
- End of project evaluation.

3. Detailed findings

1. Use of Project Initiation Documents (PIDs)

The Gateway process requires a Project Initiation Document (PID) to be completed prior to approval and commencement of procurement activity. The PID includes a summary of scope, planned timescales, milestones, risk assessment and a profiled budget.

In our sample of 20 projects, 10 were over £100k and on face value we expected these to have a completed PIDs in accordance with the gateway process.

For one project, the Property Acquisitions budget of £500k (M5019), the summary Gateway report indicates that a PID has been prepared. This is a budget to fund the purchase of properties for accommodating homeless persons as such opportunities arise rather than a capital project. As such this is not a project but a “one-off” spend on individual purchases and a PID is not required.

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Two projects selected with budgets in excess of £100k were actually rolling projects and are not required to go through the gateway process:

- Adaptations for disabled (N6385) £463k
- MT Vehicles/Plant Replacement Programme (R0005) £2.3m

Our review highlights some inconsistencies in application of the gateway process for projects that commenced prior to its implementation. There is little value in retrospective application if the projects are being well managed and governance process are operating effectively. However, greater clarity around whether a PID is required and if it has been approved would help going forward to assess whether there are gaps in compliance with the process.

This review did not consider management of individual capital projects in detail. This would provide greater insight into project management strengths and weaknesses and additional assurance over project performance. High value/high risk projects should be subject to independent review to ensure that project management controls are operating effectively and best practice insights shared.

Recommendations

1. Greater clarity over whether a Project Initiation Document (PID) is required for each project, and whether it has been prepared
2. Consideration of whether the £100k threshold for the gateway process is appropriate; other factors may result in the project being considered higher risk such as public profile.
3. There should be ongoing training/support for existing and new project managers to ensure the gateway process is fully embedded.
4. Independent review of high value/high risk projects, and/or hot reviews on a rolling sample basis going forward.

Management Response: Further training on the Capital Gateway Process incorporating the recommendations from within this report and other audit reports is scheduled for September with Members and Project Managers. Consideration to the other recommendations will be given by CAMG.

Responsibility: Nigel Kennedy/ Stephen Clarke

Target Date : 30 September 2015

2. Budget slippage

In 2014/15, the Council's capital programme spend was £14 million below the original budget of £63 million. In 2013/14, total capital budget variance was £20 million of which £5 million related to the competition swimming pool

Processes are in place to identify budget variances early through regular review and reporting, which separately identifies known/forecast slippage and under/overspend. The extent of slippage, although not uncommon in capital programmes of this size, could indicate that sufficient challenge is not being provided to project managers on the amount and phasing of expenditure.

Recurring budget slippage could be indicative of:

- Inadequate budget phasing, reforecasting for known slippage e.g. delayed procurement
- Underlying issues in contract management skills of project managers
- Inflated budgeting leading to poor value for money
- Declining quality of services due to failure to deliver on planned projects

Recommendations

5. Consider the need for further training on project budget profiling and/or additional finance team support in the development of project budgets to ensure budget profiles are based on realistic assumptions.
6. Review the adequacy of finance resource to support project financial management once projects have started. Consider size of project / risk rating as a trigger to identify where additional support may be best used.
7. Reforecast budget profiles regularly to reflect risks and issues, such as a delayed procurement / or judicial review.

Management Response: Finance support is available for all budget managers for all aspects of budget monitoring. Additionally significant capital projects such as Blackbird Leys Swimming Pool are allocated a dedicated Finance support on the project team. As part of service development planning the Finance Team will be looking to improve training around budget management during the year and will incorporate the recommendations within this report around budget profiling as well as incorporating this into Capital Gateway Training specifically for Project Managers.

Responsibility: Anna Winship (Management Accounting Manager)

Target Date : 30 September 2015

3. Risk registers

We considered the capital project risk management procedures in place to ensure risks are identified, communicated and managed.

