

AuditCotswolds



'Working in partnership for a sustainable high quality service'



CHELtenham
BOROUGH COUNCIL

Internal Audit Report on
Art Gallery & Museum Project Overspend
24th June 2015

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Independence

Due to the fact that the Chief Executive Officer and the former Section 151 Officer were both interviewed as part of this review, independence of the review has been considered with the Borough Solicitor in the first instance. It has been agreed that the Chief Executive Officer as the client does not impact on the report.

Acknowledgements

We would like to take this opportunity to thank you, your staff and Councillors for their assistance during the course of this audit.

Quality of Service

This audit has been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing as defined by the Chartered Institute of Internal Auditors (UK and Ireland). Furthermore, it is in compliance with the Public Sector Internal Audit Standards as defined by the Chartered Institute of Public Finance and Accountancy.

Executive Summary

Overview and Key Findings

We have conducted a review of the key issues identified in the Grant Thornton Art Gallery and Museum Report presented to Audit Committee on the 29th January 2015. This work has been requested by the Corporate Governance Group and is sponsored by the Chief Executive Officer.

Objectives of the Review:

Following the Grant Thornton report considered by the Audit Committee on the 29th January 2015. It was agreed by the Audit Committee that a further review should be conducted by the Council's own internal audit service (Audit Cotswolds). The Head of Audit Cotswolds presented a brief to the Audit Committee at the same meeting. The review was fundamentally constructed to enable Internal Audit to establish 'Why' the project overspends occurred.

Control weaknesses identified by this review:

Overarching issues:

- 1. Failure, at the outset, to identify and describe the project, the skills necessary and the entire project objectives within the confines of the allocated budget**

and

- 2. to continually review 1. Above.**

From the overarching control issues other sub control weaknesses were identified:

- a. Flawed decision-making lines - multiple silo structures
 - Lack of clear project leadership
 - Lack of financial oversight and ownership
 - Decisions being made outside of the project – 1-2-1s and other small meetings - Informal/unrecorded meetings including with Members and decisions within these meetings
- b. Lack of people risk monitoring – capacity, skills and motivation
- c. Project Initiation Document (PID) flawed and not enforced
 - The right people just not in the right place/order or acting in small isolated tasks groups/projects
 - Unclear accountability and responsibility definitions
 - Change mechanism that captured variances was in place but not reported

- Lack of recognition that the risk had materialised and consequently Risk Management should have been replaced by Crisis Management
- Lack of Gateway reviews and Milestones were not known/enforced/monitored

Note: The project was still on-going at the time of crafting this report and may have still incurred costs.

Management Response

We fully support the findings from this internal audit report on the Art Gallery & Museum overspend. This coupled with the previous Grant Thornton report has been used to strengthen our governance arrangements around projects. This has been used to improve our existing project management policy and guidance/toolkit which will help ensure that all future projects are delivered to budget and in a timely manner.

Detailed Report

1. Introduction and Purpose of Review

- 1.1 This brief was presented to the Audit Committee for their endorsement of this work. This is an additional piece of reactive work outside of the Audit Plan as approved in March 2014 by the Audit Committee.
- 1.2 The purpose of the audit review is to provide Members and senior officers with a understanding of the issues arising from the Art Gallery and Museum Project Overspend to inform changes to the Governance, Risk Management and Control Framework to reduce the likelihood of these issues recurring in the future.
- 1.3 Therefore the report also makes recommendations to enhance the Governance, Risk Management and Control framework. These recommendations are set out in the Risk Exposure, Recommendation and Action Plan.

2. Background

- 2.1 Listed below are themes that arose from the Grant Thornton report, from which questions to determine 'why' actions happened / did not happen were asked – the outcome being to summarise the responses in this report that will allow an assessment of the extent to which expected or required processes and controls were followed and complied with.
- 2.2 There were two elements identified in the GT report [*time line and financial position*] that demonstrated an overarching theme of:
 - 1) A consistent indication of reporting of inaccurate, untimely, misleading or incomplete information to various monitoring / stakeholder groups
 - 2) A consistent indication of lack of reporting to Member level monitoring / stakeholder groups
- 2.3 Both of these points were significant factors in the indicated lack of awareness and challenge to the project timeline and financial positions, by groups to which the key project officers reported to. Without the awareness and therefore challenge to these two elements, as Grant Thornton indicate, CBC is unable to take appropriate action/decisions. As a result, some actions may have lacked appropriate authority or possibly been avoided.
- 2.4 Sub themes arising from the Grant Thornton report were in

relation to:

- i. Project structure (hierarchy, roles and accountability)
- ii. Authorisation and delegation
- iii. Third party external use and control
- iv. Competency and skills
- v. Pressures and priorities
- vi. Record documentation, maintenance and retention
- vii. Use of formal and informal communications – (verbal updates)
- viii. Risk management – during the project
- ix. Budget management – including the use of reporting by exception and Purchase Order Management
- x. Gate reviews / milestones
- xi. changes in roles and processes e.g. project sponsor, reporting from Davis Langdon,

2.5 All of the above themes and sub themes pose the question ‘Why’, as in, why did this happen or not happen. The purpose of this internal audit review is to ask relevant questions of officers and Members to determine the Why.

