

LGSS Audit & Risk Management Service

Internal Audit Review Ely Archives Project

Client CCC

Issued to Audit & Accounts
Committee

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Status of report Draft

Audit and Accounts Committee Date 24th January 2017

Executive Summary

1. Background

- 1.1 On 21st October 2016, the Assets & Investment Committee received a report on the project to develop an archives centre on the site of the former Strikes Bowling Alley in Ely, identifying that the latest estimated cost of the project had increased by £860k. Concern was expressed about this and prior increases in the expected cost of the project, and the Committee referred the project to the Audit & Accounts Committee, to scrutinize officer processes and identify internal lessons learned.
- 1.2 On the 22nd November 2016, the Audit & Accounts Committee agreed that Internal Audit would undertake a high level review of the Ely Archives project.

2. Context

- 2.1 In 2012, The National Archives set a deadline for the authority to identify new accommodation for its archives, by 2015. If the Council fails in its statutory duty to care for public records, The National Archives could remove its Public Records License and remove these records. This would have a damaging impact on the Council's reputation, in addition to which the Council would be charged for the costs of removal, conservation and storage.
- 2.2 Although it is not clear exactly how much this would cost the Council, as no local authority has ever lost its Public Records License before, in 2012 an estimate was requested from The National Archives, who estimated costs in the region of £250,000 for the upfront costs of removal, plus ongoing storage costs of tens of thousands of pounds each year.
- 2.3 These costs would only apply to the storage of the 10% of the Council's current archives which are classed as Public Records and therefore fall under the remit of The National Archives to remove. The Council would retain responsibility for the rest of the archives, constituting around 90% of Cambridgeshire's current collection; the authority is required to hold many of these records by statute (for instance, under the Local Government Act 1972 the Council is required to hold records of Cambridgeshire County Council and its direct predecessors, and under the Parochial Registers and Records Measure of 1978 the Council is the appointed Diocesan Repository for records relating to the Diocese of Ely). Were the Council's Public Records License to be removed, the authority would still need to identify suitable accommodation for these documents; and The National Archives does retain a remit to inspect, advise and comment on the storage of these other records.
- 2.4 The project to identify new accommodation for the archives has been a long-standing public interest project, where the clear previous steer has been for the Council to deliver a solution which meets The National Archives requirements;

enables public access to these records; and ensures that the Council's archives are not broken up. Officers have operated within these parameters in seeking to identify new accommodation for the archives.

- 2.5 In March 2014, after a £12m project in partnership with Cambridge University fell through, an options appraisal by CCC identified suitable accommodation for the Archives Service at Strikes Bowling Alley in Ely. Based on a feasibility study, a £4m capital cost for the project was approved and contracts were exchanged to acquire the Strikes building for £1.1m in February 2015.
- 2.6 By August 2015 a more detailed feasibility study, and surveys which could not be undertaken until the Council was in possession, identified that the costs of the project had increased to £6.2m. This was partly due to the more detailed design work taking account of the requirements of various services which were proposed to move into the building, expanding the scope of the project, and partly due to the fact that the initial feasibility study was high level and did not include the Council's fixed framework costs or an allowance for tender price inflation, and included a low allowance for risk (3.5%).
- 2.7 The General Purposes Committee resolved to reduce the scope of the project to focus on conversion of the building for the use of Archives only, bringing the costs down to £4.2m.
- 2.8 Subsequently in June 2016, following the mini tender return to appoint a Building Contractor, further increases in cost were identified which increased the cost of the project to £5.03m. This was primarily due to increases in the cost of substructure and superstructure works, as detailed technical advice had identified that the floor needed to be raised to meet flood risk requirements and ensure thermal insulation of the building. Value engineering work was subsequently undertaken by the service to identify any possible reductions in this cost, prior to reporting back to Committee in October 2016.
- 2.9 A timeline of the project and key changes in projected cost is provided at Appendix 2, with a brief summary below:

