

## Defra Group Management Consultancy Framework: Project Engagement Letter

Completed forms and any queries should be directed to Defra Group Commercial at

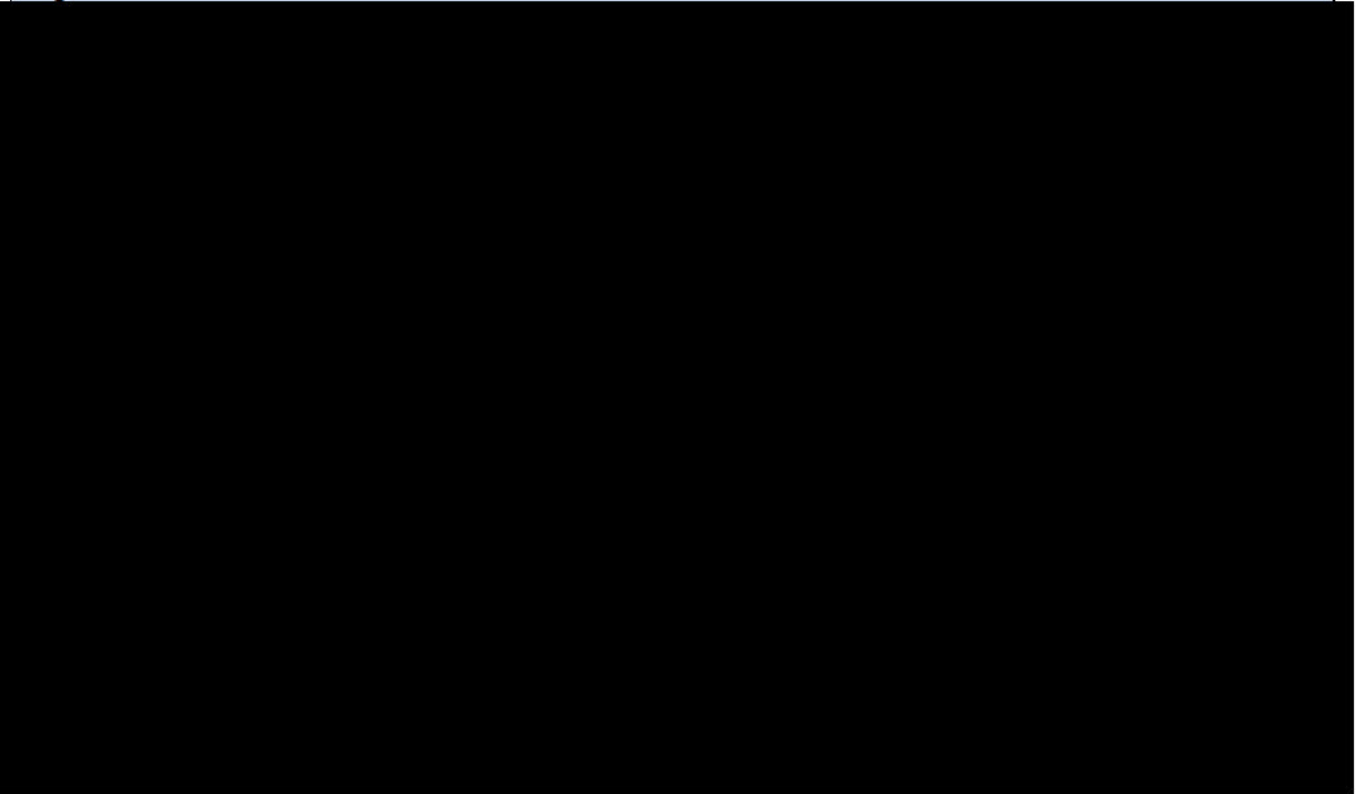
<b>Engagement details</b>			
<b>Engagement ref #</b>	DPEL_61548_005		
<b>Extension?</b>	N	<b>DPEL Ref.</b>	N/A
<b>Business Area</b>	Environment Agency- Chief Operating Officer, Planning, Performance and Strategy Finance		
<b>Programme / Project</b>	Group Accounts Strengthening Project (GRASP)		
<b>Senior Responsible Officer</b>	[REDACTED]		
<b>Supplier</b>	KPMG LLP		
<b>Title</b>	Review of GRASP Initiation Document (PID) and Newts DDL Accounting Advice		
<b>Short description</b>	Support with improving the quality of DEFRA's ARaC through two inter-related tasks: <ul style="list-style-type: none"> <li>• Support with reviewing and commenting on the reasonableness of this plan to support its internal review and approval by DEFRA.</li> <li>• Provision of accounting advice and support in relation to DLL Newts</li> </ul>		
<b>Engagement start / end date</b>	Proposed start date: 28 November 2022		Proposed end: 27 August 2023
<b>Funding source (CDEL/RDEL)</b>	RDEL		
<b>Consultancy Spend approval reference</b>			
<b>Expected costs 22/23</b>	[REDACTED]		
<b>Expected costs 23/24</b>	[REDACTED]		
<b>Expected costs 24/25</b>	£0		
<b>Dept. PO reference</b>			
<b>Lot #</b>	2		
<b>Version #</b>	1		



