

## PETERBOROUGH CITY COUNCIL

---

**FROM:** Louise Cooke, Group Auditor  
Internal Audit Section

**TO:** Steven Pilsworth – Service Director  
Financial Services

Simon Machen – Corporate Director  
Growth & Regeneration

John Harrison – Corporate Director  
Resources

Gillian Beasley – Chief Executive

Cllr John Holdich – Leader

Cllr Andy Coles – Chair of the Audit  
Committee

Cllr David Seaton – Cabinet Member  
for Resources

**OUR REF:** LC/SM/J17

**YOUR REF:** LC/SM/J17

**DATE:** 28<sup>th</sup> July 2015

**COPIES:**

---

### **A1139 Fletton Parkway Junction 17 A1(M) – Junction 2 Widening Scheme**

#### **Introduction**

The Service Director Financial Services made a request for Internal Audit to review the above capital project. This was as a result of escalating costs and resultant Cabinet Reports highlighting an initial predicted overspend of £3.665 million on a budget of £13.498 million. Therefore, Internal Audit have undertaken a sample review of the issues highlighted as reasons for overspends, and the explanations provided.

The volume of documentation generated by this project was extensive. The audit examined all documentation made available by the project team thoroughly, relating to the scope of our review, as part of one of the most complex highways projects the Council has undertaken. This amounted to approximately 150 documents including, for example:-

- Contractor Progress Reports
- Atkins / Skanska / URS / Balfour Beatty / Corderoy / Natural England correspondence
- Early Warning & Compensation Event documentation
- WAC Test results and analysis
- DfT Application for Additional Funding
- Environmental Assessments, Screening Information and Planning Decisions
- Contract Pricing Information and Award.

Meetings were also held with the Corporate Director Growth & Regeneration, Head of Peterborough Highway Services, Transport & Infrastructure Commissioning Manager, Programme & Project Officers.

## **Objectives & Scope**

The purpose of the review was to establish whether the issues highlighted as unforeseen could have been predicted, and whether the most appropriate mitigation actions were taken.

The scope covered a detailed review of the following:-

- Soil Contamination
- Environmental Issues – Great Crested Newts
- Contract Specification Revisions

However, it should be noted that Internal Audit are not technical engineering specialists and therefore we cannot form a judgement on the opinions provided by the various consultants and civil engineering contractors involved. Our conclusions are based on a review of the chronology of events and the actions taken by Council staff in response to those opinions.

We did not specifically look at project management processes during this review, however the Internal Audit annual plan for 2015-16 includes a capital project management review, which is due to commence shortly, looking at the high level processes for controlling and monitoring projects.

This audit was conducted in accordance with proper audit practices, which are set out in the Public Sector Internal Audit Standards (PSIAS). The audit was planned and performed so as to obtain all relevant information and sufficient evidence to express an opinion.

## **Main Findings**

### Soil Contamination

During the course of the project contaminated soil was found on site. This resulted in its removal, however taking contaminated material off site is costly in comparison to inert material. The increased costs to the project were approximately £35 per cubic metre.

It was found that correspondence supports the statements made within Cabinet reports that this soil contamination could not have been foreseen. There were no recorded landfills and no significant potential sources of contamination identified which could be disturbed and cause further contamination, and the potential for off-site contamination to migrate was limited by the low permeability of the geology. As a result, the March 2014 risk register details soil contamination residual probability, and risk to target as 0%.

Examination of documentation also provides evidence that PCC had been notified of significant soil contamination issues via the Early Warning Notice process. The first of which was issued on 28/04/14. As a result of this, the possibility for further contamination at significant cost was included as an additional Early Warning Notice, and the risk register updated accordingly.

Soil tests had to be undertaken over several months (April – October), due to the ability to gain physical access to the areas concerned as the project progressed. Thus demonstrating the issues that have been highlighted regarding the time period over which the soil testing took place, and therefore the difficulties in quantifying whether contamination exists, what the mitigation issues might be and associated costs.

It is evident that various alternatives were considered, and professional opinions sought regarding both the options for mitigation, the impact to the project and overall costs.

### Environmental Issues – Great Crested Newts

The project site sits adjacent to the Orton Pit, which is designated a Site of Special Scientific Interest (SSSI) / Special Area of Conservation (SAC) due to habitat provision for the largest known UK Great Crested Newt population.

