



SAINT HELENA AUDIT SERVICE
External Auditors

St Helena Airport Project Overview Audit

Providing Assurance

June 2015

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EXECUTIVE SUMMARY

BACKGROUND AND OBJECTIVES

The St Helena Airport Project represents a significant investment of public funds. Given scale of this investment and timescales involved in the project, the Public Accounts Committee (PAC) of Saint Helena, a select committee of Legislative Council, has welcomed an audit overview by the Chief Auditor with a focus upon current assurances in place for the project, which give confidence over the governance, risk management, finances and delivery of the project.

The main objective of the overview is to make an assessment of current assurance flows and enable informed decisions to be made about what further audit or assurance may be required, if any, and at what stages such work should be delivered in the project lifecycle.

AREAS OF ASSURANCE

We highlight a number of aspects of the project which provide assurance that the project is being effectively managed and that there is enough information available to key stakeholders that enable effective decision making:

Assurance	Why is it effective
The project is on the MPA	<ul style="list-style-type: none">• The integrated assurance and approval plan delivers a well structured and effective plan for assurance provision across the entire project lifecycle• This includes general, functional and independent assurance• Mandatory structures are in place that ensures regular reviews take place to ensure the project is on track
Information flows to the Programme Board	<ul style="list-style-type: none">• Technical, financial, operational and functional assurances all examined by the PB to discuss and consider in the decision making process• This information has been deemed reliable and it comes from various levels in the project
Project management follows PRINCE2 project management framework	<ul style="list-style-type: none">• PRINCE2 is the international standard for capital project management• We have seen evidence of this management structure producing positive results
The DBO contract requires risk management plan for the contractor	<ul style="list-style-type: none">• Risk is considered from the early stages of the project so risk can be avoided effectively
Independent assurance is provided by Ernst and Young	<ul style="list-style-type: none">• This constitutes the 'third line of defence' – essential for any project or enterprise which carries significant risk
PRINCE2 followed for operational structure	<ul style="list-style-type: none">• PRINCE2 is the international standard for capital project management

Assurance	Why is it effective
Existence of the PMU	<ul style="list-style-type: none"> The PMU monitors quality and stages of completion. No milestone payments can be transferred to the contractor without PMU signoff
Project liquidity maintained	<ul style="list-style-type: none"> There are no identified concerns with project liquidity which assures that it can be completed providing contractor performance remains on track
Contract financial risk mitigations in place	<ul style="list-style-type: none"> Ensures that DfID and SHG are protected from financial risk should there be a problem

AREAS FOR IMPROVEMENT

While the above displays areas of the project that provide assurance that the project can continue without problems, there are areas we have noted for improvement and issue recommendations in order to encourage management to address these areas where assurance may be lacking. Most notably, our recommendations are designed to look forward into the next phase of the air access project, taking lessons from those issues found for Phase 1.

Area for Improvement	Recommendation
Internal audit function/ independent assurance	<ul style="list-style-type: none"> The Airport Project management team may wish to use the conclusions of this report to use as guidance for securing specific assurances or targeting specific audit work Management should ensure that those persistent 'RED' risk areas are collectively managed and investigated or otherwise make plans for specific targeted assurance work
Defining the risk management strategy	<ul style="list-style-type: none"> All future capital projects as well as Phase 2 for this project should have a defined risk management strategy drafted in accordance with ERM or equivalent standard e.g AS/NZS ISO 31000: 2009
Contract milestone payments	<ul style="list-style-type: none"> EV calculations are performed at key intervals and especially at each financial year-end. Management reassesses with technical expertise as required the adequacy of the project bonding – specifically the EV payments bridge and it's release through to completion of Phase 1
Securing assurance for Phase 2	<ul style="list-style-type: none"> Management should design a detailed integrated assurance and audit programme for Phase 2 of the project
Project accounting	<ul style="list-style-type: none"> Technical accounting treatment for aid flows & assets under construction are considered as a significant audit risk within the SHG audit of financial statements 2012/13. SHG should continue to improve its accounting policies in order to account for airport construction to the recognised international standards
Transparency and accountability	<ul style="list-style-type: none"> Transparency and the timeliness of the publication of public information should improve so as to improve public stakeholder assurance.

1. INTRODUCTION

1.1 BACKGROUND

On 03 November 2011, Andrew Mitchell, the serving Secretary of State for International Development announced that a Design, Build and Operate (DBO) contract would be signed with Basil Read (Pty.) Ltd. for the construction and operation of an airport on Saint Helena. Following an exchange of letters between Saint Helena Government (SHG) and the Department for International Development (DFID) between November 2011 and September 2013, an agreement for the terms of the grant was reached.

Phase 1 of the DBO contract is worth £201.5m. The entire project however, extends well beyond the completion and certification of the airport. The Major Projects Authority (MPA), in their 2013 summary of major UK government projects note that the entire project is forecasting as far into the future as the year 2046¹. This, they claim, leads to very high levels of uncertainty in regards to project risks and costs. When these facts are considered alongside the inevitable difficulties of attempting a large scale capital project on the world's second remotest island, it is vital that the project stakeholders, be it senior management, DFID, SHG, UK ministers and indeed the general public are adequately assured that the project will be completed to specification on time and to budget.

At the time of the audit assessment (March 2015)², airport construction has reached around 65% of its total build. According to the DBO contract the construction and certification of the airport is expected by 10 December 2015 with contractual completion of Phase 1 of the contract in February 2016. From a distance, things seem to be fitting into place, however beyond construction, work is still to be done on procuring an air service provider, establishing new shipping contract, and meeting the obligations in the Memorandum of Understanding (MOU) between SHG and DFID, which requires Saint Helena to open its economy to enable self sufficiency through foreign direct investment and a healthy tourism sector.

Given the significance of the provision of air access to St Helena, and the scale and timescales involved in the project, the Public Accounts Committee (PAC) of Saint Helena, a select committee of Legislative Council, has welcomed an audit overview by the Chief Auditor with a focus upon current assurances in place for the project, which give confidence over the governance, risk management, finances and delivery of the project. Assurance 'provides information to those that sponsor, govern and manage a project to help them make better informed decisions which reduce the causes of project failure, promote the conditions for success and increase the chance of delivering the required outcome cost-effectively'³.

In addition, an understanding of assurance arrangements and fund flows will assist the Chief Auditor in planning for the audit of the financial statements of government and associated financial returns for DFID, as per his statutory responsibilities.

¹ MPA (2013), Government Major Project Portfolio Data, 2013

² All statements in this report are deemed factual at the time of writing

³ NAO (2010), Assurance for High Risk Projects

There has been no previous substantive work performed by the Chief Auditor or staff of the Saint Helena Audit Service on the Airport Project. Thus it was decided that by gaining an adequate overview assessment on project governance, risk management, financial flows and related assurances, enough information can be gathered so that the Chief Auditor can discharge his statutory audit responsibilities in St Helena, and enable PAC reassurance at the same time.

1.2 OBJECTIVES

The aim of this audit is to make an overview assessment as to whether the following are working effectively and provide adequate assurance that meets the requirements of both management and stakeholders:

- Programme Governance
- Risk Management
- Operational Delivery
- Financial Flows

This is not a detailed audit but an overview designed to understand and assess the assurance arrangements that have been established within the project.

The main objective of the overview is to enable informed decisions to be made about what further audit or assurance may be required, if any, and at what stages such work should be delivered in the project lifecycle.

In essence, the report aims to draw together all of the assurance information available to assess the overall assurance of the project in order to identify any obvious weaknesses.

1.3 SCOPE

This is an overview report, and so it will be a top-down approach, assessing what information regarding governance, risk management and project management is available and how much assurance the information available gives. There will be recommendations made as to further work that could be done in areas where assurance may be lacking.

The overview report will not involve any 'deep dives' as it is expected that with such a large scale infrastructure development the governance and project management and controls assurance mechanisms will be well established. Therefore we will be drawing together the available assurance strands to show that appropriate governance, risk management and project management controls are established and working effectively. Nonetheless if any gaps in the assurance framework are identified then proposals can be made in terms of how these may be addressed.

The overview will focus on Phase 1 of the DBO, with prime focus on assurances around the construction of the airport. We will however reference other areas of the air access project which we feel link into the assurance framework and are relevant to the review.

1.4 METHODS

We will use a range of approaches to address the aims and objectives set, including document evaluation, data analysis and interviews. Specifically we will carry out:

- **Documentation review** – We will look at a range of relevant written material, including that available from the Air Access Team and sourced through DFID
- **Enquiries of management** – We will make appropriate enquiries of DFID and local management including the Air Access Office and other departments within SHG as well as Halcrow to understand what assurance arrangements have been established and how these operate in practice.
- **Assessment and evaluation** – We will document our understanding and assess in the context of good practice guidance on assurance requirements for major infrastructure projects.

1.5 SOURCES USED

The sources used for this assurance review include UK government documents, NAO documents and guidance, DFID reports and reviews, SHG documents and external reports from Ernst and Young.

Our main contact has been the SHG Air Access Office, who have provided reports from Basil Read and Halcrow, as well as programme board documents and correspondence. We have also reviewed project management documentation and work in progress information used to monitor project activity.

2. ASSURANCE OVERVIEW

As a masthead for any large project, there should be an overall guiding strategy for assurance provision. This is required so that those in charge of monitoring and managing a project have established arrangements as to how to detect and correct any significant problems that may arise during the project lifecycle. The assurance strategy should have triggers and safety nets in place to deal with problems as and when they appear. It should also be designed so as to identify potential issues before they become problems.

