Health and Care Professions Council

186 Kennington Park Road – Internal Audit Review

Internal Audit Year: 2018/19

04 March 2019

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Glossary

HCPC - Health and Care Professions Council

KPR – Kennington Park Road

FTP – Fitness to Practise

FY – Financial Year

NPV – Net Present Value

CAPEX – Capital Expenditure

VAT – Value Added Tax

PID – Project Initiation Document

186 Kennington Park Road Project Review		Imp.	Low	Med.	High
	Findings raised	1	2	2	-

At the request of the Audit Committee, Grant Thornton undertook a review over the 186 Kennington Park Road purchase and renovation project. It is acknowledged that a project of this nature is unlikely to occur again for a significant period of time, if at all; nonetheless, it is important for Management to reflect on the successes and to look to understand what could have been done differently to help inform future projects. Note, majority of key individuals involved in the original decision making process to proceed with the purchase and renovations as well as programme management are no longer with the organisation.

The objectives of this review therefore were to assess whether for both the purchase of the property and the subsequent renovation: that clear objectives were in place, benefits and costs were established, robust option analysis and challenge was provided by Management and Council and a clear, formal expression of their expected outcomes was made. Additionally, whether expert advice was sought in the investment decision-making process, and whether governance arrangements in place, including oversight and challenge by Management and Council were robust for material proposed changes to scope.

Overall, we have found that for both the purchase and subsequent renovation, analysis of options and justification for the selected course of action has been documented. Official approval for funding and for the project to proceed had been sought and gained at each major stage in the project. We also observed a number of instances of good practice including:

- Analysis of the relative merits of options available and including all aspects, such as staff retention, and not just those directly related to the physical accommodation itself
- Support of the project at a senior level, specifically the oversight and support provided by the Chief Executive
- In the latter stages, engagement of specialist project management resource with strong relevant experience.

While these good practices were observed, we have also raised two **medium level** observations.

First, there is no evidence that a full cost benefit analysis was performed either on the renovation stages or on the project as a whole. There is no evidence that benefits realisation tracking procedures have been established for the 186 Kennington Park Road projects specifically, and it is not standard practice for HCPC to do so for capital investment projects. The lack of benefits tracking hinders HCPC's ability to determine the level of success of the project in delivering its stated aims and does not facilitate identification of missed benefits and the opportunity to take remedial action.

HCPC has the means to gather data to support tracking of benefits as part of its business as usual processes, including monitoring the level of staff turnover and conducting staff surveys to gauge opinion in specific areas of interest.

Our second medium level observation concerns the use of contingency in the management of projects.

Contingency amounts for time and cost have been included at each stage of the renovation project. There is, however, no explanation of how a specific amount has been derived and whether the amount is reasonable in terms of the profile of the project. There was also no procedure for approval of using contingency and no record stating how contingency has been used specifically during the life of the renovation project.

One of the objectives of the audit was to establish whether there is evidence of discussions amongst and critical challenge by Management and Council. We have found that such evidence cannot be provided for the projects that are the subject of this audit principally because minutes taken at these meetings are in an abbreviated style that focuses on decisions made and actions agreed only. Council may wish to consider in particular cases whether it would be appropriate to record more detail of discussions held concerning, for example, important investment decisions.

1.1 Background

At the request of the Audit Committee, Grant Thornton has undertaken a review over the 186 Kennington Park Road Project.

The Council authorised the purchase of the 186 Kennington Park Road (KPR) and 18A Stannary Street buildings by HCPC in February 2012. From 2013-2016, the buildings underwent basic re-decoration, though the overall state of the building was considered by Management to be poor. To ensure that all employees have the same standard of working conditions, Management considered that it was necessary to undertake a programme of improvement works within the buildings.

The organisation considered various options to improve the buildings, though all major renovation works were restricted due to the cost and disruption of finding alternative temporary premises for the Fitness to Practise (FTP) hearing cases previously hosted in the building. With the opening of 405 Kennington Road tribunal centre in January 2016, and the transferral of all hearings to the new building, it was possible at that time to undertake more complex programme of improvement works.

The objective of the programme was to provide a modern, efficient and enjoyable working environment for employees and visitors, equipped with modern office facilities within a budget that was in line with the values of the organisation. The new fit out was completed within the 2018/19 financial year.

The majority of key individuals involved in the original decision-making process to proceed with the purchase and renovations as well as programme management are no longer with the organisation.