## Approval of Project Engagement Letter

By signing and returning this cover note, Environment Agency - Chief Operating Officer, Planning, Performance and Strategy and Natural England Director of Finance accepts the contents of this Project Engagement Letter as being the services required and agrees for KPMG to provide the Services in accordance with the agreed Supplier Proposal governed by the overarching call off contract (MCF2, RM6008, Lot 2 - Ref 28595), with Defra Group and confirms the availability of funding to support recharge for the Services.

### Signatures



Supplier contact [REDACTED]

Business Area contact:

GRASP PID Review - [REDACTED]

DLL Newts Accounting -

## General Instructions

The Engagement Letter describes the services required and provided. When completing the Engagement Letter establish the context, explain why external support is required and distinguish between the objectives, outcomes, scope and deliverables. The rationale behind the costs should be made evident in the Fees section.

*The Business Area considerations* are guidance notes for the customer to support their evaluation of the Engagement Letter.

## 1. Background

Two inter-related tasks require KPMG support with overall objective of improving the quality of DEFRA's Annual Report and Accounts. One task relates to the review and feedback on DEFRA's GRASP Project Initiation Document and the other relates to the provision of accounting advice and support in relation to a new income stream in for District Level Licencing for Newts ("DLL Newts").

### GRASP PID Review

We need to be able to assure the DEFRA Accounting Officer that DEFRA can deliver unqualified accounts to schedule in the near future. This need reflects the growing scale we face in responding to the accounting and audit issues we are likely to face (both existing and arising from current and future development including, for example, CDEL/RDEL recognition at the Environment Agency, new income streams coming). Most of these issues are with Environment Agency accounts due to the complex nature of some of the accounting treatment and much bigger scale of things like projects compared to the rest of DEFRA.

As a first step in responding to this challenge, DEFRA are developing a comprehensive programme which will help ensure that all the key accounting and audit evidential issues which could materially impact on the production and audit of the Department's accounts are identified and addressed in a timely manner.

The objective of the project is to:

- Identify and resolve the underlying issues that resulted in existing qualifications on Defra accounts by 2023/2024.
- Identify and resolve underlying issues that we anticipate would cause future qualifications on Defra accounts 2023/2024.
- Lay Defra's accounts pre-recess for 2023/2024, noting that achieving the above two objectives may prevent this objective being achieved.
- Undertake any quick wins that improve Defra accounts for financial year 2022/2023.

Specifically, a plan (which will be documented in the form of a Project Implementation Document (PID) is being developed by DEFRA to:

- Document the accounting issues and developments which are likely to need to be addressed and assess their potential impact on the delivery of timely and accurate Annual Report and Accounts;
- Identify at a high, broad brush, level, the activities and actions (e.g., developing and delivering training, designing and implementing new processes) which would be expected to be needed to address each of the key issues prioritised for action and the timelines over which these activities and actions will be delivered; and
- The quantum and type of the resources needed (e.g., what skills are needed, when and how much) to deliver the planned activities.

### DLL Newts



As part of getting final audit sign-off of the Natural England (NE) 2021/22 Accounts, a technical issue has arisen regarding income recognition in relation to District Level Licencing for Newts (DLL Newts – a novel green finance scheme). The appropriate accounting treatment for this matter needs to be resolved for inclusion in the 2022/23 Accounts and also has implications for other high-profile schemes such as Biodiversity Net Gain and Nutrient Neutrality so it is essential a clear way forward is agreed which may encompass HMT involvement.

