

Review of Project Management

Haringey London Borough Council

Audit 2005/2006

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Introduction

- 1 With IT projects now encompassing high-profile business processes such as cross-cutting initiatives and integrated systems, success in these areas is essential to the success of the organisation as a whole, and its impact on other stakeholders and on the public. The larger the project, the greater the potential for problems to occur, such as user needs changing, timescales and budgets growing and key staff leaving the project.
- 2 In order to minimise the risk of project failure or problems, a combination of key success factors needs to be in place. Key success factors include the adoption of sound project management and financial management practices, and having a framework within which to manage inevitable changes as the project evolves.

Background

- 3 The London Borough of Haringey started the Tech Refresh project in June 2003, with the planned finish in October 2004. The project has been managed by an officer led project board, with senior executive membership from its two external partners.
- 4 The Council recognises that there have been a number of problems with the project. The project currently has a forecast overspend of £10.6 million over the amended project life against an original budget of £9 million. A new project manager has been appointed recently.

Scope and objectives

- 5 We have carried out a review of the Council's arrangements for managing the project, in particular to:
 - determine whether the appropriate project management controls and procedures were set down at the start of the project, and whether the controls and procedures were being complied with;
 - review the effectiveness of project management, such as project documentation, change control, risk management, quality assurance and reporting mechanisms;
 - review the effectiveness of financial management, including compliance with Council Standing Orders and Standing Financial Instructions, project budgetary/cost management, and reporting; and
 - identify lessons learned so that improvements for the future can be implemented both for this project over its remaining life, as well as for future projects.

The review was undertaken solely in our role as the Council's appointed auditor and in accordance with the Audit Commission's Code of Audit Practice.

Audit approach

- 6 This review was carried out through:
- a review of key documents; and
 - interviews with key officers involved with the project. This did not include former employees or external partners or consultants.

Key findings

- 7 We have identified two key areas - change management and variation orders - that have contributed to the additional costs of £10 million, reflecting inadequate project specification and project management.
- 8 We concluded that there was limited evidence of:
- regular attendance by some project board members at project board meetings, which impacted on continuity and ownership;
 - sufficiently senior project sponsorship;
 - adequate staffing resources being allocated to deliver the project,
 - robust challenge to additional costs arising during the project implementation;
 - adequate input from corporate finance to either budget setting or budgetary control;
 - clear thresholds for authorisation of variations to costs of the scheme;
 - application of appropriate budgetary control mechanisms, including provision of suitable financial information;
 - timely, transparent and accurate reporting of the project slippages and overspends; and
 - clear audit trails.
- 9 Our review indicates that the original budget was inadequate and therefore the Council was always likely to incur additional costs. However, the weaknesses identified above mean the Council cannot demonstrate that the full additional £10 million costs represent value for money, and reflect significant failures in the Council's corporate governance arrangements in respect of this project.
- 10 The Council is now taking action to exercise greater control over this project. Actions include commissioning this review in order to learn the lessons both for managing this project to its conclusion, as well as for other significant schemes, tightening project management and enhancing financial information. The Finance and Performance report to the November 2005 Executive suggests that there is further potential slippage and additional costs over budget to be incurred on the project in 2005/06. The Council needs to exercise tight financial control over the remaining life of the project, as well as applying the lessons learned to both this and other schemes.

