



MOORE STEPHENS



Stadium construction programme
Internal Audit Report for the
London Legacy Development Corporation

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1 Executive Summary

Introduction

- 1.1 This audit was completed in accordance with the London Legacy Development Corporation (LLDC) internal audit plan for 2014/15, approved by the Audit Committee. LLDC have a significant capital expenditure budget for the Stadium construction programme with works to be completed by 2016/17. This presents a major delivery risk to the Corporation.
- 1.2 The E20 Stadium project is measured against two completion targets, namely; the start date for the Rugby World Cup on 7 September 2015 (Contract Programme), and the commencement of the UK Athletics (UKA) Diamond League on 22 July 2015 (Target Programme). Unlike the first event which has got contractual agreement in place, the latter is non-contract binding, nonetheless E20 Stadium Ltd is committed to meet both targets.

Review objectives and approach

- 1.3 The objective of this audit was to provide assurance that adequate and effective project management arrangements are in place to ensure the delivery of the Stadium by the planned completion date. This involved an evaluation of the:
 - programme management arrangements by LLDC, including budget monitoring and progress monitoring;
 - arrangements for overseeing and monitoring the activities of delivery partners;
 - risk management arrangements;
 - project change management and arrangements, and
 - management reporting.

Key conclusions

■ (Green)

Overall, there is a sound control framework in place to achieve system objectives and the controls to manage the risks audited are being consistently applied. There may be some weaknesses but these are relatively small or relate to attaining higher or best practice standards.

- 1.4 Overall we found that current arrangements designed to ensure that the E20 Stadium construction programme is delivered as planned are generally adequate, and test results indicate that they are operating effectively. We noted that a Scheme of Delegation and Deed of Variation was in place, and that it had been approved by the E20 Stadium Ltd Board. Contract/project changes included in our sample testing had been processed and authorised in line with the approved Change Control Process and the Scheme of Delegation. At the time of our visit, progress measure based on the critical path activities for refurbishing the roof showed that the project was 13 days behind the Target Programme, and 2 days ahead of the Contract Programme. The delays to the refurbishing the roof were due to a significant amount of down time due to high winds in December 2014. In response to the time lost the Project Team initiated 24 hour and weekend working arrangements to recover time where weather conditions permitted. However, we identified two areas for improvement, namely:
 - The Recharge Agreement between LLDC and the E20 Stadium Ltd needs to be finalised and agreed. This should outline how LLDC will be compensated for the time spent by its staff working on E20 Stadium Ltd related activities.
 - There is a need to ensure that the on-line decision making and management information tool (Execview) is fully utilised to quantify all project-related risks, and

Recommendations summary table

1.5 The following table summarises the recommendations made across the key risks audited, grouped by priority ratings:

Key risk area	Rating	Recommendation Priority rating		
		1	2	3
1 Inadequate programme management arrangements by LLDC, leading to failure to deliver the Stadium construction projects on time, within budget and in line with contract specifications.	Green	-	1	-
2 Inadequate and/or ineffective arrangements for overseeing and monitoring the activities of delivery partners;	Green	-	-	-
3 Inadequate risk management arrangements;	Green	-	1	-
4 Inadequate project change management arrangements;	Green	-	-	-
5 Inadequate management reporting.	Green	-	-	-
Total recommendations made		-	2	-

1.6 The following tables in Section 2 Key Findings show the results of our analysis of financial controls framework and its operation in practice at LLDC, by each key risk area. Areas for improvement are highlighted with the key recommendations in the right-hand columns.

2 Key Findings

Key Risk Area 1: Adequacy of programme management arrangements by LLDC

Assessment:

Green

Background

Programme management arrangements in the context of this review refer to the processes and procedures governing the way in which the E20 Stadium construction programme is currently managed. Having adequate and effective programme management arrangements helps ensure that construction programmes are delivered successfully. Such arrangements include, but are not limited to the way in which contract interim payments are administered, and how the project budget is managed and/or monitored.

