

**Ely Bypass Internal Audit Report**

**To: Economy and Environment Committee**

**Meeting Date: 17<sup>th</sup> October 2019**

**From: Duncan Wilkinson, Chief Internal Auditor  
Steve Cox, Executive Director, Place and Economy**

**Purpose: To provide the Committee with a summary of the key findings and recommendations from the Internal Audit of the Ely Bypass project.**

**Recommendations: E&E Committee is requested to:**

- (1) Consider the report and its recommendations; and**
- (2) Endorse the Internal Audit recommendations as set out in Appendix 1.**

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## 1. BACKGROUND

- 1.1 The Audit and Accounts Committee (A&A) considered the Internal Audit report on the Ely Bypass project at its meeting on 29<sup>th</sup> July 2019. The Internal Audit report is attached at Appendix 1. It contains some minor textual changes, reflecting feedback from the Audit and Accounts Committee. The Chief Internal Auditor has confirmed those changes do not alter the Internal Audit findings and conclusions. The revised report therefore is submitted as the independent Internal Audit opinions.
- 1.2 The Committee resolved that the Internal Audit Report should be referred on to Economy and Environment Committee (E&E) with 'a revised cover report to take account of issues raised at the meeting' including:
- The Chief Internal Auditor agreed to review (and change) typos / presentational issues within the Internal Audit report but retained editorial control of the report.
  - The Chairman of E&E indicated that he was happy for the Chairman of A&A to be invited to speak to the report at that Committee and would ensure he received an invite.
- That the concerns raised could be addressed from writing a report jointly authored by the Chief Internal Auditor, Chairman of the Audit and Accounts Committee and the former Executive Director with the Internal Audit Report appended to that. This was suggested as being the most effective way of providing better focus on key issues whilst respecting the independence of Internal Audit.
- 1.3 This report therefore seeks to summarise the key issues for E&E derived from:
- 1.3.1 The full Audit Report
- 1.3.2 The presentation to A&A by the Head of Audit leading this audit
- 1.3.3 The points raised by A&A at the meeting, as collated and summarised by the Chairman of A&A, Cllr Shellens, who has assisted the drafting of this report to ensure the Committee's views are properly presented.

## 2. ISSUES

- 2.1 The E&E Committee asked Internal Audit to review Ely Bypass in order to understand the cost increases in the contract and to develop a 'lessons learned' report. The key findings and conclusions from the report (at Appendix 1) are summarised below.
- 2.2 The key conclusion is that whilst actual costs (£49m) exceeded the original budget (£36m) i.e. a £13m (36%) 'overspend', the evidence shows that:
- The additional costs were necessary, and
  - Costs were subject to oversight and challenge by the Project Board
- 2.3 Audit & Accounts Committee considered the full report on 29<sup>th</sup> July 2019. The key issues highlighted to E&E, derived from report, the presentation from the Head of Audit leading the audit and the points raised by A&A, are summarised below:
- 2.3.1 This was not an 'overspend'. Causes were traced to a failure to sufficiently budget for the realistic costs of the project given the pace of delivery required by the Project

Board and the value re-engineering of original bids / costs to within the set budget. The final costs of the project were, based on the evidence reviewed, a fair reflection of value of the works.

2.3.2 The project delivered Best Value (Value For Money) for Cambridgeshire County Council (CCC). That conclusion, at face value, does not correlate with the simple issue that costs exceeded the budget by £13m (36%). The basis for concluding the project did provide best value is set out below:

Public sector best value has 4 specific aspects, economy, efficiency, effectiveness and social value. In summary, the evidence supports a conclusion against each as set out below:

<b>Economy</b>	Evidence supports a conclusion that the additional costs incurred were highly likely and therefore the project did not technically 'overspend' but had a substantially insufficient budget. That this created an unplanned additional financial pressure for CCC does not permit this criterion to be evaluated good.
<b>Efficiency</b>	Poor original budgeting is not efficient but the scrutiny applied on additional costs and the project generally support a conclusion this area was at least satisfactory.
<b>Effectiveness</b>	An insufficient budget undermines effectiveness as the projects approval did not consider its likely 'real' cost, however the project delivered its objectives to agreed standards.
<b>Social Value</b>	Given the project's regional impact its social value must be considered good.

Other procurement / construction routes could have provided a better route to possibly control costs, however it must be recognised that:

- those would have required a longer procurement / preparation process and the Committee had determined speed to completion was a key pressure, and
- it is IA's opinion they would probably not have reduced total costs but would instead have increased the original budget to more realistic levels.

