



Olympic Land Development

OLD Findings and Recommendations

8 September 2009

ADVISORY

Scope of work

- The Olympic Legacy Directorate (“OLD”), which is part of London Development Agency (“LDA”) identified a sudden increase in its estimated cost of land acquisition, remediation works and professional fees following a recent investigation carried out by the LDA Finance Department. KPMG was engaged to establish facts surrounding this issue and considered, *inter alia*, the following:
 - Processes for managing and monitoring budgets, forecasts and expenditure commitments (and causes of why aspects of these processes failed);
 - The internal and external audit coverage and governance activity in place in relation to the areas of land acquisition and remediation and related professional fees; and
 - Responsibilities and actions that should have been taken to identify the cost overruns.
- During the course of our work, we observed a number of areas for improvement and this report sets out our recommendations for the controls and systems of the OLD and LDA.
- We understand that the following system improvements have recently been made by LDA:
 - LDA-wide file and data improvement programme to ensure all users captured and input data accurately into the Athena system (July and October 2008);
 - a revision of the LDA Standing Orders in September 2008 that reduced the financial delegation limits for payment authorisation;
 - a “Finance Function Forum” to support and review the work of those in an accounting function throughout the LDA; and
 - a Budget Scrutiny process in March 2009 to provide a peer review of the ongoing LDA programmes and confirmation of budgets and forecasts by Programme Managers.
- This report therefore builds on the above initiatives made by the LDA in addressing the issues that have been identified to date.
- The scope of our work is different from that of an audit and does not provide the same level of assurance as an audit.

Emergence of the overrun

The issue of overrun of the OLD department of the LDA arose, following improvements in governance and financial controls that the LDA had put in place. These included a reduction in the delegation limits throughout the LDA. Payments over £500k required approval from LDA Corporate Finance from October 2008. Previously, OLD management had the ability to authorise payments up to £7m. A request to authorise payment of an invoice for £7m in respect of remediation of land at the Olympic site in May 2009 alerted Corporate Finance staff of the potential for overrun, as attached to the invoice was analysis showing that the outstanding lifetime forecast remediation costs were significantly over budget.

After further investigation, staff at LDA Corporate Finance initially estimated forecast overruns for land acquisition to be £86m over budget. The current overrun estimate is now believed to be £123.2m for land acquisition only, before taking into account the contingency. This comprises £59.2m relating to overruns over the November 2006 budget, £47.3m omissions from the budget, statutory interest of £8.6m and a forecast adjustment and unallocated costs of £4.4m and £3.7m respectively. The total overrun estimate for all elements of the Olympic Legacy land, including land acquisition (£123.2m), remediation and professional fees, is believed to be £159.8m.

Our finding is that there was information available to OLD management indicating the overrun from at least as early as April 2008, over a year before this was reported to senior officers of the LDA. This information concerned payments and claims that were significantly above the November 2006 Forecast on which the budget was based.

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OLD FINDINGS AND RECOMMENDATIONS

Recommendations

Observation

1. Non escalation of known overruns

The Financial Regulations require expenditure and/or commitments to be contained within the budgets and for the budget holder to ensure that commitments do not exceed the approved budget.

To comply with this policy, potential overruns, either in the current year or in the lifetime budget, should be escalated as soon as they are identified. This would enable management to take decisive action to ensure costs are reduced or budget levels are revised accordingly.

Information was available to some OLD staff indicating the overrun from at least as early as April 2008, over one year before this was reported to senior officers of the LDA.

Recommendations

- a. We recommend that all relevant staff should be reminded of this requirement in writing and appropriate action taken in instances of non-compliance.
- b. Staff holding key positions, such as the Finance Manager and those responsible for material budgets, should be required to sign Stewardship Statements at each year end. These should confirm their compliance with the LDA's specific rules and regulations, such as the Financial Regulations, that are applicable to them.

Response from Management

We agree that the current stewardship statements should be extended to key finance staff and that all relevant staff should be reminded of the requirement to manage lifetime budgets and report /escalate potential problems. This is in addition to the existing financial delegation letters sent annually to all relevant staff. All recommendations are included in the action plan.