The Saint Helena Airport Project (SHAP) is part of the Government Major Project Portfolio (GMPP) and as such is subject to Major Projects Authority (MPA) scrutiny⁴. This fact alone provides us with a great deal of confidence that the project has established assurance arrangements and that triggers and safety nets are in place, albeit at a top level.

We requested a copy of the Integrated Assurance and Approval Plan (IAAP) from DFID management, and we were able to view the document in the office of the DFID representative for St Helena. The document highlights the main functional and independent assurances that the project has gone through during its life so far, and at what stages assurance reviews are planned in the future. SHAS were informed by DFID that MPA documentation could not be distributed and so we only hold on file evidence noted in the following tables.

TABLE 1: GENERAL ASSURANCE ON IAAP

General Assurance	Occurrence according to IAAP	Obtained Evidence	Observed Evidence
Project/programme milestones	Milestones at various stages (see attached)	Yes	Yes
HMT Approvals	Full business case approved 03 Jan 2011 Version 3 revised Jan 2014	No	Yes (project is happening)
Department for Transport	Last met march 2014	No	No – DfT remains a stakeholder however formal assurance and review responsibilities for aviation security have transferred to ASSI (see below)
ASSI	Last review September 2014	No	Yes – referenced in meeting minutes

⁴ Further information on the MPA and its processes can be found in appendix 3 of this document.

TABLE 2: FUNCTIONAL ASSURANCE ON IAAP

Functional assurance	Occurrence according to IAAP	Obtained Evidence	Observed Evidence
Bi-monthly programme board meetings	Ongoing	Agenda, minutes, documents and action points for meetings in 2014	Minutes, documents and action points for meetings in 2014 As of April 2015 the PB meets monthly
DFID project manager reporting to the board	Ongoing	Nigel Kirby back to office report	Nigel Kirby on board meeting agenda
DFID OPR reviews	Ongoing	None	None
DFID project completion review	Ongoing ⁵	None	None
Annual budget allocation round	Ongoing	None	Yes – Nov 2014 ⁶
Reconciliation between spend and forecasts for months 6, 9 & 12	Ongoing	None	None
Project Manager reports every two months⁷	Last was Jan 15	None	None
Project Management Unit (PMU) reports every month	Every month	Reports for months Sep-Dec 2014	Reports for months Sep- Dec 2014
Annual budget allocation returns – occur in February	Mar/Feb yearly	MPA Major projects data 2013	MPA Major projects data 2013
Monitoring site visits	July 14, Oct 14 Next planned for May 15	Nigel Kirby back to office report	DFID Team visit November 2014
Annual Review	May 14, 15	None	None
Project change requests	None	None	None

⁵ the project completion review is expected February 2016, however this is still to be updated on the IAAP

⁶ DFID will not allow any financial information to be disclosed

⁷ As of April 2015 the project manager reports to monthly PB meetings

TABLE 3: INDEPENDENT ASSURANCE ON IAAP

Independent assurance on IAAP	Occurrence according to IAAP	Obtained Evidence	Observed Evidence
Starting Gate – Senior Policy Leader	No information	None	None
PAR – MPR/SRO	None	None	None
OGC Gateway – MPA/SRO	Last was April 2014 Planned for Oct 2015	None	Yes
GMPP Reporting – MPA/SRO	Quarterly	None	None

The policies and processes highlighted in tables 1, 2 and 3 highlight the general, functional and independent assurances that should exist for the project from a top level. The independent assurances are mandatory processes that are required for the project to continue at certain stages. Failing to pass scrutiny at each of these review points may result in a halt of government funding by HM Treasury. Functional assurance takes on a variety of forms, and should be ongoing and constantly reviewed.

In addition, the IAAP adds an option for external audit provided by the NAO as well as internal audit provided by DFID. To date all that has occurred is an internal audit by DFID focussed on fraud risk associated with the project undertaken in June to October 2014.

Whilst MPA assurance guidance and scrutiny is considered an effective discipline for major projects, there are some areas which may require further examination. Firstly, the lack of evidence available for a lot of the functional and all of the independent assurances may require separate work to obtain and scrutinise these documents. Projects on the MPA are required to go through these stages, and as such we can accept that they have occurred at the intervals described on the IAAP. Notwithstanding the commercial-in-confidence nature of the project it was our expectation that DfID would be more forthcoming with these documents, particularly for audit scrutiny.

Secondly, the lack of internal or external audit work is surprising for a project of this magnitude. One would usually expect a substantial amount of audit work to be done on a large project in order to provide independent assurance to management and stakeholders. When we raised these concerns with management, the DFID airport deputy project manager informed us that the MPA does not consider the project to be high risk, so has not required extensive audit work. Ernst and Young have been commissioned to provide independent commercial advice to DFID which covers part of the need for independent assurance. In the Air Access Office, we were told that OGC GatewayTM scrutiny acted as sufficient assurance and so additional audit assurance was not deemed necessary. The last gateway review awarded an Amber-Green Delivery Confidence assessment. It is a common misconception by management of large scale projects that the gateway scrutiny obviates the need for audit assurance, accordingly the OGC itself states:

‘the fact that an OGC Gateway Review had taken place does not replace the need for a full audit opinion on the effectiveness of risk management, control and governance in the audited area.’⁸

⁸ National Archives: ‘OGC Gateway reviews as part of the assurance framework’

Recommendation 1: The Airport Project management team may wish to use the conclusions of this report to use as guidance for securing specific assurances or targeting specific audit work.

In addition to this overarching assurance strategy, assurance for major projects stems from certain key elements within it. What we will be examining is where these assurances come from, and whether they flow in ways that provide adequate day to day information that enables management to make informed decisions while running the project and to prevent issues from occurring. The assurance should flow in a certain way in order to be most effective for management and stakeholders to receive and process information relating to the project. If there is a comprehensive, timely and reliable flow of information, we can be satisfied that together with the MPA structure already in place, adequate assurance arrangements exist for the airport project and key stakeholders can be assured that the project is running on time and to budget.

Major Projects Authority Independent Assurance – Starting Gate, OGC Gateway reviews, PAR, GMPP Reporting

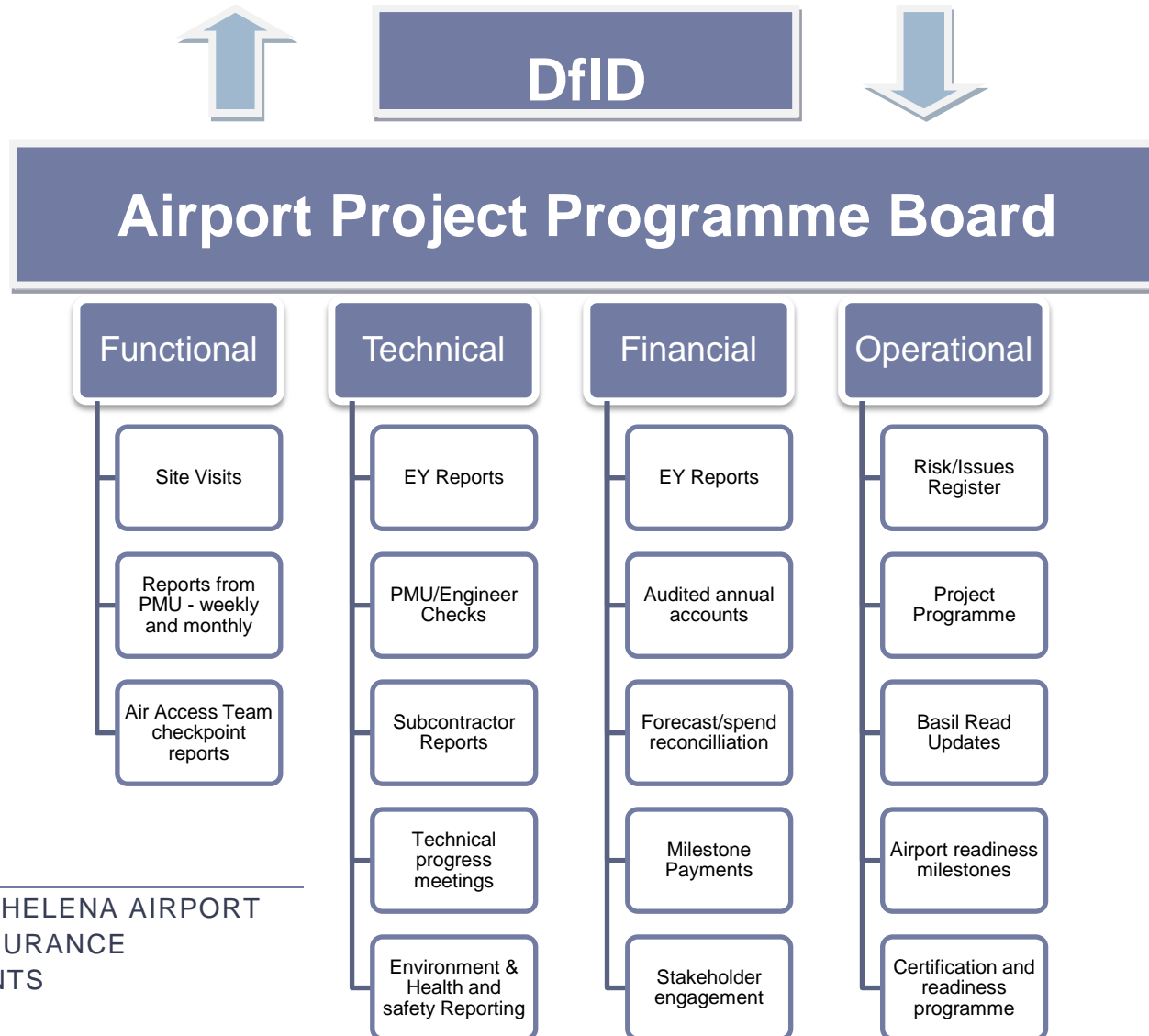


FIGURE 1: ST HELENA AIRPORT PROJECT ASSURANCE ARRANGEMENTS

CONCLUSION

The current arrangements for the flow of assurance for this project are considered adequate from an initial broad perspective. There is a large amount of information which comes from various outputs, such as the PMU (Halcrow), contractor (Basil Read) and the Airport Access Office. This is all forwarded to the Programme Board for their discussions. The information they receive includes checkpoint reports for various subprojects, issue and risk registers, Ernst and Young commercial advice, and any other business or correspondence that the board should be aware of. These assurances cover functional, technical, financial and operational assurance (see figure 1).

