

Action plan – progress at April 2018

Rec no.	Issue	Recommendation	Management comments	Priority	Officer responsible	Due date	Progress
<i>Risk 1: The agreed contract conditions in respect of cost may not be being complied with in practice.</i>							
R1	Works orders are signed off as complete based on photographic evidence provided by the contractor and selective inspections/site visits by staff. The basis for selecting jobs for inspection is informal and site visits are not formally recorded. Consequently there is a lack of audit trail.	An agreed and proportionate methodology should be established for selecting projects and works orders for inspection (e.g. a fixed percentage of weekly jobs selected based on size and risk). All client side inspections should be recorded / evidenced and attached to the relevant works order on Real Time.	Agreed to review the process and propose a proportionate methodology for agreement by the Director for Places.	M	Director for Places (E,P &T)	30 April 2017	Not complete - Part of new highway IT system (Confirm)
R2	Price adjustments are not checked to supporting evidence as a matter of routine. This increases the risk of error or fraud going undetected.	A proportionate sample of price adjustments applied to invoices should be checked to supporting data provided by the contractor and a sample of indices should be periodically checked to the published BCI figures.	Highways Technician to undertake quarterly, a random sample of 2-5 works orders from each monthly cost centre submission and record that PAF indices are correct and store on spreadsheet in cost management folder	L	Director for Places (E,P &T)	30 April 2017	Implemented

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R3	There was a lack of audit trail for approval of price changes and adjustment of local overhead costs and no clear assessment of the overall financial impact. This increases the risk of legal challenge and poor VFM.	Improve the process for documentation, review and approval of any proposed price and overhead changes. In particular, all should include an explanation of the reason for the change, an estimate of the full year financial effect and should be subject to formal review, checking and approval by the Chief Officer and/or Cabinet (if above £100k).	All changes are now formally submitted at monthly finance meetings. Change is reviewed and will be decided upon at following months' meeting and Delegated Decision record sheet completed if required.	H	Director for Places (E,P &T)	31 January 2017	Implemented
R4	Testing identified five out of eight jobs where the final amount paid was different to the original works order but there was no evidence of a formally approved variation order. Lack of prior approval of variations increases the risk of inappropriately inflated costs and poor financial management.	Variations on individual works orders above a pre-agreed limit should require prior approval. Any variations above the agreed limit without evidence of prior approval should not be passed for payment.	Agreed, but payment cannot be withheld if works are satisfactory and have been ordered. Confirmation of verbal instruction (CVI) or Request for Information (RFI) should be completed for any changes.	M	Director for Places (E,P &T)	30 April 2017	Implemented
R5	Testing found two cases where the fee element of the works order was calculated incorrectly. In addition, officers were unable to provide evidence within Real Time showing when and by whom individual orders were approved for payment. This increases the risk of fraud and	Fee calculations should be carefully checked as part of the approval process and evidence of approval of individual works orders should be recorded and retained either in the Real Time system or in a separate record to ensure there is an adequate audit trail.	Agreed and implemented.	M	Director for Places (E,P &T)	31 January 2017	Implemented

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R6	The SHM stated that invoices are not checked or reconciled back to approved orders in Real Time. This increases the risk of undetected fraud or errors.	Invoices should be checked to ensure that the total reconciles to a list of approved works orders prior to being passed for payment. Evidence of this check / reconciliation should be	Agreed and implemented.	M	Director for Places (E,P &T)	31 January 2017	Implemented
R7	There is currently no clear basis for determining which projects should be commissioned under which contract option.	All major projects should be formally assessed to determine which commissioning method would achieve best VFM. The recommended option should be signed off by the corporate director.	Clearly defined, routine, Option A works should be excluded from this. Any works over £30k will be reviewed by SHM to assess if target costing is required and recorded on a delegated decision record.	L	Director for Places (E,P &T)	30 April 2017	Implemented
R8	Option C final accounts are reviewed and agreed with the contractor prior to invoicing. However, this process is not formally evidenced or signed-off. This weakens the audit trail and increases the risk that errors could go undetected and disputes difficult to resolve.	The process carried out to review and check the Option C final accounts should be documented. Evidence should be retained to demonstrate how final costs have been verified and the Client should be required to certify completion of the verification process.	Agreed and implemented.	M	Director for Places (E,P &T)	31 January 2017	Implemented
R9	The contract provides for pain/gain calculations to be adjusted based on performance against a range of KPIs. This adjustment is not currently applied and it is therefore not possible to provide assurance that payments to the contractor have been correctly calculated.	KPIs should be used to adjust any gain payments to the contractor as specified in the contractual conditions. Any overpayments to date should be calculated and adjusted against future payments.	All Option C schemes are now agreed by SHM & Final Accounts submitted at monthly finance meeting. Pain/Gain will be aggregated, adjusted against KPI's if required and signed off annually by annual Term Network Board Meeting	M	Director for Places (E,P &T)	30 April 2017	Implemented

