

APPENDIX 1 –Amber Moderate Assurance Audit Review Outcomes

Audit: Corporate – Compliance with corporate project management procedures - Amber  (3 Amber, 1 Green priority recommendations)

Audit Scope and Background: This review sought to assess the level of compliance with corporate project management procedures. It also considered compliance with the relevant procurement regulations.

Audit Findings: The key findings of the audit were that the corporate project management system, Project Vision, was used in delivering all of the capital projects and supplementary revenue projects included in the 20 sampled. However, in relation to a few departments, Project Vision is not always kept up to date in recording project progress (15% of projects as per corporate monitoring reports in January 2014). An amber action to monitor Project Vision to ensure that departmental project information is updated each month has been agreed, with consideration being given to including this measure in 2014/15 Chief Officer appraisals.

A review of project risk information held on project vision indicated there is room for improvement in terms of how project risks are identified, recorded and analysed. An amber priority recommendation has been agreed for the Officer Corporate Projects Board to monitor the adequacy of risk information recorded on Project Vision for departmental projects and for project risk management training in accordance with the agreed risk management strategy to be developed and implemented.

The audit review confirmed that projects are subject to required levels of approval as they progress through each gateway of the City's Corporate Project Management Procedure. Current project budgets have been appropriately authorised in accordance with the City's Corporate Project Management Procedure. Sufficient level of deliberation is given to the detailed design of projects as evidence by projects being subject to gateway 4c approval.

The Corporate Pro-contract system is generally being used to procure works, supplies and services contracts in respect of the City projects. However, the audit identified that one department (Guildhall School of Music and Drama) where Pro-Contract is not being used in the procurement of major contracts; such practice increases the risk that the City does not adhere to EU procurement laws / regulations. An amber recommendation has been agreed for this to be resolved.

Management Response: The recommendations have been agreed to be implemented by November 2014.

Audit: City Surveyor's and Built Environment – Final account verification - Amber  (2 Amber priority recommendations)

Audit Scope and Background: The purpose of this audit review was to obtain reasonable assurance that there is an adequate control framework in place to ensure that final accounts prepared by contractors or consultants, are received and verified against supporting documentation by the Chamberlain's department, in a timely manner. Historically the fiduciary requirements with regard to final accounts have been stipulated in Financial Regulation 5.4, requiring the Chamberlain's department to verify the accuracy of final accounts in excess of £300,000; the review therefore focussed on 19 projects of the City Surveyor's department and Department of Built Environment, valued between £300,000 and £4.7m. The review also looked to ensure that all final account verification work is subject to appropriate management review and sign-off and that final payments or amounts due under the contract are paid or received in line with contractual terms.

Audit Findings: Overall, the audit identified that final accounts are not routinely being submitted to the Chamberlain's departments for verification, on a timely basis; a significant number of projects out of those sampled (16 out of 19 projects) were identified where final account verifications by the Chamberlain's Department had not been completed.

While all final accounts were historically verified by the technical department responsible for the project, verification by the Chamberlain's department provided an independent control over those projects which represent the higher cost and risk to the City. Failure to ensure that final accounts are verified on a timely basis presents significant risks to the City. The longer it takes to verify final accounts, the less likely it is that the City would recover any monies erroneously overpaid, as a result of insufficient retention monies available to offset against errors identified. Furthermore, delays in completing final account verifications increases the risk that issues identified go unresolved due to a loss of corporate memory in respect of specific contracts, while any lessons which could have been learnt go unreported.

As part of the audit, an amber recommendation was made to enhance final account verification monitoring arrangements, with responsibility for its implementation falling to the Corporate Programme Manager. In addition, a further amber recommendation was made to improve project governance arrangements by including a requirement to inform Members whether or not final account verifications had been completed upon presentation of the Gateway 7 Outturn Report.

Management Response: The responsibility for implementing this recommendation is shared between the Corporate Programme Manager and Heads of Projects (or equivalent) across the organisation. Both recommendations are planned to be implemented by June 2014.

Audit: Barbican Centre – Project variation order and change control – Amber  (3 x Amber priority recommendations)

Audit Scope: This review sought to obtain reasonable assurance that there is an adequate control framework in place to ensure that contract variations are valid, properly recorded, subject to appropriate authorisation and that the valuation of variations is carried out in accordance with contract conditions.

Audit Findings: Adequate guidance notes have been established in respect of variation orders, covering most of the areas expected; they have been communicated to all relevant Officers. Internal Audit recommended a further area for inclusion within the Barbican Centre's cost monitoring guidance to set out the requirement that significant project changes (whether resulting in additional or omitted work) should be subject to approval by Members prior to the corresponding variation order being issued to the contractor, as per the City's project procedure.

Variations are generally properly recorded, through the issue of clear, sequentially numbered written variation orders by the Supervising Officer / Project Manager. Only valid variations and changes are made to the previously agreed works as instructed by the Project Manager / Supervising Officer. In each of the three projects reviewed, variations amounted to less than 10% of the total tender sum (Concert Hall Backstage Refurbishment 8%, Replacement of Barbican Theatre Systems 2%, and General Redecorations 8%) which is considered reasonable.

The review of a sample of thirteen variations across the three projects found that overall variations are being priced (by the Quantity Surveyor or equivalent) in line with contract conditions and that the Barbican Centre was receiving adequate value for money in respect of these. However, there were two instances (15% of variations sampled) where it was not possible to determine the precise basis for the pricing of variations. An amber recommendation was agreed to remind Quantity Surveyors, or equivalent, of the requirement to fully document the basis upon which all variations are priced. The variations reviewed were appropriately approved by relevant Project Managers.

In respect of the documentation of contract variations on individual projects, a number of areas for improvement were identified which will reduce the risk that inaccuracies in interim valuations / final accounts go undetected (e.g. for the Concert Hall Backstage Refurbishment, the project Final Account did not separately record the value of some omitted items and five instances were identified where the value of omitted items was netted off against the value of corresponding additions). An amber recommendation has been agreed to improve the clarity of variations within project documentation.

Management Response: All recommendations made in this review have all been agreed for implementation by the end of May 2014.