2.6 Scope limitations

These themes were covered using questions delivered through the use of semi-structured face to face interviews, conducted by Internal Audit supported by Human Resources, by request, where necessary. The transcript of the interviews was summarised, checked for accuracy with the individuals and compared / contrasted with the Grant Thornton report and CBC policy/procedures and provide more detail on why certain action were or were not taken.

The results of this have been reported to those listed in the circulation of this report; and is now being presented to the Audit Committee for their consideration and support of the recommendations.

Note: not all involved were readily available for interview therefore the process has taken longer than initially expected. However, former CBC employees were able to attend interviews.

2.7 During the course of the interviews personal sensitive information was identified. This report has considered this information as significant in terms of establishing the ‘why’ and therefore this information is reflected in the report. However, every effort has been made to anonymise this information to safeguard the individual but ensure the report is made publically available.

3. Outcome and Recommendations

3.1 Project structure (hierarchy, roles and accountability)

3.1.1 Organisations set up governance systems of structures, processes and controls to run their business and to deal with issues. This project was no exception. Project management controls were implemented and documented in a Project Initiation Document (PID). This PID was set out in the Grant Thornton report.

The PID provides both a structure chart and a brief description of the roles and responsibilities of each person involved in that project.

3.1.2 Within each interview the interviewee was asked to detail their perception of the role and responsibilities that they fulfilled. Each interviewee was able to clearly outline what their role was, in their opinion. However, when these were compared to the original PID cited within the Grant Thornton report there were differences.

The PID itself was unclear in terms of roles and responsibilities and also did not reflect Cheltenham BC project management roles defined within their systems as published from 2009. For example, there is no mention of an Executive Sponsor role in CBC guidance.

3.1.3 All interviewees were able to outline clearly what they believed they were involved in the project for. They were also able, in some cases, to go to some length to detail and evidence this role. The detail provided demonstrated that officers and Councillors were operating in a consistent manner to that described in the interview. However, it also demonstrated officers were not at any point talked through their role by the project team or subsequently reminded of their responsibilities. This left the officers in the position to deliver what they thought the project team wanted - interpretation risk.

3.1.4 From the interviews it has been determined that there were three functioning silos operating within this project.

- The first is that of the site build project; project managed by the Davis Langdon Project Manager within this project team was the Architect that holds the ultimate control on the sign off of the construction project.
- The second was the normal day-to-day management hierarchy of the Council i.e. CEO, Executive Director,

Assistant Director, Art Gallery & Museum Manager, etc.

- The third was the internally established project; project managed by the CBC Programme Manager.

It has been determined that the most likely causes of this three silos situation are:

- I. Failure, at the outset, to identify and describe the project, the skills necessary and the entire project objectives within the confines of the allocated budget and to ensure these were subject to continual review.
- II. The late adoption of the internal project management – the PID was crafted after the appointment of some of the key third parties e.g. Davis Langdon and the first milestone is cited as Phase 3 Fundraising.
- III. The removal of the project 'Board' which was determined by the project team in its first meetings. The Board would have featured the Cabinet member, but also had high level responsibility for overall monitoring of the project and could have brought the three silos together. This is set out in CBC guidance on project management
- IV. The late inclusion of some key stakeholders, for example property services.
- V. The merging of non-compatible / competing deliverables within one PID with no sub projects/workstreams indicated – the project had a significant construction deliverable written in as the responsibility of a third party alongside day-to-day issues such as staff training.(see extract below)
- VI. The introduction of roles that conflicted with structural decision-making controls. For example the PID states that the Senior User is responsible for: *“Ensuring that what is delivered meets the needs of its users (community, customers, tenants and staff). Overall responsibility for delivering project benefits. Liaises with fundraising bodies and cabinet member, the Buildings Project Manager, the Design Team (architects, QS, M&E, structural engineers) and CDM Co-ordinator* However, the Senior User was also the key officer liaising with the construction team and authorising variations.

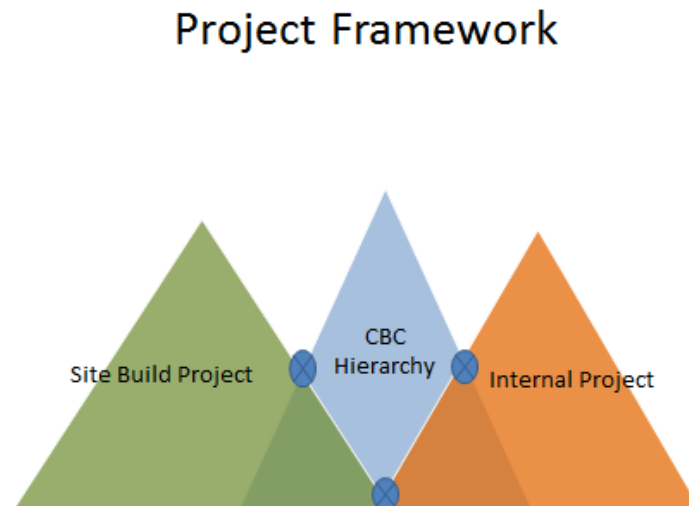
Extract from the PID:

The main deliverables of the project will be:

1. *The redeveloped and refurbished building. It is the responsibility of the appointed building contractors to deliver the building according to the agreed plans.*
2. *Completion of the organisational re-structures and appointment of new teams including the merger of the AG&M Visitor Services team with the Tourist Information Centre's team.*
3. *The completion of the re-canting and fitting-out programmes and the re-opening of the building to the public.*
4. *The relocation of the Tourist Information Centre within the new ground floor reception area*
5. *Operational procedures – including the revised Normal Operating Plan / Emergency Action Plan and completion of the 10-year Management & Maintenance Manual*
6. *Staff fully trained in the operation of the redeveloped building.*
7. *Agreements with partners, tenants and suppliers of services*
8. *Awareness of the redevelopment and relaunch (including rebranding) throughout the community and other stakeholders.*
9. *Completion of the Evaluation Report with reference to the completion of the project and the Activity programme*
10. *Financial statements of funds raised and their application.*
11. *Installed and tested technology*

3.1.5

This three silo structure has been set out below:



3.1.6

Based on this finding, it is possible that the internal project was in effect 'blind' to elements of the CBC Hierarchy silo and the Site Build silo of decision making. This was most likely replicated with the Site Build Project and CBC own hierarchy.

Silo Structures:

- Site Build Project – Berman Guedes (Architect), Davis Langdon, ISG, liaison with the Senior User

- CBC Hierarchy – Cabinet, Chief Executive Officer, Executive Director, Assistant Director, Art Gallery and Museum Manager
- Internal Project – Executive Sponsor, Project Sponsor, Project Manager, Senior User

3.1.7 Interviewees confirmed that they had individually determined that some of the decisions and responsibilities lay with other silos and each had a core of advisers who also did not work across silos.. For example it is understood that both the Site Build Project and the Internal Project had separate legal advisers, but this was an assumption made by the individual interviewees.

3.1.8 This assumption of responsibilities lying with other silos also impacted on the financial management of the project. The PID set out multiple roles with financial responsibility but no clear overall budget responsibility. This was exacerbated by the use of the CBC hierarchy to authorise the financial spends with no reporting into the project.

It was noted from interview that the ‘overspend’ reported to the CEO in November 2013 was identified as a result of financial enquiries on another project.

3.1.9 Leadership of the project was also indicated via interview to be a concern in terms of who was the lead officer. In particular there are key sponsor leadership conflicting points; Executive Sponsor and the Project Sponsor. In CBC’s own project management guidance there should be only one project sponsor (no mention of an executive sponsor role).

3.1.10 It is clear from the Grant Thornton report (paragraph 3.10 page 16) that neither the Executive Sponsor nor the Project sponsor was consistently present at project team meetings and indeed on four occasions neither officer was at the meeting. However, based on the diagram within the PID the two officers could be fulfilling the same role, although the text description of their roles varies.

The key issue though arising from the interviews was that officers and Councillors were unclear who the lead officer was, and therefore to whom they should raise their concerns, one interview even identifies that clarity was sought from the CEO as to who was the appropriate officer to speak to.

This clearly presents the risk of a lack of leadership and therefore the inconsistency of overall understanding of the direction of the project.

3.2 Authorisation and delegation

3.2.1 Fundamentally there is no indication of unauthorised spend by officers in terms of levels to which an officer can authorise spend in line with financial rules of the Council. This is where the reliance on CBC's own internal hierarchy impacts. Officers were authorising within these internal limits, but it may have been more appropriate to determine levels within a project framework, particularly where small changes can accumulate to the levels shown on this project (1000+ variances).

However, this does not recognise the overall delegation of spend through the decision making of the Council. It is clear that Officers have sought the necessary additional authority from Members when the overspend became apparent.

3.2.2 Based on the interviews and evidence provided it is clear that officers were acting with the authorisations and delegations as set out in the PID. However, as indicated in section 3.1 these authorisations / delegations split into three silos and are themselves unclear.

3.2.3 The accountability lines arising from the delegated responsibilities are at best unclear. For example, the Senior User has the delegated powers via the PID to ensure the benefits of the business case are delivered for the community. Ultimately this could be argued that this has been delivered, but there was no directive within the role to ensure it was within budget (this is an assumption based on CBC internal hierarchy rules).

3.2.4 It is clear that there was no overall oversight of the actions being taken by various officers that impacted on time and cost factors of this project.

3.2.5 It is not possible to conclude whether the authorisation/delegation is appropriate for this as a project. No decision was made by the project as to what thresholds they would want to see to make a decision on spending. The interviews only raised the contingency fund level as a reporting factor.

3.3 Third party external use and control

3.3.1 It was identified from interview that the Council has limited skills in terms of the core elements of the project and therefore third parties were used. This is not an issue in itself and is often the case that Councils will use third parties to aid in the delivery of a

project and therefore external third parties were used.

3.3.2 The first issue highlighted within the interviews was the number of third parties used directly and also sub-contractors. It was also apparent that the cost of these third parties was not considered fully at the outset of the project. Examples were given where third parties had to leave the project and be brought back in or covered by CBC's own staff. It is not uncommon that third parties leave and join projects as necessary; however, this is normally in a controlled manner and costed. It is not apparent from the interviews that the third parties were consistently controlled and costed in terms of entry and exit of the project.