1.2 Scope and risk areas

The delivery of capital projects can create considerable financial, operational and reputational risks to an organisation that typically arise from:

- lack of robust discussion, consideration of options and appropriate due diligence in advance of making key investment decisions
- escalation of overall project costs (often including a combination of construction, decant and change management costs) beyond investment approval, that affects project affordability and impacts the wider financial or operational performance of the organisation
- facilities that do not deliver the operational functions and benefits on completion that occupiers are expecting, or transitional arrangements that impact negatively on their wider operational effectiveness while they are in place and
- the project not delivering expected benefits or improvements, with consequences on long term financial sustainability.

The objective of this review was to assess whether, for both the purchase of the property and the subsequent renovation:

- clear objectives, benefits and costs were established from the outset and were supported by source data, robust option analysis and robust challenge from Management and Council and whether Management and Council made a clear, formal expression of their expected outcomes from the combined projects
- advice was available to provide a clear understanding to those involved in the investment decision-making process
- the process to review, critically challenge and approve the objectives, benefits and costs at the appropriate level in the organisation were robustly considered on an on-going basis, including material changes to the agreed projects
- there is appropriate documentation in place to evidence discussions amongst, and critical challenge by, Management and Council in considering the options available to HCPC in purchasing the properties and the subsequent renovation project, including the consequences of “doing nothing”
- governance arrangements in place, including oversight and challenge by Management and Council, were robust for material changes to the scope of the property purchase and subsequent renovation
- lessons learned mechanisms were applied effectively from previous projects, and were being captured and disseminated as the project progressed, as well as whether lessons from the purchase of the property and the renovation have been considered.

1.3 Acknowledgement

We would like to take this opportunity to thank the staff involved for their co-operation during this internal audit.

2 Detailed findings

BENEFITS REALISATION TRACKING

Ref	Audit finding and potential risk	Issue rating	Agreed management actions
1.	**Good practice** Any project, whether or not it involves significant capital investment, should have a full business case, which includes a cost benefit analysis for the entire project. For capital projects, the analysis should include costs, net value of assets created/purchased and benefits, both tangible, such as on-going cost savings, and intangible, such as reduction of risk. The realisation of benefits should be tracked and the results used to support the project's authorisation to proceed, both during the lifetime of the project itself and following its completion. **Finding** There is no evidence that a full cost benefits analysis was performed nor were benefits realisation tracking procedures established for the 186 KPR project specifically, and we could not see evidence that a procedure exists whereby tracking is established for all projects. Based on interviews held, however, there is anecdotal evidence that benefits have been realised, though not given a financial value. For example, comments made to HCPC by visitors and from employees that the working environment has improved, though these comments as they stand do not facilitate assigning a financial value to the benefits realised. HCPC has a number of means to gather data to facilitate tracking of benefits as part of its business as usual processes, including monitoring of staff turnover and conducting staff surveys on the particular theme of the working environment. **Risk** In the absence of benefits realisation tracking (monitoring, assessing and reporting), there is a risk that benefits may be significantly lower than expected and that the shortfall may go unnoticed leading to a business case that is no longer viable. Where benefits realisation is not reported, there is a risk that any opportunity to remedy any shortfall will be missed.	**Medium**	The existing methodology caters for limited benefits management through the net present value (NPV) calculations submitted as part of Initiation. As per the existing Audit point referencing the updated Project Management methodology, which targets increased Agility and a focus on increasing the predictability of project outcomes, the Financial Year (FY) 2019-20 Workplan includes an activity to update the methodology in line with the draft government standard for project delivery (GovS002). This methodology update will embed benefits and the realisation plan both, during and post project at its core. Management will ensure that this methodology update retains a standard benefits realisation tracking procedure as part of its core scope. **Date Effective**: 31/03/2020 **Owner:** Head of Projects Immediate action: Re-enforce the existing process to ensure benefits are identified and presented during Initiation, along with proposed owners, proposed realisation timeframe and agreement is reached on the appropriate level of measure. **Date Effective**: 31/03/2019 **Owner:** Head of Projects

