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**BUCKINGHAMSHIRE COUNTY COUNCIL
INTERNAL AUDIT AND RISK MANAGEMENT**

FINAL INTERNAL AUDIT REPORT

Project Management – Blue Light Hub (BLH) 2018/19

Date Issued: March 2019



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Audit Control:

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Auditors:	Maggie Gibb Selina Harlock Alex Prestridge	Head of Business Assurance (and Chief Internal Auditor) Audit Manager Auditor
Report Distribution:		
Draft Report	David Sutherland Mark Hemming	Head of Finance & Assets Director of Finance & Assets
Final Report as above plus:	Jason Thelwell Roger Reed Ernst and Young	Chief Fire Officer Chair, Bucks and Milton Keynes Fire Authority External Audit

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Management Summary

Introduction

This Project Management Audit of the Blue Light Hub (BLH) was undertaken as part of the 2018/19 Internal Audit plan as agreed by the Strategic Management Board and approved by the Overview and Audit Committee. The audit was undertaken during quarter three of 2018/19

In 2016 the Fire Authority approved the decision to relocate and merge the resources from Great Holm and Bletchley stations to a new 'Blue Light Hub'. This new facility in Thornbury, Milton Keynes will be a campus for the Fire Authority, Thames Valley Police (Neighbourhood Police Team) and South Central Ambulance Service (frontline 999 and non-emergency Patient Transport Services). Building works at the site began in April 2018 and the facility is due to open in January 2020.

A total budget of £13.114 million was approved by the Fire Authority in 2017 to fund this project, which includes a £2.8 million transformation fund grant received from central government, of which a sum of £600k is due to Thames Valley Police to fund their move from Bletchley.

Audit Objective

Internal Audit's objectives for this audit are to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place to manage and mitigate financial and non-financial risks of the system. This will serve as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually. It also provides assurance to the Section 112 Officer that financial affairs are being properly administered.

Scope of work

The audit activity focussed on the following Project Management key risk areas:

- **Project Initiation**
- **Project Implementation**
- **Project Risk Management**
- **Stakeholder Management**

The audit considered the controls in place at the time of the audit only. Where appropriate testing was undertaken using samples of transactions that occurred within the last 12 months.

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Table 1 Overall Conclusion

Overall conclusion on the system of internal control being maintained	Reasonable
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RISK AREAS	AREA CONCLUSION	No. of High Priority Management Actions	No. of Medium Priority Management Actions
Project Initiation	Substantial	-	-
Project Implementation	Reasonable	-	2
Project Risk Management	Reasonable	1	-
Stakeholder Management	Substantial	-	-
		1	2

Appendix 1 provides a definition of the grading for each of the conclusions given.

The BLH Project Management audit has an overall opinion of Reasonable. There is a generally a good system of internal control in place and the majority of risks are being effectively management. However some action is required to improve controls.

Project Initiation

The project funding bid submitted to the Department of Communities and Local Government (DCLG) in 2014 is the Project Initiation Document (PID) as it sets out the purpose of the project, expected outcomes, the projects costs and a project delivery timeline. Since the funding bid, the project has become bigger than initially planned, and now includes the operational response and patient transport services for South Central Ambulance Service such that all three blue light services will be providing operational responses from the new site.

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There is a formal governance structure in place for the project and this includes clear terms of reference for each forum. The governance arrangements were determined in the early stages of the project and as the programme of works has progressed the frequency of meetings for some of the boards has reduced and in other cases the meetings have been discontinued, with reasonable explanations. There is a Joint Delivery Board which includes representation from each of the partnering authorities. Meetings are held on a quarterly basis and a highlight report is presented by The HUB Professional Service which includes key agenda items such as; Project Budget Status, Design/Construction Progress, Risks, Issues, Key Events & Targets and Change Requests/Exceptions. Whilst there are formal meetings held quarterly which are minuted, it was confirmed that informal meetings are also held with the partnering authorities regularly on an individual basis and this allows each partner to address specific matters that relate to them.

The Fire Authority receives regular project progress reports from the Head of Resources & Assets; formally via the Senior Management Board and the Executive. The Overview & Audit Committee receive ad-hoc updates, however the Executive have delegated Authority on the project and oversee all key decisions. The Head of Resources & Assets meets informally with the Councillor for Property and Resource Management and with the Councillor for Finance, IT and Procurement to brief them on the project's progress including highlighting any issues, key risks or financial pressures that arise during the project.