Learning the lessons and the way forward

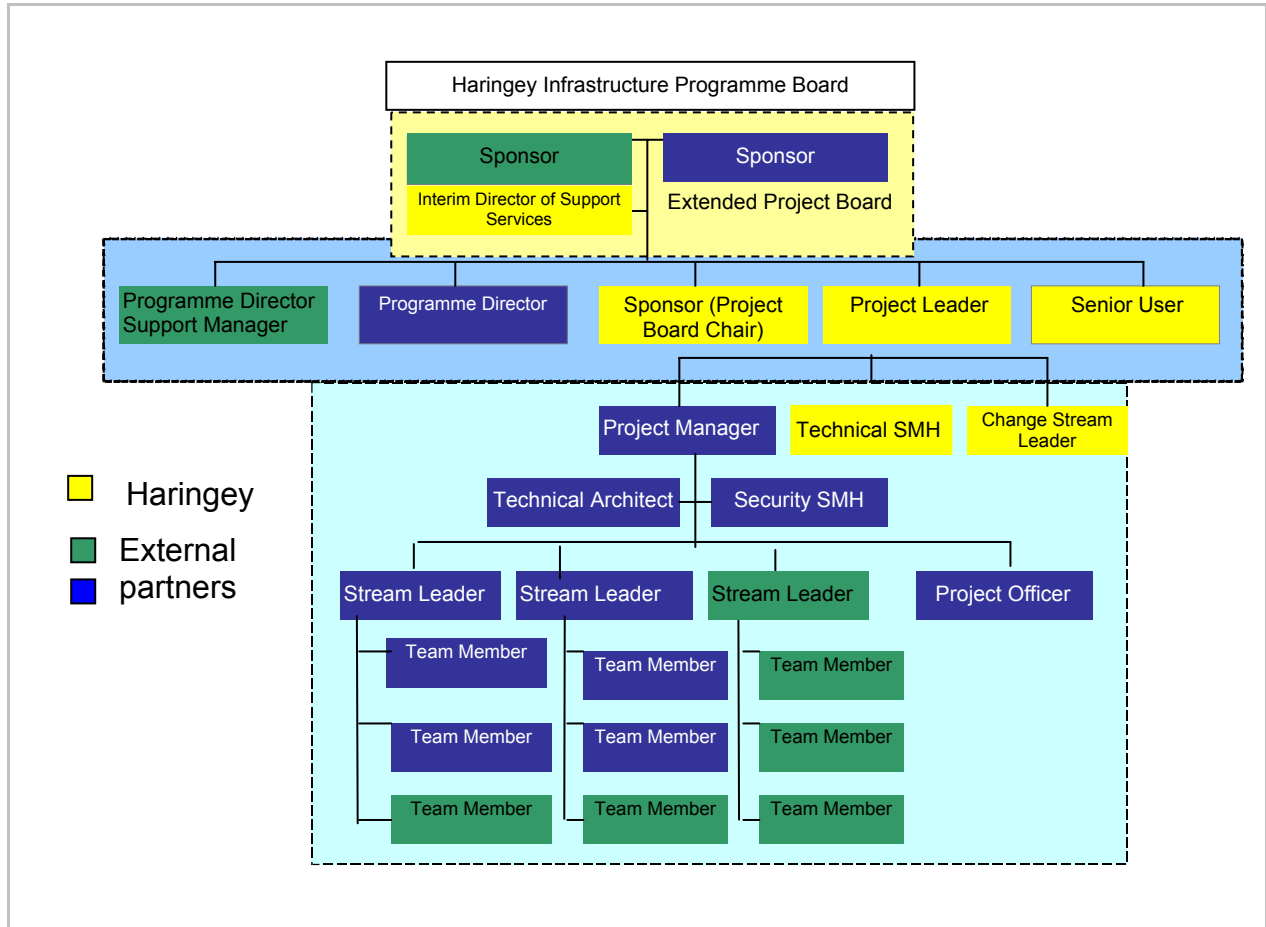
- 11 On the basis of its experience with the Tech Refresh project, the Council needs to improve its procedures in a number of areas. In particular, the Council needs to:
- ensure that budgets, in particular the revenue costs associated with large capital projects, are realistic from the outset, and subject to adequate challenge during preparation;
 - ensure that project budgets are coherent and that monitoring arrangements are robust at the day-to-day management level, with financial management roles and responsibilities clearly defined and allocated;
 - review its procedures for authorising and controlling change requests for all projects;
 - ensure that major revisions to project budget estimates are reported, reflected in formal virements and appropriately authorised. It would be appropriate for the Council to review its delegated authorisation levels to ensure that adequate reporting to members is undertaken;
 - establish the costs expected to be incurred against key deliverables, and monitor these against actual costs;
 - provide for the representation of Corporate Finance on the project boards of major schemes;
 - consider the use of subject matter experts to challenge the design of future projects and give independent external challenge;
 - ensure that a robust project board is established with those nominated being able to commit the time and having the appropriate skills;
 - introduce a robust mechanism for quality and project assurance which is independent of the project;
 - ensure that project board reports cover project costs against budget for project staff, meetings, expenses, overtime, QA staff, user testing, consultancy, hardware, software, installation, infrastructure, licenses and temporary workers;
 - ensure that a clear audit trail exists for decision making within projects; and
 - consider whether a programme or project management approach is most appropriate at the outset of significant future projects.
- 12 The Council needs to consider the issues raised in our report and formulate its own action plan to address the issues both in relation to the Tech Refresh project and other major projects. We will undertake a follow-up review (provisionally late February/early March 2006) to assess the robustness of the Council's remedial action as part of the ongoing audit. The Council will also need to undertake a post-implementation review to identify any further learning opportunities from the completion of the project and to assess the benefits delivered against costs/expectations.