## 2. Statement of services

### Objectives and outcomes to be achieved

Any work performed before this DPEL is finalised will be governed by its terms and conditions.

#### GRASP PID Review

We require immediate KPMG supporting with reviewing and commenting on the reasonableness of this plan to support its internal review and approval by DEFRA.

#### DLL Newts

Initial requirement is for advice regarding how to account for the DLL Newts arrangement and the key accounting judgements involved. This will be followed by ad-hoc support to explore options to seek clarification from HM Treasury on this matter or ways to amend the contractual arrangements. The overall objective is achieving an appropriate accounting treatment for DLL Newts that will withstand external audit scrutiny.

For clarity, KPMG LLP's total aggregate liability, referred to in Clause 37.2.1, relates to each and every call-off i.e., the total liability cap under this Project Engagement Letter is equal to 125% of Fees for the work done in relation to the DPEL\_61548\_005.

### Scope

#### GRASP PID Review

The Supplier's review of the PID will involve the following:

Anticipated Component of the Plan	Review activities	Outcome / Output
1: Each accounting / audit issue identified and an initial assessment of its importance / materiality to the Departmental and other ARaCs	<ul style="list-style-type: none"> <li>Review and understand process for identifying expected issues</li> <li>Consider completeness of the "listing" of issues by reference to knowledge of DEFRA, other Government departments and our understanding of emerging accounting and auditing developments</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of DEFRA's process for identifying all the relevant issues and of the completeness of the listing</li> <li>Where completeness gaps have been identified, additional accounting issues identified will be communicated / fed back</li> </ul>
2: Assessment of the likely impact on DEFRA's ARaC and those of other ALBs within the DEFRA group.	<ul style="list-style-type: none"> <li>Understand and assess the basis on which DEFRA has identified the likely impact and timing of these issues on the preparation</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of DEFRA's process for determining the likely impact of individual issues and of the coherence of that impact assessment</li> </ul>

	<p>and audit of accounts at both group and individual ALB level</p> <ul style="list-style-type: none"> <li>Understand how that ARaC impact assessment feeds into the prioritisation of subsequent activity</li> </ul>	<p>with subsequent activity development / resourcing (see next step)</p> <ul style="list-style-type: none"> <li>Where completeness gaps have been identified, additional accounting issues identified will be communicated / fed back</li> </ul>
<p><i>3: Assessment of proposed actions &amp; activities in response to each issue</i></p>	<ul style="list-style-type: none"> <li>Understand and assess the basis on which DEFRA has developed a proposed response / remediation to these issues</li> <li>Assess appropriateness of proposed response / plan (e.g., further training, new processes) and consider the likelihood that the proposed response will address the relevant issue within DEFRA's required timescales</li> <li>Consider the appropriateness &amp; reasonableness of the proposed sequencing of activities</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of DEFRA's process for identifying the actions required to effectively respond on a timely basis to the issues and assess the consistency of the proposed actions with the prioritisation flowing from the impact assessment</li> </ul>
<p><i>4: Assessment of the estimate of quantum, nature and timing of resources required to deliver the plan of actions identified at component 3 above.</i></p> <p>NB: it is assumed that this resource assessment will be focused on those needed to deliver the action plan, rather than any change in resources which might be required to deliver new processes / ways of working in a future steady-state environment.</p>	<ul style="list-style-type: none"> <li>By reference to the expected scope and sequencing of activities understand the basis on which DEFRA has "sized" the work and consider the reasonableness of the subsequent resourcing assumptions</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of DEFRA's process for identifying the level and nature of resources required to deliver the plan</li> </ul>

### DLL Newts

KPMG LLP's Services will be delivered in two stages:

#### 1. Accounting Assessment for DLL Newts (Stage A)

An accounting assessment for the income recognition associated with the DLL Newts arrangement. This accounting assessment will also include a summary on the budgetary impact of the aforementioned accounting assessment. This assessment will consider (i) whether IFRS 15 as interpreted by the FReM is the appropriate standard to consider for DLL Newts and if not which accounting standard is appropriate; and (ii) the principles of accounting for the DLL Newts under the relevant accounting standard, such as detailing the potential timing of income recognition. Framework of Assessment: Government Financial Reporting Manual (FReM) issued by HM Treasury, as well as Consolidated Budgeting Guidance (CBG).

