

Item: 6.6

Monitoring and Audit Committee: 17 February 2022.

Internal Audit Report:

St Andrews Primary School – Extension Project.

Report by Chief Internal Auditor.

1. Purpose of Report

To consider internal audit on cost increases since the original Stage 2 Capital Project Appraisal in respect of the proposed extension of St Andrews Primary School was approved in 2014.

2. Recommendations

The Committee is invited to note:

2.1.

That Internal Audit has undertaken an audit of the project and tender documentation to identify reasons for the increase in costs in respect of the proposed extension of St Andrews Primary School, since the original Stage 2 Capital Project Appraisal approved in 2014.

2.2.

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to a review of project and tender documentation to identify reasons for the increase in costs in respect of the proposed extension of St Andrews Primary School.

It is recommended:

2.3.

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

St Andrews Primary School, which opened in 1996, serves the East Mainland of Orkney with a catchment area covering Holm, Deerness, Toab and Tankerness. As pupil numbers increased the school was extended in 2003 and in 2012 a temporary portacabin was added.

3.2.

At the Special General Meeting of the Council held on 14 January 2021, Council resolved that the revised Stage 2 Capital Project Appraisal (CPA) in respect of the proposed extension and alterations to the school be approved although concerns were raised about the increases in costs. Due to these concerns an internal audit was proposed.

3.3.

The objective of this audit was to review project and tender documentation to identify the reasons for the increase in costs from the original Stage 2 CPA in 2014 to the revised Stage 2 CPA approved in January 2021 and the reasons for the delay in the commencement of the project.

4. Audit Findings

4.1.

The audit provides substantial assurance that the processes and procedures relating to the project to extend St Andrews Primary School are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes one medium priority recommendation within the action plan. There are no high-level recommendations made as a result of this audit.

4.3.

The Committee is invited to review the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officers

Andrew Paterson, Chief Internal Auditor, extension 2107, email andrew.paterson@orkney.gov.uk.

Barrie Hamill, Internal Auditor, extension 2181, email barrie.hamill@orkney.gov.uk.

9. Appendix

Appendix 1: Internal Audit Report: St Andrews Primary School Extension Project.



Internal Audit

Audit report

St Andrews Primary School Extension Project

Draft issue date: 19 January 2022

Final issue date: 3 February 2022

Distribution list:	Executive Director, Education, Leisure and Housing Interim Director of Finance, Regulatory, Marine and Transportation Services Interim Executive Director of Environment, Property and IT Services Capital Programme Manager Head of Education Interim Head of Finance
---------------------------	---

Contents

Audit Opinion	1
Executive Summary	1
Introduction	2
Audit Scope.....	2
Audit Findings	4
Action Plan.....	8
Key to Opinion and Priorities.....	9
Annex 1	10

Audit Opinion

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The capital project at St Andrews Primary School was originally developed to ensure that the school would meet demand, and remain 'fit for purpose' in terms of learning provision for its catchment area. In particular the project was scoped and specified to address new requirements with respect to early learning and childcare, a sustained increase in school roll and future proofing.

Three Stage 2 Capital Project Appraisals (CPA) for the St Andrews Primary School Extension Project have been approved by Council. The original Stage 2 CPA was approved in October 2014, with revised appraisals approved on 9 March 2017 and 14 January 2021.

Our review has found:

- Delays in the project have led to budget increases.
- Delays to the project have mainly been caused by changing government legislation and in-house staff resource priorities.
- Appraisals were extensive, detailed and consistent and contained the information required by the CPA Stage 2 guidance in place at the time.
- Approximately 75% of the final budget had been approved in the first quarter of 2017, and since then has been reported to committee in the various capital related and Procurement Annual Reports.
- The requested increase in budget approved in January 2021 was in accordance with the information presented and underlying evidence.
- Had the project gone ahead in 2014, it is likely that further future expansion would have been required.
- Where tenders have been submitted, there is no guidance on re-evaluating the financial standing of the tenderers where there have been budget increases as part of a revised Stage 2 CPA.