Project structure and resources

Project structure

- 13 Standard project management methodologies (SPMM) should substantially reduce the risk of project failure. While essential to the good running of projects, such SPMMs cannot take the place of experience and good judgement, adoption of sound management practices, and having a framework within which to manage inevitable change. It is clear from our work that an appropriate methodology (PRINCE2) was adopted at the start of this project, with the best intentions regarding its application. However, we have identified a number of key weaknesses and lack of compliance with the adopted methodology, which have impacted upon the overall delivery and management of the project to date.
- 14 The Project Board and Extended Project Board structure (see Figure 1 overleaf) failed to function as anticipated. From a very early stage, the Extended Project Board was dissolved and was absorbed into the Project Board. As a consequence, levels of management responsibility and accountability appear to have moved downwards and overall strategic guidance over the project has been lacking.

Figure 1 Project board structure



Source: Project initiation document July 2003

- 15 An essential requirement of project board members is regular attendance at board meetings to ensure a robust decision making process is in place. Strong commitment from all members of the project board is essential to ensure that the appropriate lines of responsibility, accountability and reporting structures are in place and effective. This has not been the case, with poor attendance by some board members whose remit was to represent the Council's interests.
- 16 The Tech Refresh project was and remains a significant risk for the Council. The project sponsor is the ultimate Senior Responsible Officer for project approval and support and for ensuring that the overall strategic direction of the project is maintained. It would be expected that with a project of this size and risk the project sponsor would have been an executive board member of the Council. However, this was not the case, the project sponsor being the Head of ICT, a second tier officer.

- 17 It is considered good practice within the PRINCE2 methodology that the designated project manager is not directly line managed by the project sponsor, in order to facilitate open and honest communication. This was not the case within the Tech Refresh project where the entire Haringey project management structure was the same as the line management reporting chain. During our review, it has been reported to us that a blame culture has existed within the Council. Alongside the structure of the project management, this has acted as a barrier to open and honest communication.
- 18 The estimates for the human resources required were inadequate for this project. From a very early stage, a number of issues were identified as a direct consequence of a lack of resource input from the Council.
- 19 Project Management, Change Management and Project Support have all incurred significantly increased costs through the use of external consultants. For example, the project estimates included a total of 338 days for change management across the project life cycle. However, in one month alone (April 2005), the Council paid for 214 days, at a cost of some £220,000. The overall cost to the Council for change management consultancy is in excess of £2 million.
- 20 There is a view by those involved in the project that the work completed by external consultants in May 2003 provided an adequate level of assurance that the project plan and initiation document were robust. However, the terms of reference for the work completed by the external consultants only covered:
- providing an independent review of the strategic appropriateness of the proposed move to a thin client infrastructure;
 - identifying the trends for thin client for the next three to five years;
 - highlighting the strengths and challenges of a thin client infrastructure;
 - providing information on thin client infrastructures currently operating in the UK; and
 - identifying the benefits of adopting a Thin Client approach and risks involved.
- There is therefore no documentary evidence to support the further assurance officers have sought to rely on.

Project costs

Original project budget

- 21 The original project for the budget was reported to the Council's Executive in June 2003, with capital costs of £5.3 million and 'upfront project costs' of £3.7 million, funded from a mixture of capital and revenue sources.

- 22** There is no evidence that the Project Initiation Document (PID), on which the budget was based, was prepared with appropriate input from Corporate Finance. In addition, reliance appears to have been placed on the review carried out by external consultants, referred to above, as an independent validation of the original budget. However, there is no documentary evidence that the review commented on the robustness of the Council's costing of the project, nor indeed had such assurance been commissioned in the terms of reference for the review.
- 23** It would appear, therefore, that the initial budget for the project was not subject to adequate challenge. The finance comments in the June 2003 report to the Executive did not provide a view as to whether the costings were soundly based, but noted that savings of £1 million per annum had been assumed in financial plans.

