

**RISK AND AUDIT SERVICES  
INTERNAL AUDIT REPORT**



FINAL

**Subject:** Scottish Futures Trust – Lasswade High School Replacement  
Project and Community Campus

**Issued to:** John Blair, Director, Corporate Resources  
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## EXECUTIVE SUMMARY

### Objective of the Audit

The objective of the audit was to review the adequacy of the control framework established by management to allow for the successful delivery of the new Lasswade High School and Community Campus.

### Scope of the Audit

The audit focused on the governance of the project, the quality of project management, key processes and controls designed by management to allow the school and campus to be delivered within cost, timeframe and to the required quality standards, and included a review of the following control objectives, namely pursuit of satisfactory:

- governance and reporting arrangements;
- control of risk in the project;
- dialogue between the main stakeholders as the project progresses;
- management and control of project cost, timeframes and quality of build;
- management and control of the contractors and consultants;
- compliance with contract conditions;
- management and control of change and variations;
- compliance with project methodology standards; and
- robustness of the life-cycle maintenance approach and ongoing finances.

These objectives are in pursuit of the high-level objectives of project deadline met, project financially on budget and overall objectives for the project being achieved.

The following was excluded from the scope of this review:-

- strategic alignment with corporate objectives;
- initial tendering and selection of contractors and consultants; and
- Whether the overall joint project involving East Renfrewshire Council has been a success.

### Background

On 28 September 2009, the Scottish Government announced a £1.25 billion 'Schools for the Future' programme to fund the replacement or refurbishment of secondary, primary and special needs schools, with the Scottish Government providing £800 million in capital funding and Local Authorities providing the remaining £450 million.

The Scottish Futures Trust (SFT) is a public corporation set up by the Scottish Government in September 2008 to improve public infrastructure investment. The SFT is working with local authorities across Scotland to progress the Scottish Government's £1.25bn Scotland's 'Schools for the Future' Programme, manage the programme, and 'help local authorities achieve the very best value for money for their investment in new schools'<sup>1</sup>.

Midlothian Council is part of a SFT pilot project partnered with East Renfrewshire Council. The two councils have worked together to jointly procure two schools through a design and build contract (Lasswade High School and Community Centre and Eastwood High School

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<sup>1</sup> <http://www.scottishfuturestrust.org.uk/our-work/education/schools-for-the-future/>

respectively). This project is experimental in that Scottish councils have never jointly procured schools before, and is hoped to achieve savings of approximately £4m due to the benefits of collaborative working. This joint working approach may be applied to future projects should it be successful. The SFT are funding approximately two-thirds of the construction costs of the new Lasswade High School.

The joint tendering exercise resulted in BDP Ltd (Building Design Partnership) being awarded the contract to design the new schools in May 2010. After being appointed, BDP sub-contracted project and cost management to Gardiner and Theobald, with BDP providing the architecture and engineering services. In June 2011, BAM Ltd won the tender to construct the new Lasswade High School and Community Centre and Eastwood High School through a joint tender exercise with the SFT, East Renfrewshire Council, Midlothian Council, Gardiner and Theobald and BDP.

The project is managed through a joint working group with the Head of Property and Facilities Management as Project Director, and an officer from East Renfrewshire Council as Assistant Project Director. The Midlothian Council project manager reports directly to the Head of Property and Facilities Management and meets at least weekly.

At the outset of the project, the Working Group reported to a Project Board comprising the Chief Executives of both Councils and the Asset Management Director of the Scottish Futures Trust.

During the construction phase, project progress is reported, and monitored in detail, quarterly by a joint steering group comprising a project monitor from the SFT, Project Directors from both Councils and G&T. Additionally, at a high level, Council and Cabinet are informed of the progress of the construction through quarterly performance reporting.

Construction began in October 2011 and all works, including the demolition of existing buildings, are due to be completed by the 20th December 2013. The total project budget is £37,064,249 including preparatory work, recharges, design fees and construction. As at December 2012, the project is financially on budget and is anticipated to meet the completion deadline and the final budget.

### **Audit Conclusion and Opinion**

Our audit identified strengths and effective controls in place over the course of the audit, in particular, to date:

- control objectives are being met;
- appropriate governance arrangements are in place to control the project;
- the project manager regularly updates the project team with reports giving an up to date view of current progress and the risks facing the project;
- stakeholder involvement throughout the life of the project has been robust;
- costs, timeframes and quality of build has been monitored and reported on effectively;
- contractors and consultants are satisfactorily controlled;
- project variations and potential changes are promptly valued, reviewed and reported;
- project changes are appropriately authorised;
- contract conditions and employer's requirements are monitored and complied with;
- construction guidance is followed;
- a detailed life cycle cost model has been prepared demonstrating a robust approach to on-going finances and the financial impact on both capital and revenue has been assessed and reported to Council; and

- The project has been resourced properly, carefully planned and managed which will leave Midlothian Council with a robust blueprint, and brand, for future projects, including the new Newbattle High School project.

We discussed with management potential issues in relation to the management of risk, change and variation control, stakeholder involvement, Project Definition Document (PDD) and control of non-project costs. In reality, management has these potential issues under control and there are further explanations in the Management Action Plan.

In summary, given that a sound system of internal control was identified and objectives are being met, on this occasion we have used the grid below in rating our opinion as **Blue**. This audit has identified a number of areas of good practice which are being taken forward to future projects.

