

Doncaster East Internal Drainage Board

**Interim Report of the Internal Auditor on the Internal Controls within the
Thorne, Crowle & Goole Moors SSSI Implementation Scheme as at
30th June 2016**



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Dear Sirs

Whilst the scheme being reviewed is specific, the responsibility of the Board and the purpose of the internal control system remains the same as for any other area in which the Board is involved. We have as such highlighted these factors below: -

1) Scope and Responsibility

The Board is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Board also has a duty to make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Board is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Boards functions and which includes arrangements for the management of risk.

2) The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Boards policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3) The Internal Control Environment

The key elements of the internal control environment, which the Board have addressed, are in ensuring that they:

- Prepare its accounting statements in the way prescribed by law.
- Make proper arrangements and accept responsibility for safeguarding public money and resources in its charge.
- Have only done things that it has the legal power to do and has conformed to codes of practice and standards in the way it has done so.
- Have given all persons interested the opportunity to inspect and ask questions about the board's accounts.
- Considered the financial and other risks it faces and has dealt with them properly
- Arranged for a competent person, independent of the board's financial controls and procedures, to give an objective view on whether these meet the needs of the board and reviewed the impact of this work.
- Responded to matters brought to its attention by internal and external audit.
- Disclosed everything it should have about its business activity during the period including events taking place after the period if relevant.

Brief History and Statistics of the Scheme

After the undertaking of preliminary work in connection with the scheme, formal approval for the implementation of the scheme was granted by the Environment agency on 18th February 2011. The total approved sum is calculated as follows: -

| <u>Type of Expenditure</u> | <u>Estimated Cost</u> |
|---|-------------------------------------|
| Design and appraisal | £ 243,804.00 |
| Construction Works | £ 2,474,286.00 |
| Environmental Impact Assessment | £ 20,000.00 |
| Contingencies (95 Percentile & Inflation) | <u>£ 196,000.00</u> |
| Total | <u><u>£ 2,934,090.00</u></u> |

As at the 30th June 2016 there had been a total amount drawn down from the scheme in the amount of £2,717,000. Additional contributions to the scheme had been received in the amount of £56,580 (these are covered below). Also interest earned on monies drawn down and not spent in the cumulative amount of £7,260.88.

The additional contributions to the scheme in the previous periods are analysed as follows: -

| | |
|--------------------------|----------------------------------|
| Natural England | £ 9,980.00 |
| DEFRA | £ 10,000.00 |
| Yorkshire Wildlife Trust | <u>£ 36,600.00</u> |
| Total | <u><u>£ 56,580.00</u></u> |

Treatment of additional contributions

We previously recommended that the spend profile needed to be reflective of any additional contributions made to the scheme during the lifetime of the scheme. We can confirm that this is the case and the above contributions are reflected accordingly within the spend profile.

During the period from 1st July 2015 to 30th June 2016 there were no additional contributions to the scheme from any third parties.

Expenditure Summary

In respect of expenditure, a total amount of £1,495,825.49 had been physically spent within the scheme up to 30th June 2016.

A summary of this expenditure is as follows: -

| | | |
|------------------------------------|---|------------------------------|
| JBA Consulting (time costs) | £ | 482,884.47 |
| JBA Consulting (expenses/mileage) | £ | 18,084.24 |
| Assets acquired | £ | 22,953.35 |
| Dinsdale Moorland Services Limited | £ | 168,577.29 |
| Thorne & Hatfield Moors Forum | £ | 20,123.63 |
| Northmoor Plant Ltd | £ | 160,982.11 |
| George Fillingham | £ | 96,487.00 |
| G Fillingham | £ | 115,138.71 |
| M Gould (Scunthorpe) Ltd | £ | 297,450.19 |
| Various third party costs | £ | <u>113,144.50</u> |
| Total | | <u>£ 1,495,825.49</u> |

Scheme Funds held by the Board

When deducting the expenditure from the total income received shown above, this resulted in a balance of monies in respect of the scheme held by the board as at 30th June 2016 in the amount of £1,285,015.39.

Application for prior approval of variations of approved scheme/studies

A subsequent application of variation to the analysis of costs within the scheme was submitted on 14th February 2014 and Environment Agency approval of this was then subsequently received.

This did not amend the total grant funding in any way, it was the split of costs which was varied as follows: -

1. Project management fees uplifted £150,000 from £287,090 to £437,090.
2. Environmental impact assessment fees uplifted £70,000 from £20,000 to £90,000.
3. Pumping Station costs decreased by £220,000 from £815,000 down to £595,000.

The total values included within 1 and 3 above do not correlate back to the original approved grant valuation in their own right. We therefore requested the specific detailed background of where they ultimately fit into the breakdown of the grant.

This forms part of the spend profile documentation of the scheme which is now maintained by the clerks to the board. This is then reviewed and discussed with the project manager of the scheme on no less than a monthly basis.

We are satisfied that this key document is being maintained as required and updated accordingly on a timely basis. This provides the board with updated information as required alongside other supporting documentation attributable to the spend profile of the scheme.

