

# Blueschool House Refurbishment Special Investigation

## Follow Up Final Report 2018-19

Issue Date: 11 September 2018

# Executive Summary

Audit Objective	Progress Summary			
	Recommendation	Complete	In Progress	Not Started
To assess the progress of agreed actions to mitigate against risk exposure identified within the 2017/18 Blueschool House Refurbishment - Special Investigation report.	1		Yes	
	2		Yes	
	3		Yes	
	4		Yes	
	5		Yes	
	6	Yes		
	7		Yes	
	8	Yes		
	9		Yes	
	10		Yes	
	11		Yes	
	12		Yes	
	13		Yes	
	<b>Total</b>	<b>2</b>	<b>11</b>	

Details of the progress to support the status of the recommendations are captured in the report below.

## Audit Conclusion

This is a follow-up audit to verify the progress made in the development, implementation and embedding of the actions to improve the control framework, after the findings highlighted in the Blueschool House Refurbishment Special Investigation Report.

Despite the majority of the recommendations being in progress I am able to provide assurance that actions are being progressed to mitigate the risk. This was identified through the projects reviewed, as part of this follow up being compliant with existing procedures, governance, financial and procurement rules. However, a weakness remains in the full completion of the 'Notification of Compensation Event' document which needs to be addressed.

It was not possible to judge the overall effectiveness of all the key control improvements because some actions are still to be delivered. The Project Management toolkit – Capital Projects and templates are fundamental to the delivery of many of the recommendations and this remains incomplete.

Neither the Project Management Governance nor the Project Control System (PCS) training can be delivered until the Project Management toolkit is fully complete and approved for implementation. The table below provides the status of the Project Management toolkit – Capital Projects.

Deliverable	Status	Timescale
PCS	Subject to review flow of the system and to remove duplication to enter information only once.	September 2018
Templates to use with PCS	All existing approved templates are subject to further review which include the feasibility business case, full business case and financial template. De-duplication of information across all templates is required.	September 2018
Project Management training	Dependent on the delivery of PCS and templates. The Project Management trainer wishes to tailor the workshop to be aligned to the PCS and the templates to be used.	October 2018

All of the deliverables in the above table need to be in place to provide a more holistic approach to project management and are central to the delivery of the essential outcome required by the Internal Control Improvement Board (ICIB).

There has been success in some recommendations which are mitigating the risk as follows:

Deliverable	Status	Timescale
Council Governance	Decision making software – Modern.Gov no decision can be submitted for consent at the appropriate level without approval by multiple	Implemented July 2017

	discipline approvers e.g. financial, governance, legal, procurement, risk management etc. to proceed. Full audit trail is available.	
Introduction to Procurement training	Comprehensive workshop developing the necessary skills for officers to fulfil this task.	Ongoing monthly since October 2017
Overarching holistic financial monitoring and reporting of the capital programme	Newly appointed Strategic Capital Finance Manager is responsible to verify the capital programme is correctly set and appropriate governance is applied.	June 2018
Delegated authority Chief Finance Officer	The Council's decision to delegate authority to the Chief Finance Officer was supported by the full Council and the Cabinet Member, to accept external funding from grants and contributions to be added to the capital programme. Prior to acceptance of external funding the Chief Finance Officer is required to consult with the Cabinet Member Finance and Corporate Finance.	July 2018
Culture changes	Despite not being part of the original audit findings, within the ICIB ToR it refers to the need of culture change. Evidence was found of this through the embedding of the Modern. Gov software where decision making is seen as transparent with accountability identifiable.	Implemented July 2017

The appendices below show a more detailed representation of the Executive Summary.

Appendix A – Recommendations 1-13

Appendix B – Positives of the audit

Appendix C - Findings for Further Improvement

Since the majority of the recommendations are incomplete a further audit should be undertaken once the Project Management toolkit -Capital Projects is embedded.