Date	Event/Milestone	Cost	Variance
		£000	£000
Oct '14	Capital budget agreed by GPC	£4,000	
Jan '15	Structural Survey received.	£4,200	£200
Aug '15	Draft Milestone One Report updated costings.	£6,200	£2,200
Oct '15	Revised capital budget agreed by GPC	£4,200	
Jun '16	Building Contractor mini tender return.	£5,030	£830
Oct '16	Reports to H&CI Committee and A&I Committee following Value Engineering work.	£5,060	£860

3. Approach

- 3.1 The focus of this report has been to review the Ely Archive Project in order to identify any internal lessons learned from the project, through:
1. Documenting the original scheme, brief and budget;
 2. Documenting the timeline including key decisions/revisions regarding scope, cost and budget;
 3. Identifying the causes of cost variation;
 4. Evaluating the project's governance arrangements.
- 3.2 Internal Audit has therefore conducted interviews with relevant officers; documented the project timelines; reviewed and documented project governance arrangements; and reviewed the original scope and variations to the project.

4. Conclusions

- 4.1 The audit review has identified the following conclusions:
- Committee were not provided with a level of detail to enable them to fully understand the risks associated with the estimated project costs with which they were presented. Consequently, the significant increases in these estimates during the design and procurement stage of the project were not anticipated by Members and have placed unexpected pressure on the capital budget.
 - The latest report to Committee with an estimate of £5.06M for the project does not include sufficient narrative around the unresolved risks that could again result in a higher estimate and final cost for the project.
 - Contract Procedure Rules were followed, other than with regard to the exemption regarding the appointment of the design contractor which should have been approved for a higher amount (see 5.3 below).
 - Project governance arrangements did not breach Council policy, although there are areas for improvement.

5. Key Findings and Recommendations

Key lessons learned from the project review are set out below, along with associated recommendations. The action plan for implementation of the recommendations may be found at Section 7, below.

5.1 Procurement of the Strikes Bowling Alley:

- 5.1.1 The purchase of the bowling alley was undertaken on the basis of an initial options appraisal, an independent valuation report, and approval from General Purposes Committee. However, the decision made by Committee was taken on the basis of a report which did not explain the risks associated with the purchase and projected costings.
- 5.1.2 The reported costings for the project were not based on a full Business Case, but an initial feasibility study undertaken by framework consultants who were not able to access planners or undertake any detailed surveys of the site, and which therefore had a number of caveats and exclusions. While the decision to progress the project on this basis was taken due to the time pressures involved, the risk associated with acquiring the building on this basis was not communicated to Members, and the report instead presented a picture of certainty with regards to the maximum cost of the project.

AUDIT RECOMMENDATIONS:

CONTROL ENVIRONMENT:

- Before the Council embarks on an options appraisal for a project to acquire property, Spokes should be consulted on the brief.
- For projects which constitute a Key Decision under the Council's Constitution, a Business Case should be completed and approved by management, which should then be provided to Members in full at the point when the budget or purchase is approved. If, due to time constraints, sufficient detail is not available for this to be completed in full at the point of budget/purchase approval, detailed information regarding the risks of the purchase should be provided, and the completed Business Case should be brought back to Members at a later date to approve the scope.
- A clear change control process for changes in project scope should be in place for all major projects, including Member approval. Approval of a purchase (or subsequent Business Case) by Members should represent a design and cost freeze on the project.

COMPLIANCE:

Officers have a duty to provide sufficient, accurate information to Members to enable informed and effective decision-making:

- When figures from a significant project are reported to Members to inform their decision-making process, the level of risk around the figures should be clearly communicated, and in some circumstances it may be more appropriate to give an estimated cost range rather than a specific amount.

- Officers need to be candid about the level of assurance they can provide over figures and the reason(s) for any caveat to projected costs. Definite assurances over final project costs cannot be provided at Milestone One phase.