Risk registers are maintained for individual projects but the overall risk associated with the capital programme is not captured at a corporate level. With high profile, high value projects such as Barton, Westgate and Rosehill the Council is facing increased financial and reputational risk. This should be reflected on the corporate risk register.

Recommendations

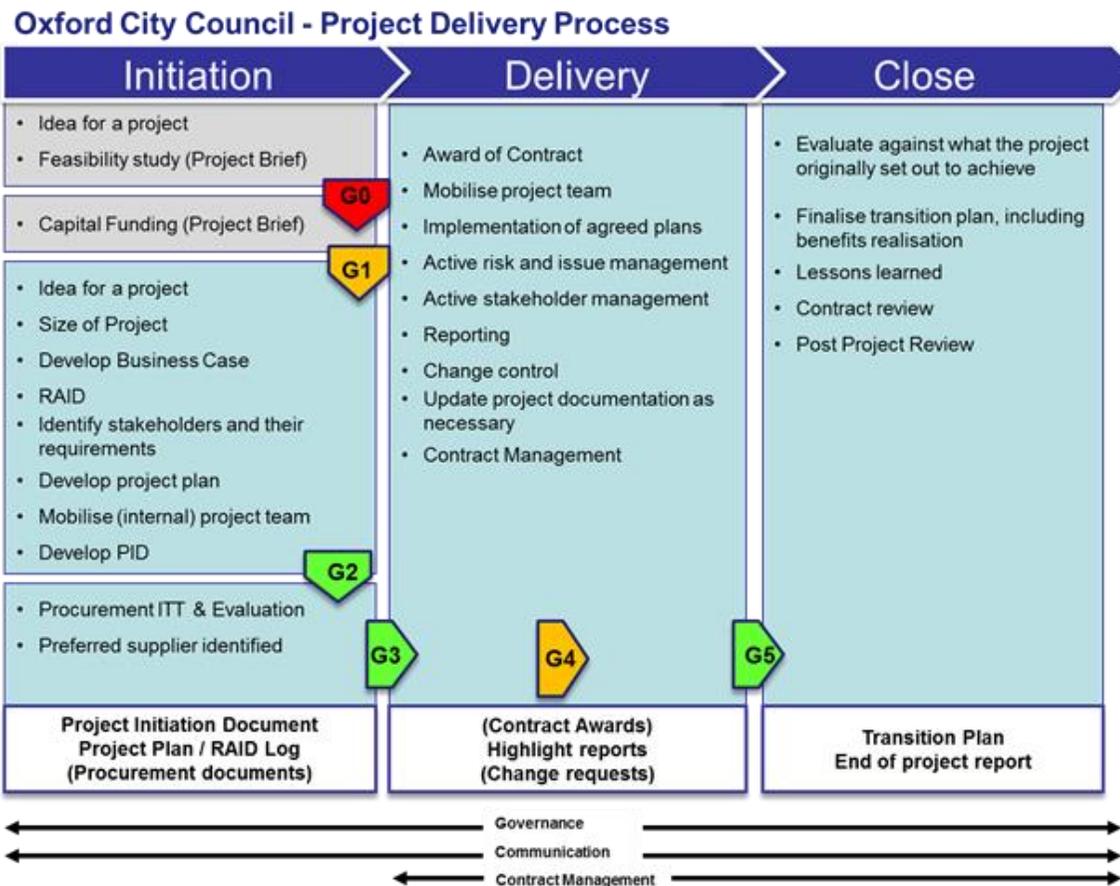
8. Consideration should be given to a corporate level risk around major capital projects given the increased activity in this area and the high profile nature of the projects.

Management Response: It is agreed that given the size of the Council's capital programme that a risk should be identified at a corporate level

Responsibility: David Edwards, Executive Director Housing and Regeneration

Target Date : 30 September 2015

Appendix 1: Overview of project management process



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Appendix 2: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Capital Project Management, 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.

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