Recommendations

Observation	Recommendations
<p>2. Poor documentation</p> <p>There was a poor audit trail of documentation within the OLD that would have enabled its performance against the land acquisition budget to be monitored effectively.</p> <p>The state of the Project Managers' files was poor. Discussions with agents were held irregularly and were not adequately documented.</p> <p>There was no systematic process for updating the forecast and tying this back to source documentation</p> <p>Information provided by agents that indicated potential overruns was not captured or escalated by OLD staff.</p>	<ol style="list-style-type: none"> a. Project Managers should be formally advised of their responsibilities in respect of the proper retention and archiving of relevant electronic files and documents. b. Key documents (such as emails, correspondence and valuations of agents) should be properly filed and archived. c. Where key information is provided orally during meetings, either meeting notes are taken and distributed or emails capturing the pertinent points arising are circulated. d. Regular meetings should be held with agents in order to generate periodic (e.g. quarterly) reports from agents showing costs incurred, costs committed and estimates of costs 'to go' (for both best and worst case scenarios). e. Project Managers should be adequately trained as to how to consistently store relevant information within the Athena system so that this may be easily accessed by others. <p>We acknowledge that the LDA has taken steps to improve the capturing of information on Athena, such as through the all-staff communications regarding the accuracy of project data in July and October 2008, training and the Valuing Information Project undertaken.</p>
<p>Response from Management</p>	
<p>As recognised the agency has made significant improvements in project documentation and information. We agree that this needs to be supplemented by compliance checks and further guidance to managers on responsibilities and lessons learnt as a result of this investigation. All recommendations are included in the action plan.</p>	

Recommendations

Observation

3. Poor control in the use of spreadsheets for monitoring performance

The principal tool for monitoring performance against the lifetime budget (including actual spend and new claims) was a spreadsheet maintained by the OLD staff.

We found controls surrounding this spreadsheet were poor. Specifically, we found the following regarding this spreadsheet:

- it did not reflect up to date information available to Project Managers about overspends on their claims;
- the spreadsheet was over-saved, so that there was no audit trail of movements over time;
- it did not include a total of the new claims since the lifetime budget was set; and
- it did not, except for in one month, include an overall calculation of the projected spend against the budget and contingency.

Recommendation

- a. We recommend that the Athena system be used in place of ad hoc spreadsheets.
- b. Where Athena does not currently meet all the needs for recording the financial information, we recommend that there is a formal process to consider and address these needs, perhaps through system changes. If a separate system must still be maintained, we recommend the following improvements:
 - Retain an audit trail of all data changes and transactions over time;
 - Keep track of actual and forecast expenditure for each individual project (including sub-projects);
 - Periodic generation of the following variance reports:
 - actual expenditure against annual budget (particularly for cash flow purposes); and
 - actual plus forecast expenditure against project lifetime budget (particularly for cost control purposes).
 - Periodic generation of other reports for the differing needs of the organisation, such as detailed project status reports for Project Managers, overall status reports for the budget holder and reports for verification of valuations by agents;
 - Inclusion of key data value dates and process to periodically update data, e.g. date when valuation by agents was last entered and an update process to identify and revise obsolete data.

Response from Management

Agreed. The improvement Programme includes a full review of the systems used by the Agency. All recommendations are included in the action plan.

Recommendations

Observation

4. Financial controls and oversight within the OLD

The financial controls within the OLD were generally inadequate. Whilst improvements have been made recently, the controls that did exist broke down in relation to the land acquisition budget.

An important factor in this is that neither the OLD Finance Manager, who monitored and reported on the land acquisition budget, nor the budget-holder, were qualified accountants.

This has contributed to the lack of effective accounting procedures and lack of rigorous reporting internally of financial and management information.

Specifically, we found the following accounting issues:

- the basis of valuation of future costs was not well understood and lacked a 'worst case' analysis;
- the accounting information was collected in a spreadsheet that was inaccurate and did not monitor spend against the forecast effectively. In other words, the basic requirements for managing and accounting for a budget were not met;
- none of the senior officers of the LDA to whom we spoke accepted responsibility for checking the accuracy of the accounting information prepared by the OLD Finance Manager.