1.1 Programme management

Findings & implication

Positive findings

- A Process and Procedure Document which sets out in simple terms an overview of the key processes and procedures for the delivery of the elements of the Legacy works (including the E20 Stadium) being managed by the LLDC's Project Management Partner (PMP), Mace is in place.
- We confirmed that project progress is discussed on a weekly basis by the Senior Executive Group (SEG). The group comprises representatives from both Mace and LLDC's project teams. The group agrees and finalises the Monthly Stadium Programme Report which forms the basis for both the Directorate and Project Status Reports which are prepared in Execview , and are presented to LLDC's Executive Management Team (EMT).
- We confirmed that LLDC's project team meets regularly with Mace representatives to discuss progress of the Stadium project. Meetings are attended on behalf of LLDC by the Project Sponsor and the Executive Director Stadium. Actions to correct or address any delivery issues are agreed at these meetings. We noted sufficient contribution from the LLDC's representatives during these meetings. Also, we established that minute are signed by all those present.
- We reviewed content of agendas and minutes and confirmed that the EMT is provided regular updates regarding progress of the Stadium project. In particular, key issues regarding the project are highlighted, and discussed by the EMT.
- We confirmed that monthly management accounts include a detailed update on the project's progress against the underlying baseline budget. Reports are reviewed and discussed at the monthly project review meetings which are attended by projects teams from both Mace and

Recommendation

1. We recommend that the Recharge Agreement between E20 Stadium Ltd and the LLDC is finalised, and agreed.

Priority 2



Management response

Accept

Action: Recharges are agreed through the E20 Stadium LLP Board. The Executive Director of Finance and Corporate Services took a recharge schedule to the Board on 11 March 2015 covering 2013/14 and 2014/15 recharges and this was approved.

Action Owner:

Gerry Murphy

Completion date:

Complete

Findings & implication	Recommendation
<p>Belfour Beatty.</p> <ul style="list-style-type: none">We confirmed that budgetary control issues relate to the project were included in both the Directorate and Project Status which are prepared in Execview, and are reviewed by the EMT on a weekly basis. At the time of our audit visit, the most recent cost report (January 2015) showed a static budget of £295m with an Anticipated Final Cost (AFC) of £294,530,801. <p>Areas for improvement and implication</p> <ul style="list-style-type: none">Contract interim payments are administered by LLDC's Finance team on behalf of E20 Stadium Ltd. Management confirmed to us that LLDC is currently accruing the costs for providing this administration service , and that it plans to recharge them to the E20 Stadium Ltd at year end. However, we noted that a Recharge Agreement between LLDC and E20 Stadium Ltd had not been agreed at the time of our visit.	

Key Risk Area 2: Delivery partners

Assessment:

Green

Background

Adequate and/or effective delivery partner arrangements for overseeing and monitoring the activities of delivery partners are vital in ensuring that project delivery issues are identified in a timely manner, and that they are addressed effectively and promptly. Regular project monitoring meetings should be held between the different delivery partner organisations or project teams. Matters and/or actions arising from these meetings should be documented to ensure an adequate audit trail. Where applicable, supplementary agreements should be defined, documented and agreed by the relevant delivery partners.

2.1 Project monitoring

Findings & implication

Positive findings

- We confirmed from sample testing that contract interim payments had been approved in accordance with the prevailing Scheme of Delegation (SoD). Payment certificate are reviewed by the authorised person to ensure delivery partners are delivering the services as per the agreement.
- Early warning of issues or events that could have an adverse effect on project delivery are identified, recorded and tracked through an on-line platform (CONJECT). LLDC, Mace and Balfour Beatty project teams all have access to the system. We confirmed through review of the Early Warning Notice report that the system was operating as expected.
- We confirmed that weekly project update reports are prepared by Mace, and that they are reviewed and discussed by the LLDC project team.
- We reviewed content of minutes and confirmed that, Mace, Balfour Beatty and LLDC project teams meet regularly to review and discuss project progress issues, and that actions are documented and followed up at subsequent meetings.

Areas for improvement & implication

- None.

Recommendation

None.