Examination of documentation provides evidence that Great Crested Newt populations were examined in 2005, 2006 and 2013 by Great Crested Newt Surveyors, and this information used to inform the project planning ecological reports and requirement for an Environmental Impact Assessment. It was concluded, during June / July 2013, that the effect of works would not be significant as the project area did not support Great Crested Newts, and as such submission of an Environmental Impact Assessment and a licence for Great Crested Newts was not considered necessary.

However, during May 2014, further consultation with Natural England resulted in the need for a development licence, with surveys to establish the presence of Great Crested Newts taking place until September 2014. These actually took place over an extended period, in order to achieve the necessary 5 day clear period.

As a result the additional costs of the Natural England licence, The Froglife Trust contract, and resultant mitigation works to protect the newts impacted the project overall. Internal Audit is satisfied that all mitigation options were appropriate and costs have been reviewed adequately.

### Contract Specification Revisions, £11,944,313

Internal Audit has reviewed the contract documentation in order to establish where savings between the £13 million Balfour Beatty specification and subsequent £12 million target price contract were made, and whether this was considered to have impacted on the resultant overspends.

The Transport & Infrastructure Commissioning Manager stated that the specification changes to reduce costs were as follows:-

- CCTV – This included a reduction of the proposed extent of speed camera coverage, down to a scheme limited to the safety concerns of the Highways Agency, specifically the merge from the A1(M) slip onto the A1139
- A review and value engineering of the technical construction detail of the **new** drainage and road surfacing
- Street lighting – Reprogramming of street lighting works to reduce traffic management costs

Internal Audit's review of the development of the target price revisions, and review of the attached notes highlights the areas above as the main areas for reductions in scope of works on the programme. It is considered that the resultant project overspends, as detailed on the February 2015 Scrutiny Committee Report, are not linked to the amendments made on the contract specification.

In addition to this, the assumptions made in areas that did then result in additional expenditure on the contract, for example land contamination, were reported and monitored closely with the contractor, treated appropriately, with issues considered and added to the risk register accordingly.

## **Conclusion & Opinion**

Internal Audit is satisfied that unforeseen circumstances have impacted this project and significantly increased costs which in turn have been difficult to predict accurately due to their nature. However, project management processes appear reasonable, and:-

- an appropriate approach to mitigate the soil contamination issues has taken place
- an appropriate approach to initially address potential issues at contract stage, followed by mitigation for SSSI / SAC issues in relation to the Great Crested Newt population were sufficient
- reductions to contract scope, and therefore target price, were not linked to the significant additional costs that have since been incurred
- evidence supports that issues have been accurately reported to Cabinet

The audit opinion is Significant Assurance. For guidance on Internal Audit opinions and audit recommendations please refer to Appendix 1.

## **Acknowledgement**

Internal Audit would like to thank officers consulted during the course of this review for their time and assistance.

Please do not hesitate to contact me, or Sarah Maxey, Principal Auditor, should you have any queries or wish to discuss anything further.

Kind Regards

Louise Cooke  
Group Auditor

**PETERBOROUGH CITY COUNCIL****INTERNAL AUDIT RECOMMENDATION GRADES**

<b>Critical</b>	Extreme control weakness that jeopardises the complete operation of the service. <b>TO BE IMPLEMENTED IMMEDIATELY.</b>
<b>High</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. <b>To be implemented as a matter of priority.</b>
<b>Medium</b>	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. <b>To be implemented at the first opportunity.</b>
<b>Low</b>	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust. <b>To be implemented as soon as reasonably practical.</b>

**INTERNAL AUDIT OPINIONS**

<b>OPINION</b>	<b>DESCRIPTION</b>	<b>GUIDE FOR AWARDING</b>
<b>Full assurance</b>	The system is designed to meet objectives and controls are consistently applied that protect the Authority from foreseeable risks.	A limited number of LOW recommendations.
<b>Significant assurance</b>	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.	Predominantly LOW and MEDIUM recommendations or high number of LOW recommendations.
<b>Limited assurance</b>	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.	Predominantly MEDIUM and HIGH recommendations or high number of MEDIUM recommendations.
<b>No assurance</b>	Controls are weak and/or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.	One CRITICAL or a significant number of HIGH recommendations.

--	--	--