3.3.3 It was also apparent from interview, and supported by Grant Thornton's report, that insolvency affected at least one contractor. Quality control in terms of timely delivery was also an issue raised, in particular ISG (the construction company undertaking the site build), and it is understood from interview that the Executive Sponsor was involved in negotiating with ISG to attempt to hold them to a timetable of actions.

It was noted that this was the only cited action identified by the interviewees where the Executive Sponsor was clearly involved.

3.3.4 The main issue arising from this element of the review is that there was a significant gap in the understanding of the complexity of these contractors and the contracts controlling their actions. Legal advice was sought on occasion but from the 15 interviews undertaken only 3 (property and legal) mentioned the significance of the role the Architect (Berman Guedes) played in authorising/signing off delay agreements between ISG and the project.

The Senior User did recognise the significance of the relationship between the Davis Langdon Project Manager and the on site construction contractors. The Senior User relocated to help with this relationship, which is understood to have been 'difficult', between ISG and Davis Langdon.

3.3.5 Another issue identified from the interviews relates to the cited 'late' inclusion of property services into the project. It is clear that there were elements of the design project that were not considered in the early stages of the project due to the competition style approach to the design. Building security, fire safety, café, to name a few of the aspects were only introduced later and delivered by the in-house property team and a new contractor 'The Hub'.

The lack of a comprehensive design for the security systems throughout both new and existing buildings coupled with the need

to have the final buildings certified under the Government Indemnity Scheme (GIS) for national exhibition insurance purposes led to the need to appoint another specialist security consultant Ian Johnson Associates Ltd.

Late establishment of the internal project management was also mentioned and indicated that Davis Langdon and other parties were already in place, before the internal project could comment.

- 3.3.6 There was a significant reliance placed on Davis Langdon to manage the site build project. However, interviews have not found evidence of the internal project silo or the CBC hierarchy silo in monitoring delivery by Davis Langdon.

3.4 Competency and skills

- 3.4.1 As mentioned in section 3.3 the Council did not have the resources and skills in-house to deliver the whole project. However, this section of the report is looking at the competency and skills, demonstrated via interview, of the Officers and Councillors in delivering their particular roles.
- 3.4.2 It is clear from interviews that there were concerns over the particular competencies and skills of key officers in relation to this project, which resulted in the allocation of additional senior officers.
- 3.4.3 It was also mis-identified that some of the officers had required experience. 2 interviews related the skills needed to deliver the Leisure@ flood damage rebuild as examples of the skills needed to undertake this project. This is not a suitable comparator as the flood damage project was controlled through the insurers. This reinforces a more general issue of the lack of understanding of the complexity of this project and the multiple parties involved.
- 3.4.4 It is also clear from the interviews that the multiple hierarchy structure resulted in skilled officers being isolated or only partially engaged. For example several support services supplied officer resource to the project that was organised to deliver on specific tasks such as drafting of new contracts; or the resource was engaged in 1-2-1 meetings with key stakeholders.
- 3.4.5 There is no evidence of a skills assessment or other method of selection to the various roles in the project.

3.5 Pressures and priorities

3.5.1 This part of the report is looking at other factors outside of the project that impacted on either the project or on the individuals involved.

3.5.2 The interviewees raised concerns of excessive pressure levels on individuals with key roles within the project. Officers have cited that they have raised with management directly the health impact due to the excessive pressures of this project alongside their other work commitments. Multiple cases of sickness were mentioned in interview relating to this factor. However, there are no significant absences recorded by employees working on the project.

[This report does not comment on the health issue in terms of medical diagnosis or root cause, only that the interviewee raised the ill health in relation to the project].

3.5.3 It was identified that there was a lack of people risk recognition throughout the project in terms of the impact of other factors such as restructure and/or redundancy risks to the individuals (risks being viewed either formally or through perception of the individual interviewed).

Reviewing the Grant Thornton report timeline of meetings (paragraph 3.10 page 16), and comparing to the creation of the report for Cabinet on the decision relating to the internal bid for the provision of the Leisure and Culture Trust, shows that the Project Sponsor and the Senior User would have been working on a project that put their employment 'at risk' at the same time as delivering this project and that of the normal day-to-day management responsibilities (based on the interviewee perception and comment if not a formal 'at risk' situation).

Furthermore, a service restructure was also in operation under the Senior User at this time.

It is understood from interview that formal requests were made by officers to senior management to be removed from roles on this project to focus on other roles impacting on them more directly.

Expectation for a control framework to be operated effectively and efficiently by personnel in this environment was deemed by multiple interviewees to be unreasonable.

However, it is for management to manage risks and ensure appropriate controls are in place to mitigate these risks to the desired appetite. Furthermore, it is management responsibility to ensure the controls operate effectively and efficiently.

- 3.5.4 There were other significant projects also being implemented at this time, for example, GO Shared Services was 'live' on the 1st April 2012. Ubico Ltd was also launched at this time. Both of these projects diverted resources away from this project.
- 3.5.5 It should be recognised that there were other pressures being exerted on the project; the need to open for a key exhibition and the need to commence the build due to fund criteria / commitments. The opening date was cited by interviewees as a cause to consider opening as priority over spend levels.