The Property Manager is the Client Liaison for the project, and is overseeing the work that is being undertaken by the HUB by ensuring that the delivery of the project is in line with what is expected by all partners, including making certain that key milestones are being met. The Property Manager meets with the Director of Finance & Assets and Head of Resources & Assets on a monthly basis to discuss the project budget. The Property Manager produces monthly Project Financial Statements which contains over 90 line items of activities and associated costs, and these are used to monitor the project costs and ensure that forecast costs are within the approved budget. There are no meeting minutes recorded to evidence the outcomes of these meetings, as such Internal Audit could not make a clear determination that the financial statements are being updated to reflect what has been agreed/approved by the Director of Finance & Assets and the Head of Resources & Assets at these monthly meetings.

Project Implementation

The HUB Professional Services are consultants who are overseeing the delivery of the project. The HUB is the project technical lead with responsibility for the design/architecture and procurement of sub-contractors in consultation with the Property Manager. There is a documented construction programme in place that identifies all the work that needs to be undertaken at each stage in order for the project to be delivered within the required timescales and to expected standards. Where there are setbacks in the programme of works, these are updated on the chart and adjusted to reflect the overall impact on all set deadlines and any associated financial implications are reported via the Financial Statements that are shared with the Director of Finance & Assets and Head of Resources & Assets. The Quantity Surveyor reviews all invoices from contractors and checks to ensure that all work as invoiced has been delivered prior to submitting the invoice to Finance for payment. Where work invoiced has not been completed, these will not be paid and will be communicated to the contractor.

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Through review of meeting minutes and discussion with the Property Manager, it was confirmed that there have been instances of poor performance whereby HUB have not provided information requested by the construction firm Kingerlee on time and therefore will potentially cause delays. Furthermore, Audit confirmed that such instances of poor performance by the HUB have potential financial implications. At present both HUB and Kingerlee are tasked with mitigating any delays and subsequent costs as much as is possible and these will not be finalised until during the year following practical completion. These costs are currently maintained by the Quantity Surveyor who is independent of the HUB and have been shared with the Director of Finance & Assets. All such costs are reflected in the monthly budget monitoring Financial Statements maintained by the QS, but at this stage potential costs due to delays are not currently showing as attributable as they will be the subject of negotiation between all parties.

Project Risk Management

There is a project risk register in place which includes 50 risks. The risk register is reported as part of the Project Highlight Report presented to the Joint Delivery Board. All risks on the register have been scored and RAG rated, however not all risks are assigned a mitigating action nor was the cost and/or time impact identified for all the risks. Furthermore it was observed that the risks were not being re-assessed as the scores remained the same across the months that were reviewed.

Through discussion with the Property Manager, it was apparent that he is critical to the delivery of this project as he provides the challenge on-site and oversees the work that is being undertaken. The Property Manager role is currently the 'eyes and ears' for the Fire Authority as he provides the authority with assurance that the project is progressing and is therefore expected to be the liaison answering any internal questions regarding the project. Due to the magnitude of the project there is a risk of the Property Manager working over capacity which may impact on his effectiveness, and there currently appears to be no contingency arrangements to maintain resilience and support his role and ensure continued fulfilment of the key responsibilities assigned to him.

Project Stakeholder Management

Through discussion and review of meeting minutes it was confirmed that there are formal and informal meetings that are held with Thames Valley Police and South Central Ambulance Service. The Property Manager continues to liaise with both partners to ensure that all their requirements for the new building are captured and can be met, and the Head of Assets and Resources is ensuring that the lease agreements are being finalised.

There was a Consultation/Communication Board which was responsible for communicating with key stakeholders such as the staff, members and the public. This board has been discontinued as the communication and consultation is not required during the construction phase. The key activities for this board were undertaken in the early stages of the project in 2016/17, with further communication issued before the start of the construction.

Table 2 Detailed Audit Findings and Action Plan

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Management actions have been agreed to address control weakness identified during the closing meeting and agreement of the draft Internal Audit report. All management actions will be entered on the Council's Performance Management Software and progress in implementing these actions will be tracked and reported to the Overview & Audit Committee.

We categorise our management actions according to their level of priority:

Priority High (H)	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
Priority Medium (M)	Significant issue that requires prompt action and improvement by the local manager.
Priority Low (L)	Minor issues requiring action to improve performance or overall system of control.

