

Internal Audit
Project 2008-03 & 2008-05:
Review of Project and Programme
Reporting/INFRACO

Draft Report
- v4.0

August 2009



Commercially Sensitive and Confidential

*Expected to be subject to Freedom of Information request. Disclosure not to be made without consultation with **tie's** Project Director, due to potential conflict with ongoing commercial negotiations.*

Audit • Tax • Consulting • Corporate Finance •

Review of Project and Programme Reporting/INFRACO Distribution



Report Distribution		
Draft Report	Name	Position
	Steven Bell	Project Director
	Susan Clark	Programme Director
	Frank McFadden	Infraco Director
	Stewart McGarrity	Finance Director
	Dennis Murray	Commercial Director
Final Report	Name	Position
	Steven Bell	Project Director
	Susan Clark	Programme Director
	Kenneth Hogg	Audit Committee Chair
	David Mackay	Chairman
	Frank McFadden	Infraco Director
	Stewart McGarrity	Finance Director
	Dennis Murray	Commercial Director
Richard Jeffrey	Chief Executive Officer	

This report and the work connected therewith are subject to the Terms and Conditions of the Contract between tie Limited and Deloitte & Touche LLP dated 8 October 2008. The report is produced solely for the use of tie Limited. Its contents should not be quoted or referred to in whole or in part without our prior written consent. Deloitte LLP will accept no duty or responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

This report has been prepared on the basis of the limitations on page 13 and 71.

Review of Project and Programme Reporting/INFRACO

1. Detailed Findings - Agreement of Programme



#	Finding/Observation	Risk/Opportunity	Recommendation	Management Comments	Risk
1	The currently agreed baselined programme between tie and BSC is now out of date and an agreed, updated programme does not currently exist between tie and BSC.	<p>In order to ensure consistent reporting of progress, and increase the robustness of the reported AFC, a baselined programme must be agreed between tie and BSC as soon as possible.</p> <p>The lack of an agreed programme also makes stakeholder communication difficult.</p>	<p>tie and BSC should build on the progress made during the recent mediation sessions and arrange further workshops/meetings as necessary to reach agreement and baseline a programme as soon as possible to limit further impact on progress.</p> <p>tie should also ensure that BSC programme attendees have senior consortium member backing to agree a programme that is in the best interests of the project.</p>	<p>Discussions ongoing with BSC in relation to programme but this is likely to be referred to DRP. tie has recently rejected BSC's Revision 2 of the programme and is preparing for the DRP process. tie aim to encourage BSC to put a construction programme in place to assist with stakeholder management and planning in the meantime.</p> <p>Currently an agreed programme is in place for Princes St to attain 28/11/09 Completion.</p>	High

Review of Project and Programme Reporting/INFRACO

2. Detailed Findings – Resolution of Disputes currently in the DRP Process



#	Finding/Observation	Risk/Opportunity	Recommendation	Management Comments	Risk
2	<p>There are a number of commercial disagreements between tie and BSC (including resolution of the programme) which remain outstanding.</p> <p>The only disagreement progressing through the formal Dispute Resolution Process was resolved on 29 May 2009.</p> <p>None of the remaining disagreements have been placed in the formal Dispute Resolution Procedure at the date of our discussions with management (July 2009).</p>	<p>The key areas of contractual disagreement between the parties must be resolved as a priority, as these may have a material impact on the level of certainty of the outturn AFC. Resolution will allow a greater degree of confidence to be developed.</p> <p>In addition, there is unlikely to be any step change in progress until these matters are resolved.</p> <p>Future disagreements will rely on the quality of documentation and associated audit trail. Where there is a disagreement over the content of a report, set of meeting minutes or other document this must be recorded formally.</p>	<p>tie and BSC must continue to build on the progress made during the recent mediation sessions to reach agreement on the outstanding contractual disagreements as soon possible to limit impact on progress and increase confidence in the reported AFC.</p> <p>tie should continue to ensure that all matters of disagreement are recorded formally to ensure that a clear record and audit trail exists.</p>	<p>Following extensive, and ultimately unsuccessful mediation and attempts to close out commercial differences, tie has commenced the process to launch a series of DRP items through the formal contractual process. This is planned to test some of the crucial contractual disagreements. As part of this process there is a documented action plan, position papers being produced and a challenge process applied before launch. Additionally an increased focus on the correspondence relating to these contractual matters has been put in place. Minutes of all DRP related meetings are being recorded.</p>	High