3.6 Record documentation, maintenance and retention

- 3.6.1 As the Grant Thornton report identifies there were key documents from Davis Langdon that did not reach the project team. This review finds that it is more than likely that the multiple silo structure of this project is the cause of the 'blindness' to key documents as mentioned in section 3.1.
- 3.6.2 The contracts were made available for this review by Legal Services. The contracts make clear the means by which liquidated damages were to be assessed and controlled and it is the Architect that has the control over the agreement to authorise ISG delays due to, such matters as, extreme weather.
- 3.6.3 It was highlighted by Grant Thornton that the Davis Langdon report changes over time and less information is presented. This coincides with the change in personnel from Davis Langdon. The interviews did not identify a cause for these changes in reporting and therefore this report is required to make the assumption that it was a change driven by Davis Langdon. Although, as mentioned in 3.3.6. no monitoring of Davis Langdon service delivery was undertaken and therefore no challenge made to this change in reporting.
- 3.6.4 The CBC hierarchy (referenced in section 3.1) is an exacerbating factor in the detrimental impact on the integrity of the project control framework. The key aspect of the multiple informal or non-specific meetings held outside of the internal project hierarchy is that they are not documented and fed back into the project. This creates a blind spot for the internal project and relies on people to feedback verbally to the correct person. The reliance on verbal feedback is of concern when under the pressures highlighted in section 3.5.
- 3.6.5 It is apparent that records were held by the internal project and the CBC hierarchy but it is unclear what records were held by Davis Langdon as no interviewee was able to confirm this.

Therefore it is not possible to challenge the information coming from or to Davis Langdon. This would have amounted to a control to ensure accuracy of Davis Langdon reporting.

- 3.6.6 Through the interviews it was identified and evidenced that there was a control check sheet used to sign off variances. This check sheet was used by the Senior User. However, this control was not monitored and assessed to determine the impact of the variances on the overall project.
- 3.6.7 It was also identified via interview that Davis Langdon were filtering the true cost of the project with possible liquidated damages claims. This resulted in lower levels of cost being discussed at the project meetings. Interviews did not identify any challenge from CBC Officers to these assumptions.

3.7 Use of formal and informal communications – (verbal updates)

- 3.7.1 As mentioned in both section 3.1 and section 3.6 there were multiple meetings outside of the internal project framework. It is not problematic to have meetings outside of the project team meetings, indeed it is necessary to do so in order for the project to keep running. However, the risk is that decisions impacting on the project are not reported formally to the project team, manager or sponsor as necessary. This dilutes the control available to both the project manager and the internal project as a whole.
- 3.7.2 It was identified that the Project Sponsor met regularly with the Portfolio Holder(s) through 1-2-1 sessions which were not documented. It was also identified that the Senior User would sometimes attend these meetings.
This ensured at least one Member was aware of the project progress as understood by these two officers. However, it is not possible to state what the Member was informed about.
- 3.7.3 A Councillor did state that they had to seek clarity over the role of the Executive Sponsor and the Project Sponsor at the time when the Leisure and Culture Trust was gaining momentum as a project. This demonstrates a poor communication of handover between the Project/Executive Sponsors and the Councillor as the Project Sponsor left the project.

3.8 Risk management – during the project

- 3.8.1 A risk management process was identified in the Grant Thornton report and recommendations made to enhance this process.
- 3.8.2 However, based on the interviews, the risk management process was not the key issue. The issue was failure to recognise the need to consider moving to a crisis management system.

Risk management is the systematic process of understanding, evaluating and addressing the risks to maximise the chances of objectives being achieved and ensuring organisations, individuals and communities are sustainable. Risk management also exploits the opportunities uncertainty brings, allowing organisations to be aware of new possibilities. Essentially, effective risk management requires an informed understanding of relevant risks, an assessment of their relative priority and a rigorous approach to monitoring and controlling them.

However, when the risk crystalizes a decision must be made to determine if it is significant enough to move to crisis management:

Unlike risk management, which involves planning for events that might occur in the future, crisis management involves reacting to an event once it occurs. Crisis management often requires decisions to be made within a short timeframe and often after an event has already taken place.

In project terms overspend, overtime, or unable to deliver objectives all should be considered to be triggers for crisis management. Ultimately a crisis decision can be to close the project. Gate Reviews can also trigger crisis management when a project red flags at the gate review.

3.9 Budget management – including the use of reporting by exception and Purchase Order Management (POM)

- 3.9.1 There were two fundamental failures in terms of budget managing this project.
- No-one was given clear instructions to report on the overall budget for the project and reliance was made on the contingency reporting.
 - No-one associated the time delays with cost increases sufficiently to request further information or make challenge.
 - Variations were authorised without regard to the overall cost of the project.
- 3.9.2 Budget monitoring was in operation but on a piecemeal basis by individuals operating in isolation. For example, one of the reasons why Property Services officers were involved in the project was to ensure the asset maintenance budget was spent appropriately in relation to the project.
- 3.9.3 As mentioned in paragraph 3.5.4. GO Shared Services was introduced in April 2012. The POM system was not implemented until much later therefore the impact of the POM system is not really a significant factor. Other controls should have been used to monitor the overall spend/commitment for the project, but this links to the lack of overall responsibility within the project for

budget monitoring as a whole. It should be noted that prior to GOSS the culture at CBC was not driving the use of POM systems anyway.