Revised estimates

- 24** Once under way, the project suffered from major cost overruns. As reported in the Executive Member Briefing of 10 May 2005 by the ACE, by August 2004 the overall project budget had increased from £9 million to £12.7 million, and the overall estimate stood at £24.6 million by April 2005. The external partners absorbed some £5.5 million, resulting in a revised estimate of £19.1 million, still more than twice the original budget.
- 25** According to the ACE briefing, the increased expenditure primarily occurred in the 'people costs' of the project, specifically:
- the decision to engage external consultants as providers of change management resource given the inability of Council officers to provide the inputs assumed in the PID;
 - additional complexities identified during detailed planning, leading to further expenditure on design; and
 - original and material poor scoping of the work.
- 26** Our audit has identified additional people costs incurred through change management and change requests as the two areas resulting in significant additional costs to the project. It is clear that the original budget was based on incorrect assumptions as to the cost of the change management requirement, and the overall complexity of the scheme.
- 27** In November 2005, the Council identified further potential slippage and subsequently additional costs on the tech refresh project. There remain concerns, therefore, that the current budget may not yet be sufficiently robust.

Project control

Project assurance

- 28 Project assurance is the independent monitoring of the project progress and management on behalf of the Project Board to ensure the project is being well managed. The three main areas of project assurance are as:
- business: monitoring the business case, business risks and expenditure;
 - technical: monitoring the use of standards and the quality of products; and
 - user: monitoring that the end product continues to meet the user's specification throughout its development.
- 29 There has been little project assurance to date and it is not clearly defined within the project initiation document. As a consequence, it is unclear how the project board has ensured an ongoing robust independent overview of the project.

Change requests

- 30 'Scope creep' is a change or growth to the original project and within large complex projects an element of this is reasonable. Should this occur, the project manager and board should work effectively to manage changes so as not to affect the project timelines and budget. From an early stage, there has been little challenge to scope creep within the Tech Refresh project. There is no clear audit trail of robust challenge through questioning of needs and wants, for example through the Project Board minutes, nor identification of the business benefit of change and the underlying issue making the change necessary.
- 31 The process for managing and authorising project change requests gives rise to a number of concerns. It is unclear what level of challenge was provided on behalf of the Council. Whilst the project board does not need to see all change requests, it needs to be aware of the overall quantum of changes and key individual items. It is clear that the Council's Project Leader was able to authorise a significant amount of change requests before any form of scrutiny was applied. A number of change requests do not have a business sponsor. This suggests that the level of segregation between request and authorisation was not adequate. A significant weakness identified in this area is that a number of change requests have been submitted and approved retrospectively.
- 32 The lack of clarity around the status and control of change requests appears to have been a factor behind the cost overruns incurred by the project. The PID states that 'any changes or deviation to the project that will impact on project timescales or budget will require a change request to be authorised before work will be scheduled or undertaken or curtailed.' Change Request Forms are to be submitted to the Project Leader or Project Board 'as appropriate', without clear definition of what the 'appropriate' circumstances are.

- 33** To date, some 140 change requests have been raised on the project, with a cumulative value of some £7.1 million (excluding £113,000 of cancellations). Our review of a sample of the change requests provides evidence that the appropriate control was not exercised. Examples we identified included:
- four requests account for £4.7 million of the changes, including £2.6 million for additional external support and £1.9 million for additional change management resources. It would be reasonable to expect changes of this magnitude to be considered at Project Board level, but the audit trail for any such discussions is lacking; and
 - retrospective requests, for example, £32,000 for the costs of running an information stall at the Council's 2004 Summer Event.
- 34** It is essential to establish tolerance levels from the outset of the project - no project ever goes fully to plan and the project manager needs to have a clear understanding of when to escalate issues to the Project Board. Even with a good plan, elements will go astray. Tolerance is the permissible deviation from the plan without bringing the deviation to the attention of the next higher authority within the management structure. The two elements to tolerance are most commonly time and cost.
- 35** No clear predefined limits or tolerance levels have been laid down within the project. As a consequence, escalation of problems and issues appears to have been taken in an informal way or not at all. It is not clear whether a number of these issues were hidden, ignored or just not acted upon appropriately at an early stage or most probably a mixture of all three.
- 36** The status of change requests in terms of their impact on the project budget is also unclear. Finance officers have indicated that any additional costs arising from such changes need to be covered from existing allocated budgets, unless a virement is authorised by the Chief Accountant. However, the scale of additional costs arising from Change Requests, coupled with the absence of any reported virements to the project up to April 2005, would suggest that project staff were not sufficiently aware of this procedure.