5.2 Procurement of design contractor:

- 5.2.1 The decision was taken to appoint a design contractor in January 2015, to enable the detailed design of the site to progress rather than waiting until Cambridgeshire had possession of the site to appoint a full design and build contract. Once the Council was in possession, the building contractor would then be appointed and required in a contract clause to take on the design contractor for the rest of the project. This was felt to be a more time-efficient option which would demonstrate value for money; however, the decision to appoint the design contractor was taken internally by the Property service. It may have been prudent to consult with both the Project Sponsor and Project Board regarding a decision of this nature.
- 5.2.2 The project's technical consultants were appointed as the design consultants, given their existing background knowledge. As the framework contract for this type of work had not yet been re-awarded, a procurement exemption was required. Officers applied for a procurement exemption for a contract for £68k, the price of the initial design work, and this was approved following a price comparison exercise against other similar jobs across LGSS. All the prices used as 'comparators' as part of this exercise were previous prices for similar work from the same supplier.
- 5.2.3 As a result of the Council appointing a design contractor to undertake this initial work, the eventual building contractor was required to appoint the same company as their design consultants for the rest of the project, rather than procuring their own supplier. This work was estimated to cost £96k, which effectively the Council agreed to pay by requiring this cost to be included in the tender price given by prospective building contractors. Consequently, the exemption should have been for the combined value of £164k, which would have required a higher level of approval from the Council's Monitoring Officer and Section 151 Officer.
- 5.2.4 It was also noted that officers requested the design contractor to provide the wording which was used by the service to apply for the exemption, and that this appeared to have taken place in at least one other instance. When applying for exemptions to Contract Procedure Rules, officers need to provide assurance to Procurement that the exemption is justified and will achieve value for money. The prospective contractor should not be involved in this process.

AUDIT RECOMMENDATIONS:	
CONTROL ENVIRONMENT:	
<ul style="list-style-type: none"> • A report should be taken to the project's single decision maker to sign off decisions over the proposed procurement approach to be taken by major Council projects. • Contract Procedure Rules should be updated to specifically state that as part of the exemption request process, where competition exists, price comparison exercises should be undertaken against prices from suppliers other than the supplier who has proposed the price under review. In addition, although clearly implied, consideration should be given to specifically stating that prospective contractors should not be involved in writing applications for exemptions from Contract Procedure Rules. 	
COMPLIANCE:	
<ul style="list-style-type: none"> • Procurement exemptions should be requested for the full value of the work to be awarded to the supplier if the exemption is granted, even if part of this is paid indirectly by the Council. 	

5.3 Procurement of building contractor:

- 5.3.1 The decision was taken to appoint the building contractor through the Council's Design and Build Framework Contract, rather than going to open market tender under OJEU regulations; it was felt that the contractors in the design and build framework would be able to meet the project's requirements. Again there was a lack of engagement with the project team and project sponsor with regards to this decision. The decision reduced competition for the contract, which reduces the likelihood of the best price being tendered, although as the price given by the building contractor was below the design and build framework rates, the service feel that the price does represent value for money.
- 5.3.2 An alternative option would have been to appoint a contractor for design and build once the Council was in possession of the building, which would have delayed the initiation of the design work but may have enabled some of the issues which caused increases in the estimated cost of the project to be identified several months sooner.

AUDIT RECOMMENDATIONS:

CONTROL ENVIRONMENT:

- A report should be taken to the project's single decision maker to sign off decisions over the proposed procurement approach to be taken by major Council projects.

COMPLIANCE:

- Projects of this size should be subjected to as much genuine competition as possible, to increase the likelihood of the best price being tendered.

5.4 Committee Reporting and Cost

- 5.4.1 Although in the main complying with the Constitution, communication to Members of the level of risk around the cost of the project has not provided a level of detail to support informed decision-making. The initial report to Highways & Community Infrastructure Committee in September 2014 stated that the project cost could be reduced to a maximum of £4m. This report did not communicate the uncertainty of cost information based on a brief initial feasibility study when the contractors did not have access to planners or the ability to conduct any intrusive assessments on the site; and on the basis of a budget that did not include an allowance for tender price inflation.
- 5.4.2 Highways and Community Infrastructure Committee first became aware of the £2.2m increase in projected costs identified by the second MS1 report through the inclusion of the increased figure in the draft capital programme report sent to the Committee in September 2015. The report to Highways and Community Infrastructure Committee dated 6th October 2015 recognised that this increase in costs should have been communicated to Members prior to the capital report. By this point, the scope of the project had changed significantly from being an archives centre with the potential to rationalise office accommodation in Ely, to being a Council hub with a number of services whose detailed requirements had been ascertained and fed into the updated design brief. This increase in scope should have been reported to Members, as it was foreseeable that this would lead to an increase in capital costs on the Ely project, even whilst delivering savings elsewhere. As a result of seeing the capital programme report, the Committee requested officers to bring a specific report on the project.
- 5.4.3 Consequently in October 2015, three options for different costs for the scheme were taken forward to Committee. The report did not communicate the fact that costings were still at an early stage, with further investigation needed in respect of the strength of the ground floor slab and a specialist flood risk consultant to assess the building's floor levels.