- 3.9.4 It was of concern that during the interviews it was identified that there was little evidence of linkage between time delays and cost. It was noted that the pressure to open the Art Gallery & Museum was increasing due to possible reputational damage and therefore cost appeared to be a lower priority.
- 3.9.5 The Audit Committee asked if it was possible to attribute a specific cost to each change. This has not been possible due to the number of variances and the lack of linkages of these variances to time delay costs. Furthermore the total cost is yet to be finalised as the project is not yet closed as it is awaiting signoff by the Architect – note officer time is still being spent if not a direct contractor cost.
- 3.9.6 Interviews also identified that there was minimal opportunity to reduce costs in other parts of the project to help mitigate the construction related overspend. If the cumulative cost of variances had been monitored then the project may have been able to reduce specifications on other parts of the project to compensate.

3.10 Gate reviews / milestones

- 3.10.1 The PID outlines a series of 9 key milestones. However, no one was able to specify them in interview; most interviewees only cited the opening of the site or 'something about funding'.
- 3.10.2 Even though there were milestones they did not act as a boundary for consideration of exit strategy or alternative solutions. Normally a project would have boundary markers (also see gate review below) that require specific decisions to continue the project.
- 3.10.3 There were no Gate Reviews. These provide the project opportunity to assess key part of the project and seek agreement from appropriate staff/Members to continue, change or ultimately stop the project.

3.11 Changes in roles and processes e.g. project sponsor, reporting from Davis Langdon

- 3.11.1 The project is still 'live'. It is understood that the Project Manager has been reassigned to seek to close the project.
- 3.11.2 There was a change in Portfolio Holder and interviews identified that this did not have an adverse impact on the project.

- 3.11.3 There was a change in staff from Davis Langdon perceived by interviewees to have resulted in a drop in performance by Davis Langdon. Also this is attributed to the change in information provided to the Council.
- It was also noted that no one has challenged this directly with Davis Langdon. However, as mentioned in 3.3.6 the interview did not identify anyone monitoring Davis Langdon in terms of delivery of services to an expected standard.
- 3.11.4 The most significant change to roles was the Project Sponsor and Executive Sponsor change discussed earlier in this report.
- 3.11.5 No other significant changes were raised that have not already been discussed in this report.

4. Conclusion

- 4.1 A total of 15 interviews were conducted and information was drawn out of them to make comment upon the 2 overarching themes of finance and time and the 11 sub themes.
- Where interviews did not agree with other interviews the statement has been tested against the Grant Thornton report and other evidence. There were no directly conflicting interviews.
- 4.2 This report has answered 'why' the overspend occurred and it can be summarised as follows:

Control weaknesses identified by this review:

Overarching issues:

- 1. Failure, at the outset, to identify and describe the project, the skills necessary and the entire project objectives within the confines of the allocated budget**

and

- 2. to continually review 1. Above.**

From the overarching control issues other sub control weaknesses were identified:

- a. Flawed decision-making lines - multiple hierarchical structures

- Lack of clear project leadership
 - Lack of financial oversight and ownership
 - Decisions being made outside of the project – 1-2-1s and other small meetings - Informal/unrecorded meetings including with Members and decisions within these meetings
- b. Lack of people risk monitoring – capacity, skills and motivation
- c. Project Initiation Document (PID) flawed and not enforced
- The right people just not in the right place/order or acting in small isolated tasks groups/projects
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 - Lack of Gateway reviews and Milestones were not known/enforced/monitored

Note: The project was still on-going at the time of crafting this report and may have still incurred costs.

4.3 Organisations set up governance systems of structures, processes and controls to run their business and to deal with issues. Because of the Council's multiple change programmes running concurrently, significant risks and implications have arisen that impacted on the project. This put too much stress into the Council's governance system, and structures, processes and controls failed. There was no single issue or failing, rather there were a series of issues that taken together over time created the situation.

4.4 It is recommended that the Audit Committee monitors the implementation of the report recommendations

Risk Exposure, Recommendations and Action Plan

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
1.	<p>Multiple decision-making hierarchical structures:</p> <p>This resulted in lack of clarity over the totality of decisions leading to incomplete decision impact information for any one structure.</p>	<p>That projects of significant size (determined by the project management framework) must ensure a top 'board' is appointed to oversee all aspects of the project. This board must be responsible for receiving and monitoring all decisions made in the project regardless which decision structure they originate. The Board must then consider and challenge the impact of these decisions.</p> <p>NB. Decisions should be defined – suggested matters that qualify as a decision (not exhaustive):</p> <ul style="list-style-type: none"> • financial impact • time line impact • project governance impact • project objectives & scope impact • Leadership impact 	1	<p>Action is being taken to address the <i>Silo thinking culture</i>. The process for scoping roles and responsibilities within PID's for monitoring and reporting has already been improved. This will include training for Members and officers.</p> <p>PIDs will not only define roles and responsibilities they will also define what monitoring reports will be considered by the Project Team and Project Board</p> <p>Reports will include finance, milestone achievements/forecasts</p> <p>Delivery of benefits</p>	Chief Executive	Jan 2015

