

Cheltenham Borough Council

Audit Committee – 29 January 2015

Update on audit work in relation to the Wilson Art Gallery and Museum Extension Project

Relevant Cabinet portfolio holder	Cabinet Member, Healthy Lifestyles – Cllr. Rowena Hay and Cabinet Member, Finance – Cllr. John Rawson.
Accountable officer	Andrew North, Chief Executive
Ward(s) affected	All
Key Decision	No
Executive summary	<p>At the Audit Committee meeting on 11 December 2014 it was reported that the findings of a review into the overspend on the Art gallery and Museum Extension project from forensic auditors at Grant Thornton was being delayed because new information relating to expenditure on the project had recently been brought to the attention of the Chief Executive.</p> <p>It was resolved at the meeting that additional audit work be carried out to investigate the new information to accurately determine the extent of the project overspend and to explore any failures which led to its late reporting.</p> <p>It was resolved that authority be delegated to the Director Resources to consider what further work should be undertaken by Grant Thornton and/or by Audit Cotswolds and to enter into contracts accordingly.</p> <p>It was also agreed that the findings by Grant Thornton and Audit Cotswolds be reported to Audit Committee as soon as possible.</p>
Recommendations	<p>The Committee is recommended to:</p> <ol style="list-style-type: none">1. To consider the Grant Thornton report (Appendix 2) including their recommendations, to approve the CBC management response and to make any additional recommendations that it feels necessary2. To consider the Audit Cotswolds draft scoping document (Appendix 3) for their follow up review and to make any additional recommendations that it feels necessary.

Financial implications	<p>The council has previously agreed budgetary provision to fund its share of the Art Gallery and Museum Development project including the overspend identified and reported to Cabinet and Council in February 2014.</p> <p>The additional overspend has been validated and is included within the Grant Thornton report</p> <p>The Cabinet and Council will need to agree a budget to fund the overspend and it is anticipated that this will be complete and incorporated in the final budget proposal for 2015/16 to be agreed in February 2015.</p> <p>Contact officer: Mark Sheldon, Email: mark.sheldon@cheltenham.gov.uk, Tel: 01242 264123</p>
Legal implications	<p>There are no legal implications arising directly from the report</p> <p>Contact officer: Sara Freckleton Email:sara.freckleton @tewkesbury.gov.uk, Tel: 01242 295010</p>
HR implications (including learning and organisational development)	<p>There are no direct HR implications to be resolved at this time. Any HR implications arising from the completed supplementary review will be reported to Audit Committee and where applicable addressed under the appropriate existing HR operational policies.</p> <p>Contact officer: Julie McCarthy EMAIL: julie.mccarthy@cheltenham.gov.uk, Tel: 01242 264355</p>
Key risks	See risk template
Corporate and community plan Implications	<p>The Art Gallery and Museum redevelopment project was identified in the Corporate Strategy Action Plans in both 2012-13 and 2013-14 as an improvement action to deliver the Council's outcome "Arts and culture are used as a means to strengthen communities, strengthen the economy and enhance and protect our environment".</p>

1. Background

- 1.1 For many years the council retained the vision of an extended Art Gallery and Museum with high quality display spaces to show off the council's own superb collections and enable the town to attract world class exhibitions and displays.
- 1.2 Prior to seeking tenders for construction the estimated cost of the project was £6.3m and full Council agreed to underwrite costs to this level. However, when a contract was awarded to the construction company, ISG, the budget was revised downwards to £5.6m owing to the apparently keen tender price received. The outturn cost was eventually calculated at just under £6.7m, £1.1m more than the revised budget and around £0.4m more than the originally anticipated cost.
- 1.3 Completion of the project was also considerably delayed; from an initial completion date of September 2012 to the actual completion in October 2013.
- 1.4 This project should nevertheless be seen as a success, despite the outturn cost being more than expected, because the overspend was largely due to unforeseen and unavoidable work in developing the adjacencies between a heritage building and a contemporary building (this was always a risk the council had to carry). The project also faced challenges which added time and cost, such as the structural engineering contractor going into liquidation early in the life of the contract, mistakes with concrete pouring which required removal and replacement and frequent changes of key personnel within ISG. Though these are contractor risk items, the reality with a large and complex project which involved over 1000 change requests during its lifetime is that the burden is shared.
- 1.5 However, notwithstanding the well-publicised successes that The Wilson has achieved since opening we do need to be very concerned that the arrangements for control and reporting of the budget and of project timescales proved inadequate so that councillors (including the Cabinet) and senior officers were taken by surprise on key issues; thus opportunities to take action to recover time or reduce the overspend were missed.
- 1.6 Grant Thornton's forensic auditors were asked to review the project and to report its findings; this was due to happen at the Audit Committee meeting on the 11 December. Unfortunately the publication of the report had to be postponed because new information on additional expenditure had come to light at the last minute resulting in it not being complete for publication.
- 1.7 It is clearly unacceptable for an additional overspend to have been discovered at a late stage which required additional investigation and explanation.
- 1.8 Following the December Audit Committee meeting GOSS Finance were asked to complete its work on the accounts to determine the value of any outstanding financial commitments in relation to the project. This additional expenditure amounts to £89,783.00, the GOSS finance team also confirmed that this information had not been available in February partly because the Purchase Order management system had not been used and some of the expenditure had been incorrectly coded.
- 1.9 The Corporate Governance Group met with Grant Thornton on the 17 December and discussed their report and the new findings. It was agreed that;
 - Grant Thornton would be provided with a copy of the December Audit Committee report and draft minutes so that they could consider the comments made by Members
 - Grant Thornton would be provided with any additional information that they required to complete the report, including data relating to the additional expenditure to enable them to complete their review, once complete the report would be circulated to the AG&M Project Teams Key Officers for sign off and comment before submission to Audit Committee
 - Audit Cotswolds our Internal Auditors would carry out a further supplementary review based

upon Grant Thornton's findings and recommendations. The draft scope of the review is attached and Members are asked to consider if they require any additional lines of enquiry (Appendix 3).

- When their supplementary review is complete the findings and recommendations will be reported to Audit Committee.

1.10 Grant Thornton completed their report on the 14 January which was circulated to the key project team members for factual accuracy and comment. Any further information produced or brought to the attention of Grant Thornton or the Council will be considered by Audit Cotswolds as part of their supplementary report.

2. Alternative options considered

2.1 Internal Audit could have undertaken the review and prepared a report but it was considered that an external independent report would be more appropriate.

3. Consultation and feedback

3.1 The Grant Thornton report has, to date; included working with those involved with the project to ensure accuracy and has been the subject of senior officer discussions and recent briefings. The proposed further audit work will similarly involve appropriate consultations.

4. Performance management – monitoring and review

4.1 The proposed additional audit work will enable report back to this committee on all relevant matters.

4.2 In due course the Council will need to set aside further budget to fund any additional overspend not covered by the decision made on 14 February 2014.

Report author	Contact officer: Corporate Governance Risk and Compliance officer Email; bryan.parsons @cheltenham.gov.uk, Tel; 01242 264189
Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Grant Thornton's review report into the Cheltenham Art Gallery and & Museum project 3. Internal Audits Scoping Document
Background information	<ol style="list-style-type: none"> 1. Report to and minutes of the meeting of full Council held on 14 February 2014 2. Report to and minutes of the Audit Committee meeting on the 11 December 2014

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

Likelihood – how likely is it that the risk will occur on a scale of 1-6

(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

Control - Either: Reduce / Accept / Transfer to 3rd party / Close