	Audit Finding, risk exposure and potential impact	Priority	Management Action
1.	<p><u>Budget Monitoring Meetings</u></p> <p>Budget monitoring meetings are held on a monthly basis and all project costs are recorded on a Financial Statement which is reviewed and updated based on the meeting discussion.</p> <p>From a review of three Budget Monitoring Financial Statements for the periods September, October and November 2018; it was noted that there are no meeting minutes or action logs maintained to evidence the agreed actions from the budget meetings. Furthermore, the format of the Budget Monitoring Financial Statements does not allow for the costs to be easily compared to prior periods. The statements do not track changes and highlight where the costs have either increased/decreased, therefore the only way to identify these movements is by checking the balances individually against prior periods. Internal Audit traced a sample of costs across the three months and found minor cost changes, however these did not have supporting comments to explain the adjustment made, though they could be explained by the Property Manager.</p> <p>Where budget meetings are not formally recorded there is a risk that agreed actions are not reflected in the budget which may lead to budget over/underspends not being identified in a timely manner.</p>	M	<p><u>Action</u></p> <p>Budget meetings are held outside of the normal governance meetings as they are a matter only for the Fire Authority. The QS financial statements are the formal methodology and the Property Manager meets monthly with the DFA to track progress.</p> <p>The Head of Resources & Assets will undertake to meet with the QS to discuss presentational changes to improve the ability to track movements month to month.</p> <p>Any significant budget changes are formally reported to the Executive with the 'bottom line' being a composite of changing expenditure and income estimates. A detailed budget update was provided to the Executive in September 2018, since supplemented by the normal quarterly budget monitoring reports, the last of which was in February 2019. Member expectations are to keep within the overall net budget. This remains the formal process.</p> <p>Nevertheless as part of the discussions with the QS outlined above we will look to see if improvement can be made in highlighting potential changes month to month which could significantly impact on the overall budget position for the Authority.</p> <p>Officer responsible: Head of Resources & Assets</p> <p>Date to be implemented by: 30th April 2019</p>

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
2.	<p><u>The HUB Performance</u></p> <p>The HUB is the project technical lead with the primary responsibility for the project design/architecture. The work being undertaken by the HUB impacts on the construction and therefore a failure to deliver the required outputs within set timescales has an impact on the building works.</p> <p>During the Audit it was confirmed that the HUB have had difficulties with technical support; which has had an impact of the timeliness of design work, changes or updates and which in turn has led to delays in providing information that is required by Kingierlee – the construction firm. The Quantity Surveyor maintains a schedule of delays caused by the HUB and the associated costs. It was confirmed that any financial implications that arise as a result of the HUB’s poor performance could potentially be recoverable. However Audit found that whilst these potentially recoverable costs are reflected in the Budget Monitoring Financial Statements, they are not separately identified as attributable to any party as this will be the subject of negotiation between all parties depending on final outcomes at the conclusion of construction. The risk of HUB poor performance has been recorded in the risk register.</p> <p>It was confirmed that the Director for the HUB Professional Services has been made aware of potentially recoverable costs and the issues that were causing poor performance have been addressed.</p> <p>Where the impact of poor performance is not completely and accurately reflected in the budget and/or risk register, this may lead to project overspend as the budget will not be forecasting all expected costs.</p>	<p>M</p>	<p><u>Action</u></p> <p>The necessary actions to deal with potential financial loss arising from delays on the part of HUB have already been addressed during 2018 and a significant improvement has been seen. The current delay in the construction programme (5-6 weeks) has not altered for some months.</p> <p>Both the HUB and Kingierlee have a responsibility to mitigate any delay as much as possible and with some 8 months of construction still to take place at the time of writing (Feb 2019) they must both maintain the opportunity to do so.</p> <p>Only at post construction and during the period when the final account will be negotiated and agreed, will any financial loss due to delays or failures be attributed.</p> <p>The Director of HUB’s parent company (Integral UK Ltd) has been in discussions with both DFA and Property Manager and he is well aware of the the issues.</p> <p>The financial statements produced by the QS do show <u>all</u> costs (i.e. worst case) but do not at this stage set out which potentially claimable costs are attributable to which parties.</p> <p>Officer responsible:</p> <p>Director of Finance & Assets / Property Manager</p> <p>Date to be implemented by:</p> <p>Ongoing until final accounts agreed by all parties</p>