Output: Accounting Assessment Report of the DDL Newts scheme due by 23 January 2023.

#### 2. Ad-hoc support to resolving the accounting for DLL Newts and other similar contracts (Stage B)

This support is expected to involve the following:

- Support DEFRA and NE prepare papers for HM Treasury to clarify / amend the accounting treatment under the FReM for arrangements similar to DLL Newts. This may also involve attending meetings with HM Treasury.
- Consideration of whether any steps can be taken to align the Newts DLL to the desired NE accounting treatment under IFRS 15 and the potential implications of any such changes.
- Consideration of the applicability of the DLL Newts accounting treatment to other similar contracts (i.e. Nutrient Neutrality and Biodiversity Net Gain).

The requirement for Project Stage B will be confirmed by NE following delivering of the output by the supplier for Project Stage A.

Output: To be agreed with NE following delivery of Stage A. Potentially an updated version of the Accounting Assessment Report from Stage A. [REDACTED]

### Assumptions and dependencies

For both GRASP PID Review and DLL Newts, delivery of the Services depends upon:

- the PID and DLL Newts documentation being ready to review at the start of the engagement; and
- DEFRA staff being made available on a timely basis to attend meetings and provide further information.

When providing the Services, the Supplier will not perform any management functions, nor make any decisions for Customer, and while Supplier may provide Customer with advice, responsibility for all related decisions and their consequences are Customer's responsibility. Customer shall appoint someone of management-level with the skill, knowledge and experience necessary to be responsible for overseeing the Services provided, evaluating their adequacy, establishing and maintaining internal controls and monitoring ongoing activities.

### Risk management

Provide further details of any foreseen risks with this project and how they could be mitigated:

There is a risk that key contacts in the business aren't available for KPMG to talk to. A dedicated DEFRA point of contact will be assigned to support.

### Deliverables

#### GRASP PID Review

The output of the work will be a single document which integrates these strands of activity which assesses the completeness & feasibility of the DEFRA plan, key delivery risks and areas for improvement.

The structured approach outlined above means that the assessment will be able to more precisely focus on specific key features of the plan rather than providing broad generic statements (e.g., you will be able to clearly differentiate between (i) we have identified the right issues, but have the wrong plan to address them; and (ii) we have the right issues and plan, but have not appropriately allowed for the level of resources to deliver on that plan).

#### DLL Newts

For Stage A – an Accounting Assessment Report of the DDL Newts scheme.

For Stage B – future deliverables will be agreed with DEFRA following delivery of Stage A.





Deliverable	Success Criteria	Milestone / Date	Owner (who in the delivery team?)
<b>Project Stage A</b>			
A single document which integrates these strands of activity which assesses the completeness & feasibility of the DEFRA plan, key delivery risks and areas for improvement.	Sign-off by Project Board	December 2022 (exact date TBC)	[REDACTED]
Whitepaper Accounting Assessment Report of the DDL Newts scheme due by 31 January 2023	Clear report	23 January 2023	[REDACTED]
<b>Project Stage B</b> (additional stages can be added)			
Ad-hoc Support – specific deliverables to be agreed via email with relevant DEFRA representative		N/A	[REDACTED]
<b>Internal Capability Development Outcomes</b>			
<b>Social Value Outcomes</b>			

### Limitations on scope and change control

Unless instructions to the Supplier are later amended in writing, the work undertaken will be restricted to that set out above. In providing the services detailed above, the Supplier will be acting in reliance on information provided by the Business Area.

The Project Engagement Letter is the agreed contract of work between the Defra Group Business Area and the Supplier and can be varied under the change control process. Any changes to timescales, scope and costs will require approval by DgC.

### 3. Delivery team

The table below provides details of the core delivery team involved in both tasks. However, we may draw upon on additional KPMG staff to support the engagement as and when required who will be charged out at the rate commensurate with their day rate as detailed in the Fees section.

Name	Role (link to stage/s resource will work on)	Grade
[REDACTED]	Engagement Leader	Director / Partner
	Engagement Manager	Managing Consultant
	Engagement Support	Principal Consultant

## GRASP PID Review

Grade	Days Estimate
Director / Partner	████
Managing Consultant	██████
Principal Consultant	██████

Grade	Days Estimate
Director / Partner	████
Managing Consultant	████
Principal Consultant	████

To be agreed with DEFRA upon completion of Stage A and when the requirements become clear.