SUMMARY 1: THE MPA AND PROGRAMME BOARD ARRANGEMENTS

Criteria	Findings	Improvements
Follows MPA Structure	<ul style="list-style-type: none"> • The project is on the MPA • Starting gate, OGC Gateway and IAAP all followed • IAAP outlines a strategy for general, functional and independent assurance • Limited internal and external audit coverage • MPA documentation has not been made available 	<ul style="list-style-type: none"> • Potential for additional work to be completed with the aim of gathering MPA documentation • Consider need for audit coverage targeted on specific risks or emergent issues • DFID to be more accommodating to audit information requirements
Key assurance flows are comprehensive timely and reliable	<ul style="list-style-type: none"> • Comprehensive information is forwarded to the PB for their bi-monthly meetings • Assurance comes from all levels of the project • Information is produced by reliable sources 	<ul style="list-style-type: none"> • None

3. PROJECT GOVERNANCE

Good governance is essential to the success of any large project or programme. According to PwC, projects fail primarily due to managerial aspects, such as ineffective project governance and oversight.⁹ Good governance means having the right management decision making processes in place in order to achieve what is necessary in the most effective manner. In this way, a proper management structure is an important element in any assurance web.

The first ingredient to effective governance assurance is that there must be sufficient information available to senior management in order for them to make informed decisions while steering the project forward. The diagram in the previous section highlights the information available to the Airport Project Programme Board (APPB). This information spans functional, technical, financial and operational assurance, and the amount of and range of information received gives a good level of confidence that the board is in a position to steer the project through to success and mitigate potential problems.

The second ingredient is to have a structure which allows decisions to be made effectively and efficiently, based on the information received, and for these decisions to be implemented effectively by those responsible for the action. The Airport Project is structured with a hierarchy of different boards and individuals, each with different roles and interests in the project. The APPB is the lead steering committee for the project. They are responsible for instructing and managing the DFID Airport Project Team, who in turn are responsible for managing the Project Management Unit (PMU). The PMU monitor and manage the Contractor, Basil Read. As advisory links to this backbone hierarchy, sits the Air Access Office and the 2020 board.. The DFID Airport Project Team exists as a dedicated function within DFID Overseas Territories Department. The same is true of the Access Office in SHG. The dedication of resources to Airport Project functions creates an environment whereby different stakeholders are represented at management level in the day to day running of the project. Close links are maintained with DFID and SHG. Figure 2 shows the organisational chart.

⁹ PwC (2013), 'Capital Project governance: Setting up for Success'

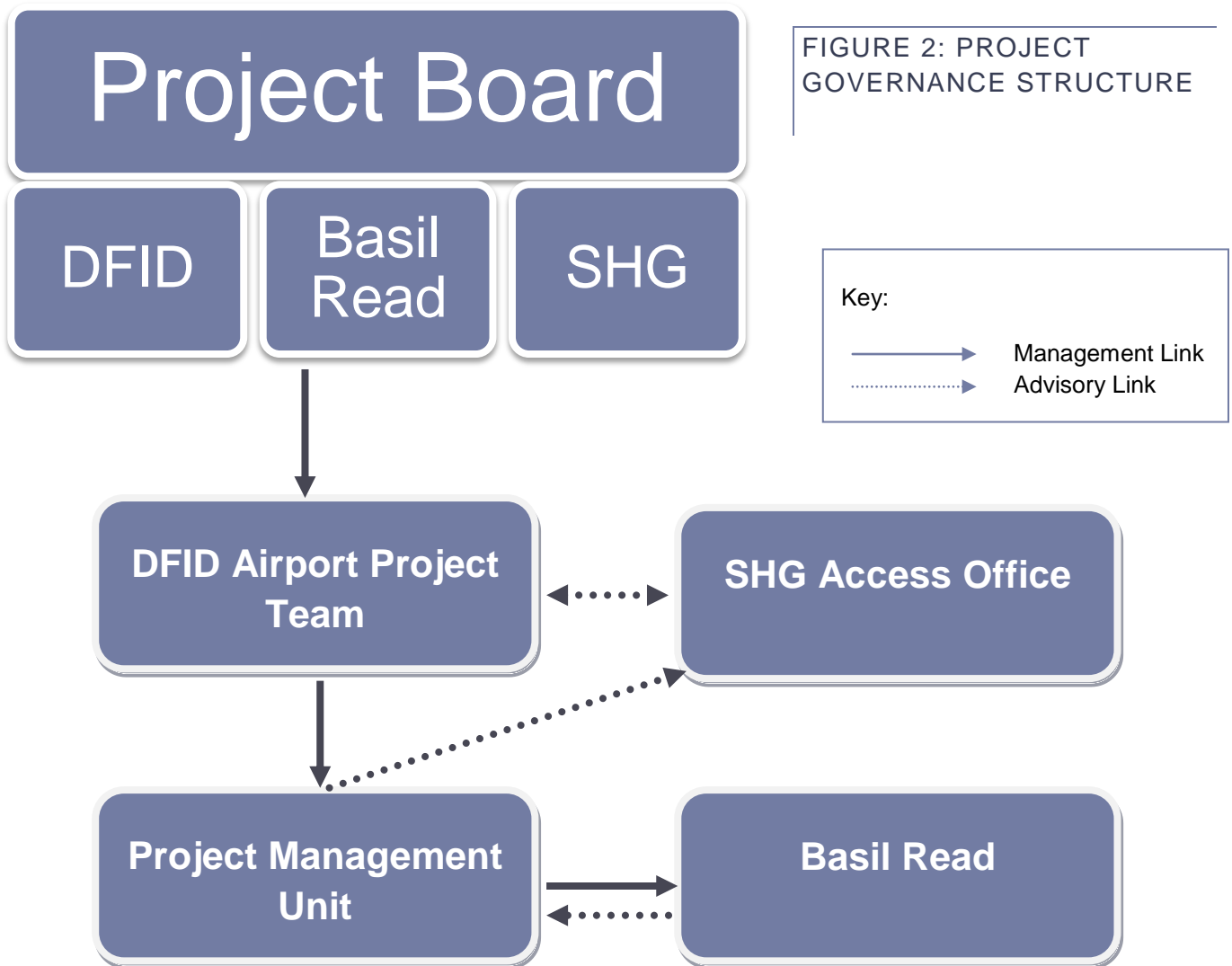


FIGURE 2: PROJECT GOVERNANCE STRUCTURE

The St Helena airport project follows the PRINCE2 project management framework¹⁰; in that it has appointed a programme board which comprises of the executive, senior user and senior supplier. We regard PRINCE2 as the best practice framework for capital project governance.

The lead executive on the programme board, Director of Asia, Caribbean and Overseas Territories for DFID (AsCOT) is the single point of accountability for the whole project. Accountability in regards to project delivery as per the business case is held by the project manager.

These structures conform to our defined standard for project governance. However, it is of little use if those appointed in the specific positions do not possess the core competencies associated with unique complexities of capital project management. The programme board for the airport project is composed of a number of management professionals.

¹⁰ Details of PRINCE2 found in Appendix 4

Encouragingly, Peter Lonergan, the non-executive board member has 17 years experience in airport management through, and we have seen evidence of this experience providing valuable advice to the board. There is no reason to believe that any of the board members do not possess the core competencies related to the management of large capital projects.

Overall, the governance structures in place for the Airport Project are satisfactory and meet the specified audit criteria. The existence of the PRINCE2 project management framework allows information to be received, discussed and actions taken in an effective and efficient manner. In addition accountability exists at various levels of the project.

Box 1: Effective governance in action

The PRINCE2 template is designed so that issues can be identified, discussed and addressed in the most effective manner. There are a number of examples that could be used to show this.

One of the most important assurance documents presented to the quarterly Programme Board is the Ernst and Young monitoring report. We can see from the Programme Board minutes that these reports are scrutinized by the board every meeting, and appropriate action is taken depending on their content. For example, in the May 2014 meeting minutes, a total of four action points are raised from these reports, covering issues such as Earned Value costs, fuel and explosives exposure data, liquidated damages cover and the retirement of Basil Read's CEO. Similar discussions took place in other months. We can further see these points raised on the Action Tracker (ID 56-59). All four of these actions had been closed by the due date.

