

## **AUDIT AND GOVERNANCE COMMITTEE – 13 November 2019**

### **Update on Highways Payments**

**Report by Jason Russell, Interim Director for Community Operations**

#### **RECOMMENDATION**

1. **The Audit and Governance Committee is RECOMMENDED to note progress to date.**

#### **Executive Summary**

2. The last audit of highway payments identified good progress in resolving the issues identified in previous audits but that there were still some actions required to resolve some outstanding issues.
3. Whilst, a large majority of the management actions have now been completed and significant progress has been made in closing down historic task orders, testing during the reporting cycle has identified some remaining minor issues which are continuing to be resolved.
4. Mitigation measures remain in place to ensure that the council is protected from unnecessary payments.

#### **Introduction**

5. In November 2018, a presentation was given to Audit and Governance Committee about the operation of the highways contract with Skanska and concerns relating to outstanding audit actions.
6. This report provides an update on progress in achieving greater assurance of financial management within highways activities.
7. At the meeting of May 8<sup>th</sup> 2019 the Director for Community Operations, Owen Jenkins, reported how the service intended to work closely with its highways contractor, Skanska, in resolving the outstanding issues that remained at that time and that the contract management team were confident that, while targets have been missed in the past, the next three months would demonstrate that the system would be compliant as all milestones had been hit in the preceding six months.
8. At that meeting a Skanska Director (Simon White) stated that the remaining issues with the contract payment system should be resolved by the end of

June 2019 and that Skanska had put significant resources into solving the problem at no cost to the council.

## **Background**

9. The highways term maintenance contract started in April 2010. Although originally awarded to Atkins, the operation of the contract transferred to Skanska in 2013. The contract covers highway maintenance, design and construction.
10. The contract was let for an initial ten-year term with potential for a further ten one-year extensions available. Extensions are linked to the health of the partnership each year and to date three extensions have been granted meaning a current contract end date of 2023. Five extensions have not been awarded over the life of the contract with a further two still to be decided.
11. Profit payments are made to Skanska dependent on key performance indicators. They have qualified for around 70-80% of the total available payments in recent years.
12. The annual contract spend is approximately £30m, although has risen to £40m more recently to accommodate the council's additional investment in highways maintenance.
13. The key aim of the partnership is to work closely together to ensure continuous improvement and value for money.
14. Generally, the contract operates effectively with regards to quality of works, partnership engagement and value for money, however there have been long standing concerns identified with Skanska's financial systems which have been audited regularly throughout the life of the contract.
15. The contract requires the financial and works management system to:
  - Enable open book accounting,
  - Transparency of costs at works order level,
  - The ability to understand what each cost is for,
  - The capability to undertake cost transfers,
  - Avoid duplicate payments,
  - Provide clarity over sub-contractor payments and gang costings,
  - The ability to close works orders.

## **Audit updates**

16. The accounting system inherited by Skanska from Atkins (Inform) was replaced by Skanska's own system (SkanWorks) in 2016 as several previous internal audits identified issues with the original system.

17. Since then there have been further audits on SkanWorks and audits have continued to identify concerns and issues regarding the functionality and visibility of information. There have been six audits to date (including the latest undertaken in Q4 2018/19).
18. The audit in 2017 identified that SkanWorks did not provide the information required to manage OCCs finances, nor address the concerns that previous audits had already identified with the Inform system which OCC had specified that any subsequent Skanska system needed to address.
19. At the May 2019 Committee meeting, Skanska reported that they had substantially completed the outstanding actions required to address the audit points with the intention of testing these through the June reporting cycle to demonstrate compliance.

### **Work to date**

20. Skanska added significant additional staffing resource to ensure that a number of remediation measures were put in place to allow for more robust visibility of costs and this has addressed many of the legacy audit concerns and continues to be in place during the testing phase.
21. The latest Highways Payments follow up audit reviewed whether the key weaknesses previously identified as outstanding have been addressed, namely:
  - the inability to move costs between Task Orders resulting in inaccurate costs not being corrected;
  - inability to close down Task Orders on the system, resulting in a risk that completed works could have costs added to, or removed from, them;
  - inaccuracy and lack of transparency of gang costing and productivity data, resulting in a higher risk of payment inaccuracies not being identified.
22. The council's highway contract manager has been closely monitoring Skanska's progress over the last few months to ensure that all audit and other concerns have been addressed.
23. The latest changes have enabled all historic closedowns (final accounts) to be completed for the financial year 2016/17 and the vast majority from 2017/18 have now been closed and final payments made.
24. Skanska committed to ensuring all closedowns from the 2018/19 financial year would be completed by the end of July in line with contracted timescales.
25. In the main this commitment has been achieved with Skanska submitting the majority, although there are a few that have not been completed for a number of reasons. This is not a concern at present and considered to be in line with normal operations. The contracts team and budget holders are still reviewing these although the legacy accruals have largely been removed. The majority

of the outstanding large value queries are sat with the highways contract manager to finalise.