The report includes one recommendation as set out in the table below. Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
1	0	1	0

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

St Andrews Primary School, which opened in 1996, serves the East Mainland of Orkney with a catchment area covering Holm, Deerness, Toab and Tankerness. As pupil numbers increased the school was extended in 2003 and in 2012 a temporary portacabin was added. The current school roll is 208, organised into a nursery with Early Years classes, and a main school with seven full-time Primary 1 to Primary 7 classes.

In October 2014, the Council agreed to include the proposed extension of the school in the General Fund Capital Programme for 2015/16 to 2019/20, at a cost of £995,000. In March 2017, the Council approved a revised Stage 2 CPA in respect of the proposed extension and alterations and increased the existing provision within the General Fund Capital Programme by £2,236,000 to £3,232,000. In July 2020 the tender opportunity for the proposed extension and alteration were published. There was a difference between the post tender project costs and the existing provision in the capital programme of £1,092,000.

At the Special General Meeting of the Council held on 14 January 2021 Council resolved that the revised Stage 2 CPA in respect of the proposed extension and alterations to the school be approved and that the existing provision within the General Fund Capital Programme in respect of the proposed extension and alterations be increased by £1,092,000, from £3,232,000 to £4,324,000.

Changes in the scope, scale and specification of the project and the associated reasons along with a tender analysis and detailed financial implications were included in the report presented at the Special General Meeting on 14 January.

At the Special General Meeting concerns were raised about the increases in costs and in light of these concerns an internal audit was proposed.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Audit Scope

The objective of this audit was to review project and tender documentation to identify the reasons for the increase in costs from the original Stage 2 CPA in 2014 to the revised Stage 2 CPA approved in January 2021.

The audit included but was not limited to reviewing:

- Project documentation throughout the period under scope including relevant Capital Project Appraisals and detailed costings.
- That Capital Project Appraisals were carried out in accordance with the Council's Guidance Notes.
- The tendering process through to the award of the tender.
- The reasons for the delay in the commencement of the project.
- The rationale for any increases in specification and that any assumptions made are still valid and relevant.

- That members have had adequate and relevant information on the project since it was originally included in the Capital Programme.
- That the project represents Best Value for the Council.

The audit will not investigate how the extra monies required for the project will be funded by the Council.

Audit Findings

1.0 Project History

- 1.1 It has been recognised since at least 2012 that St Andrews Primary School has had insufficient accommodation to meet the educational needs of the increased school roll. In November 2012, a Stage 1 CPA was presented to the Education, Leisure and Housing Committee (EL&H) recommending that a Stage 2 CPA in respect of an extension and alterations to St Andrews Primary School, be submitted to the capital programme setting process for 2013/14 onwards. The history of the project culminating in the issue of the tender can be found at Annex 1.

2.0 Budgets and Member Scrutiny

- 2.1 Budgets approved either at Stage 1 or Stage 2 CPA are shown below. Each of the appraisals contained the information required by the capital appraisal guidance in place at the time.

Meeting	Approved Budget
14 November 2012 - Education, Leisure and Housing Committee. Stage 1 Capital Project Appraisal St Andrews Primary School – Proposed Extension and Alterations.	£490,000
30 September 2014 - Policy and Resources Committee Capital Programme 2015/16 onwards. Stage 2 Capital Project Appraisals – Review and Project Scoring.	£995,000
28 February 2017 - Policy and Resources Committee Proposed Extension to St Andrews Primary School. Revised Stage 2 Capital Project Appraisal.	£3,232,000
14 January 2021 Special General Meeting of the Council Proposed Extension to St Andrews Primary School. Revised Stage 2 Capital Project Appraisal.	£4,324,000

- 2.2 As outlined in Annex 1 below, members have had the opportunity to scrutinise and discuss the project on a number of occasions.
- 2.3 At the EL&H Committee meeting of 8 February 2017, options were discussed which led to a revised Stage 2 CPA with a budget of £3.232 million being submitted to the next meeting of the Policy and Resource Committee. An amendment was moved to re-evaluate the need for an increased scope and present lower cost options. This was defeated. Therefore, 75% of the final budget approved in January 2021 had come before members in February 2017. From this date the budgeted amount of £3,232k was included in regular Capital Expenditure

Monitoring and Capital Expenditure Outturn reports. The project budget was also mentioned in Capital Slippage and Acceleration Reports and included in all Procurement Annual Reports.