USE OF CONTINGENCY

Ref	Audit finding and potential risk	Issue rating	Agreed management actions
2.	**Good practice** Cost and time contingencies should be provided for, to enable the project to continue in the event of unforeseen changes in circumstances. Contingency should only be used to address unforeseen events. A procedure should be established to approve the use of contingency. **Finding** Contingency amounts for time and cost have been included at each stage of the renovation project. There is, however, no explanation of how the amount has been derived and how it has been assessed as reasonable for the particular project. There is also no procedure for approval of using contingency and no record stating how contingency has been used specifically in the renovation of 186 Kennington Park Road. **Risk** In the absence of a procedure to determine the amount of contingency to be added to a project plan/proposal, there is a risk that the amount may not be appropriate. In the absence of a procedure for approval of the use of contingency, there is a risk that it will be used to cover late completion or increased costs that do not arise from unexpected changes in circumstances.	**Medium**	The existing project management methodology calls for a standard 15% contingency on the capital expenditure (CAPEX) line. All project spend, including contingency falls under the governance of the project board. This message should be reinforced for all projects. **Date Effective**: 31/03/2019 **Owner:** Head of Projects Moving forward, the methodology update in response to the existing Audit point will further expand governance of the primary delivery phase to include formal stage gates and decision points for key events. During this methodology update, the level of contingency will be reviewed to ensure that an appropriate level is set per project if a straight 15% is not applicable. **Date Effective**: 31/3/2020 **Owner:** Head of Projects

BUSINESS CASE – COST BENEFITS ANALYSIS

Ref	Audit finding and potential risk	Issue rating	Agreed management actions
3.	**Good practice** Capital investments should have a business case/investment justification that includes a cost benefit analysis and the value of items, including intangible benefits, should be clearly stated. This enables the success of the project to be measured and provides a reference point in the event that material changes are requested in time, costs, scope or quality of "product". **Finding** The project initiation document and papers submitted to Council for the renovation project include costs but do not clearly identify the total value of benefits. The business case for the original purchase of 186 KPR did, however, include values for many of the benefits of the purchase option when compared with others considered at the time. For example, the expected additional costs of relocation outside London, such as potential redundancy payments, were described in detail. **Risk** In the absence of a full cost benefit analysis that justifies proceeding with a capital (or indeed any) project; there is a risk that the project may be authorised even if it is not financially viable or affordable. There is a further risk that the success of the project may not be easily measured at completion against its original objectives.	**Low**	As per point 1 (finding 1) in this paper, the project management methodology review will expand on the current options analysis and benefit tracking contained within the methodology. The existing methodology does reflect the need for benefit identification and NPV calculations, and these are now included in the project Initiation activities. Looking forward, Business Case options will be anchored by the benefits to be realised, over what time frame and at what cost. Where benefits are non-tangible, or it is not appropriate to calculate, it will be called out clearly in a benefit realisation plan. **Date Effective**: 31/03/2020 **Owner:** Head of Projects

EVIDENCE OF CHALLENGE, JUSTIFICATION AND EARLY EXPERT CONSULTATION

Ref	Audit finding and potential risk	Issue rating	Agreed management actions
4.	**Good practice** Where the costs of a project increase materially, the root cause should be identified and reported on a timely basis to allow challenge and where appropriate, reassessment of whether the project remains viable and should continue. Where the nature of a project/investment demands specialist knowledge not available from within an organisation, it is good practice to seek advice at an early stage. Specifically, when estimating costs for a significant capital investment, appropriate experts on determining the likely cost need to be consulted so that the investment proposal includes realistic costs. **Finding** The renovation project had an originally approved budget in April 2016 of £1,037,997 to cover the tendering for a construction company and delivery of the building work. By December 2016, Council were asked to approve a project cost of £2.7M and by approving a total cost of £3M, in effect a contingency amount of £300,000. While in interviews held it has been stated that robust discussion and challenge took place in both Finance & Resources Committee and Council meetings, there is no documentary evidence that this potential cost escalation was reported to Council (as it is not in the Council papers), nor of any challenge made either by Council or senior management. The cost increase fundamentally related to the capital elements of the renovation project, which, not including additional funds for emergency repair work, rose from an expenditure of £393,107 initially, to £1,406,550 after costing by specialists and to £2M after contract quotation. Specialists were therefore not engaged early enough to accurately determine the capital costs required. **Risk** Where monitoring and challenge take place but are not documented, there is a risk that any review may find disagreement regarding the actual discussions that did take place. In the absence of realistic cost estimates, there is a risk that a project may be authorised to proceed where it may not be viable. It is acknowledged in the case of the renovation of 186 Kennington Park Road that even if specialists were consulted earlier, it would likely not have changed the final cost outcome as all of the final costs were for required work.	**Low**	The existing methodology and approach calls for options to be presented at board level with a suitable level of analysis for consensus to be reached. This needs for this process has already been reinforced after this project had started, so now forms standard practice. **Date Effective**: Already in place **Owner:** Head of Projects As part of the new methodology, the level of detail captured during these discussions will be reviewed and modified as required, although the focus is on ensuring robust debate and the appropriate, and then the consensus view being recorded. Additional guidance will be issued at board level to ensure that sufficient data is captured in Project Board minutes to reflect discussion points. **Date Effective**: 31/03/2019 **Owner:** Head of Projects The level of detailed captured at Council, or Audit committee level falls outside the purview of the project methodology. In that instance, the guidance sought by the project is either the affirmative, or negative. **Date Effective**: Not applicable **Owner:** Not applicable