- 5.4.4 Clearer communication about the risks associated with the project's financial projections, and the exclusions and limitations of those projections, and more proactive reporting of changes in scope and cost to Committee would have ensured more effective and informed dialogue and decision making with regards to this project.

AUDIT RECOMMENDATIONS:
CONTROL ENVIRONMENT: <ul style="list-style-type: none">• Risk allowances (a contingency) for construction projects should accurately reflect the known risks and exclusions at the time, including where possible a costed risk register, and should be clearly communicated to Members. The contingency balance should be routinely updated and challenged throughout the development phases of the project.• Figures for construction projects should include allowances for tender price inflation, or Members should be specifically made aware of the fact that this has been excluded from reported figures.

5.5 Project Management

- 5.5.1 The following key lessons learned were identified from the review of the project:

- **Business Case:** No evidence could be provided of a completed approved Business Case for the project which clearly defined its scope. Work was twice initiated during the life of the project to produce a Business Case, but these were never completed. The project underwent a number of changes in scope, which had a subsequent impact on project costs, but there was a lack of clear change control, reporting and approval of the changes in scope, and the project lacked a baseline Business Case against which the changes could be measured.
- **Project Governance:** The roles and responsibilities of officers and teams involved in the project were not clearly defined beyond the allocation of general role titles such as 'Project Manager'. The lack of clarity over who was leading on key aspects of the project could create confusion and uncertainty, particularly following changes in project scope and staff turnover. The importance of clear definition of roles and responsibilities is enhanced by the complexity of the project; the Ely Archives project was a complex construction project, requiring communication and project management between a core team managing the property and construction elements of the project with representation from the contractor, as well as a team managing the internal service elements of the project.

- **Project Planning:** The project had a high-level construction project plan and actions were captured and monitored through project team meetings; however there is no detailed project plan setting out the actions, timescales and action owners for internal activities which need to take place in addition to the stages of the capital build project (such as reporting to Committee). Maintaining a plan in this way would have reduced the impact of staff turnover and project scope changes by ensuring that new staff were clear about their role; enabled capacity issues to be identified more quickly; enabled greater oversight of actions to mitigate identified project risks; and reduced the risk of delays.
- **Lessons-Learned:** A lessons-learned review was undertaken by the project in August 2016. The review identified a number of issues, which have also been picked up by this audit. However, no action plan to address the issues was drawn up and there has been no formal implementation of any actions as a result of the review, either within the specific project or more broadly across the Council.

AUDIT RECOMMENDATIONS:
<p>CONTROL ENVIRONMENT:</p> <ul style="list-style-type: none"> • Roles and responsibilities of officers and teams involved in major projects should be clearly defined, to a level of detail beyond the allocation of titles such as Project Manager. A template set of standard project roles and responsibilities should be produced and made available to officers on the Council's intranet, and project management guidance should be updated to reflect the importance of clearly allocated roles. • Projects should have a detailed Project Plan in place which sets out the actions, timescales and action owners for internal activities. • When actions are identified to mitigate risks in a project risk register, these actions should have clearly defined due dates and action owners, and should feed in to the Project Plan. The Council's Risks and Issues Register template should be amended to include a separate column to specify the timescale for actions. The Council's Guide to Approving and Managing Projects should be updated to include a reminder to incorporate monitoring as part of the Project Plan.
<p>COMPLIANCE:</p> <ul style="list-style-type: none"> • Recommendations identified as a result of a 'lessons learned' exercise, should be included within an action plan which is implemented and monitored by the service.