- 2.4 Following the tender process in 2020, it was evident that the existing provision in the capital programme was insufficient and that an increase in provision was required. The additional requirement of £1,092,000 was discussed and described in detail in the revised Stage 2 CPA presented to the Special General Meeting of the Council on 14 January 2021, making the total budget £4,324,000.

3.0 Best Value

- 3.1 Section 1, Local Government in Scotland Act 2003 places a statutory duty on the Council to secure best value. Procurement activities which deliver value for money will contribute to the achievement of value for money. Value for money is one of the 11 key priorities identified in the Council's Procurement Strategy.
- 3.2 The project tender was awarded on the basis of the Most Economically Advantageous Tender (MEAT) which is intended to identify contracts delivering best value for money. This method is required in Procurement Regulations, the Council's Contract Standing Orders and the Council's Procurement Manual.
- 3.3 Section 5.4 of the revised Stage 2 CPA presented to Council on 14 January 2021 stated 'the competitive tension during the procurement exercise demonstrates that these are fundamentally the competitive external market prices in the current climate of uncertainty for undertaking this project at this time with higher associated commercial 'risk' profile for contractors'. Four tenders were received, the lowest three of which were within less than 7% of each other. The difference between the lowest two tenders was just under 4% indicating some correlation in pricing. This would indicate that the winning tender price was a fair reflection of the work required to carry out the tender.
- 3.4 As mentioned at 2.4, following the tender submissions, a funding deficit of £1,092,000 was identified. Three separate elements causing this deficit were described in the report. These were due to inflation (£500k – costs for the previous budget had been set in October 2016), Legislative and Standards (£350k – new or changed fire and drainage legislation) and Building Management Systems and Mechanical and Electrical related to carbon neutral issues. An examination of these costs, the successful tender, the documented explanations and the analysis presented in Appendix 1 of the report presented to Council on 14 January 2021 indicates that the increase requested and final budget approved was in accordance with the underlying evidence.
- 3.5 In accordance with Best Value principles a robust options appraisal process will help provide assurance that decisions are being made on a sound basis. An options appraisal is an important element in the Stage 2 CPA process. Throughout the project it was considered that options were limited due to the requirement to continue to provide an education service. However, costed options were being considered as early as 2012.
- 3.6 At the EL&H Committee meeting on 8 February 2017, an options report was presented for the project. Three options were included and discussed. An amendment to include additional

lower cost options which would be the basis of a revised Stage 2 CPA to be presented at the next EL&H was defeated. At the meeting of the Policy and Resources Committee of 28 February 2017, Appendix 1, Annex 2 of the revised Stage 2 CPA set out, in detail, options covering the 2014 proposal, the option approved at the previous EL&H Committee and an alternative lower cost proposal. These were compared with the existing provision and indicated areas in each option that were not fit for purpose, not desirable, and those that were fit for purpose. All elements of the recommended and approved option were indicated as being fit for purpose. Options were presented in accordance with CPA guidance.

- 3.7 The Stage 2 CPA presented at Special General Meeting on 14 January 2021 at Annex 2 represented unchanged two of the detailed options included in the 2017 report; one outlining the current position and the previous option approved. However, in response to the tenders received, attempts were made to identify savings options. These are listed in the report with reasons for their unsuitability. The report also mentions a 'value engineering' meeting that took place between officers, including service Executive Directors and the Interim Chief Executive. Notes from the meeting indicate that discussions took place regarding price changes between 2016 and 2020, the new requirement for a sprinkler system, increased costs of Mechanical and Engineering equipment, best value construction options and the scope for value engineering. This triggered two subsequent meetings where further discussions took place.