2.3.3 **Key wider learning is highlighted by Internal Audit as the need to:**

- **Provide a professional, realistic budget for large projects, and**
- **Include sufficient / realistic provisions for known areas of uncertainty, and**
- **Liability for additional costs must be explicitly explained at key project stages.**

2.4 Internal Audit's opinions were reported as:

- **LIMITED** Systems of Control - there are significant control weaknesses that present a high risk to the control environment.
- **SATISFACTORY** Compliance - the control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.

2.5 The key issues and evidence supporting a LIMITED system of control opinion include:

- At an early stage, decisions were taken to procure the construction contracts with known uncertainties with the aim of increasing the pace of works to completion. This transferred the liability for additional costs to CCC without making or reporting adequate financial provision for those uncertainties.

Professional advice was given not to adopt those timescales and whilst the Project Board was acting within its authority, the risks, potential consequences and costs were not revised within the financial modelling for the project.

- The E&E Committee delegated authority to the Executive Director Place and Economy to approve procurements etc unless costs were 'significantly' higher but without defining the key term 'significantly'. In hindsight a £13m higher cost than budgeted is viewed as significant variation, however, the report makes clear that the delegations were discharged appropriately and all decisions were taken in full consultation with the Chair of the E and E Committee.
- The Project Board Terms of Reference did not have explicit / sufficient defined thresholds for variations of price, costs or controls.
- Regular reports were not submitted to E&E. Within a large capital project such as Ely Bypass the numerous cost and project variations should have required reporting to the E&E Committee both to provide opportunity to challenge and also public transparency.

**2.5.1 Key wider learning to maintain strong control systems for capital projects has therefore been highlighted by Internal Audit as the need to:**

- **Adopt professional project management best practice or formally risk assess variation from that,**
- **Require budgets that reflect the professionally assessed likely costs,**
- **Closely scrutinise and require evidence for any value engineering proposals to reduce bids 'back to' budget limits**
- **Operate explicitly and publicly reported change control thresholds**

2.6 The key issues and evidence that supports a SATISFACTORY compliance opinion includes:

- The E&E Committee acted within and did not breach the Council's Constitution in delegating the authority to the Executive Director Place and Economy. The Director acted within that delegated authority.
- Detailed monitoring reports (eg those from WYG consultants) were not submitted to the Project Board.
- Additional funding requirements were not highlighted corporately at the earliest opportunity with the relevant Service Director waiting until the total additional amount was known.

2.6.1 **Key wider learning in respect of strong compliance for capital projects has therefore been highlighted by Internal Audit as the need to:**

- **Maintain explicitly defined schemes of delegation / change control**
- **Ensure detail is always routinely reported into the relevant Project Board and provide space in meetings for external experts opinions**
- **Any cost variation that exceeds the total approved budget be immediately reported to the Finance Director.**

2.7 The Internal Audit Report at Appendix 1 includes a Management Action Plan that sets out the key issues and agreed actions to address the weaknesses identified within the audit. This report tries to avoid the duplication of that text. Control improvements are often difficult to embed into capital schemes not least because most capital projects span multiple financial years and usually have unique features. Control improvements implemented now are only effective for projects not yet started.

2.8 The ‘key wider learning’ set out above in bold seeks to provide simple text for E&E to consider formal adoption across all large capital projects, in particular those current large capital projects under E&E oversight. A specific additional recommendation is therefore made below to provide a means to implement improved control into current projects as well as newly approved projects:

**That the E&E Committee request and receive a report on all current, large (greater than £1m) capital projects assessing compliance with both the wider learning identified from the Internal Audit of Ely Bypass and the newly implemented CCC framework and management methodology for project management.**

2.9 The Internal Audit report recognises that CCC has implemented (early 18/19) a new framework and a management methodology for capital project management. That was implemented after the key project milestones for Ely Bypassed had passed. The IA recommendations are made in the knowledge that the good practice recommended is evident within the new system of control for projects. It is suggested that the above recommendation be implemented where:

- Project Managers ‘self assess’ against the learning highlighted in this report and the new project management methodology, and
- When the results of that are considered by E&E, the Committee determine whether it wishes to request an Internal Audit of that data

Source Documents	Location
Audit & Accounts Committee – 29 <sup>th</sup> July 2019	<a href="https://cambridgeshire.cmis.uk.com/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1154/Committee/9/Default.aspx">https://cambridgeshire.cmis.uk.com/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1154/Committee/9/Default.aspx</a>