This example highlights an effective assurance process which takes place for this project:



SUMMARY 2: GOVERNANCE ARRANGEMENTS

Criteria	Findings	Improvements
Best practice Organisational Structure per PRINCE2	<ul style="list-style-type: none"> • DFID appointed a programme board for the project • Executive: Director of AsCOT, Senior User: Chief Secretary – St Helena, Senior Supplier: Director of Basil Read • Project Manager – Nigel Kirby • Project Team appointed lead by Nigel Kirby • Programme board meets every two months and plan actions based on information from all the parties. They have an issues and risk register that is constantly updated. Action points are realised on a traffic light system – red for incomplete/deadline not met, amber for incomplete/within deadline and green for closed. All action points have a responsible lead. • Board minutes show that inputs from senior user, senior supplier and SRO have allowed for an effective decision making process • Technical Progress meetings take place which cover all aspects of contract delivery and Air Access issues – every two weeks. 	<ul style="list-style-type: none"> • None
Ensures accountability	<ul style="list-style-type: none"> • There is a single point of accountability – the executive – Director of AsCOT • The Project Manager, Nigel Kirby, is accountable for the day to day running of the project in accordance with the business case 	<ul style="list-style-type: none"> • None
Competence	<ul style="list-style-type: none"> • There is no reason to believe that any of the individuals on the board or management team do not possess the core competencies associated with running large capital projects 	<ul style="list-style-type: none"> • None

4. RISK MANAGEMENT

Effective risk management is essential for providing assurance for any large project. Risk analysis should come from both independent evaluators and from an integrated internal risk management framework.

The risk management arrangements for this project are large and complex. The DBO contract outlines various mechanisms for managing and controlling risk, including a retention money guarantee (to mitigate the risk of non-completion) and a risk sharing mechanism between DFID and Basil Read¹¹. In addition, the contract provided risk management instructions for Basil Read, which included provisions for analysing their competency for risk management by requiring an initial risk assessment and risk register for the project to be drawn. This was to come in the form of a risk management plan, which had to refer to the overall management plan, the outline work programme and the risk sharing mechanism.

This initial instruction is a good way to begin setting the foundations for effective risk management for a large project. However, much more work follows in order to establish a suitable risk management strategy that provides sufficient assurance for the project. For the purpose of this report, we have defined Enterprise Risk Management (ERM) as best practice criteria for the review of the Project's risk management strategy. Because the various entities within the project all have individual risk management strategies, we shall look at each before assessing the overall effectiveness of the risk management structure.

4.1 BASIL READ

Basil Read risk management for this project, as indicated before, begins with the drafting of the DBO contract. It set up a number of contractual requirements relating to risk management knowledge and competence that had to be demonstrated. Of these documents, potentially the most important is Basil Read's Project Risk Management Plan.

Basil read follow an Operational Risk Management (ORM) strategy. ORM has a number of benefits over traditional risk management, in that it is proactive in searching for risk and dynamic in continually assessing and monitoring risk. In many ways, operational risk management is very similar to ERM, in that it involves Identifying, assessing and responding to risk appropriately, with avoidance, acceptance, reduction or sharing. This process is actively monitored and controlled. Where ERM has the edge over operational risk management is that it requires an alignment of risk strategy with risk appetite and objective setting.

The most recent risk register which we obtained was Rev. 28 from October 2014, which was included in the PMU's report for December 2014. In this document, a myriad of risks are identified and classified. These cover all aspects of the project build, and this gives us confidence that Basil Read are monitoring all potential risks. It is of use to mention those risks to the project that are given a 'RED' (avoid, eliminate or transfer) status by Basil Read. These include:

- Design changes for the BFI due to contractual problems leading to delays

¹¹ These are looked at in later sections

- Lack of information from SHG leading to delays in BFI and sea rescue building construction
- Delay in BFI handover because of the above
- Availability of human resources due to lack of RMS space
- SHG infrastructure unable to cater for disaster management
- Delays in airport certification due to flight calibration issues

It is beyond the scope of this audit to probe these issues individually, however from a general overview, through looking at airport updates provided by the Air Access office, many of these are being dealt with by those responsible. The monthly issue and risk meetings give us confidence in management's risk response on an operational level. However it is those more persistent strategic risks which require escalation and management, and these areas may require further audit coverage.

Recommendation 2: Management should ensure that those persistent 'RED' risk areas are collectively managed and investigated or otherwise make plans for specific targeted assurance work.

Encouragingly, BR have their risk management processes scrutinised externally every 12 months by NQA, and their quality control procedures internally audited every six months, as per the contract and for compliance with ISO 9001 certification.

4.2 PMU

In the original Terms of Reference for the PMU, they were set out to be required to develop their own risk register in addition to Basil Read. It was decided however that the PMU running an additional risk register would make the risk management process too saturated, and it would be more efficient for the PMU to compile a register of issues arising from BR's risk assessment that can be handed to Air Access and the DFID Programme board for analysis.

4.3 PROGRAMME BOARD

DfID has its own risk register, which considers risk from a higher level, and is compiled by amalgamating the risks and issues from Basil Read, and the PMU as well as including its own top level risks. Looking at the programme board documents, the risk register comes in two parts, one for the airport construction project and one for a broader perspective of island issues associated to readiness for air access and subsequent economic development. For the construction risk register, they include some, but not all of the risks highlighted by Basil Read, including disaster management preparation and potential delays to certification. They do not, however, include the risk associated with the BFI. This is because by this stage, these risks had already been upgraded to the issue register. This indicates risk is being managed efficiently, as risks were highlighted at ground level were taken on as issues at the top level.

From what we can gather, the overall risk management strategy fits with an ERM framework. We were informed that the original risk appetite was quantified in the business case. This business case outlined a number of risk related points, including the risk contingency, which had been calculated using a Monte Carlo probabilistic risk analysis at 50% confidence. Risk

of escalation from inflation is also covered. However the business plan did not outline any *specific risk strategy* as such for the project, merely what will be used and has been put in place to mitigate financial risk.

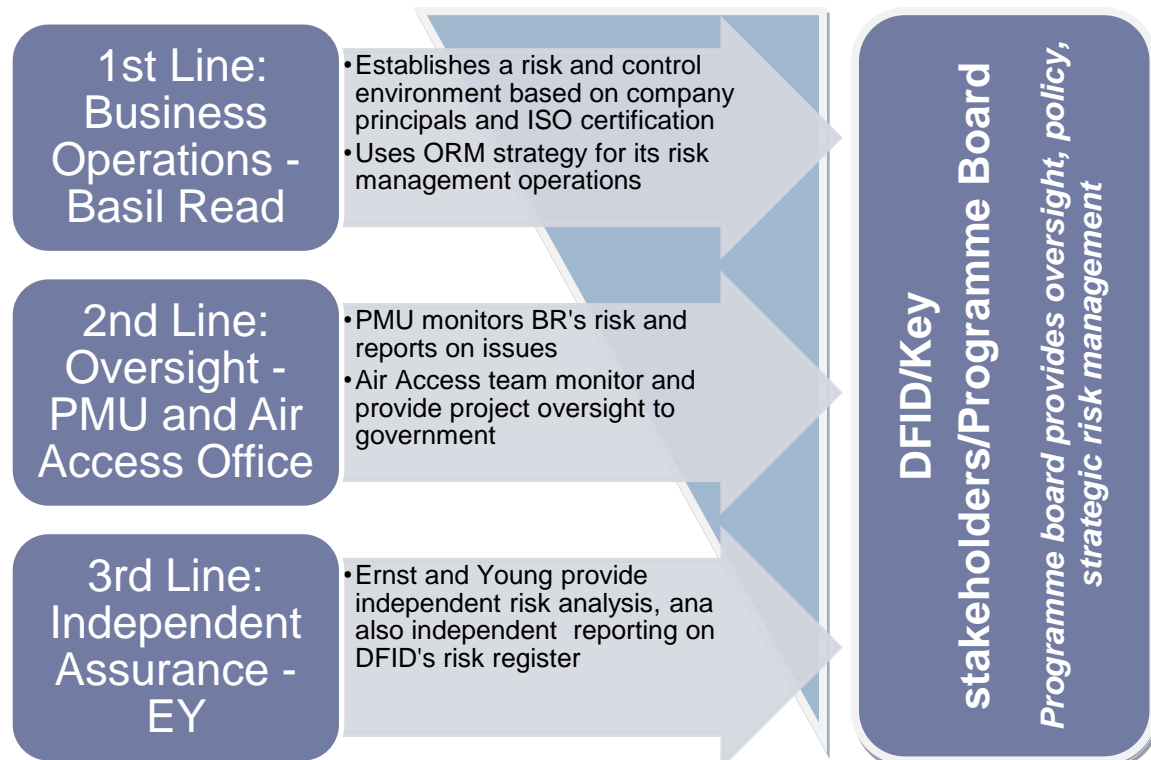
Recommendation 3: All future capital projects as well as Phase 2 for this project should have a defined risk management strategy drafted in accordance with ERM or equivalent standard e.g AS/NZS ISO 31000: 2009

The DFID/Programme board risk register is analysed every two months by Ernst and Young. This provides us with enough assurance that the risk management process is actively monitored by an independent entity.