Management response

Accept/Partial Accept/Reject

Action:

Action Owner:

Completion date:

Key Risk Area 3: Risk management

Assessment:

Green

Background

Adequate risk management arrangements play an integral role in ensuring that a project is delivered successfully. Such arrangements ensure that project-related risks are systematically identified, documented, evaluated, monitored and managed in an effective and timely manner. Ideally all project related risks should be identified at the outset. Project teams should identify all known risks. For each risk they should determine the probability that the risk will occur, as well as the potential impact to the project. Events identified as high-risk should have specific plans put in place to mitigate them to ensure that they do not, in fact, occur. In addition, once the project begins, periodic risk assessments should be performed to determine if other risks have surfaced that need to be managed.

3.1 Risk identification and monitoring

Findings & implication Recommendation

Positive findings

- We confirmed that risks related to Stadium construction project were identified, defined and documented in the Quantitative Risk Assessment (QRA).
- The QRA includes key information such as; risk code, type of contract, risk status, category, description, risk owner, quantified financial implications and a RAG rating.
- The project QRA is reviewed and updated on a monthly basis. Where the review to the project's QRA has an effect on the project's budget, such effects are explained in the Directorate Status Reports. These are used to provide senior management (i.e. EMT) with regular updates regarding progress of construction projects. Reports are prepared using a business management information software (Execview).
- We reviewed the content of Executive Management Team (EMT) meeting minutes and confirmed that a risk update is provided, and that this includes risks associated with the E20 Stadium Project.
- We reviewed content of the latest Corporate Risk Register and confirmed that where applicable, high –risks associated with the E20 Stadium programme had been escalated to the register. In all cases, where E20 Stadium project risks had been escalated to the Corporate Risk Register, we confirmed that a mitigation plan had been developed to manage the risks. Also, by reviewing the content of periodic Corporate Risk Registers we confirmed that these had been reviewed and updated on a monthly basis.
- We confirmed that the key E20 Stadium project related risks were included in the Monthly Stadium Programme Reports prepared by Mace, that which were then used, to prepare the monthly Directorate Status Reports which also provided sufficient details about the risks associated with the

2. We recommend that where applicable financial losses related to risks identified are calculated and documented within Execview. The project manager should be reminded to ensure that Execview is fully utilised to quantify risks.

Priority 2



Management response

Accept

Action:

Review risks on Execview and add most likely financial impact to financial risks. Also, make a decision as to whether project level risks relating to other projects across the corporation need to be quantified

Action Owner:

[Redacted]

Completion date:

9 April 2015 in line with Execview reporting

Findings & implication	Recommendation
<p>project. These include detailed updates about health and safety issues where applicable.</p> <ul style="list-style-type: none">• We confirmed that the EMT is provided with weekly health and safety updates. These cover all construction sites including the E20 Stadium. <p>Areas for improvement & implication</p> <ul style="list-style-type: none">• We noted that whilst the project related risks had been quantified in the QRA, they had not been quantified in both the Directorate Status Reports and the Project Status Reports which are prepared on Execview. Where risks are not quantified, there is an increased risk of failure to evaluate risks effectively.	

Key Risk Area 4: Project change management arrangements


Assessment:

Green

Background

Policies governing project changes and/or variations should be defined documented and approved. Cost estimates relating to change requests should be scrutinised, documented and approved in accordance with the prevailing Scheme of Delegation (SoD). Where change request require a drawdown from the LLDC's Corporate Contingency Fund, these should be approved by the LLDC Board.

4.1 Change control process

Findings & implication	Recommendation
<p>Positive findings</p> <ul style="list-style-type: none"> • Changes to the E20 Stadium programme are governed by the E20 Stadium LLP Change Control Process which was approved by the E20 Stadium Board in February 2013. • Authorisation of changes to the E20 Stadium programme is governed by the E20 SoD and Deed of Variation which was approved by the E20 Board in December 2013. • Records of all changes made to the E20 Stadium programme are tracked, recorded and monitored using a 'Change Control Log'. • Based on a sample of 10 changes made to the project during the current financial year, we tested to determine whether changes had been made in accordance with the E20 Change Control Process, and approved as per the E20 Scheme of Delegation. Test results identified no exceptions. • Test results also confirmed that where applicable financial virements had been raised to ensure that project changes were appropriately captured within the project's budget. <p>Areas for improvement & implication</p> <ul style="list-style-type: none"> • None. 	<p>None. </p> <p>Management response</p> <p>N/A</p>

Key Risk Area 5: Management reporting


Assessment:

Green

Background

Organisations need to have an adequate project management information system, to track project progress regarding schedule and budget. It also improves the decision making process by helping to ensure that appropriate decisions are made in a timely manner.