## Background

The Blueschool House refurbishment special investigation identified significant control weaknesses across a number of areas namely:

- Incomplete audit trail to show how the budget figures had been derived.
- Non-compliance with the Council's Financial Rules
- Non-compliance with the Council's Governance Rules
- The absence of complete supporting business cases and relevant documentation such as full financials to make informed decision.
- Poor project management governance
- Non-compliance with the Council's Procurement Rules

It is against this background that the Internal Control Improvement Board was set up, the purpose of which is stated in the Terms of Reference below:

'To oversee development and implementation of an improvement plan to ensure effective internal controls in respect of capital spend, project management and contract management are in place and complied with across the council.'

The audit utilised the ICIB Action log of 14 June 2018 to assess the progress with the deliverables identified to address the recommendations made in SWAPs earlier investigative report 2017/18. This included an assessment of compliance where control weakness was identified in respect of three capital projects at different phases of completeness. The projects reviewed were:

- Hillside Project – feasibility stage
- Marlbrook school – phase 1 of development
- Herefordshire Enterprise zone – phase 4 of development

Evaluation of compliance for each of the projects commenced from the financial year April 2018.

## Scope

Testing has been performed in relation to all recommendations and supporting evidence obtained to support implementation of an improved control framework.

**Objective:**

The original investigation was to review the Blueschool House refurbishment project from the key decision in June 2016 to July 2017 to determine if the substantive increase in costs from £950K to the cost of £1.92M was appropriately approved.

This audit is to assess the status of the control framework agreed by the Internal Control Improvement Board (ICIB) to be developed and implemented, in respect of capital spend, project management and contract management to minimise the risk of unknown future overspends on capital projects.

## Appendix A - Recommendations 1-13

Recommendation	Issue	Management response	Status
<p>1. The Council should ensure there is a clear audit trail to show how budget figures have been derived and what the budget is based on.</p>	<p>The budget included in the business case and the key decision was £950K however, the report provided limited information on what would be included within that figure.</p>	<p>The development, implementation and embedding of:</p> <ul style="list-style-type: none"> <li>• A Project Management Toolkit – Capital Projects</li> <li>• An Approved Feasibility Business Case Template</li> <li>• An Approved Full Business Case Template</li> <li>• An Approved Financial Template</li> </ul>	<p>All deliverable- <b>in progress</b></p>
<p>2. Key decision reports and supporting business cases should contain all relevant information for an informed decision to be made including on what basis the budget was determined and what the budget includes.</p>	<p>The budget included in the business case and the key decision was £950K however, the report provided limited information on what would be included within that figure.</p>	<p>The development, implementation and embedding of:</p> <ul style="list-style-type: none"> <li>• An Approved Feasibility Business Case Template</li> <li>• An Approved Full Business Case Template</li> <li>• An Approved Financial Template</li> <li>• Bespoke Governance Support page on the intranet which includes guidance.</li> <li>• Online training module re basic writing skills available.</li> <li>• Modern.gov system – online report management function</li> <li>• Programme of training on new constitution, use of modern.gov system and decision making/ accountability implemented.</li> <li>• Induction – manager induction training programme October 2018.</li> <li>• Report writing drop in centre dates on core news.</li> </ul>	<p>Bespoke Governance Support page – <b>complete</b></p> <p>Online training module re basic writing skills available - <b>complete</b></p> <p>Modern.gov system – online report management function - <b>complete</b></p> <p>Programme of training on new constitution, use of modern.gov system and decision making/ accountability - <b>complete</b></p> <p>All other deliverables -<b>in progress</b></p>