4.4 CONCLUSION

A common methodology for risk management and control prescribed by the Institute of Internal Audit is the ‘three lines of defence model’. This framework allows those with oversight to gain a clear and understandable view of the entities internal controls and risk management. The Airport project, through the processes highlighted above covers all three ‘lines of defence’. Basil Read covers the operations and establishes the risk and control environment. The PMU and Air Access Office provide oversight, and independent assurance on risk comes from the DFID appointed independent assurance provider Ernst & Young – the sole providers of independent assurance

FIGURE 3: THREE LINES OF DEFENCE FOR RISK ASSURANCE



SUMMARY 3: RISK MANAGEMENT

Criteria	Findings	Improvements
Enterprise Risk Management Integrated Framework	<ul style="list-style-type: none"> The overall strategy meets many on the criteria for ERM, however we were unable to find qualified or quantified risk appetite BR Follows an ORM 	<ul style="list-style-type: none"> ERM to be used for future projects and phase 2 operations
Independent Risk Analysis	<ul style="list-style-type: none"> Provided by EY Audits of risk management provided by NQA, BR internal and EY 	<ul style="list-style-type: none"> None
'Lines of Defence'¹²	<ul style="list-style-type: none"> The 'three lines of defence' are covered by Basil Read, the Programme board, PMU and independent assurance providers 	<ul style="list-style-type: none"> More independent assurance is needed

¹² PWC (2013), KPMG (2009)

5. OPERATIONAL DELIVERY

Effective operational delivery stems from well structured and performance rewarding contractual terms. In this sense, operational delivery and the efficient flows of finance for the project are interlinked. There is also guidance from PRINCE2 on processes required for effective operational delivery.

FIGURE 4: PRINCE2 PROCESSES

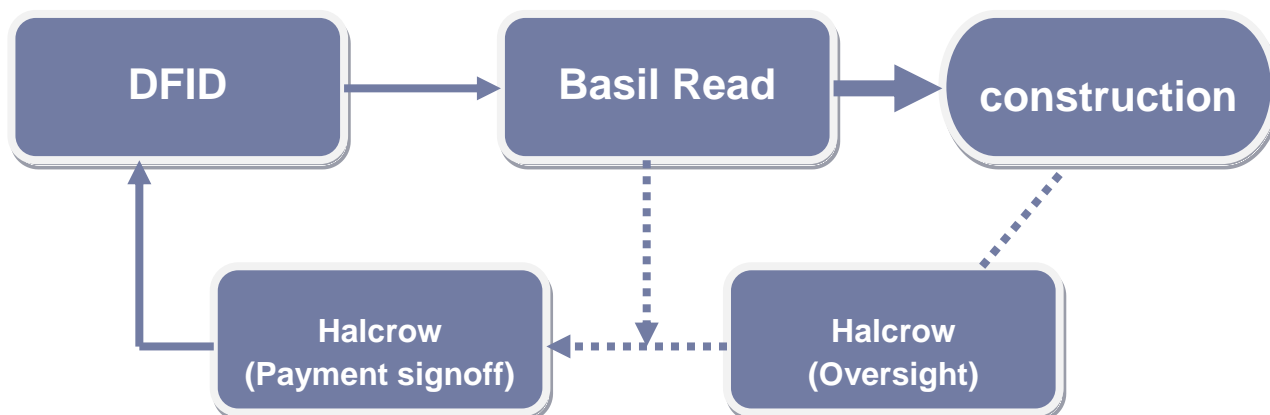


As a start, all the necessary organisational structures are in place for the Airport project that can assure us that operations are managed effectively. There is an appropriate separation and linear communication between DFID/HMG (corporate sponsor), the programme board (strategic direction), the project management team (project management) and Basil Read (project delivery). The PRINCE2 process model shows that if these entities link correctly we are well set up for efficient delivery of the project. The Airport Project management structure has been formulated in accordance with PRINCE2¹³, and so we can be satisfied that general management structures are in place that allow for effective oversight whilst securing operational delivery.

The existence of the Project Management Unit is an important source of assurance for this project. Halcrow, the PMU, is an expert agent responsible for monitoring and reporting operational delivery in accordance with the contract. They are in a position to regularly inspect construction progress to ensure it meets required standards and subsequently report the progress on quality and quantity of completion to the Programme Board. Importantly, they have full signoff rights for any transfer of funds between DFID and Basil Read, and so payments should not be made unless construction is of a satisfactory standard and project milestones have been validated (see figure 5).

¹³ As has been represented by DFID management; email D. Finan 08/08/14

FIGURE 5: MILESTONE PAYMENT CERTIFICATION



This financing takes the form of milestone payments, which are in place so that the contractor receives funding as it completes different stages of the project. This style of contracting provides maximum assurance when the amount of the contracted price that has been paid at each milestone represents the real value of the work done, and provides enough financial incentive for the contractor to continue to work at an acceptable pace.

Through reviewing PMU reports, the original contract, the business case and making enquiries of management, we have identified some issues relating to the milestone payment arrangements:

- The value of payments does not necessarily reflect the value of work done at each milestone payment
- The milestone payments are forward-funded, leading to a situation whereby at the end of construction, BR will have been paid the full amount, with three months left to finish the work
- The payments are very large for the capital intensive parts of the work such as clearing the access road. However, by the time milestone 38 is reached, a total of £190m has been paid, representing 93% of the total contract price for phase 1¹⁴. Remaining however, is the entire certification of the airport, including the aerodrome manuals, flight calibration and electronics, but attracting relatively low value milestone payments.

Some of these issues have been identified previously by SHG and the PMU, particularly in relation to the differences between the amount the contractor had been paid and the value of the work completed. We were informed these issues were weighed against other risks during contract negotiations, but the requirement to keep the project cash positive was considered most important. On the back of this, it was decided that Earned Value calculations should be performed for the project. This occurred in mid-2013 by the PMU, and was analysed by Ernst & Young. The objective was to obtain the actual value of the work completed by Basil Read and subsequently monitor DfID's exposure.

¹⁴ NB. Airport project only, Rupert's wharf has its own milestone schedule

The results produced a point in time value of construction, and estimates for EV up to the completion of Phase 1. These calculations led to the implementation of additional top up bonding for the project. This added to the main DBO bond of £21m (examined in more detail in the next section).

It should be noted that the main issues highlighted stem from problems with the original DBO contract. These problems become apparent in hindsight and accordingly there would be limited value in reopening the contract terms after the event. The decision to perform Earned Value calculations was a good one, however from an assurance point of view, this is a process that should have continued annually. Not only does it provide important financial information for DFID in terms of project risk, it also allows accurate financial reporting for SHG in the preparation of their annual financial statements. In addition, it is important to ensure that those original estimates are still correct given the number of variations to the contract that have occurred for this project since 2013.

Recommendation 4: EV calculations are performed at key intervals and especially at each financial year-end.

As we progressed with this audit and our enquiries, a theme emerged that for this project operational assurance seems to have been well defined for Phase 1 of the project. In terms of contractor performance for Phase 1, we are satisfied that the current arrangements in place to monitor slippage, variations and quality are sufficient. Although there have been a number of variation orders issued, discussions with Halcrow and Air Access lead to the conclusion that these are not abnormal for a project of this size and complexity.

Box 2: Operational Concern and Subsequent Action

In a letter dated 13 Nov 2014, a member of the Project Board wrote to the contractor, Basil Read, expressing concerns about airport certification. He expressed that he was 'increasingly worried' about the 'very tight time frame for achieving certification, and the lack of experienced resources that Basil Read is engaging for this.' In addition, he 'would expect a fully developed operational and readiness programme to be developed at this stage.'

Following these concerns, we found there to be a notable drive towards action, with the described appointment of a Certification and Operations Manager, both for SHG and Basil Read. The certification and operational readiness plan is now nearly complete, however there was no airport management team in place at March 2015, which is alarming considering for other airport construction projects a full team has been in place '12 months before certification.' Recruitment was initiated for key posts in March 2015 and there is now a clear recruitment and training plan in place.

While the contents of this letter are a cause for concern, assurance is actually gained, because it shows an example of issues being highlighted within the project framework, and dealt with accordingly.

Indeed, phase 1 is near completion. However, there is a widely held view among senior management that contractually and organizationally assurance is lacking for movement into Phase 2. The business case itself states that 'there is inevitably a high level of uncertainty in projections for cash requirements' in Phase 2, which holds a contract value of £35m and spans 10 years.

Having identified this emergent issue in late 2014, the Air Access Office appointed a new Project Manager in charge of certification and operations. Their role is to develop with Basil Read the certification and operations plan, and to maintain SHG's airport readiness milestones schedule (not to be confused with contract payment milestones). We were advised that the full BR certification and operational readiness plan should have been in place many months ago, however SHG only received a draft in mid-March 2015. Clearly it was the correct decision to appoint the new member of the management team, given the apparent shortfalls and slippages that have been occurring in relation to preparing for Phase 2. The Certification & Operations Manager is an essential piece of assurance in itself for the transition from Phases 1 to 2

In terms of Phase 2 operations, an important step is the hiring of the SHG Airport Contract Manager, whom SHG are currently in the process of recruiting. We do recommend, however, deeper work to be performed beyond the scope of this overview audit in order to gain greater assurance that Phase 2 of this project will be adequately managed and airport operations are sound for the 10 year period and beyond. Interestingly, it has become apparent that Ernst and Young have been approached by DFID to lead the negotiations for contractual change for Phase 2, which may require some follow-up.