5.1 Project management information system

Findings & implication	Recommendation
<p>Positive findings</p> <ul style="list-style-type: none"> Implementation Review Reports are prepared by Mace and finalised following meetings between the Mace, LLDC and Balfour Beatty projects teams. Implementation Review Reports are then used by Mace to prepare Monthly Programme Reports. These provide relevant, and sufficient information including; performance summary, progress status against key milestones, variance commentary, cost and budget performance, Health and Safety update, and risk management. Sample testing (4 months) confirmed that: <ul style="list-style-type: none"> Monthly Programme Reports had been used to prepare Project Status Reports for both the Capital and Revenue strands of the Stadium Programme on Execview. Monthly Stadium Directorate Status Reports are prepared, and that they provide an appropriate summary on matters relating to the project's progress. These included; scope budget and cost, risks, governance and H&S. We confirmed that both reports had been signed off on Execview by the Project Sponsor and/or the Executive Director of Stadium. Quarterly Corporate Assurance reports cover progress against the Stadium Programme and are reviewed by the LLDC Board which can be evidenced from the minutes of meetings. We found that CEO Update Reports which are presented to the LLDC Board include an update on all constructions programmes including the Stadium Construction Programme. <p>Areas for improvement & implication</p> <ul style="list-style-type: none"> None. 	<p>None. </p> <p>Management response</p> <p>N/A</p>






A Additional information

None.




B Audit objectives, Risks & Scope

Terms of reference	
Objective/Scope	The overall objective of the audit is to provide assurance that adequate and effective project management arrangements are in place to ensure the delivery of the Stadium by the planned completion date.
Key risk areas	<ul style="list-style-type: none">• Inadequate programme management arrangements by LLDC, leading to failure to deliver the Stadium construction projects on time, within budget and in line with contract specifications;• Inadequate and/or ineffective arrangements for overseeing and monitoring the activities of delivery partners;• Inadequate risk management arrangements;• Inadequate project change management arrangements;• Inadequate management reporting.

C Audit definitions

Opinion/conclusion	
 (Green)	Overall, there is a sound control framework in place to achieve system objectives and the controls to manage the risks audited are being consistently applied. There may be some weaknesses but these are relatively small or relate to attaining higher or best practice standards.
 (Green-Amber)	Generally a good control framework is in place. However, some minor weaknesses have been identified in the control framework or areas of non-compliance which may put achievement of system or business objectives at risk.
 (Amber)	Weaknesses have been identified in the control framework or non-compliance which put achievement of system objectives at risk. Some remedial action will be required.
 (Amber-Red)	Significant weaknesses have been identified in the control framework or non-compliance with controls which put achievement of system objectives at risk. Remedial action should be taken promptly.
 (Red)	Fundamental weaknesses have been identified in the control framework or non-compliance with controls leaving the systems open to error or abuse. Remedial action is required as a priority.

Any areas for improvement are highlighted with the key recommendations in the right-hand columns. The symbols summarise our conclusions and are shown in the far right column of the table:

Good or reasonable practice	
Issues needing improvement	
A key issue needing improvement	

Recommendation rating	
Priority ranking 1:	There is potential for financial loss, damage to the organisation’s reputation or loss of information. This may have implications for the achievement of business objectives and the recommendation should be actioned immediately.
Priority ranking 2:	There is a need to strengthen internal control or enhance business efficiency.
Priority ranking 3:	Internal control should be strengthened, but there is little risk of material loss or recommendation is of a housekeeping nature.

D Staff consulted during review

Name	Job title
Colin Naish	Executive Director of Stadium
[REDACTED]	Senior Programme Manager
Greg Smith	Project Sponsor – Stadium
[REDACTED]	Project Director (Mace)
[REDACTED]	Finance Business Partner
[REDACTED]	Assistant Project Manager - Stadium

We would like to thank these staff for the assistance provided during the completion of this review.