## Appendix A - Recommendations 1-13

Recommendation	Issue	Management Response	Status
3. The gross cost of a capital project should be costed prior to a proposal being submitted to the Capital Strategy Group.	There was a significant risk that the proposals cannot be delivered within the approved budget.'	<p>The development, implementation and embedding of:</p> <ul style="list-style-type: none"> <li>• An Approved Feasibility Business Case Template</li> <li>• An Approved Full Business Case Template</li> <li>• An Approved Financial Template</li> <li>• Approved CSWG Process for Capital Requests</li> </ul>	<p>All other deliverables – <b>in progress</b></p> <p>Approved CSWG Process for Capital Requests – evidence received - <b>complete</b></p>
4. When an external consultant is appointed to provide costing for a project this costing should be reviewed prior to the agreement of funding for a project.	The works would not be achievable within the Hub costing; this was confirmed by the Special Projects Officer when interviewed in May 2017.	<p>The development, implementation and embedding of:</p> <ul style="list-style-type: none"> <li>• A Project Management Toolkit – Capital Projects</li> <li>• An Approved Feasibility Business Case Template</li> <li>• An Approved Full Business Case Template</li> <li>• An Approved Financial Template</li> <li>• Approved Financial Procedure Rules</li> </ul>	<p>Financial Procedure Rules to be submitted to the Audit and Governance Committee on 18 November 2018 for approval - <b>in progress</b></p> <p>All deliverables - <b>in progress</b></p>



## Appendix A - Recommendations 1-13

Recommendation	Issue	Management Response	Status
5. Officers must ensure that Contracts Procedure Rules are followed for all procurement	There is also no evidence to support that Contracts Procedure Rules were followed for the procurement of Hub.	The development, implementation and embedding of: <ul style="list-style-type: none"> <li>• Approved Contract Procedure Rules on website</li> <li>• Introduction to Procurement Training sessions.</li> <li>• Mandatory online Introduction to Procurement training module</li> </ul>	Contract Procedure Rules on website – <b>complete</b> Introduction to Procurement Training sessions - <b>complete</b> Mandatory online Introduction to Procurement training module - <b>in progress</b>
6. The rationale for decision to use two separate companies for the design and build stages or to use one company for both should be clearly documented at the outset of the project.	The rationale for the selection of the contractor cannot be demonstrated as there are no records to support this decision.	The development, implementation and embedding of: <ul style="list-style-type: none"> <li>• Report Writing Guide</li> </ul>	<b>Complete</b>
7. Actions from project/programme boards should be completed by the relevant officer and the board should ensure that there is adequate governance oversight that actions are completed prior to any further decision being made on a project.	In line with the capital guidance, major projects should be overseen by a project board, generally chaired by the project sponsor at director or assistant director level. Such project boards should involve representatives from legal, finance, and procurement teams as well as relevant service professionals, and should have access to a governance advisor	The development, implementation and embedding of: <ul style="list-style-type: none"> <li>• A Project Management Toolkit – Capital Projects</li> <li>• Corporate Project Management Training – mandatory for all senior managers (Leadership Group)</li> </ul>	Project Management Toolkit – Capital Projects – <b>in progress</b> Corporate Project Management Training of the Project Control System is being delivered to the officers who are participating in the pilot phase of the development. - <b>in progress</b>
8. The decision of contractor selection to invite to tender must be clearly documented and consultation with key officers must be followed in line with Contracts Procedures Rules.	There is also no evidence to support that Contracts Procedure Rules were followed for the procurement of Hub.	The development, implementation and embedding of: <ul style="list-style-type: none"> <li>• Additional information to be added to the Contract Procedures Rules</li> </ul>	<b>Complete</b>