Recommendation

- a. We recommend that the responsibility for monitoring the OLD budget, representing some £1.4bn, be held by an experienced and qualified accountant.
- b. The control environment of the OLD should ensure adequate oversight, either through LDA Corporate Finance or through a formal local control structure within the OLD (i.e. through the appointment of a senior finance executive).
- c. An effective management review process to verify the accuracy of the entries to the monthly Budget Monitor performance report should be implemented with formal sign-off by a senior accountant.
- d. A review of the OLD accounting procedures should be undertaken, particularly in relation to the monitoring and reporting of expected forecast costs at the OLD.

Response from Management

An improved financial control regime has been introduced and an interim qualified accountant appointed reporting directly to the Group Director, Resources and Finance, pending review of the finance function and transition of OLD to the Olympic Park Legacy Company. All recommendations are included in the action plan.

Recommendations

Observation	Recommendation
<p>5. Informality over use of Contingency budget</p> <p>The analysis done by the OLD Finance Team did not effectively track the overspend against the contingency and was unable to tell whether or not it was sufficient.</p> <p>There was a further amount of VAT provision, which in November 2006 stood at £100m and by October 2008 this was reduced to £23m. This may in addition have been considered by the OLD Finance Manager to be available as a form of contingency, although the position is far from clear.</p> <p>We have seen no calculation or the spreadsheet that took account of the VAT provision amount.</p> <p>We found that the informality over the use of contingency budget and the lack of transparency over how it was spent contributed to the non-reporting of the overrun at an earlier stage.</p>	<ol style="list-style-type: none"> a. We recommend that formal procedures be implemented under the Financial Regulations on the use of the contingency budget. b. This policy should be clear that cost savings on other budget lines cannot automatically constitute additional contingency budget. Such transfers are considered virements for which a process is already prescribed in the Financial Regulations. c. Where the contingency budget is being used, it should be made clear in the monthly performance reports which overruns are being offset and whether this represents an overrun of the in-year budget and/or a potential overrun of the lifetime budget. <p>We propose that these recommendations should apply to future LDA contingency budgets as well as specifically to the OLD.</p>
<p>Response from Management</p>	
<p>Agreed. All recommendations are included in the action plan.</p>	

Recommendations

Observation

6. Lack of long term budgetary control

Inter alia, we found there are two primary objectives for budgetary control, namely:

- To ensure in-year spending meets the annual budget set by the funding strategy, so that adequate funds exist to fund expected expenditure in the short term; and
- To ensure that the lifetime budget, over a number of years, is also met.

Whilst both of these objectives are intertwined, it is possible for the in-year budget to be met whilst the lifetime budget may still be exceeded in future years.

We found that the main budget pressure in the LDA was to meet in-year spending amounts with little emphasis placed on performance against lifetime budget.

The “to go” numbers in Budget Monitor (the monthly financial performance report) for future years were based on the Financing Strategy, not expected forecast. This rendered it inadequate as a tool for forecasting total spend accurately.

Recommendation

- a. We recommend that the monthly performance reports, such as the Budget Monitor, be revised to also track the performance of the lifetime budget. This requires accurate forecast expenditure to be collated and reported each month. This forecast should be verified then reviewed and signed-off by the accountable budget manager.

Response from Management

Agreed. All recommendations are included in the action plan.

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7. Mitigation of risk

Delivery of the LDA's Olympic obligations on time and on budget was included on the Corporate Risk Register.

However, our findings are that the Register did not focus sufficiently on the necessary actions to mitigate, avoid or otherwise reduce this risk or to have caused it to be reported on a timely basis.

Recommendation

- a. We recommend risks identified in the Risk Register be challenged by someone outside the risk area who is qualified to tackle them, e.g. relevant Corporate Finance personnel in the case of budget overrun risk.
- b. Periodic reporting of the progress to mitigate the risk and a reassessment of the risk level should be reported, e.g. to the Board on a quarterly basis.
- c. The scope of any internal audit reports should be agreed with the CFO and all reports prepared by internal audit, including drafts, should be provided to the CFO.

Response from Management

Agreed. Risks will continue to be allocated to the person best placed to manage that risk, with better challenge from elsewhere. We will continue to fully report to the Audit Risk and Performance committee and Board on a regular basis. All recommendations are included in the action plan.