4 Delays

- 4.1 The Council has had significant levels of slippage against capital programmes for a number of years. In 2019/20 Internal Audit conducted a Review of Major Capital Projects and carried out an audit on Capital Programme Slippage. The latter noted that there is a risk that slippage on the capital investment programme may lead to the rescheduling of General Fund capital projects which could have an impact on strategic priorities and made recommendations to improve the performance of the Council. In their 2021/22 Audit Report, Audit Scotland recommended that 'the Council should ensure appropriate action is taken to minimise capital slippage in line with Internal Audit recommendations'.
- 4.2 The Timeline at Annex 1 below shows that the initial Stage 1 CPA was presented to EL&H Committee on 14 November 2012. The tender was awarded on 20 January 2021, after the revised Stage 2 CPA was approved at the Special General Meeting on 14 January 2021, a period of over 8 years.
- 4.3 A Stage 2 CPA and a revised Stage 2 CPA for the project were approved in October 2014 and March 2017 respectively. The proposed programme timetables list the construction periods of April 2016 to August 2017 and July 2018 to February 2020 respectively. Actual start on the project was March 2021.
- 4.4 In the Internal Audit Review of Major Capital Projects, for eight projects selected (including St Andrews Primary School) it was estimated that the average period between the Stage 2 CPA being recommended for approval by the Policy and Resources Committee, and the awarding of the procurement contract, to be around 32 months. The average period for construction projects within the selection reaching the procurement contract award milestone is estimated to be 35 months. It found that 80% of slippage was attributable to the initial planning stage of projects. However, the main reason for the delays in this project were changes in scope, scale and specification.

- 4.5 In November 2012, the Stage 1 CPA identified insufficient accommodation to cope with increasing school rolls. The solution was essentially alterations to the layout with additional classroom and general purpose/meeting rooms accommodated within the existing roof space. The Stage 2 CPA presented at P&R Committee on 30 September 2014 increased the budget, citing addition pressure on the school accommodation requirements due to Government legislation to increase nursery provision from 475 to 600 hours and the requirement to support two year olds in school nurseries.
- 4.6 Prior to the work being tendered the project scope was revisited. After 2014 following consultation with the Head Teacher and staff at the school and particularly consideration of the requirements of Early Learning and Childcare (ELC) it was identified that the original scope of the project was likely to be insufficient for future needs. In 2016 the Government announced an expansion of funded ELC, to 1,140 hours per year. Originally intended for August 2020, this was delayed to August 2021 due to the COVID-19 pandemic. A review of Committee reports has found that explanations were given for the changes in scope.
- 4.7 The Stage 2 CPA approved by Council on 9 March 2017 had been revised to ensure that the school remained 'fit for purpose' and to address the issue of future-proofing. However, it was not until July 2020 that the tender opportunity was initially published in the Orcadian asking for expressions of interest. The reason for this delay was caused by competing priorities for the small in-house Council team particularly with design related work. Reference to this issue had been made in the February 2020 Capital Monitoring Report. The January 2021 report notes that capacity issues had been mentioned in recent Internal Audit Reports and the planning service review. It was agreed at the Capital Programme Board that changes should be made to strengthen staff resources.

5 Post approval tender issues

- 5.1 One component of the tender evaluation process involves an examination of the economic and financial standing of contractors to ensure their suitability. This is carried out by the Finance Section on behalf of the Council. Evaluation is based on the estimated total value of the contract.
- 5.2 Where tenders have been received and examined prior to the approval of an increased budget, officers should ensure that bidders continue to meet the economic and financial suitability requirements outlined in the European Single Procurement Document (ESPD). Whilst this situation is relatively rare, we have been unable to find any guidance that applies in situations like this.

Recommendation 1

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1. Guidance should be developed to address instances where budgets are increased after tenders are received.	Medium	Contract Standing Orders to be updated in section '33 Technical and Financial Checks' to address the exceptional instances where budgets increase after tenderers have been financially checked for a lesser figure.	Capital Programme Manager.	31 December 2022