Recommendation 5: Management should design a detailed integrated assurance and audit programme for Phase 2 of the project

SUMMARY 4: OPERATIONAL DELIVERY

Criteria	Findings	Improvements
PRINCE2 processes for operational delivery ¹⁵	<p>Four entities are separated in the programme structure:</p> <ul style="list-style-type: none"> • Corporate: DFID/UK Government • Direction: Programme Board • Management: Halcrow & project management team • Delivery: Basil Read 	<ul style="list-style-type: none"> • None
Well defined contractual arrangements and specifications ¹⁶	<ul style="list-style-type: none"> • There is a milestone payment mechanism in place to monitor finances and operational delivery as the project progresses • The contract is being followed as agreed, with an acceptable level of variation for Phase 1 • There is a risk identified for the remaining Phase 1 completion, due to lack of financial incentive – this is mitigated through the performance bond • There are contractual negotiations occurring for Phase 2 • Assurance mechanisms appear lacking for Phase 2 operations 	<ul style="list-style-type: none"> • Phase 1 monitoring should continue as it currently is • Additional audit or assurance work may be required to examine Phase 2 contract and assurance arrangements
DBO contractor performance	<ul style="list-style-type: none"> • There has been some slippage for the project, however it is being monitored effectively and actions are being taken • Concerns have been raised about the contractors ability to effectively run an airport once construction is complete 	<ul style="list-style-type: none"> • Issues with contractual performance are being addressed by the programme board, Air Access team, and Halcrow, therefore we have no further recommendations
Stage payments to contractor in accordance with agreed milestones and proper financial controls	<ul style="list-style-type: none"> • Payments are meeting milestones according to the contract, with some slight variation • Payments are transferred to contractor soon after signoff, meaning the project stays liquid • Milestones do not represent value of work completed • Milestone payments are forward funded 	<ul style="list-style-type: none"> • Earned Value calculations should be regularly performed to monitor work in progress

¹⁵ PRINCE2 Process model (2009)

¹⁶ Grant Thornton (2014)

6. FINANCIAL CONTROL, MONITORING AND REPORTING

Effective financial planning, monitoring and reporting are crucially important for large projects such as this – and more so with public funds involved. It is important that value for money is gained for the projects investors, and spending is properly monitored to prevent cost overruns. The investors in this project are the UK Government and SHG, and thus it is important that project spending is transparent and the appropriate legal and regulatory accounting standards are met. Assurance for the project finances are of absolute importance, because the stakeholders for this project include not only DFID and SHG, but also the public of Saint Helena and the British Taxpayer.

The previous section covered the way in which the project finances flow and the payment mechanisms that are in place to ensure the contractor stays liquid and construction can continue at the required pace. In that sense, financial assurance is covered.

In terms of our defined best practice for effective financial planning and monitoring, the main issue that arises is to do with the accounting of the airport project within SHG. It is our understanding that all plant and materials that become part of the permanent works become the property of ‘the employer’ (SHG) as they are transferred to site. This is in place in order to protect SHG should the contractor default. Therefore the value of all plant and materials that are expected to form part of the permanent works must be included as stock or assets in SHG’s financial statements. In addition, SHG needs to take into account IPSAS 23 when accounting for the airport project (see appendix 5).

It was highlighted in the auditor’s report for SHG financial statements 2011/12 that the project was not being properly accounted for. Having just received the financial statements for 2012/13, we can now make an assessment as to whether this has been rectified. It is noted that the airport is included as ‘assets under course of construction’ and the value taken is the value of the milestones paid. We have already highlighted the problems associated with using milestone values as representation of the value of construction, as they may not represent the value of the work completed. In principal then SHG has moved closer towards the proper accounting for the airport according to the International Public Sector Accounting Standards. However there is a need to further review the value at which the grant funded asset and associated aid flows from the non-exchange transactions are recognised in the financial statements under IPSAS 23. Accordingly we cannot conclude on this until the full audit of the SHG accounts is completed.

Recommendation 6: Technical accounting treatment for aid flows & assets under construction are considered as a significant audit risk within the SHG audit of financial statements 2012/13. SHG should continue to improve its accounting policies in order to account for airport construction to the recognised international standards.

A second factor to consider in terms of the project finances relates to financial risk. Financial risk mitigation and sharing should be contractually sound and unambiguous, and should be scrutinised by experts to ensure that all stakeholders are appropriately protected from financial loss due to problems that arise over the course of the project.

For the Airport Project, we have come across numerous financial controls designed to protect not only DFID and SHG but also Basil Read. These include a financial risk sharing agreement, which has a capped risk sharing mechanism of £10m, shared equally between DFID and Basil Read. The contract also contains performance security bonding and a retention money guarantee. There are also suitably quantified contingency funds in place for each phase of the DBO.

As mentioned, additional top up bonding has been implemented throughout the project lifecycle which has come about because of the calculation of project Earned Value.

TABLE 4: PROJECT BONDING¹⁷

Bond	Amount	Dates
Main DBO bond	£21m	
Rupert's	£1.6m	
Earned Value Payments Bridge	£4m	October 2013 – May 2014
Earned Value Payments Bridge	£15m	April 2012 – December 2012
Earned Value Payments Bridge	£5m	January 2013 – 70 days after certification
Earned Value Payments Bridge	£12m	December 2013 – June 2014
Earned Value Payments Bridge	£6.4m	July 2013 August 2014

Whilst there is monitoring of these mechanisms by Ernst & Young (see box 3), we would recommend further technical work be performed to determine the adequacy of the bonding in place and the arrangements for its systematic release.

Recommendation 7: Management reassesses with technical expertise as required the adequacy of the project bonding – specifically the EV payments bridge and its release through to completion of Phase 1

Finally, for projects with high political risk, such as this, it is important that a degree of transparency and accountability is maintained so that the public can be assured that everything is on track and utmost confidence is maintained in government involved in the delivery of the project. Transparency that is properly managed reduces political risk which allows the project to move forward in an efficient and controlled way.

For this project, there is a well formulated communications plan for dealing with stakeholders and releasing information as the project progresses. Updates are released through local media and via email every week, so as to keep the public informed. The story is not the same for financial information however, for which there is a delay in publishing. The latest MPA summary for the airport project dates to September 2013, and the DFID website does not include the project on its database. This delay is not only true for financial data, but for other public documents. The last environmental monitoring report that was published was for the period ending June 2014.

¹⁷ Source: Airport Business Case (Feb 14)

Recommendation 8: Transparency and the timeliness of the publication of public information should improve so as to improve public stakeholder assurance.

Box 3: Ernst & Young Reporting

Ernst and Young, a reputable accountancy and consultancy firm, have been hired by DFID to act as commercial advisors for this project. They report to every programme board meeting analysing a number of things including:

- Key financial and commercial issues – Basil Read Financial position, completed milestones, progress against timeline, Non-conformances, fuel price risks etc.
- Project costs – actual vs. budgeted, monthly variances, exchange rate impact
- Risk sharing mechanism – reviewing the shared risks
- Wharf sub project milestones
- Financial exposure for DFID
- DFID risk register
- Recommended further work

The depth of coverage that EY undertake for this project provides us with assurance that the above issues are being adequately monitored.

EY use the PMU's earned value calculations to estimate DFID exposure. This further shows what a powerful tool EV calculations are for monitoring the project. EY question whether the PMU should perform new EV estimates for revision 5 of the contract, and we echo this notion.

SUMMARY 5: FINANCIAL CONTROLS AND MONITORING

Criteria	Findings	Improvements
Effective capital financial planning and monitoring (best practice) ¹⁸	<ul style="list-style-type: none"> • Good flows of financial information for internal stakeholders • Financial project data actively monitored and reported clearly by EY • Good availability of cash flow from DFID • Milestones provide a good measure of performance • Accounting standards and reporting seem to have improved for SHG since the previous accounts, however we cannot draw a conclusion on this until full statements have been audited 	<ul style="list-style-type: none"> • SHG's financial reporting to be looked at during the audit of SHG accounts 2012/13
Appropriate financial risk mitigation and controls	<ul style="list-style-type: none"> • Mechanisms in place including risk sharing, money retention and bonding to protect against exposure • Finances monitored independently by Ernst & Young 	<ul style="list-style-type: none"> • None
Transparency and accountability	<ul style="list-style-type: none"> • Regular updates provided by air access team to the public • Limited public data available regarding project finances from DFID 	<ul style="list-style-type: none"> • Better transparency and timeliness of project publications.

¹⁸ GFOA (2007)

7. CONCLUSIONS

This report has provided an overview of the assurance arrangements in place for the St Helena Airport Project, with specific focus on governance, risk management, operational delivery and project financing.

While we have not performed any 'deep dives' during audit proceedings, we have been able to highlight a number of issues for management to consider alongside our recommendations. These issues are highlighted to suggest further audit or assurance work that may be necessary as Phase 1 of the contract enters its final stages, and we begin to enter Phase 2 – operations.

Issue 1: Internal audit function /independent assurance

We discovered that there has only been one piece of internal audit work performed during the entire project lifecycle. We would expect a significantly larger amount of work to have been done on this project. MPA and OGC Gateway scrutiny does not obviate the need for audit assurance. Ernst and Young are the sole providers of independent assurance, and thus there is a weakness in the 'third line of defence'.

Issue 2: Defined risk management strategy

It was expected that we would see a risk management strategy for the project. Whilst the risk register is sound and there is evidence that it is being well managed, best practise would be to have a quantified risk appetite which can be referred to, and an associated risk strategy designed. We have seen this asked of Basil Read, but not of any other entity involved in the project.

Issue 3: Contract milestone payments

From an overview, we found problems with the milestone payment system. These problems included the gap between payment and value of work, forward funding of the milestone payments, and a poorly designed structure of payments. The gap between contract payments and earned value is mitigated through top-up bonding.

