

**INTERNAL AUDIT REPORT – ELY BYPASS PROJECT**

*To:* **Audit & Accounts Committee**

*Meeting Date:* **29<sup>th</sup> July 2019**

*From:* **LGSS Chief Internal Auditor**

*Purpose:* **Audit & Accounts committee is requested to consider the attached report on the Ely Bypass Project.**

*Recommendation:* **Audit & Accounts Committee is requested to note the report and approve it's referral to the Economy and Environment Committee.**

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## **1. BACKGROUND**

- 1.1 Internal Audit has completed a review of the Ely Bypass project, as agreed at the Audit and Accounts Committee, following a request from the Economy & Environment Committee which asked Internal Audit to review the cost increases in the contract and provide a 'lessons learned' report. Given the size of the Ely Bypass project and the scale of the additional payments above the original project specification, this became the focus of Internal Audit's Capital Variations and Overspends review, included in the 2018/19 plan. The aim of this review was to identify any changes or improvements which could be made to project governance arrangements, risk and issue management, and other project management considerations.

## **2. MAIN ISSUES**

- 2.1 Internal Audit has given a *limited* assurance over the Control Environment in place, and a *satisfactory* assurance on Compliance. Internal Audit has concluded that despite the additional payments on the project, there is evidence that throughout the course of the project, there was an effective third party process of review and scrutiny of costs and performance which was undertaken to ensure that the Council was getting Value for Money on the delivery of the scheme. However, due to the desire of key stakeholders to get the project completed in the shortest timescales possible, and the consequent design of the Contract, insufficient time was given to the project planning stage which, when combined with the type of Contract used during construction, meant that the true costs of the project were not available to officers nor Members until the project was near completion.
- 2.2 The report summarises the project by explaining the governance processes at four key stages in the projects life cycle: Procurement; Stage 1 – Developed Design; Stage 2 – Technical Design and Build; and Monitoring. Within these key areas, there were two main areas of weakness which were identified during the course of the audit: Timescales and the (resultant) use of New Engineering Contract (NEC) Option D within a design and build contract. The main area of positive assurance came from the third party monitoring undertaken to scrutinise the Contractor's costs and quality outputs throughout the construction of the project. The recommendations from this review have been fully accepted by the former Executive Director, Place and Economy, although target dates have yet to be confirmed. The agreed recommendations from the report are as follows:

- **Recommendation 1**

Consideration should be given to whether the Constitution should be adapted to incorporate limits to delegating authority away from Committees, particularly when there are significant financial implications. In instances where officers are given delegated authority to make significant decisions outside of their ordinary powers as stated in the Scheme of Delegation, even in consultation with some Members, then reports should be provided to relevant Members or Committee which outline the decision that was taken, particularly in high-risk areas or projects.

- **Recommendation 2**

Future projects should follow a procurement and design stage which takes full account of advice from key officers, the procurement team, any external consultants and suppliers. This should include a provision for extending certain phases of projects; such as the design stage. The relevant Committee on any project should be made aware of any risks associated with the procurement/design process being recommended to them, including any impact this might have on the final costs of the Project.

- **Recommendation 3**

In instances such as the Ely Bypass project, with numerous spend increases compared the original budgeted and contracted amounts, regular updates should be taken to the relevant Committee. These updates should include the current price and the most up-to-date target/expected final price, along with a detailed project risk register, which should give an overview of the key areas where further price increases may occur, as well as the likelihood of these price increases.

- **Recommendation 4**

The Project Board should insist on the most up-to-date figures on cost at all times, even if the final expected figure is not known. Further, rather than being left to individual officers to decide when the Committee is informed on the progress being made on the project or on any price increases, this decision should have been made by the Project Board, who should dictate when any risks on the project, including any overspends, are presented to Committee.

- **Recommendation 5**

Directors should manage, or if necessary escalate, situations where there is pressure to pursue actions that do not follow normal governance rules. It is recommended that a simple procedure is put in place for instances requiring escalation through a short report to the next available Joint Management Team. Regarding this recommendation, the Internal Audit team will always be available to support officers with emailed advice on procedures should there be a need.

- **Recommendation 6**

Rather than waiting for the Project Board meetings for Members of the Board to be told about the Contract, the Project Board should be provided with the Dashboards every month, in order to allow any concerns which the dashboards may raise to be discussed as early as possible. Future projects should follow a procurement and design stage which is in line with advice from key officers, the procurement team and any external consultants.

### **3. ALIGNMENT WITH CORPORATE PRIORITIES**

#### **3.1 A good quality of life for everyone**

There are no significant implications for this priority.

#### **3.2 Thriving places for people to live**

There are no significant implications for this priority.

#### **3.3 The best start for Cambridgeshire's children**

There are no significant implications for this priority.

### **4. SIGNIFICANT IMPLICATIONS**

As this report is not proposing any action by committee and is, instead, informing Committee on the emerging actions from the Internal Audit review, there are no significant implications of this report.

<b>Source Documents</b>	<b>Location</b>
<i><b>Internal Audit Report – Ely Bypass</b></i>	Octagon Floor 1, Shire Hall, Cambridge