Control and review of costs

Budget monitoring - project

- 37** Responsibility for controlling the project budget rested with the ACE, the Head of ICT and the Project Leader. The Project Leader, who has left the Council, had day-to-day control of budgets. From the documents available to us, it is unclear how budgetary control was exercised.
- 38** Until recently, the Highlight Reports adopted as the primary mechanism for reporting to the Project Board lacked any financial information, with budgets being reported only in terms of days used. That being the case, where budgeted days were reported as overspent, there was no acknowledgement of the financial implications of this within the accompanying notes. By September 2004, the Highlight Reports had ceased to provide even the information on days spent.

- 39 The project has also suffered from a lack of profiling of costs, to enable the budget to be monitored against key deliverables and stages. There is no evidence of a coherent process for 'sign off' of budgets at pre-determined milestones. As a result, although actual expenditure could appear at times to have been in line with the current estimate, it was not sufficiently clear what had actually been delivered for the spend to date.
- 40 Highlight Reports now provide summary financial information clearly setting out the actual spend to date against the authorised budget, along with a forecast of the final position. Arrangements have been further strengthened by the inclusion of a representative from Corporate Finance on the Project Board. Had this been the case from the outset, the weaknesses in financial monitoring information in Highlight Reports may have been addressed at an early stage.

Budget monitoring - corporate

- 41 As noted above, the ACEs May 2005 briefing for Members identified that 'people costs', largely funded from revenue budgets, were the primary area of cost overrun. The Council has well established procedures for monitoring performance on revenue budgets, involving the compilation of monthly reports by business unit managers, which are independently reviewed by Corporate Finance before the production of summary reports for discussion at chief officer level and the bi-monthly Finance and Performance (F&P) Reports to Members.
- 42 From these reports, it became apparent that the project was experiencing significant difficulties in containing costs within the original budget. However, as these costs were associated with a one-off, major capital project, the discussion of the issues arising appears to have occurred outside of the standard budgetary control procedures, at the level of the Chief Executive's Management Board.
- 43 The existence of a substantial earmarked reserve, the IT Sinking Fund, provided a contingency which could be drawn upon. Also, at the same time as the extent of the overspend on the project was becoming clear, the Council was recording an underspend on its other revenue budgets against. The overspend of £2.9 million was offset against the IT sinking fund and the expected revenue underspends.
- 44 In addition to the changes to Highlight Reports, greater clarity has now been introduced to budget monitoring at the corporate level. This is reflected in the current forecast of additional spending on revenue costs which, while of itself an indication of continuing issues with the realism of the budget, is also indicative of greater transparency in the financial management of the project.

Financial reporting

- 45 It is essential that, for a project of this scale and strategic importance, financial reporting at the corporate level provides the Council's leadership with clear and concise financial information. The primary sources through which Members could be updated on the financial position of the project were the F&P Reports and reports to the E-Government Advisory Committee (EAC).

- 46 Review of the financial content of a sample of EAC reports found that:
- at the early stages, a brief comment that expenditure was being contained; and
 - at the later stages, when the difficulties were apparent to officers, no mention of the financial position of the project.
- 47 The reports prepared in 2005, such as F&P reports and the May ACE briefing, demonstrate confusion over the true picture of costs, with varying levels of over and underspends being reported. F&P reports also provided inadequate information about the Tech Refresh. As late as February 2005, the report stated that the Chief Executive's department, which hosts the revenue element of the project budget, had a projected underspend of £0.4 million (as reported in April 2005). As noted above, the June 2005 outturn report identified a £2.6 million overspend for the department, including £2.9 million additional Tech Refresh costs.
- 48 As noted above, the Council's overall underspend on the General Fund enabled the Tech Refresh overspend to be absorbed within the overall Consolidated Revenue Account for 2004/05. This was reported to Members via the 2004/05 annual accounts and the June 2005 outturn report. However, major increases appear to have occurred in the project estimates without formal virements being made or reported, and the Council needs to review its procedures in this regard.