## Appendix A - Recommendations 1-13

Recommendation	Issue	Management Response	Status
9. Officers must ensure that that value for money can be demonstrated as part of a tender submission and for any additional works during the project.	The Accommodation Programme Board, Minutes record that 'the Assistant Director – Environment and Place expressed concern that the note was not a procurement strategy as requested and did not include a recommendation supported by appropriate evidence to ensure value for money.	The development, implementation and embedding of: <ul style="list-style-type: none"> <li>• A Project Management Toolkit – Capital Projects</li> <li>• An Approved Feasibility Business Case Template</li> <li>• An Approved Full Business Case Template</li> <li>• An Approved Financial Template</li> </ul>	All deliverable- <b>in progress</b>
10. If a tender submission is significantly different to the costing provided at the design stage or outside of the budget agreed as part of the key decision; the tender should be subject to scrutiny and challenge prior to proceeding with the project and the relevant officer should take the decision back to Cabinet.	The contracts procedure rules in place at the time are clear that any material variation in cost/timescale for a capital project must be reported to Cabinet.	The development, implementation and embedding of: <ul style="list-style-type: none"> <li>• Role of Project Sponsor and roles and responsibilities within Projects Training.</li> <li>• Approved Contract Procedure Rules on website</li> <li>• Introduction to Procurement Training sessions.</li> </ul>	Project Management training – <b>to start October 2018</b>  Contract Procedure Rules on website – <b>complete</b> Introduction to Procurement Training sessions - <b>complete</b>
11. Compensation events should only be authorised by an officer with the relevant delegated authority.	There is no evidence that any form of appropriate approval was sought for the compensation events.	The development, implementation and embedding of: <ul style="list-style-type: none"> <li>• A Project Management Toolkit – Capital Projects</li> </ul> Role of Project Sponsor and roles and responsibilities within Projects Training.	Project Management Toolkit – Capital Projects – <b>in progress</b> Role of Project Sponsor and roles and responsibilities within Projects Training - <b>to started October 2018</b>

## Appendix A - Recommendations 1-13

Recommendation	Issue	Management Response	Status
12. There should be robust budget monitoring and clear documentation of changes to a project as it progresses so there is a clear audit trail to support financial commitment.	Project costs escalating and spend going beyond the approved budget was identified as a major risk in the Business Case.	<p>The development, implementation and embedding of:</p> <ul style="list-style-type: none"> <li>• A Project Management Toolkit – Capital Projects</li> <li>• Monthly monitoring meetings between Manager and Finance, reports quarterly to Cabinet.</li> </ul>	<p>A Project Management Toolkit – Capital Projects – <b>in progress</b></p> <p>Monthly monitoring meetings between Manager and Finance, reports quarterly to Cabinet – <b>complete</b> evidenced for each of the three projects reviewed.</p>
13. Project boards must be presented with full and accurate information to ensure informed decisions can be made and actions recommended must be completed with a clear audit trail to show the action has been completed	There was no project board for the Blueschool House refurbishment after the Accommodation Programme Board ceased.	<p>The development, implementation and embedding of:</p> <ul style="list-style-type: none"> <li>• A Project Management Toolkit – Capital Projects</li> <li>• Corporate Project Management Training – mandatory for all senior managers (Leadership Group)</li> </ul>	<p>A Project Management Toolkit – Capital Projects – <b>in progress</b></p> <p>Corporate Project Management Training – mandatory for all senior managers (Leadership Group) – <b>not started due October 2018</b></p>

## Appendix B- Positive Findings

<p>Council Governance</p>	<p><b>Modern.gov system software</b> provides a good control framework for decision reports and requires supporting attachment such as the business case, financial information etc . The report must be submitted for acceptance/ amendment/challenge through this route by:</p> <p>Legal, Governance, Finance, Procurement Risk Communications</p> <p>No decision report can progress without full approval via Mod.Gov. Once this is achieved the report can be submitted to a cabinet member or cabinet etc for approval.</p> <p>Programme of training on new constitution, use of modern.gov system and decision making/accountability</p> <p>Report writing workshops</p> <p>Good support from the Head of Corporate Governance and other officers experienced with decision reporting writing after training completed.</p>
<p>Introduction to Procurement</p>	<p>Comprehensive workshop developing the necessary skills for officers to fulfil this task.</p> <p>Currently, a Category Manager is working with Human Resources to develop an ‘Introduction to Procurement’ e-learning course for anyone new or wishes a refresher. In addition, during quarter 3 of the 2018/19 financial year there is planned face to face training sessions for managers.</p>
<p>Collaboration between procurement staff and officers on the three projects reviewed.</p>	<p>The audit identified good collaboration between both parties to guarantee adherence to the contracts procedure rules throughout the process from Invitation to Quote, Evaluation of the tenders through to preparation of the contract.</p>
<p>Financials</p>	<p>Newly appointed Strategic Capital Finance Manager is responsible to verify the capital programme is correctly set and appropriate governance is applied.</p> <p>The Manager sits on major project boards which will allows her to provide an overarching holistic view of the capital programme from a financial prospective.</p>