5.6 Current position:

- 5.6.1 On the basis of the report submitted to them on 21st October 2016, the Assets and Infrastructure Committee agreed that the third option presented to them (to continue with the project as currently scoped and costed) should be progressed but not progressed to contract stage, and requested that officers investigate and bring back any viable alternative schemes to their January 2017 Committee meeting.
- 5.6.2 The audit review noted that the cost of £5.06m reported to Committee was not consistent with the £5.03m costing provided by the design contractor following the tender process. This was queried with the service and confirmed to be an error.
- 5.6.3 The design contractor has produced a priced risk register, which shows that further work on the project is required before the final cost is known. A weighted risk provision of £207,126 has been included in the current estimate of cost. Risks remain around the structural details of the building and further clarity is required regarding the ground floor slab, the pumping station and utility supplies, ground conditions and the structural frame layout. The maximum possible estimated cost if all risks are realised is given as £345,000 i.e. there is a risk of around £138,000 on top of the current budget - although it would not be expected that this would all be realised. This detail was not communicated to Committee in the October 2016 report.
- 5.6.4 The latest estimate of £5.03m provided by the contractor and communicated to Committee has no allowance for inflation beyond Q1 2017, which was assumed to be the mid-point of the build. The local rate of tender price inflation means that the delay in progressing the project, as a result of the Committee decision, may lead to an increase in costs due to inflation. Allowances for fixtures and fittings, which may be met from revenue budgets, were not included. Neither this, nor the exclusions and limitations of the reported costing, which at this stage in the project is still provisional, has been communicated to Committee.
- 5.6.5 The Assets and Investment Committee has requested that officers investigate and bring back any viable alternative schemes to the January Committee meeting and Internal Audit understands this process is underway.

AUDIT RECOMMENDATIONS:
<ul style="list-style-type: none">• Officers should identify a revised estimated total cost which takes account of the exclusions identified above and whether any of these are planned to be met from revenue budgets. This revised estimate should be presented to the Assets and Investment Committee along with details of the current risk provision and the remaining areas of uncertainty over the cost of the current proposals.

6. Acknowledgement

- 6.1 We would like to take this opportunity to thank all members of staff whom we contacted during the course of this review for their time and assistance.

7. Recommendations and Management Responses

Please note that due to the tight timescales for completing the report, some actions/timescales remain to be confirmed at the time of writing.

	Internal Audit Recommendations	Proposed actions	Timescale / Owner
1.	<p>Compliance:</p> <p>In order to improve officer compliance with existing policies and procedures, key staff involved in project management and capital projects should be made aware of the findings of this report.</p>	<p>The findings of this report will be shared with the corporate Transformation Team and Property Service, and disseminated to staff.</p> <p>The corporate Transformation Team are developing project management training. Initially the focus is to provide a strong induction process for members of the Transformation Team, who form the core of the Council's project management resource, with the intention to roll this out across the organisation by the end of the year.</p>	<p>Internal Audit 28/02/2017</p> <p>Head of Transformation 31/12/2017</p>
2.	<p>Property Options Appraisals:</p> <p>Before the Council embarks on an options appraisal for a project to acquire property, Spokes should be consulted on the brief.</p>	<p>The Council now has a Commercial Board which is a central board that considers exemption requests, procurement opportunities, options appraisals etc. Options appraisals for procurement undertaken as part of Council projects will now be going to the Commercial Board for review.</p> <p>The findings of this report will be shared with the corporate Transformation Team and Property service, and disseminated to staff. This will raise awareness of this point in the short term.</p>	<p>Head of Transformation 30/4/2017</p> <p>Internal Audit 28/02/2017</p>