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R10	Testing of one Option C project confirmed that costs were consistent with the contractor's financial records, although a significant proportion of costs related to inter-company transfers. Limited evidence was available to provide assurance that these transfers represent a genuine market rate. This increases the risk of overpayment for option C.	Checking and approval of option C final accounts should include obtaining periodic assurance and evidence that inter-company prices reflect genuine market rates.	Annual material rates can and are checked against market rates, and are usually lower. This should be demonstrated annually at agreement of Option C resource schedule and signed off at monthly finance meeting.	L	Director for Places (E,P &T)	30 April 2017	Implemented
R11	Testing found that a proportion of fixed overhead costs had been added to Option C jobs. This reduces transparency, over-states costs and affects the pain/gain calculations.	All fixed overheads should be billed separately and not included in target or actual costs for Option C projects.	This is being completed for 16- 17 schemes and onwards, with a percentage booked to each scheme, based on scheme budget percentage ie scheme totalling 30% of overall budget would account for 30% of contract management costs	M	Director for Places (E,P &T)	30 April 2017	Implemented
R12	Based on discussions, analysis of invoices and testing of a sample option C project, payment of fixed local overhead costs appears to have exceeded the amounts formally approved by the SHM.	Undertake a detailed analysis of all payments for fixed local overheads, including amounts allocated to option C jobs, and seek recovery of any payments over the amounts formally agreed in writing in accordance with the terms of the contract.	A quantity surveyor will be appointed to carry out a detailed analysis of overheads payable under the contract and any overpayments recovered.	H	Director for Places (E,P &T)	30 April 2017	Implemented

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R13	By specifying the materials and supplier for street lighting upgrades the Council may have failed to achieve an appropriate transfer of risk to the main contractor.	Obtain formal confirmation from the contractor that they will bear the risk of defects in materials or workmanship for the 12 year guarantee period in respect of LED lighting upgrades.	Already done.	H	Director for Places (E,P &T)	31 January 2017	Implemented
<i>Risk 2: The agreed contract conditions in respect of quality and performance may not be being complied with in practice.</i>							
R14	Operational board meetings are infrequent and operational management meetings are not formally minuted. This increases the risk that key decisions or actions are not recorded or followed up and weakens the audit trail.	All contract management meetings should have formal agendas and be fully minuted in future, including any agreed action points. This will provide a clear record of items discussed and actions agreed and could be used as evidence in the event of a disagreement or dispute.	Agreed and implemented	M	Director for Places (E,P &T)	31 January 2017	Implemented
R15	Performance against KPI targets is not clearly evidenced and there is no clear audit trail to the supporting data. Testing of a small sample of KPIs identified errors in 50% of cases.	Ensure that the KPI monitoring spreadsheet clearly shows actual performance against target for the relevant period and includes a clear audit trail between the recorded KPIs and the source data to provide assurance that reported performance is complete and accurate. A sample of KPIs should be periodically tested to supporting evidence by the Highways	Agreed re: evidence, and this is/will be undertaken at monthly KPI meetings	M	Director for Places (E,P &T)	31 January 2017	Implemented, but requires testing when all 17/18 project accounts finalised