Review of Project and Programme Reporting/INFRACO
 3. Consolidation of Reports



#	Finding/Observation	Risk/ Opportunity	Recommendation	Management Comments	Risk
3	<p>tie senior management consolidates and reconciles a number of reports during the four weekly reporting cycle to ensure clear and consistent reporting.</p> <p>Management demonstrated that a period end process is in place which allows personnel to follow a period end close out process.</p>	<p>The risk is that due to absence or illness the consolidation and reconciliation process cannot be fully completed by other members of the team.</p> <p>There is also an opportunity for senior management to streamline the current reporting templates to reduce the requirement to complete a consolidation exercise in future reports.</p>	<p>tie management should continue to ensure that the consolidation and reconciliation process is clearly set out and the process updated as required to avoid future issues through illness or absence.</p> <p>Management should analyse the content of the Project Directors review pack and identify opportunities to increase the efficiency of the reporting templates and streamline the process.</p>	<p>tie finance have clearly documented the financial consolidation period end processes which can be followed in rote fashion to complete the month-end process if necessary. This significantly reduces reliance on individual team members in the event of absence or illness.</p> <p>- tie finance and ICT teams are currently working on an exercise to simplify and automate the periodic reconciliation process to take away manual input and better use systems currently available to us.</p>	Low

Review of Project and Programme Reporting/INFRACO
 4. Internal Document Management



#	Finding/Observation	Risk/Opportunity	Recommendation	Management Comments	Risk
4	<p>The BSC is becoming increasingly commercially aggressive and there is a risk that a number of disputes may result in formal legal proceedings.</p> <p>During a pre-trial litigation process, each party can request relevant information and documents from the other side in an attempt to "discover" pertinent facts.</p>	<p>There is a risk that under legal disclosure rules, BSC may be able to obtain access, as part of a pre-trial litigation process, to internal tie communications.</p>	<p>tie should consult with their legal advisers to ensure that in the event of a legal dispute internal information cannot be called for and used against tie.</p>	<p>tie's correspondence with legal advisers and their advice which is generated in contemplation of legal proceedings is subject to a general rule of privilege from production. This is why DLA advice is always covered with the "FOISA and legally privileged" rubric.</p>	<p>Moderate</p>

Review of Project and Programme Reporting/INFRACO
 5. Estimates of Change – Programme Impact



#	Finding/Observation	Risk/ Opportunity	Recommendation	Management Comments	Risk
5	<p>tie management has advised that BSC does not complete the programme impact section of the change estimates. This is an important element of any change estimate and should be correctly completed on all future estimates.</p> <p>tie management reports that the BSC rarely completes the estimate template correctly and does not complete the section identifying the impact on programme caused by the proposed change. tie management reports this is by agreement with BSC as BSC has indicated that to provide a programme impact would be too complex. tie management is of the view that not instructing the change is a greater risk and therefore accepts programme risk on instructed changes without clearly defined programme implications.</p> <p>When tie issues a tie Notification of Change, the programme Implications section originally stated "none". This has now been changed at the request of BSC to denote this section as "to be assessed" and therefore by definition, requires further agreement.</p>	<p>The risk is that tie instructs a change without the impact of the change having been fully highlighted, accepted or recorded.</p> <p>However, in discussion with tie management we understand that tie is satisfied that the cost of the change is defined and that any programme implications will be addressed by the overall update to the project programme.</p>	<p>tie should ensure that all future estimates are fully completed and the implications clearly recorded on the tie Change Order to avoid future disagreement with BSC and reduce risk to tie.</p>	<p>tie continue to raise with BSC that estimates should indicate programme impact. This is a key element of the disagreement with BSC over programme information to allow assessments for claims to EOT and likely to be tested in DRP to gain clarity and certainty going forward.</p> <p>tie and BSC are seeking to agree the input of change up to 31/03/09 via a Revision 2 programme.</p>	Moderate

Review of Project and Programme Reporting/INFRACO
 6. Use of ranges in drawdown forecasts