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

Annex 1

St Andrews School Project Timeline

<p>14 November 2012</p> <p>Education, Leisure and Housing Committee. (EL&H)</p>	<p>Stage 1 Capital Project Appraisal St Andrews Primary School – Proposed Extension and Alterations.</p> <p>The Committee recommended that the Executive Director of Education, Leisure and Housing should submit a stage 2 Capital Project Appraisal in respect of an extension and alterations to St Andrews Primary School, to the capital programme setting process for 2013/14 onwards.</p>
<p>11 September 2013</p> <p>EL&H Committee</p>	<p>Capital Programme – Proposed Projects for 2015/16 onwards</p> <p>Mentions that the Council has already agreed that the proposed extension to St Andrews Primary School be progressed to stage 2 of the Capital Project Appraisal process.</p> <p>Recommended that the Committee rank the proposed projects (Stage 1 Capital Project Appraisals) above in priority order.</p> <p>St Andrews extension was given a priority ranking of 1 which is the highest ranking. Therefore, St Andrews be progressed to the detailed Stage 2 appraisal process.</p>
<p>26 November 2013</p> <p>Policy and Resources Committee (P&R)</p>	<p>To review the Stage 1 Capital Project Appraisals (CPAs) submitted for consideration through the CPA process.</p> <p>Projects, ranked 1 to 3 by the Service Committees, be progressed to Stage 2 of the Capital Project Appraisal process. St Andrews extension was one of these.</p>
<p>30 September 2014</p> <p>P&R Committee</p>	<p>Capital Programme 2015/16 onwards. Stage 2 Capital Project Appraisals – Review and Project Scoring.</p> <p>Recommended that project be added to General Fund Capital Programme for 2015/16 to 2019/20.</p>

<p>October 2014 General Meeting of the Council</p>	<p>The Council agreed to include the proposed extension of St Andrews Primary School in the General Fund capital programme for 2015/16 to 2019/20, at a cost of £995,000.</p>
<p>8 February 2017 EL&H Committee</p>	<p>To consider a change in circumstances associated with the existing approved capital project to extend St Andrews Primary School.</p> <p>The Education, Leisure and Housing Committee considered options in respect of the proposed extension of St Andrews Primary School, as detailed in section 5.6 of the report by the Executive Director of Education, Leisure and Housing.</p> <p>The preferred option of the Education, Leisure and Housing Committee in respect of the proposed extension of St Andrews Primary School was to increase the scope and scale of the project, at an additional cost of £2,236,000.</p> <p>An amendment that the Executive Director of Education, Leisure and Housing should submit a report, to the next meeting of the Education, Leisure and Housing Committee, (1) evaluating the need for the increased scope, giving reference to the existing school and extension approved in 2014; and (2) presenting additional lower cost option(s) which reflected affordability, which would then be the basis for the revised Stage 2 Capital Project Appraisal was defeated seven votes to five.</p> <p>Resolved to recommend to the Council that the Executive Director of Education, Leisure and Housing should submit a revised Stage 2 Capital Project Appraisal, to the next meeting of the Policy and Resources Committee, in respect of the revised scope and scale of the proposed extension to St Andrews Primary School.</p>
<p>28 February 2017 P&R Committee</p>	<p>Proposed Extension to St Andrews Primary School. Revised Stage 2 Capital Project Appraisal.</p> <p>The Committee resolved to recommend to the Council that the revised Stage 2 Capital Project Appraisal in respect of the proposed extension and alterations to St Andrews Primary School, be approved.</p> <p>That the existing provision within the General Fund capital programme in respect of the proposed extension to St Andrews Primary School be increased by £2,236,000, from £995,000 to £3,232,000m.</p>

<p>9 March 2017</p> <p>General Meeting of the Council</p>	<p>Recommendations made at P&R meeting on 28 February approved.</p>
<p>July 2020</p>	<p>Tender opportunity published in the Orcadian asking for expressions of interest.</p>
<p>August 2020</p>	<p>Formal contract notice was issued and publicised on the Public Contract Scotland (PCS) portal. The procurement strategy was to invite the local parties who previously expressed interest and also to advertise it wider on PCS to maximise the opportunity both locally and nationally. Invitation to Tender sent out.</p>
<p>October 2020</p>	<p>Tenders received and opened.</p>
<p>14 January 2021</p> <p>Special General Meeting of the Council</p>	<p>Proposed Extension to St Andrews Primary School. Revised Stage 2 Capital Project Appraisal.</p> <p>Recommended that the revised Stage 2 Capital Project Appraisal in respect of the proposed extension and alterations to St Andrews Primary School, attached as Appendix 2 to this report, be approved.</p> <p>That the existing provision within the General Fund capital programme in respect of the proposed extension and alterations to St Andrews Primary School be increased by £1,092,000, from £3,232,000 to £4,324,000.</p>
<p>20 January 2021</p>	<p>Tender Award Letter sent out.</p>