## Appendix B- Positive Findings

Financial Control Framework	<p>New tasks being introduced at the time of the audit:</p> <ul style="list-style-type: none"> <li>• Checking the expenditure is relevant to the scheme and the capitalisation policy</li> <li>• Closing cost centres without budgets attached</li> </ul> <p>Additional information available to senior officers</p> <ul style="list-style-type: none"> <li>• Automated report shows budget/forecasts/actuals in real time and can be issued to the Capital Strategy Working Group (CSWG) in a timely way.</li> <li>• Forecasting loaded for all years which is to be submitted to the CSWG on a monthly basis.</li> <li>• Reprofileing of capital projects, which are to subject to challenge sessions within ECC directorate.</li> </ul> <p>This will then be reviewed at CWSG meeting.</p> <ul style="list-style-type: none"> <li>• 2018-21 Capital projects with budgets and it is only those with funding that purchase orders can be raised.</li> </ul>
Delegated authority Chief Finance Officer	<p>The Council's decision to delegate authority to the Chief Finance Officer was supported by the full Council and the Cabinet member, to accept external funding from grants and contributions to be added to the capital programme. Prior to acceptance of external funding the Chief Finance Officer is required to consult with the Cabinet Member Finance and Corporate Finance.</p> <p>Historically the offer of grant money had to be approved by Council. Unfortunately, if there was not a meeting to approve additions to the capital programme or creation of a new one there was a risk the Council was too late in deciding to obtain the funding.</p> <p>This is a good example of where Herefordshire Council has provided delegated authority to maximise the potential of funding from external sources.</p>
Culture	<p>Culture change in the Council is in its infancy but the embedding of the Modern.Gov software in respect of decision reports provides clear accountability, transparency and a good audit trail. This was absent when the Blueschool House special investigation took place.</p>

## Appendix C – Findings for Further Improvement

<p>Project Control System</p>	<p>Testing identified shortfalls in good governance in the development of the 'Project Control System'. There were a number of gaps identified:</p> <ul style="list-style-type: none"> <li>• The Project Control system development did not have a dedicated Project Sponsor nor a nominated reference point.</li> <li>• Director of ECC was described as being the nominally 'go to person.'</li> <li>• No project board or formalised records</li> <li>• Not a formalised project with a proper specification</li> <li>• No action log to record requests for or agreed amendments to the project control system was maintained</li> <li>• User Acceptance Testing of the Project Control System was only undertaken by Directorate business users in recent months. Prior to this testing was completed by the designer and builder of the software.</li> <li>• CEO only provided verbal approval of the system to go live with no formal record of this action</li> </ul> <p>Based upon this finding it cannot be seen that that there has been adequate governance oversight to verify that actions have been completed to develop a Project Control System that satisfies the needs of the Council. This is supported by the fact that additional amendments are required in August 2018 to the flow of the system and the accompanying document templates.</p>
<p>Project Governance</p>	<p>All three projects reviewed meet some of the requirements of good project governance but not all expected documents were present e.g. a risk register and action log.</p> <p>The testing identified that a standard approach to project management documentation should be considered to have consistency across the Council.</p>
<p>Compensation Events</p>	<p>Only one of the three projects had undertaken compensation events. Monitoring of compensation events was good to verify the budget was not exceeded.</p> <p>However, where there was a weakness was in the failure to fully complete all the 'Notification of Compensation event papers for Marlbrook school. This document represents a record of agreement between the Council and the Contractor to proceed with the work at an agreed price.</p> <p>Seventeen Notification of Compensation event papers were reviewed and of these seven had not been signed and dated by either the Council Project Manager or the Contractor. This demonstrates partial non-compliance with the full process.</p>

# Audit Framework and Definitions

## Assurance Definitions

<b>None</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

## Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

<b>Priority 5</b>	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
<b>Priority 4</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	The accuracy of records is at risk and requires attention.

# Authors and Distribution

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