Issue 4: Securing assurance for Phase 2

Contractual and organisational assurance is lacking for movement into Phase 2 of the project, which spans a ten year period and is worth £35m. Given the inevitably high level of uncertainty in projections for cash requirements, this is a worry.

Issue 5: Project accounting

SHG needs to continue to improve in accounting for the project according to international standards in order to reduce the audit risk associated with its year-end financial statements

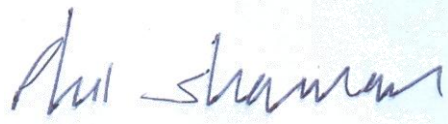
Issue 6: Transparency and accountability

Project information and reporting is entering the public domain too late. This has become apparent for MPA data, financial data and environmental reports.

Having considered the above issues, we have proposed eight improvement recommendations which have been accepted by management and time bound action plan developed in section 9.

8. ACKNOWLEDGEMENTS

The Saint Helena Audit Service acknowledges the cooperation and assistance received from the SHG Air Access Team, DFID Airport Project Team, Halcrow and Basil Read during the course of this performance audit.

A handwritten signature in blue ink that reads "Phil Sharman". The signature is written in a cursive style and is positioned above the printed name and title.

Phil Sharman
Chief Auditor

4 June 2015

9. RECOMMENDATIONS

No	Recommendation	Management Response	Timescale	Responsible Officer
1	The Airport Project management team may wish to use the conclusions of this report to use as guidance for securing specific assurances or targeting specific audit work.	Noted. This will be taken forward in discussions on project assurance with the Programme Board	By February 2016	Airport Project Director (SHG), DFID Airport Project Manager
2	Management should ensure that those persistent 'RED' risk areas are collectively managed and investigated or otherwise make plans for specific targeted assurance work	Agreed.	Ongoing during Phase 1 of the project	Airport Project Director (SHG), DFID Airport Project Manager
3	All future capital projects as well as Phase 2 for this project should have a defined risk management strategy drafted in accordance with ERM or equivalent standard e.g AS/NZS ISO 31000: 2009	This is helpful and reinforces discussions within the Airport Project in terms of Phase 2 of the Project. This will be taken forward with the Airport Contract Manager in managing the transition between Phase 1 and Phase 2 of the Airport Project	February 2016	Airport Contract Manager (when appointed), Airport Project Director (in the interim)
4	EV calculations are performed at key intervals and especially at each financial year-end.	EY are already contracted to advise on this area. This recommendation will be taken forward for discussion with EY to determine requirement for the remainder of Phase 1	February 2016	DFID Airport Project Manager

No	Recommendation	Management Response	Timescale	Responsible Officer
5	Management should design a detailed integrated assurance and audit programme for Phase 2 of the project	This is helpful and reinforces discussions within the Airport Project in terms of Phase 2 of the Project. This will be taken forward with the Airport Contract Manager in managing the transition between Phase 1 and Phase 2 of the Airport Project	February 2016	Airport Contract Manager (when appointed), Airport Project Director (in the interim)
6	Technical accounting treatment for aid flows & assets under construction are considered as a significant audit risk within the SHG audit of financial statements 2012/13. SHG should continue to improve its accounting policies in order to account for airport construction to the recognised international standards.	Discussion on the accounting treatment is ongoing with the SHAS and forms part of the 2012/13 SHG audit discussions.	October 2015	Financial Secretary / Chief Auditor
7	Management reassesses with technical expertise as required the adequacy of the project bonding – specifically the EV payments bridge and it's release through to completion of Phase 1	EY are already contracted to advise on this area. This recommendation will be taken forward for discussion with EY to determine requirement for the remainder of Phase 1	February 2016	DFID Airport Project Manager
8	Transparency and the timeliness of the publication of public information should improve so as to improve public stakeholder assurance.	Agreed. We recognise that there is room for improvement in project communications and are working with SHG PR Office on our communications strategy for the remainder of Phase 1	Ongoing during Phase 1 of the Project	Airport Project Director

APPENDIX 1: GLOSSARY

APPB	Airport Project Programme Board
AsCOT	Asia Caribbean and Overseas Territories
ASSI	Air Safety Support International
BFI	Bulk Fuel Installation
BR	Basil Read
DBO	Design, Build and Operate
DFID	Department for International Development
ERM	Enterprise Risk Management
EV	Earned Value
EY	Ernst and Young
GMPP	Government Major Projects Portfolio
HMG	Her Majesty's Government
HMT	Her Majesty's Treasury
IAAP	Integrated Assurance and Approval Plan
IPSAS23	International Public Sector Accounting Standard 23
MOU	Memorandum of Understanding
MPA	Major Projects Authority
NAO	National Audit Office
OGC	Office of Government Commerce
ORM	Organisational Risk Management
PAC	Public Accounts Committee
PAR	Project Assessment Review
PMU	Project Management Unit
PRINCE2	Projects In Controlled Environments version 2
SHAP	Saint Helena Airport Project
SHG	Saint Helena Government
SRO	Senior Responsible Officer

APPENDIX 2 – CORE ELEMENTS OF EFFECTIVE ASSURANCE

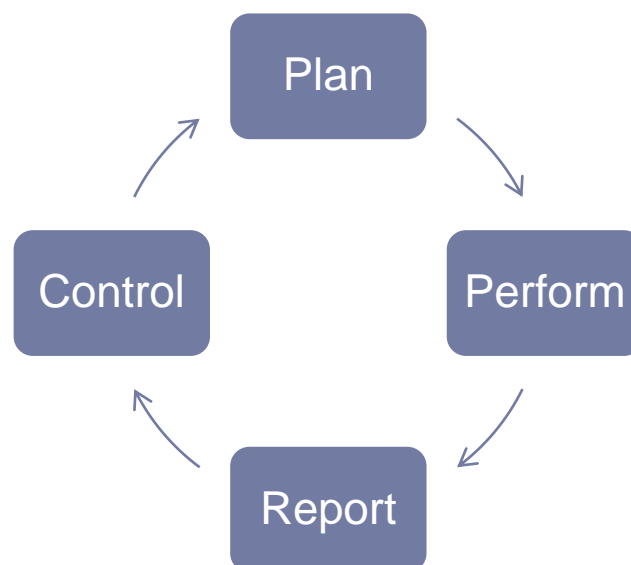
Guiding Principles

The NAO sets out some guiding principles for effective assurance as follows. These have been measured against the PRINCE2 project management principles and are informed by good practice from both the public and private sector.

- Assurance systems should address set control limits for a project, and indicate whether there is a danger of exceeding these controls in regards to time, cost, quality, scope, risk and benefit. The assurance mechanism should act as a trigger if these controls are exceeded.
- The assurance systems should be outcome focused rather than activity focussed, measuring at both point-in-time as well as continuously in order to evaluate justifiable reasons both to start a project and to test if the project remains viable.
- Assurance systems should provide transferrable learning to other projects and provide insight into any systematic or structural issues faced in the planning and development of major projects.
- Assurance systems should contain the four 'core elements', as highlighted below.

Four 'Core Elements'

These are the defined boundaries of the elements of assurance. Without these in place there is a risk of failing to deliver value for money. To *plan* is to acknowledge the need for a review team to be commissioned to perform a review on the portfolio. This plan is then *performed* by the review team who produce an assurance *report* in order to communicate the findings to stakeholders. The action taken as a result of the review is used to *control* any issues arising.



APPENDIX 3 – THE MPA

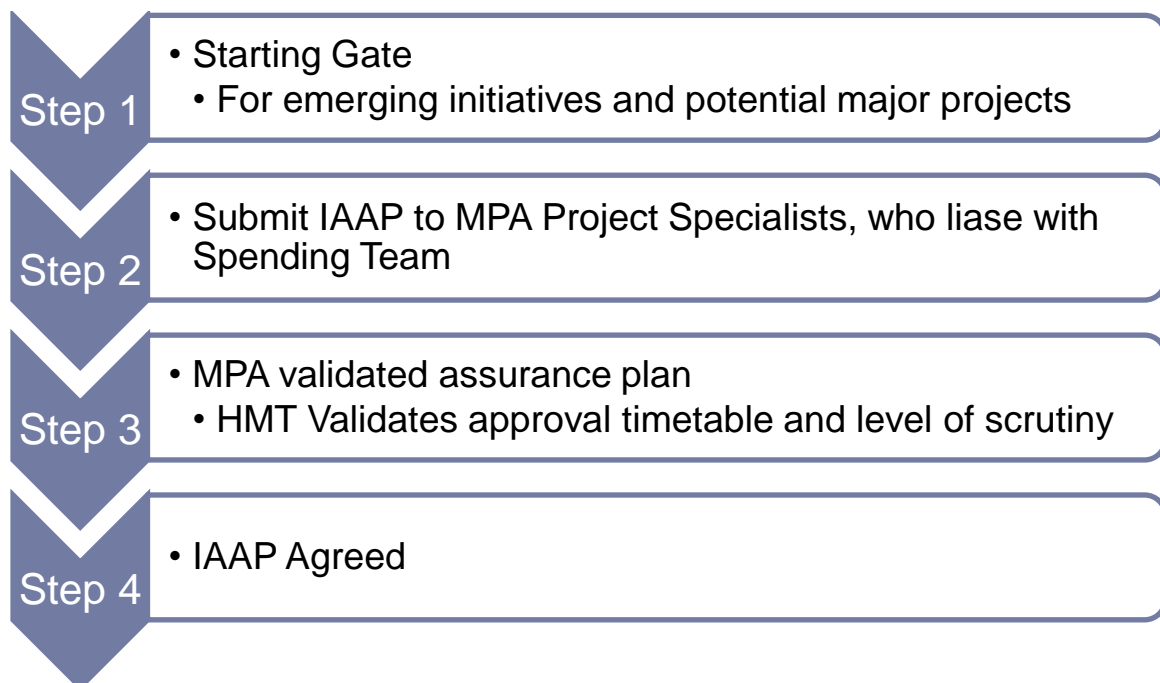
‘The aim of the MPA is to bring about the successful delivery of Major Projects across central government by working with departments to ensure the fitness and quality of Major Projects throughout their life.’