	Internal Audit Recommendations	Proposed actions	Timescale / Owner
3.	<p>Business Cases:</p> <p>For projects which constitute a Key Decision under the Council's Constitution, a Business Case should be completed and approved by management, which should then be provided to Members in full at the point that the budget or purchase is approved. If, due to time constraints, sufficient detail is not available for this to be completed in full at the point of budget/purchase approval, detailed information regarding the risks of the purchase should be provided, and the completed Business Case should be brought back to Members at a later date to approve the scope.</p>	<p>The corporate Transformation Team is in the process of procuring new project management software for the organisation which will store Business Case information for all projects, which will be accessible to Members.</p> <p>The Council's Business Planning process now requires Business Cases to be completed, in order for projects to gain approval to proceed. All projects coming in to the Transformation Programme now require a Business Case to have been completed.</p>	<p>Head of Transformation 30/4/2017</p> <p>COMPLETE</p>
4.	<p>Change Control:</p> <p>A clear change control process for changes in project scope should be in place for all major projects, including Member approval. Approval of a purchase (or subsequent Business Case) by Members should represent a design and cost freeze on the project.</p>	<p>The corporate Transformation Team has developed a dashboard for projects which identifies any changes in project cost; time; scope etc. As part of procuring and implementing the Council's new project management software, the team will develop this dashboard so that cost and/or design increases are flagged to the project decision maker and project manager with a reminder that these need to be approved by the appropriate decision makers.</p>	<p>Head of Transformation 30/4/2017</p>
5.	<p>Approval of Procurement Approach:</p> <p>A report should be taken to the project's single decision maker to sign off decisions over the proposed procurement approach to be taken by major Council projects.</p>	<p>The Council now has a Commercial Board which is a central board that considers exemption requests, procurement opportunities, options appraisals etc. Procurement undertaken as part of Council projects will now be going to the Commercial Board for review, and the project's single decision maker would be expected to present the decision to the Board. This will ensure that procurement decisions are subject to centralised independent review, and that the key officers for the project are appropriately informed.</p>	<p>Head of Transformation 30/4/2017</p>

	Internal Audit Recommendations	Proposed actions	Timescale / Owner
6.	<p>Updates to Contract Procedure Rules:</p> <p>Contract Procedure Rules should be updated to specifically state that as part of the exemption request process, where competition exists, price comparison exercises should be undertaken against prices from suppliers other than the supplier who has proposed the price under review. In addition, although clearly implied, consideration should be given to specifically stating that prospective contractors should not be involved in writing applications for exemptions from Contract Procedure Rules.</p>	<i>To be confirmed.</i>	<p>Head of Procurement TBC</p>
7.	<p>Construction Project Risk Allowances:</p> <p>Risk allowances (a contingency) for construction projects should accurately reflect the known risks and exclusions at the time, including where possible a costed risk register, and should be clearly communicated to Members. The contingency balance should be routinely updated and challenged throughout the development phases of the project.</p>	<p>The Transformation Team will review whether it will be possible to build the functionality for costed risk registers into the Council's new project management software; otherwise it will be possible to monitor the contingency balance and changes in this through the new project management dashboards that are being developed.</p> <p>The findings of this report will be shared with the corporate Transformation Team and Property service, and disseminated to staff. This will raise awareness of this point in the short term.</p>	<p>Head of Transformation 30/4/2017</p> <p>Internal Audit 28/02/2017</p>
8.	<p>Allowance for Tender Price Inflation:</p> <p>Figures for construction projects should include allowances for tender price inflation, or Members should be specifically made aware of the fact that this has been excluded from reported figures.</p>	<p>As part of the development of the Council's Commercial Board, a 'commercial academy' training programme is being developed for officers who are responsible for contracts; commercial opportunities; procurement etc. This will be incorporated within the training provided.</p> <p>The findings of this report will be shared with the corporate Transformation Team and Property service, and disseminated to staff. This will raise awareness of this point in the short term.</p>	<p>Head of Transformation 30/6/2017</p> <p>Internal Audit 28/02/2017</p>