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
		<ul style="list-style-type: none"> Interference and interdependency from other projects impact Risk Management RAG rating changes 		Capacity to deliver objectives Risk Management		
2.	<p>Lack of financial oversight and ownership:</p> <p>This resulted in dilution or incomplete financial data for the project. Overspend identified through another project.</p>	<p>That project management systems clearly set out who has responsibility for reporting on the whole financial status, on the status of financial commitments and on the budget for the project. This must clarify the impact on normal day-to-day budgetary management within the service area(s) affected by the project.</p> <p>The use of financial forecast / trend analysis may help in the monitoring of spend rates.</p>	1	<p>Project management systems have already been refreshed. These specify that the section 151 officer will provide suitably qualified support</p> <p>The role of this person will be clearly defined within the PID</p> <p>Appropriate reports will be defined and produced linked to the budgets and and project milestones</p>	Section 151 officer	Complete
3.	Late introduction of project management resulting in adaptation of the project framework and therefore a risk of limited controls and	That project management is introduced in a timely manner.	1	There is already a process in place to ensure that suitable project support and project planning is put in place in a timely	CEO	Complete

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
	unclear accountability for third parties already in place.			manner. Whenever it is not possible to do so then a briefing will be provided to OPB by the appropriate Director.		
4.	Lack of clear leadership: Multiple individuals were seen as 'the leader' for the project. This multiplicity factor on leadership results in inconsistent styles, approaches and decisions. It also results in fragmentation of accountability.	That project management frameworks must ensure a single accountable leader is appointed to the project.	2	Appropriate actions are being taken to avoid silo working within projects and to define leadership roles. This will also lead to an accountable officer who will report to the Project Board and OPB.	Chief Executive	Jan 2016
5.	Lack of people risk monitoring – capacity, well-being and motivation	All governance and control frameworks rely upon people to implement and apply them. Failure to recognise the impact of changes in the people environment will also lead to the failure to recognise potential control failures until the impact is felt. The PID recognised The Cheltenham Trust as an	1	Where there is a significant sized project there will be a suitably qualified HR advisor appointed to provide guidance and advice at Board level. CBC will continue to monitor "capacity to deliver" projects. This	HR Manager GOSS-West	Jan 2016

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
		<p>interference / interdependency issue but did not react to the changes in this project and the demands on the key officers that covered both projects.</p> <p>CBC must recognise the impact of People Risks on key projects and take action to mitigate.</p>		<p>information will be available to the GOSSHR advisor.</p> <p>The PID will define the role and responsibility's for a project, the project Board and Project Team will have an overall responsibility to consider if there is sufficient capacity to deliver what is expected.</p> <p>GOSS HR will consider if there is any further work that can be done to improve the culture for recognising the impact of change on an organisation and the individual</p>		
6.	Lack of recognition that Risk Management should have been replaced by Crisis Management.	Risk management is the systematic process of understanding, evaluating and addressing these risks to maximise the chances of objectives being achieved and	3	The Councils Risk Management Policy was reviewed March 2015. The lead officer will discuss with the Head of Internal	Corporate Governance, Risk and Compliance officer	March 2016

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
		<p>ensuring organisations, individuals and communities are sustainable. Risk management also exploits the opportunities uncertainty brings, allowing organisations to be aware of new possibilities. Essentially, effective risk management requires an informed understanding of relevant risks, an assessment of their relative priority and a rigorous approach to monitoring and controlling them.</p> <p>However, when the risk crystalizes a decision must be made to determine if it is significant enough to move to crisis management:</p> <p>Unlike risk management, which involves planning for events that might occur in the future, crisis management involves reacting to an event once it occurs. Crisis management often requires decisions to be made within a short timeframe and often after an event has already taken place.</p> <p>In project terms overspend, overtime, or unable to deliver</p>		<p>Audit the need for any improvements in relation to understanding triggers to crisis management. Any suggested amendments will be brought back to Audit Committee for consideration.</p>		

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
		objectives all should be considered triggers for crisis management. The Council should consider developing a crisis management plan for projects ensuring appropriate powers and accountability are given to the Officer appointed as the CMO (this role is therefore likely to be from the executive management level).				
7.	<p>PID flawed and not enforced:</p> <p>The PID project team structure was excessive and resulted in the immediate decision by the project team to 'drop the board' element. This resulted in the councillor role being dropped.</p> <p>The single PID also featured multiple objectives of a conflicting nature. For example the senior user was tasked to deliver the benefits but also responsible for authorising</p>	Consideration must be given to splitting construction works from other workstreams in a project.	2	There has been a review of the project management guidelines in respect of defining the all the roles and responsibilities within PIDS (as per recommendation 1 above). This will ensure that they are being clearly defined for all projects. Where they are construction projects roles will be separated for construction/interior design functions	Business Development Manager	November 2015

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
	<p>changes. The Davis Langdon Project Manager role was identical to the internal Project Manager role.</p> <p>The Architect was not identified as a key role</p> <p>Sponsor and Executive sponsor roles merged</p> <p>PID was introduced after key roles and the project itself had started.</p> <p>Each officer was left to interpret their roles by themselves – assumptions were made by these individuals as to the boundary of their responsibility.</p> <p>Roles were considered as duplicated within Davis Langdon and the internal project e.g. legal and finance.</p>					

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
	The right people just not in the right place/order or acting in small isolated tasks groups/projects	Consideration should be given to reducing the project team size and creating smaller task defined groups that feed into the project		These are addressed in the actions relating to recommendation 1.		
	Decisions outside of the project – 1-2-1s and other small meetings Informal/unrecorded meetings and decisions	A record of meetings outside of the project must be maintained if it impacts on that project				
	Change mechanism in place but too low/not reported – resulting in multiple small variances	Consideration must be given to the level of accountability and control relating to projects impacts on objectives, benefits, time and cost				
	Lack of Gate reviews and Milestones were not known/enforced/monitored The PID featured some milestones but when asked	Gate reviews, milestones and boundary points must be used and enforced. Note these can link to the Crisis Management system.				