The MPA states that all major projects must follow the Integrated Assurance and Approvals template. A ‘Major Project’ is defined as ‘a central government funded project or programme that requires HM treasury approval during its life, as set out in Delegated Authority letters.’ The MPA is a department set within HMT.

MPA guidance can be seen to follow the principles set by the NAO as the various stages of approval and assurance are designed to review and control any issues that may arise. There is a minimum requirement of three approval stages before the project is agreed to commence, and each of these approval stages must be followed by either an OGC Gateway™ Review or a Project assessment review. Even after the final stage of a Full business case Review, experience shows that projects can still go off track, and as such milestones are implemented for review at different stages of completion of the project or programme.

These milestones and approval stages form the backbone of the assurance processes set out by the MPA. They are followed by assurance streams that are designed to constantly review projects throughout their lifecycle. Two key components that follow are the Integrated Assurance Strategy (IAS) and the Integrated Assurance and Approvals Plan (IAAP). The MPA provides an ‘assurance toolkit’ to guide project managers and stakeholders towards filling the criteria for adequate assurance provision, at planning, reviewing and implementation stages. These include both planned and consequential assurance tools.

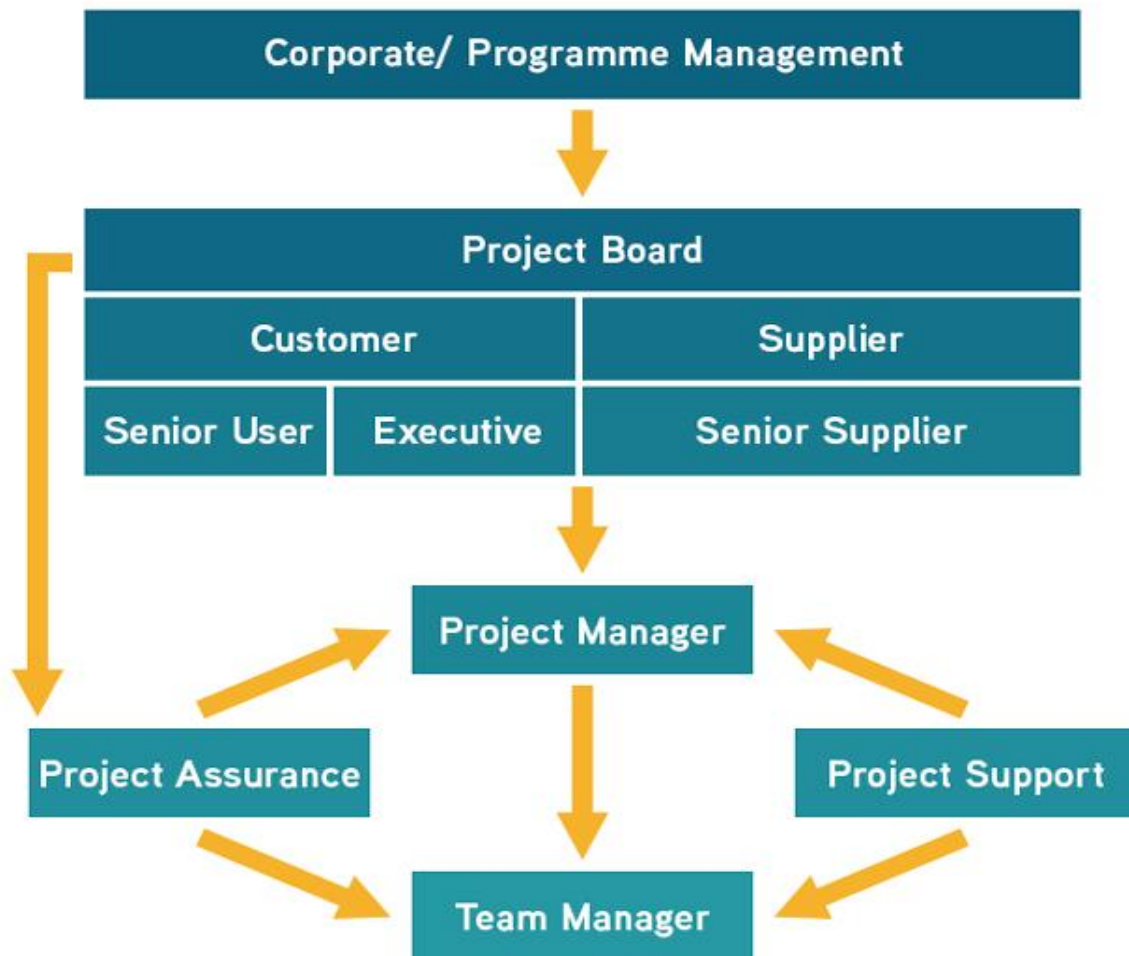
The general procedure for the submission of draft IAAPs is as follows.



The IAAP is then the key document for referral. It plans, records, and documents functional and independent assurances that span the entire project lifetime.

APPENDIX 4 - PRINCE2 FOR EFFECTIVE GOVERNANCE

PRINCE2 is a structure used for large capital project management, and is the international standard method for project management. PRINCE2 defines formal recognition of responsibilities within a project, in order to involve managers and stakeholders at the right time during a project, provide effective communication between the project, project management and rest of the organization, and provide assurance that the project has continued business justification.



The above diagram shows how the management structure should be. You can see that the senior supplier and senior user are included as well as a project executive. This is so that all interests are represented on the board, ensuring effective decision making. The SRO (executive) is put in place to be the single point of accountability. The programme board should meet regularly to provide guidance and direction for the project

There should be a separate appointed project manager who has responsibility for day to day management of the project and for delivery of the project within the constraints of the business plan. This project manager should receive support form a project management team who meet at least once a week in order to plan and monitor use of resources, manage the business and manage stakeholder engagement.

APPENDIX 5 – PROJECT FINANCING – IPSAS 23 REVENUE FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)

Monetary and Nonmonetary Assets

BC9. This Standard does not establish different requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as nonmonetary assets. The IPSASB is of the view that while nonmonetary assets raise additional measurement concerns, they do not, of themselves, justify different financial reporting treatments.

So if an asset is donated or if cash is given to buy an asset, the standard sees no difference.

Stipulations: Conditions and Restrictions

*15. While **conditions** and **restrictions** may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only **conditions** require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached.*

In terms of the airport, SHG does not receive any cash as DFID pays Basil Read. SHG receives an asset, currently in the form of a WIP. SHG is the owner of the asset, and there are no restrictions on it (SHG to provide written representation to that effect).

Recognition of Revenue

*44. An inflow of resources from a non-exchange transaction recognized as an asset shall be **recognized as revenue**, except to the extent that a liability is also recognized in respect of the same inflow.*

Liability

*55. **Conditions** on a transferred asset give rise to a present obligation on initial recognition that will be recognized in accordance with paragraph 50.*

50. A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when, and only when:

- (a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and*
- (b) A reliable estimate can be made of the amount of the obligation.*

Transfers

*7. **Transfers** are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.*

76. an entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The airport meets the definition of a transfer, as do for example the assets donated by WHO.

Gifts and Donations

93. *Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation.*

Disclosures

106. *An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:*

(a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:

- (i) Taxes, showing separately major classes of taxes; and*
- (ii) Transfers, showing separately major classes of transfer revenue.*

(b) The amount of receivables recognized in respect of non-exchange revenue;

(c) The amount of liabilities recognized in respect of transferred assets subject to conditions;

(cA) The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets;

(d) The amount of assets recognized that are subject to restrictions and the nature of those restrictions;

(e) The existence and amounts of any advance receipts in respect of non-exchange transactions; and

(f) The amount of any liabilities forgiven.

107. *An entity shall disclose in the notes to the general purpose financial statements:*

(a) The accounting policies adopted for the recognition of revenue from non-exchange transactions;

(b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;

(c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and

(d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

Implementation guidance

Transfer to a Public Sector University with Restrictions (paragraphs 19 and 76)

IG22. The national government (transferor) transfers 200 hectares of land in a major city to a university (reporting entity) for the establishment of a university campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

*IG23. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university **recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.***

APPENDIX 6 – ENTERPRISE RISK MANAGEMENT

Enterprise risk management is defined as:

‘a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.’

This is achieved by incorporating eight interrelated components which should be integrated with the management process:

Component	Description
Internal Environment	The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity’s people, including risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.
Objective setting	Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity’s mission and are consistent with its risk appetite.
Event Identification	Internal and external events affecting achievement of an entity’s objectives must be identified, distinguishing between risks and opportunities. Opportunities are channelled back to management’s strategy or objective-setting processes.
Risk Assessment	Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.
Risk Response	Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity’s risk tolerances and risk appetite.
Control Activities	Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.
Information and communication	Relevant information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the entity.
Monitoring	The entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

Source: CoSO (2004)