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	Audit Finding, risk exposure and potential impact	Priority	Management Action
3.	<p><u>Project Risk Management</u></p> <p>Risks that impact the project should be recorded on the risk register. All risks should be scored, mitigating actions identified, financial and time impacts assessed, assigned to action owners and should have a target implementation dates.</p> <p>From a review of the project risk register audit found the following:</p> <ul style="list-style-type: none"> • Risks were not being updated regularly, such that the risk scores did not change over a period of time; • Financial and time impact assessments were not recorded for all risks; • Mitigating actions were not identified for some risks; • Risks identified were not being adequately managed with financial and time implications not being considered. For example; the weather was identified as a risk, however there was no evidence of further consideration for the potential time delays on the project, safety, financial implications, and damage to materials etc. <p>In addition, Internal Audit noted that the Property Manager is key in overseeing the delivery of the project and holds significant knowledge and information about the project relating to all stakeholders. In the event of any unforeseen events that may render the Property Manager unavailable and unable to be on-site to oversee the project, there are currently no arrangements for an officer from the Fire Authority to provide that resilience.</p> <p>Where risks are not effectively managed there is a risk that the Authority may have inappropriate actions to manage events that may occur, resulting in delays in the project, leading to financial and reputational damage.</p> <p>Furthermore, if key roles in the project are not adequately supported, there is a risk that vital project knowledge may be lost where resilience arrangements are not in place.</p>	H	<p>The audit comments are primarily around construction risk and in view of progress to date these are becoming much less of an issue. However, what is emerging is occupation risk and these are currently a work in progress with a workplan being formulated and an initial 'kick off' meeting set for March 2019 to allocate roles and responsibilities. A separate risk register will be formulated for occupation issues as soon as possible.</p> <p>The construction risk register will remain in place as normal and it is agreed this should be reviewed to either remove or clearly show as completed any risks that have now passed.</p> <p>A lot of construction risk has genuinely not moved and whilst looking as if not updated, has been regularly reviewed at governance meetings. The Director of Finance made significant changes to the financial risks prior to the Executive meeting of September 2018.</p> <p>The Head of Resources and Assets (HR&A) will carry out a review of the construction risk register in conjunction with the HUB prior to the next governance meeting. The HR&A will also undertake to formulate a separate occupation risk register once the workgroups have been confirmed and lead officers agreed.</p> <p>Officer responsible: Head of Resources and Assets</p> <p>Date to be implemented by:</p> <p>30th April 2019 for construction risk register review</p> <p>30th May 2019 for occupation risk register review</p> <p>In respect of the comments regarding back up resilience arrangements for the Property Manager, the point is well made and one that senior management are conscious of. However, the recent arrangement to appoint the Head of Resources and Assets provides some resilience as that officer also has extensive experience of the project and aided by the technical expertise of the professional team could maintain the client role, reverting to full time as necessary. Further short term resource could also be brought in if required albeit at a cost.</p>

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Appendix 1 Definition of Conclusions

Grading:	Substantial	Reasonable	Limited
Overall conclusion on the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

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Appendix 2 Officers Interviewed

The following staff contributed to the outcome of the audit:

- Asif Hussain, Principal Accountant
- Bruce Babbage, HUB Technical Lead
- Gordon Wylie, Property Manager

The Closing Meeting was attended by:

- David Sutherland, Head of Resources & Assets

The auditors are grateful for the cooperation and assistance provided from all the management and staff who were involved in the audit. We would like to take this opportunity to thank them for their participation.

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Disclaimer

Any matters arising as a result of the audit are only those, which have been identified during the course of the work undertaken and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that could be made.

It is emphasised that the responsibility for the maintenance of a sound system of management control rests with management and that the work performed by Internal Audit Services on the internal control system should not be relied upon to identify all system weaknesses that may exist. However, audit procedures are designed so that any material weaknesses in management control have a reasonable chance of discovery. Effective implementation of management actions is important for the maintenance of a reliable management control system.

Contact Persons

Maggie Gibb, Head of Business Assurance

Phone: 01296 387327

Email: mgibb@buckscc.gov.uk

Selina Harlock, Audit Manager

Phone 01296 383717

Email sharlock@buckscc.gov.uk

Alex Prestridge, Auditor

Email: c-aprestridg@buckscc.gov.uk