

AUDIT AND GOVERNANCE COMMITTEE – 8 May 2019

Update on Highways Payments

Report by Owen Jenkins, Director for Community Operations

RECOMMENDATION

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

Executive Summary

2. The recent audit of highway payments has identified good progress in resolving the issues identified in previous audits however, there remains outstanding issues to be addressed.
3. There is confidence that the remaining issues will be fully resolved by June 2019 when cycles of reporting have been completed and compliance able to be evidenced.
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. This report provides an update on progress in achieving greater assurance of financial management within highways activities.

Background

6. 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.
7. 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 with a further two to be decided upon over the life of the contract.

8. The annual contract spend is approximately £30m, although has risen to £40m more recently to accommodate the council's additional investment in highways maintenance.
9. The key aim of the partnership is to work closely together to ensure continuous improvement and value for money.
10. 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.
11. 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

12. 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.
13. 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).
14. 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.
15. At the November 2018 Committee meeting, Skanska reported on their progress to date and their plan and timescales for addressing the outstanding audit points with a clear understanding that any delay or lack of progress would inhibit the ability for any further extensions to be granted.

Work to date

16. Skanska have wadded significant additional staffing resource, at no cost to the council, to ensure that a number of remediation measures have been put in

place to allow for more robust visibility of costs and this has addressed many of the legacy audit concerns.

17. This year's 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 closedown 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.
18. The councils contract management team have been closely monitoring Skanska's progress over the last 6 months to ensure that all audit and other concerns have been addressed.
19. All historic closedowns (final accounts) from financial years 2016/17 and 2017/18 have now been submitted, and initial reviews demonstrate that these are satisfactory. Skanska has committed to ensuring all closedowns from the recently concluded 2018/19 financial year will be completed by the end of July in line with contracted timescales. This will remove all the legacy accruals allowing for greater confidence surrounding in year spend.
20. The most recent audit looked at SkanWorks system improvements, hot costing and OCC cost and payment checks and the findings show that there had been considerable progress in improving compliance in these areas. There are however, still some outstanding issues and there were three outstanding carry forward actions yet to be completely resolved.
21. Overall, the audit noted that the contractor had committed to addressing the issues raised in previous audit reports and despite taking longer than hoped to resolve, these have now been suitably addressed.
22. Skanska have addressed most of the outstanding actions 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 implementing procedures and training to monitor cost and payments data from the new system.
23. The outstanding issues identified in the latest audit report are being addressed as in the table below;

Risk Areas	How being addressed
Risk Area A: SkanWorks System Improvements	
RAM data upload to SkanWorks	Resource Allocation Module (RAM) data is currently being uploaded monthly, once all the issues have been resolved this will be done weekly
Photos in SkanWorks	Skanska Defects Inspection and Test Plan has been updated with a jointly agreed bench marking document and revised checking procedure. Training to operatives being rolled out in May
Cost Movements in SkanWorks	Skanska have subsequently addressed the backlog of cost transfers allowing completion of all historic financial close-down submissions. Some minor corrections may still be required during approval process and completion of in-year close-downs.
Completion of Works Orders Close downs	Works Order close-down within the system has commenced on all the Works Orders within the agreed Task Orders
Risk Area B: Hot Costing	
Admin errors and inaccuracies in hot costing Task Orders	Workshop to be held by Skanska to review data migration and report findings to Highways Contract Manager by end of May
Risk Area C: OCC Cost & Payments checks	
Budget Holder SkanWorks training	Training to be rolled out on completion of new bespoke reports currently being developed. OCC have met with Skanska to ensure correct reports are created
Budget Holder SkanWorks log-ins	OCC reviewing current access to ensure up to date 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.
Reports on RAM data	Review of RAM reporting pack currently ongoing and to be completed by the end of July.
Spot Checks on RAM Data	Review of procedure currently ongoing with contract team and to be completed by the end of May.

Next Steps

24. OCC and Skanska are working together to ensure that actions are being undertaken in a timely manner to address the actions within the audit report within the stated deadlines.
25. Joint training and documentation will be developed and rolled out across both relevant staff within OCC and Skanska to ensure that existing staff are sufficiently skilled and knowledgeable of the new system and processes and that new staff can effectively be inducted into the ways of working.
26. OCC continue 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.
27. Skanska have committed to continue development of Skanworks, above and beyond that required within the identified issues. They have confirmed that we will start to share good practice from other contracts and this includes visiting other contracts to see SkanWorks in action.
28. An example of this includes the roll-out in 2019 of a new map-based works scheduling module that has been developed for SkanWorks. The purpose of this module is to improve geographic planning of minor repair works, to enable Skanska to increase productivity and making the service more efficient and cost effective.

Financial and Staff Implications

29. Post July, the amendments in place will reduce the burden on staff, from both OCC and Skanska, in operating mitigation arrangements.
30. The amendments in place will provide greater clarity for in year budget profiling and reporting and reduce the level of accruals at the end of financial years.

Equalities Implications

31. None

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Simon White (Skanska Director) available for questions if required

Background papers: None

Contact Officer: Rebecca Harwood
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