

AUDIT AND RISK COMMITTEE

24 April 2018

HIGHWAYS INTERNAL AUDIT REPORT

Report of the Director for Places (Environment, Planning & Transport)

Strategic Aim:	All	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr N Begy, Deputy Leader and Portfolio Holder for Planning Policy and Planning Operational, Highways & Transportation, Communications	
Contact Officer(s):	Dave Brown, Director for Places (Environment, Planning & Transport)	01572 758461 dbrown@rutland.gov.uk
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Ward Councillors	Not Applicable	

DECISION RECOMMENDATIONS

That the Committee:

1. Notes the Highways Maintenance Contract 2016/17 report and the actions taken by Officers to address issues raised.
2. Agree that a further update on any outstanding issues should be provided in June 2018.

1 PURPOSE OF THE REPORT

- 1.1 To present the findings of the Highways Maintenance Contract 2016/17 audit and to inform Members of the actions taken in response to this.

2 BACKGROUND AND MAIN CONSIDERATIONS

- 2.1 In 2016/17, Internal Audit reviewed the management of the Council's highways maintenance contract. The contract has been in operation since 2013 and is the Council's highest value contract at £3.5 million per annum. Internal Audit sought to undertake an open book review on the Council's behalf to provide assurance that the service was being delivered and charged in line with the contract and value for money was being achieved.

- 2.2 In February 2017 Internal Audit issued their final report and gave a Limited Assurance opinion.
- 2.3 When audit assignments give rise to Limited (or No) Assurance ratings, the Committee requires assurance that Officers have taken appropriate and effective steps to address the areas of concern identified by the audit.
- 2.4 Although the Committee has been made aware of this review and the opinion, the presentation of the report was delayed to allow Officers to further investigate some of the complex issues identified by the audit.
- 2.5 The final audit report is presented at **Appendix A** to this report.

3 KEY ISSUES IDENTIFIED

- 3.1 The audit highlighted a number of areas of weakness in the control environment for the management of this contract. Issues were also identified during the course of the open book reviews which meant that the auditors could not agree some payments made (as the audit trail and supporting documentation were inadequate) resulting in a concern that the Council had overpaid the contractor for a sample of works tested, particularly in relation to management costs.
- 3.2 The review of the control framework also highlighted that the Council could potentially have been exposed to an increased risk of fraud and financial loss due to the gaps in the controls being exercised.
- 3.3 Internal Audit recommended that an in-depth review of payments to the contractor be conducted to quantify the total value of any potential overpayment and to provide further analysis on the impact of the findings highlighted by the audit report. In March 2017, the Council appointed a quantity surveyor, Henry Riley LLP, to undertake further work in this area. The surveyor confirmed the key findings from the audit report and was in agreement that there was potentially an overpayment against the contract of c£260k.
- 3.4 In addition, and in accordance with the Council's Fraud Response Plan, the increased risk of fraud was considered and appropriate enquiries made. There was no evidence to suggest that any fraudulent activity had taken place and no further action required.

4 THE COUNCIL'S RESPONSE

- 4.1 The Council has responded in three parts:
- a) *To address weaknesses in the control environment and strengthen arrangements in line with audit recommendations*
- 4.2 All but 2 of the recommendations have been implemented (see **Appendix B**). The exceptions are as follows:
- i) To demonstrate that the pain/gain KPIs have been correctly implemented all accounts must be finalised for 17/18. The pain/gain pot currently stands at just over £4k.

- ii) The EXOR noticing system was to be used to generate random site inspections. The system has proved very difficult to adapt and is in the process of being replaced.

b) *To seek a view from Tarmac in respect of the potential overpayment, give them an opportunity to share any relevant information and agree whether there has been an overpayment*

4.3 In discussions with Tarmac, it became clear that verbal instructions were given by officers that were contractually binding. This was confirmed through legal advice. Whilst the auditors concluded that overpayments were in the region of £260k based on the original contract documentation, these were offset by other changes to the contract which meant that the actual overpayment is c£7k. Tarmac has agreed to refund this overpayment.

4.4 Examples of verbal contractual changes included:

- i) The payment of management costs on option C (capital) schemes;
- ii) Early reductions in option C rates from those submitted with the tender which resulting in reduced pain/gain payment in years 1 and 2;
- iii) Reductions in the charges for winter maintenance; and
- iv) Reductions in the charges for emergency vehicles.

c) *To deal with staff performance issues arising from the audit findings.*

4.5 The audit report and the discussion with Tarmac highlighted some process and performance matters, including clarity of accountability and decision making. These have been responded to in accordance with the appropriate Council procedures.

5 FINANCIAL IMPLICATIONS

5.1 The financial implications arising directly from the audit are set out in the appendices.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The Audit and Risk Committee is responsible for oversight of internal audit work and ensuring that officers are taking action to ensure that the control environment is robust.

6.2 There are no legal implications arising from this report.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed as there are no service, policy or organisational changes being proposed.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 No implications arising

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 No implications arising

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

10.1 As the Council is required to ensure that the control environment is robust, it is important that all areas reviewed receive, as a minimum, a sufficient assurance audit opinion.

10.2 In respect of the Highways Maintenance Contract, the audit has highlighted that the control environment was not adequate and further action was required. The Committee has a role to play in assessing the adequacy of management's response to recommendations and assessing whether actions have been taken.

11 BACKGROUND PAPERS

11.1 None

12 APPENDICES

12.1 Appendix A – Final Internal Audit Report: Highways Maintenance Contract

12.2 Appendix B – Update on progress with implementation of recommendations

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.