Asset Protection

We previously recommended that an asset register be prepared and maintained throughout the project.

We have reviewed this and a register is now maintained and is being updated and monitored on an ongoing basis.

Also all moveable assets in respect of the scheme, owned by the Board are now labelled with a record number which is reflected on the asset register being maintained. This will ensure easy reference back to the register and also assist in physically verifying and monitoring the assets.

The main moveable asset to consider for the board moving forward is a Leica Geosystem Survey Pole which was purchased utilising scheme monies for an amount of £11,018 on 16th January 2012.

Moving forward the Board will need to assess both the condition and future requirement for all assets within the asset register and also ensure that adequate maintenance and insurance is in place.

In addition, we would recommend that use of the assets is consistently monitored by the clerks to the board and where any none scheme use is apparent that an appropriate recompense of rental is agreed and remitted to the board.

Tendering Process

In respect of the overall tendering process which has been evident in respect of the scheme we would comment as follows.

We have looked at a sample of two individual tenders which have been undertaken in respect of the scheme: -

1. Thorne Moors Pumping Station Civils (Lot 1).
2. Thorne Moors Pumping Station Mechanical and Electrical works (Lot 2).

In respect of the above tenders, all tender and tender review documentation was reviewed by ourselves. We are satisfied that the process is thorough and appropriate documentation is being maintained.

Finance Regulations

In respect of the financial regulations in this area, the new procedures approved for adoption and being followed are as follows: -

Up to £5,000 - At the CEO's discretion or the Chairman's discretion in relation to specialist service provided by the management services.

£5,000 to £20,000 - Two quotations/estimates and agree with Chairman.

£20,000 and over - Obtain three tenders, consult Board and obtain Board approval. Comply with EU procurement legislation where applicable.

Spend Profile Documentation

When fully reviewing the spend profile documentation being maintained with regard to the scheme it is clear that it is being recorded on a basis in keeping with this type of project in that it incorporates the following key aspects previously recommended: -

1. Provides the precise position at the end of each month in respect of both costs incurred and monies drawn down from the scheme.
2. Provides a ledger balance of unspent funds held in the scheme at the end of each calendar month.
3. Each cost is maintained under the required headings so that that the spend profile can be easily reconciled back to the analysis of the grant initially approved by the Environment Agency on 18th February 2011.
4. Provision is made within the spend profile to ensure easy reconciliation to the approved application for variation to the analysis of costs within the scheme.

Verification of expenditure in relation to Project Officers

In respect of invoices being raised in respect of Project Officers (including project manager) it was agreed at the meeting held on 23rd January 2015 that verification of these must be undertaken by senior management personnel.

We have reviewed all invoices in respect of this for the period 1st July 2015 to 30th June 2016 and can confirm the procedure being maintained is a three stage process as follows: -

1. The engineer/project officer prepares the invoice as required based on hours worked and necessary expenditures incurred and signs the invoice.
2. This is then fully checked by the project manager/senior engineer who then signs the invoice.
3. The regional director of the company then reviews the invoice and signs off the same as a final check.

We can confirm from the detailed testing undertaken by ourselves that the above procedure is being fully operated on an ongoing basis. This ensures compliance with the signing off issues raised previously by the board.

In relation to the above we are informed by local authority audit that a specialist consultancy firm in this area is to be engaged to review the detailed costings of the project officers over the term of the scheme.

Right of Access

In respect of the right of access issues raised in our previous report to 30th June 2014 we confirm that we are aware that the Board is still reviewing its position on this matter. We are informed by local authority audit that a specialist consultancy firm in this area is to be engaged to review this specific issue.

From an internal audit perspective there are no new ongoing internal control issues in this area.

Overall Budget

We are aware that the Environment agency are at present looking for at least a 10% efficiency saving on this scheme. This would be calculated from the initial approved sum at 10% not including the contingencies provision.

It is apparent from the spend profile documentation referred to above that currently it is estimated that the scheme will run under budget in the amount of £274,415. This potential underspend is therefore in line with the efficiency requirement at present.

However, there is currently no provision within the above budgeted figures in relation to the specialist consultancy costs which will arise from the above specific reviews. These are currently unknown and therefore require quantifying as soon as possible and incorporating within the ongoing budget being maintained on the scheme.

Whilst the above shows the scheme is being operated presently within budget, given the suggested efficiency saving above the margin is clearly very tight for this size and type of project. Also, given the potential for the unknown value of non budgeted expenditure referred to above, this needs constant review and attention by all concerned with the scheme.

There is no scope as we understand it to for the Environment Agency to increase the grant amount. However, clearly it is essential that the scheme be both ultimately successful and within budget.

Overall Assessment

It is clear that from the internal audit work undertaken in respect of the period 1st July 2015 to 30th June 2016 that previous issues have been addressed and advised changes and improvements have been implemented. As such, we are satisfied with the documentation being maintained, systems being operated and controls in place in respect of this period reviewed.

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