<p><b>Total resource</b></p> <p><b><u>Total days*</u></b> <b>Engagement Length**</b></p> <p>*Total days worked across all resources</p> <p>**Total working days in engagement</p>	
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For GRASP PID Review, it will be [REDACTED]  
For DLL Newts, it will be [REDACTED]

Defra Group will reimburse the Supplier for approved work done according to the table below. The total fees for the scope of work detailed in this Engagement Letter is estimated to be between £70,000 and £90,000, inclusive of expenses and excluding VAT depending on times and materials as agreed with the Contract Managers

The Supplier's fees will be charged at the Supplier's day rates as detailed in the RM6008 framework based on 8 hour day and set out below:

Grade	Daily Rate (excl. VAT)
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Given the ad-hoc nature of the Stage B work for DLL Newts, it is expected that the work on DLL Newts will span a time period of greater than 3 months. Should the actual work performed for either piece of work under the DPEL exceed 3 months, the rates will be retrospectively discounted to apply to the duration discounts.

### **Expenses statement**

Defra Group overarching contract rates include expenses for any travel to/from any UK location defined by the Business Area as the base office for the work. Only expenses for travel at the Business Area's request from this base can be charged. If appropriate, define permissible expenses to be charged.

### **Payment**

The Supplier should invoice fees monthly in arrears. Defra Group will reimburse fees monthly on confirmation of approval of work delivered by the Business Area. The Supplier will keep an accurate record of time spent by staff in providing the services and provide this information and supporting narrative, if requested.

## **5. Governance and reporting**

As part of the Call-Off Contract, the Supplier and Business Area agree to provide reporting on the following:

- Completion of the time tracker on a monthly basis, to track days worked by our consultants;

### **Key Performance Indicators**

None required for this engagement

### **Feedback and satisfaction**

At the end of completion of each deliverable, a meeting will be held with the relevant parties to discuss feedback.

Defra Group reserves the right to hold review meetings during the assignment, discussing what went well, opportunities for improvement on future assignments and similar. This will incorporate any 'Show and Tell' documentation or transferable products that have been produced.

A post-engagement quality review of the engagement will be arranged where the Business Area rates the services provided.



## Non-disclosure agreements

The overarching MCF2 framework includes NDAs.

## 6. Exit management

The agreed actions and deliverables by the Supplier for when the contract ends are as follows:

### GRASP PID Review

Complete single document which integrates these strands of activity which assesses the completeness & feasibility of the DEFRA plan, key delivery risks and areas for improvement, with optional phone call with SRO, project manager and any members of their team to go through anything unclear.

### DLL Newts

Delivery of Accounting Assessment Report.

## Notice period

The nature of these engagements require that Defra Group have the ability to terminate an engagement with notice. Defra Group's termination rights for this engagement are marked below.

The minimum notice period for termination is 5 working days regardless of engagement duration.

1. Business Area identifies a potential need for delivery support, initiates a conversation with DgC, confirms which approvals are required for an engagement to occur, e.g. Consultancy Governance Board if over £100k or DgC Corporate Services Delivery Board if under £100k.
2. Request Form completed by Business Area and submitted to DgC at:  
[consultancy2@defra.gov.uk](mailto:consultancy2@defra.gov.uk)
3. The form is reviewed by the DgC team around which resource route is most appropriate (e.g. Lots 1/2/3) and may request additional information/edits from the Business Area if required.
4. Lot / Supplier is selected and briefed on the request by DgC, then introduced to the requesting Business Area for further discussion and confirmation of work to be delivered
5. A Project Engagement Letter is completed by the Business Area with input from the Supplier (with supporting proposals as appropriate) and then finally agreed between the two parties, including evidence of all required approvals either being in place or being progressed (e.g. PO) and forwarded to the DgC for review by the Consultancy Governance Board (CGB). Approval states are:

Approval state	Definition	Permissions
Full approval	<ul style="list-style-type: none"> <li>▪ DPEL agreed</li> <li>▪ DPEL signed: Supplier, Dept and CO</li> <li>▪ Purchase Order number</li> </ul>	<ul style="list-style-type: none"> <li>▪ Work can start</li> <li>▪ Supplier can invoice for work</li> </ul>