#	Finding/Observation	Risk/Opportunity	Recommendation	Management Comments	Risk
6	Due to fluctuations in the progress of works, management is encountering difficulties in accurately estimating the cash drawdown applications from Transport Scotland.	<p>The risk is that payments due to external parties exceeds the drawdown request made by tie to CEC/Transport Scotland.</p> <p>There is an opportunity to work with CEC/Transport Scotland as key stakeholders to improve forecasting.</p>	tie management should discuss with Transport Scotland the opportunities for using limited range forecasting or an alternative process for forecasting future drawdown payment requirements.	<p>tie pull together the cash drawdown with CEC. CEC then send the cash application onto TS for processing.</p> <p>Requesting a range of 'cash' drawdown may not be a viable proposition because tie must invoice CEC a specific value and in-turn CEC invoice in-line with their agreed split. tie continue to closely monitor the sensitivities of cashflow forecasting and amend drawdown requirements in-line with these sensitivities.</p>	Low

Review of Project and Programme Reporting/INFRACO
 7. Opportunities to improve on reporting



#	Finding/Observation	Risk/Opportunity	Recommendation	Management Comments	Risk
7	There are a number of additional opportunities to enhance the current reporting process.	An opportunity exists for tie management to enhance the reporting on the project.	1. Management could introduce a KPI spreadsheet for summary reporting. This could be used in a number of instances including the Transport Scotland report and Tram Project Board report. 2. An opportunity to improve the programme reporting could include the introduction of a mid period target vs. actual fortnightly progress update.	1. tie management require to agree non-financial KPI measures best suited to give a view on how the project is performing. Once agreed, some of these (non commercially sensitive) KPI's should be used to inform the executive summary of the TS report. 2. Weekly and 4 weekly programme monitoring and reporting of actual vs. target is being implemented by tie.	Low

Review of Project and Programme Reporting/INFRACO
 7. Opportunities to improve on reporting (contd.)



#	Finding/Observation	Risk/Opportunity	Recommendation	Management Comments	Risk
7	There are a number of additional opportunities to enhance the current reporting process.	An opportunity exists for tie management to enhance the reporting on the project.	<p>3. We support the reporting template updates proposed by the Infraco Director (to move towards a KPI based Weekly Project Managers report, Weekly Flash Report and PMP report).</p> <p>4. We also support the introduction of the new Infraco Commercial summary template used in the Period 2 Project Directors review.</p> <p>5. The contract deliverables are tracked on the BSC Deliverables Tracking Register. This document records that tie has not responded to a number of submissions and should be monitored carefully to ensure tie is complying with their contractual responsibilities.</p>	<p>3. A weekly Infraco KPI report is currently in place. This is completed and circulated by the Infraco programme planner. Additionally, a daily flash report of issues is in place for all Infraco and utilities works, completed and circulated by the programme team.</p> <p>4. Infraco Commercial summary report in place and working well as part of the PD review report.</p> <p>5. A summary will be included in the Infraco Director's 4 weekly report. This will show progress and identify areas where action is required.</p>	Low

Review of Project and Programme Reporting/INFRACO
 8. Introduction of a formal dispute management report



#	Finding/Observation	Risk/Opportunity	Recommendation	Management Comments	Risk
8	No single report exists which identifies and collates the progress on all current or forecast areas of potential disagreement or dispute.	<p>The status of current disagreements or disputes is identified in a number of different reports.</p> <p>An opportunity exists to identify possible future material disputes and give the key stakeholders early warning of the nature of the disagreement and the actions taken by management to mitigate the issue.</p> <p>The report could identify the current live issues and give commentary or context on the next 5 – 10 issues that could develop into larger disagreements.</p>	<p>tie management could consider introducing a summary table of issues that may develop into larger disagreements or disputes. This could then be reported at senior level to aid in the advance warning of possible future issues.</p>	<p>A DRP action plan has been produced which identifies all potential and live disputes and timetable for working through the process. This is reviewed weekly at the DRP meeting and at the Finance, Commercial & Legal Committee (FCL) which includes the Tram Monitoring Officer. An overview from FCL is presented to the Tram Project Board.</p>	Low

Review of Project and Programme Reporting/INFRACO

Appendix E – Statement of Responsibility



We take responsibility for this report which is prepared on the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal controls work should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and work performed by Deloitte should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors in conducting their work are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable assurance and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purpose of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Deloitte LLP

Edinburgh

August 2009

In this document references to Deloitte are references to Deloitte LLP.

Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu is a Swiss Verein (association), and, as such, neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the Deloitte Touche Tohmatsu Verein.

©2009 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at 2 New Street Square, London EC4A 3BZ, United Kingdom, the firm's principal place of business and registered office.