	Internal Audit Recommendations	Proposed actions	Timescale / Owner
9.	<p>Project Management Roles and Responsibilities:</p> <p>Roles and responsibilities of officers and teams involved in major projects should be clearly defined, to a level of detail beyond the allocation of titles such as Project Manager. A template set of standard project roles and responsibilities should be produced and made available to officers on the Council's intranet, and project management guidance should be updated to reflect the importance of clearly allocated roles.</p>	<p>The Ely Archives Project will be taken as a case study to the Capital Programme Board. The Board will aim to develop more defined project management roles and responsibilities specifically for key officers involved in all capital projects. Internal Audit will provide feedback on the review and support to this process.</p> <p>As part of the development of the Council's project management processes, all projects going forwards will be required to have an identified 'single decision maker' which should ensure further clarity over roles, responsibilities, and accountability in Council projects. This is already in place for some projects.</p>	<p>Capital Programme Board DATE TBC</p> <p>Head of Transformation 30/4/2017</p>
10.	<p>Project Plan:</p> <p>Projects should have a detailed Project Plan in place which sets out the actions, timescales and action owners for internal activities.</p>	<p>This will be a requirement of the Council's new project management processes, which will be enforced by the new project management software to be introduced by the Transformation Team.</p>	<p>Head of Transformation 30/4/2017</p>
11.	<p>Risk Register:</p> <p>When actions are identified to mitigate risks in a project risk register, these actions should have clearly defined due dates and action owners, and should feed in to the Project Plan. The Council's Risks and Issues Register template should be amended to include a separate column to specify the timescale for actions. The Council's Guide to Approving and Managing Projects should be updated to include a reminder to incorporate monitoring as part of the Project Plan.</p>	<p>The Transformation Team will review how to incorporate this functionality within the Council's new project management system.</p> <p>This point will also be picked up within the training that will be rolled out to programme boards going forward.</p>	<p>Head of Transformation 30/4/2017</p>
12.	<p>Ely Archives Project:</p>	<p>Report to be taken to the Assets and Investment Committee, to</p>	<p>Project Team</p>

	Internal Audit Recommendations	Proposed actions	Timescale / Owner
	Officers should identify a revised estimated total cost which takes account of the exclusions from the previous estimated cost to Committee (identified in this report section 5.6.4) and whether any of these are planned to be met from revenue budgets. This revised estimate should be presented to the Assets and Investment Committee along with details of the current risk provision and the remaining areas of uncertainty over the cost of the current proposals.	include details of the current risk provision; remaining areas of uncertainty regarding the project; any revisions to the most recent estimate of costs; and details of when further certainty with regards to project cost is likely.	31/01/2017

Appendix 1 – Audit Definitions

There are three elements to each internal audit review, and an assurance opinion is provided against each element at the conclusion of the audit. The following definitions are used by Internal Audit in assessing the level of assurance which may be provided against each key element, and in assessing the impact of individual findings:

1.1 Control Environment Assurance

Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place which mitigate the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Moderate	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

1.2 Compliance Assurance

However, controls are not always complied with, which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

1.3 Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to SMT along with the relevant Directorate's agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

1.4 Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks.

For ease of reference, we have used a high/medium/low system to prioritise our findings, as follows:

H	Failure to respond to the finding has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss. The finding is critical to the system of internal control and action be implemented immediately.	M	Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss. The finding has a significant effect on the system of internal control and action should be implemented as a matter of priority.	L	The finding is important to maintain a reasonable system of internal control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should review, make changes if considered necessary or formally agree to accept the risks.
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Appendix 2 – Timeline of Estimated Cost Variations

A timeline showing the variations in the estimated capital cost of the project is set out below. Variance is shown to the capital budget which had been agreed by General Purposes Committee at that time (or to the previous estimate, for estimates prior to the first paper to General Purposes Committee).