<b>Colour</b>	<b>Level of Assurance</b>	<b>Reason for the level of Assurance given</b>
<b>Blue</b>	<b>Very High</b>	Internal Control, Governance and the Management of Risk are at a very high standard with no unacceptable residual risk existing.
<b>Green</b>	<b>High</b>	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
<b>Yellow</b>	<b>Moderate</b>	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Amber</b>	<b>Limited</b>	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
<b>Red</b>	<b>Very Limited</b>	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

## MANAGEMENT ACTION PLAN

### **Risk Reporting**

A project risk register was prepared at the outset of the project, within the Council's covalent performance and risk management computer system. The risk register was satisfactory for the tendering and design stages of the project and has since been used as a monthly check on the major project risks. The risk register is reviewed by the Project Manager and Project Director.

The day-to-day risk management is as follows. Midlothian Council's project manager submits on a monthly basis to relevant managers, and Heads of Service, a Flash Report which highlights progress and identifies any issues. These reports are circulated to relevant Heads of Service, Directors and the Chief Executive of the Council.

On a weekly basis, a single page summary report outlining the project progress, what is expected to be achieved in the next week and any new risks/issues facing the project is produced. This report is used to manage the project on a week to week basis and ensure that any risks are addressed as the team become aware of them. This is the 'Employer's Agent' report which is reviewed by the Project Manager and Project Director.

Overall, it is clear that the project is being managed well, in terms of risk control.

### **Change and Variations**

A robust process is in place that ensures that when a change is identified it is valued and reported to Midlothian Council's project manager as soon as possible. Appropriate information will then be prepared by the project manager explaining the proposed variation and the project manager is then available to discuss the details of the change with the project director. The change will then be accepted or rejected by the project director, who as the Senior Responsible Officer (SRO) for the project, has the final delegated authority.

The PID (Project Initiation Document) specifies that the Project Director should gain Council's approval 'where necessary' for changes to the scope or the build of the Project. However, it is not fully defined when this is. A tolerance in terms of the financial or timescale variations has not been set so that it is clear when these should be escalated and a business case prepared.

The project team have noted that thus far a reasonable approach has been taken, and that for potentially larger changes, a business case will be prepared, mainly to alert the elected members.

Overall it appears that any changes and variations are properly controlled, in terms of preparation and approval.

### **Stakeholders**

Throughout the project there are examples of dialogue with stakeholders and stakeholder involvement. Time was taken receiving community views during the planning stages and site visits have been arranged by the project manager with various interested parties.

A 'communications plan' is referred to in the PID (project initiation document), but this document has not been prepared. This is a document that would identify key stakeholders, rank them, and put in place the strategy to meet stakeholder needs. Therefore, the risk is

that those with an oversight role of the project have not approved the stakeholder strategy and, as they have not been informed of the strategy in place to meet stakeholder needs, they will not be able to compare the strategy with actual performance. Additionally, the lack of a written strategy makes it more difficult for the project team to assess its own performance against the original objectives. Also, it is noted that there is no specific Construction Service guidance on stakeholders.

We discussed this in detail with the Project Director and Project Manager and it was their opinion that:-

- dedicated time was allocated to consultation at the planning stage of the project, which is now manifesting itself in a project that is under control;
- A communications plan was not seen as vital because it would not have giving flexibility to consult; and
- It was not appropriate to have a hierarchy of consultation/communications, instead treating stakeholders equally.
- They have a list of all stakeholders who have an interest in the project and have involved these stakeholders during the design development of the spaces within the building which will affect each particular stakeholder.

We have consulted a few stakeholders to obtain their view of the project management and they were found to be satisfied with the planning stage, ongoing consultation and the new building. There were issues with Library Services having time to devote input to the project planning and there were early planning issues for Development Management in relation to the design brief. However, any issues appear to have been overcome as the project has progressed.

### **Governance**

There are no issues with the current governance arrangements. However, a procedural issue was noted, in that the PID was never developed into a Project Definition Document (PDD). A PDD would normally go into greater depth on the controls and governance in place for the project including risk and management of risk, plan tolerances and exceptions, change control procedure, stakeholders and communications plan, regularity of meetings, and reports that should be issued by members of the project team during the project.

It is written in the construction section's guidance that a PDD should be created for every project with a total contract value greater than £250k. Additionally, it would normally be signed off by the Project Manager, Project Director and the Project Sponsor.

However, we can see the reason for not having a PDD as the project was reported in detail, instead to Midlothian Council.

### **Control of Project Costs**

Gardiner and Theobald present monthly cost reports to Midlothian Council's project manager. These monthly progress reports contain information on the current expected costs against the original budget, and give an appraisal of the current cost assessment taking into account authorised changes, unapproved change control forms, unapproved claims and advance warnings. The reports are of a high quality and enable the project manager to effectively monitor the contract costs.

However, an issue noted with the reports is that costs not forming part of the construction contract (e.g. legal fees, other fees, recharges etc.) are not reported on accurately against the Midlothian Council's set budget. Instead the budget figure G&T were given at the start of

the project is brought forward each month. Although finance has updated the project manager on these costs before, it was agreed that this should be more routine.

<b>Rec. No.</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Manager</b>	<b>Target Date</b>
2	Finance should supplement G&Ts monthly cost reports by quarterly updating the project manager on the overall budget position.	Medium	Senior Accountant Projects & Treasury	Immedate effect