26. The most recent audit looked at SkanWorks system improvements, hot costing and OCC cost and payment checks and found that there had been considerable progress in improving compliance in these areas. There were however, still some outstanding issues and there were three outstanding carry forward actions identified.
  
27. Skanska have now addressed most of the outstanding actions in their control and the system is now able to comply with the requirements of the council. To close out all audit findings however, there is a need to ensure that the new system and new ways of working are properly embedded into business as usual and that cycles of activity take place to ensure that this can be evidenced as working. Both OCC and Skanska are continuing to implement and refine procedures during each reporting cycle and are planning training for budget holders to improve the monitoring cost and payments data from the new system.
  
28. The outstanding issues identified in the latest audit report are being addressed and updates are provided in the table below;

<b>Risk Areas</b>	<b>How being addressed</b>
<b>Risk Area A: SkanWorks System Improvements</b>	
RAM data upload to SkanWorks	Resource Allocation Module (RAM) data is being uploaded monthly. The roll out of a weekly upload has been delayed whilst further work is undertaken to identify whether there would be any benefit to OCC or Skanska in doing so. This element was considered an added benefit to the project rather than a compliance issue but could potentially increase workloads with no discernible benefits.
Photos in SkanWorks	Skanska Defects Inspection and Test Plan has been updated with a jointly agreed bench marking document and revised checking procedure which is now being undertaken monthly.
Cost Movements in SkanWorks	This issue was confirmed as being complete at the previous committee and continues to be operating effectively.
Completion of Works Orders Close downs	Works Order close-down within the system is now regularly undertaken to avoid cost movement after task orders are closed down.
<b>Risk Area B: Hot Costing</b>	
Admin errors and inaccuracies	Regular reviews of hot costings is now occurring between Skanska and the budget holders to ensure that issues are resolved in a timely manner. The Highways Contract Manager

in hot costing Task Orders	has however not yet independently tested the process due to resource constraints.
<b>Risk Area C: OCC Cost &amp; Payments checks</b>	
Budget Holder SkanWorks training	Refresher training for Skanworks for OCC staff is to be rolled out on completion of new bespoke reports currently being developed. The development of correct reports has taken longer than anticipated but are now complete and being tested by the contracts team before being rolled out to budget holders.
Budget Holder SkanWorks log-ins	<p>OCC maintain and update budget holder lists to ensure access rights remain contemporary and that users are reviewing information within the system. On OCC's request, Skanska have developed a report to show budget holder activity for performance management purposes.</p> <p>There is still a lack of review by budget holders. This will be addressed through mandatory training and an escalation process which will be subsequently put in place to ensure managers are able to address non-compliance issues.</p> <p>Overall compliance will be tracked monthly as a local performance indicator by the contract management team.</p>
Reports on RAM data	Review of RAM reporting pack has been delayed due to capacity issues within the contact management team during the process of closing down historic and current task orders.
Spot Checks on RAM Data	The contracts team have not had the capacity to undertake spot checks of the data to identify any issues or review productivity due to significant work required to close down legacy and in year task orders.

## Next Steps

29. OCC and Skanska are working together to ensure that the remaining actions are resolved and are aware that these are outstanding beyond the initial agreed timescales. An action plan will be agreed between the contract team, OCC operations and Skanska to ensure that outstanding actions are undertaken in a timely manner and resourced effectively.
30. Joint training and documentation is being developed and will be rolled out across both relevant staff within OCC and Skanska to ensure that existing

staff are sufficiently skilled and knowledgeable of the changes to the system and processes and that new staff can effectively be inducted into the ways of working.

31. The contracts manager continues to ensure that mitigation measures are in place to protect the council from unnecessary payments, including the withholding of payments until satisfactory evidence is in place to allow payment to be released.

### **Financial and Staff Implications**

32. Considerable progress has been made in reducing legacy accruals and as a result there is greater clarity for in year budget profiling and reporting. It is anticipated that accruals for the end of this financial year will be considerably less than previous years within the contract and a large majority should be reconciled within the first quarter of the next financial year.
33. The work required to implement audit actions and address the significant backlog of works orders for which evidence is now available has stretched the contacts team considerably and as a result has delayed some of the outstanding actions being completed.

### **Equalities Implications**

34. None

**Jason Russell - Interim Director for Community Operations**

**Background papers:       None**

**Contact Officer:   Steve Smith  
October 2019**