Date	Event/Milestone	Cost £000	Variance £000	Notes regarding cost variation and estimates	Procedural Comments
Apr-14	Options appraisal recommends Strikes Bowling Alley as preferred property.				
May-14	Independent valuation of Strikes Bowling Ltd's leasehold interest at £1.1m.	£1,100	£0	Acquisition cost only.	
Aug-14	Feasibility Study completed by feasibility report contractor.	£3,680	£2,580	Estimated cost of conversion at £2.58m excluding: acquisition fees; surveys and professional and design fees prior to the appointment of the contractor; tender price inflation; furnishings, white goods and IT hardware. Risk allowance of 3.5%. The report noted that as no intrusive assessments could be undertaken, further investigation was needed regarding: drainage of the site; construction of the ground floor slab; and clarification from the Environment Agency re: flood risk.	Risk allowance was very low for a report which was based on such limited information as was available at the time.
Oct-14	Reports to Highways & Community Infrastructure (23/09/14) and General Purposes Committee (7/10/14) for approval of the move and purchase.	£4,000	£320	No breakdown of this additional cost could be provided; presumed to have been intended to cover the exclusions above.	Report did not communicate exclusions and risks outlined by the contractor.
Oct-14	Capital budget agreed by GPC	£4,000			
Jan-15	Structural Survey received.	£4,200	£200	Survey identified that ground floor slab would need reinforcement. Cost estimated at £100-200k, however the extent of works needed could not be confirmed until CCC had possession.	
Feb-15	Contracts exchanged to acquire Strikes building subject to Change of Use planning.				
Aug-15	Draft Milestone One Report updated costings.	£6,200	£2,200	Following design work, the design contractor identified that the project would cost £6.2m.	

Sep-15	Increased cost estimate of £6.2m is included in a report on the draft capital programme to Highways & Community Infrastructure Committee.				This was not an appropriate way to inform H&CI of a significant increase in estimated cost.
Oct-15	Reports to Highways & Community Infrastructure Committee (6/10/15) and General Purposes Committee (20/10/15) regarding the increased cost, giving three options for the project. At GPC, Members select to restrict the scope of the project to focus on delivering the archives centre only.	£4,200	£200	Option A: No mezzanine floor; excluding staff from Noble House and Ely Registration office. Option selected by Members.	Remaining risks recognised by the contractor (need for a specialist flood risk review and further ground floor slab investigation) were not communicated.
		£5,500	£1,500	Option B: Include Ely Registration Office and a partial mezzanine floor.	
		£6,900	£2,900	Option C: Include Ely Registration Office and staff from Noble House, requiring a full mezzanine floor.	
Oct-15	Capital budget agreed by GPC	£4,200			
Nov-15	Milestone One Report finalised by design contractor	£4,170	-£30	After the Committee decision, the design contractor estimated cost at £4.17m, noting that further investigation was required regarding the ground floor slab foundations and a specialist flood risk consultant was needed to assess whether the current raised floor levels were sufficient to meet Archives requirements. Inflation was included up to Q1 2017. Outstanding risk allowance of 5%.	
Apr-16	CCC acquire Strikes Bowling Alley and take possession of the building.				
Jun-16	Building Contractor mini tender return. One bid received. Draft Milestone 3 cost plan made available by contractor.	£5,030	£830	Significant increases in the cost of the substructure works (+£473k) and superstructure works (+£536k). Detailed technical advice in May 2016 identified the floor needed to be raised to meet flood risk requirements, and additional work to ensure thermal insulation of the building is needed. Allowance was made for sprinklers rather than the gas suppression system required by Archives. No allowances for white goods, ICT equipment or new loose furnishings. Inflation included to Q1 2017. Risk allowance based on a priced risk register: risks remain re: the structural details of the building and there is a risk that further costs may be incurred including the ground floor slab, thermal insulation requirements, pumping station and utilities.	

Oct-16	Reports to Highways & Community Infrastructure Committee (11/10/16) and Assets & Investment Committee (21/10/16) regarding increased cost, following Value Engineering work. Three options were presented to the Committees.	£4,635	£435	Option 1: Undertaking the minimum required to ensure the building is PD5454 compliant as an archive store, omitting BREEAM (construction industry sustainability assessment) requirements.	Report did not communicate the remaining risks outlined by the contractor, or the exclusions in the budget (e.g. the allowance for inflation only as far as Q1 2017). Report included a minor error in the projected costs.
		£4,820	£620	Option 2: Fit out the building to ensure PD5454 compliance and ensure it is a suitable standard for public and staff, while omitting BREEAM requirements.	
		£5,060	£860	Option 3: In line with the projected cost from the contractor, to include PD5454 and BREEAM compliance. N.B. this cost was mistakenly overstated in the report to Committees by £30,000.	