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action
	<p>none of the interviews identified any other than HLF constraints and the opening date.</p> <p>There were no gate reviews or boundary points used where clear decisions could be made to exit or continue or modify the project.</p>					
8.	<p>The project is still on-going and may still incur costs. Report to Audit Committee 29th January 2015 para 1.8 cites £89,783.00 was remaining. However, the Architect has yet to issue the final sign off on completion of snagging list.</p>	<p>Position statement for the Audit Committee</p> <p>That the project is brought to a close as soon as practically possible.</p>	1	<p>There has been no additional expenditure outside of what has been accounted for in budgets. However, we are yet to receive final retention payment from HLF of £71,598 (final grant instalment).</p> <p>The project is still 'live' awaiting conclusion of the snagging list. A report will be prepared for the Audit Committee in January 2016 once we have the completion notice from the architect.</p>	Project Manager	Jan 2016

Ref	Potential Risk Exposure	Recommendation	Priority	Proposed Action	Action by	Target date for action

Appendix A - Assurance and Priority Methodology

Assurance and Priority levels for all audits follow a standard methodology to ensure reliability and validity of Internal Audit opinion. The tables below set out the rationale for the opinion and suggested management action timescales.

Assurance Level	IA Opinion – Controls		IA Opinion - Compliance
High	The system of control is sound and designed to achieve system objectives.	&	Controls are complete, consistently applied and compliance is good.
Satisfactory	The system of expected control although sound, there are opportunities for improvement to further reduce system objective risks.	& / or	Compliance is generally good but there is evidence of non-compliance with some controls.
Limited	The system of controls falls below expectation as weaknesses are increasing system objective risks.	& / or	There is sufficient evidence of non-compliance which puts the system objectives at risk.
Poor	The system of control is weak thus significantly increasing system objective risk.	& / or	There is significant non-compliance with controls leaving the system vulnerable to abuse or fraud which significantly increases the system objective risks.

Priority Level	
1	A significant and serious control weakness in the system of internal control. This will also include, for example: No evidence of policies and procedures, non-compliance with legislation or authority policies or non-compliance with authority financial and procurement rules. Action is essential, within 3 months.
2	A weakness that could undermine the system of internal control and compromise its operation. Action is required as soon as possible, within 6 months.
3	An improvement to the system of internal control in order to comply with best practice, or which offers efficiency savings. Action date to be agreed within a maximum of 12 months.

Final

Appendix B - Audit Brief

Extract of the Audit Brief

Objectives
<p>Listed below are themes arising from the Grant Thornton report, from which questions to determine 'why' actions happened / did not happen can be asked – the outcome being to summarise the responses in a report that will allow an assessment of the extent to which expected or required processes and controls were followed and complied with.</p> <p>There are two elements identified in the GT report [<i>time line and financial position</i>] that demonstrates an overarching theme of:</p> <ol style="list-style-type: none"> 3) A consistent indication of reporting of inaccurate, untimely, misleading or incomplete information to various monitoring / stakeholder groups 4) A consistent indication of lack of reporting to Member level monitoring / stakeholder groups <p>Both of these points are significant factors in the indicated lack of awareness and challenge to the project timeline and financial positions, by groups to which the key project officers reported to. Without the awareness and therefore challenge to these two elements, as Grant Thornton indicate, CBC is unable to take appropriate action/decisions. As a result, some actions may have been without appropriate authority or possibly avoided.</p> <p>Sub themes arising from the report are in relation to:</p> <ol style="list-style-type: none"> i. Project structure (hierarchy, roles and accountability) <ol style="list-style-type: none"> ii. Authorisation and delegation iii. Third party external use and control iv. Competency and skills v. Pressures and priorities vi. Record documentation, maintenance and retention vii. Use of formal and informal communications – (verbal updates) viii. Risk management – during the project ix. Budget management – including the use of reporting by exception and POM x. Gate reviews / milestones xi. changes in roles and processes e.g. project sponsor, reporting from Davis Langdon, <p>All of the above themes and sub themes pose the question 'Why', as in, why did this happen or not happen.</p> <p>The purpose of this internal audit review is to ask relevant questions of officers and Members to determine the Why.</p>
Scope
<p>These themes will be covered using questions delivered through the use of semi-structured face to face interviews, conducted by Internal Audit supported by Human Resources. The transcript of the interviews will be summarised, checked for accuracy with the individuals and compared / contrasted with the Grant Thornton report and CBC policy/procedures and provide more detail on why certain action were or were not taken. The results of this will be reported back to the Corporate Governance Group, before being reported back to this committee. It is not anticipated that any recommendations will flow from this report, merely a summary of the why question results.</p> <p>Note: not all involved may now be available for interview as some have left the employment of this organisation. However, Corporate Governance Group has considered this issue and is seeking appropriate cooperation from individuals and organisations involved.</p>