FULL PROJECT TRACKER

Ref	Audit finding and potential risk	Issue rating	Agreed management actions
5.	**Good practice** For a significant project spanning a number of years, it is good practice to create a permanent file that records the complete history of the project in a single place, including core project documentation. **Finding** From a review of key project documentation, it was difficult to identify important documents that contained pivotal decision points. A project summary, or other document, has not been created to catalogue this. As an example, it was difficult to follow movement in costs over time, including what was reported to Council, and the discussions and decisions surrounding this. The Project Initiation Document (PID) (April 2016) included the building works and estimated costs at £1,037,997. The Council Paper stated that the contract for the works is estimated at around £2M including value added tax (VAT) giving a total cost of the project to HCPC of around £2.7M. Council approved £3M without the need for a fresh approval process. While there is an audit trail of the progression of total amount required, it is piecemeal rather than being maintained in one place with a full history of the reasons for change. The history is in effect contained within a number of operational reports and other papers to Council. It is acknowledged that a complete summary was provided to Council by Marc Seale, Chief Executive and Registrar, but this does not directly reference the original documentary evidence. **Risk** Where the complete history of a project is not maintained in a single place, there is a risk that elements may be overlooked whenever the project is to be reviewed and in particular, when its overall success is to be measured following completion.	**Improvement**	The methodology has already been updated to reflect the need for a project file. All projects, once closed are archived to a separate folder and maintained online. The project manager's handbook will be updated to reflect this step as part of core processes. **Date Effective**: 31/03/2019 **Owner:** Head of Projects

A Approach and responsibilities

Approach

Our outline approach to the audit was as follows:

- Meeting with key staff to gain an understanding of the arrangements in place, building upon the information we have already gained through our engagement planning process.
- Reviewing key documents and controls identified to determine whether they are appropriately designed to assess the associated risks.
- Highlighting areas of good practice within the project and areas for further development.

Client staff

The following staff were consulted as part of this review:

- Paul Cooper – Interim Head of Projects
- Guy Haskins – Executive Director of IT and Resources
- Marc Seale – Chief Executive and Registrar
- Susanna Dobson – Architect at Studio Callaghan Ltd engaged by HCPC

Documents received

The following documents were received and reviewed during the course of this audit:

- Documents supporting the original purchase of Whitefield House (186 Kennington Park Road
- Operations reports provided to Council across the period from purchase to completion of renovation
- Council meeting agendas, minutes and enclosures
- Project reports and dashboards
- Project initiation documents for each project stage
- Outline business cases
- Papers submitted to F&RC and Council pertaining to 186 Kennington Park Road.

The full list includes 261 documents that were reviewed.

Locations

The following location was visited during the course of this review:

184 Kennington Park Road, London, SE11 4BU

B Audit Issue Rating

Audit Issue rating

Within each report, every audit issue is given a rating. This is summarised in the table below.

Rating	Description	Features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	• Key control not designed or operating effectively • Potential for fraud identified • Non-compliance with key procedures / standards • Non-compliance with regulation
Medium	Important findings that are to be resolved by line management	• Impact is contained within the department and compensating controls would detect errors • Possibility for fraud exists • Control failures identified but not in key controls • Non-compliance with procedures / standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures	• Minor control weakness • Minor non-compliance with procedures / standards
Improvement	Items requiring no action but which may be of interest to management or best practice advice	• Information for department management • Control operating but not necessarily in accordance with best practice

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