

Transport and Environment Committee

10.00am, Tuesday, 1 November 2016

Internal Audit Quarterly Update Report: 1 January 2016 – 31 March 2016– referral from the Governance, Risk and Best Value Committee

Item number	8.7
Report number	
Wards	All

Executive summary

The Governance, Risk and Best Value Committee on 23 June 2016 considered a report which detailed the Internal Audit progress for the period 1 January 2016 to 31 March 2016.

The report has been referred to the Transport and Environment Committee on the recommendation that audit reports which contained high risk findings be submitted to their parent Committee for information. This relates to the internal audit report for Contract Management of Roads.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Terms of Referral

Internal Audit Quarterly Update Report: 1 January 2016 – 31 March 2016

Terms of referral

- 1.1 On 23 June 2016, the Governance, Risk and Best Value Committee considered a summary of the findings and status of work from the Internal Audit plan of work. The plan is updated throughout the year with additional reviews and any emerging risks.
- 1.2 The report by the Chief Internal Auditor highlighted the progress made along with 18 reports, categorised by level of risk.

Details of the action plans with implementation dates to mitigate any findings were also contained within the report. Any action which remained outstanding after the agreed implementation date would be reported back to the Governance, Risk and Best Value Committee.

- 1.3 The Governance, Risk and Best Value Committee agreed:
 - 1.3.1 To note the progress of Internal Audit in issuing 18 internal audit reports during the quarter and to note the areas of higher priority findings for reviews issued in this quarter.
 - 1.3.2 To refer the 5 reports noted in Appendix 1 of the report to the Audit and Risk Committee of the Edinburgh Integrated Joint Board.
 - 1.3.3 To request that high risk findings from audit reports be submitted to the relevant parent committee for information.

For Decision/Action

- 2.1 The Transport and Environment Committee is asked to note the attached audit report with high risk findings concerning the Contract Management of Roads.

Background reading / external references

[Minute of Governance, Risk and Best Value Committee – 23 June 2016](#)

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Links

Coalition pledges See attached report

Council outcomes See attached report

Single Outcome Agreement See attached report

Appendices See attached report

Section 1 – Contract Management - Roads

SFC1505

Total number of findings

	Critical	High	Medium	Low
Total	-	2	4	-

Background

The Neighbourhood Roads Teams across the City are allocated an annual revenue budget of £4.9 million across the six Neighbourhoods (soon to be four Localities) for road repairs and renewal and a Capital budget of £0.9m to spend under the Neighbourhood Environmental Programme and on smaller projects such as carriageway enhancement, drainage improvements and bus stop maintenance.

The Neighbourhood Roads Teams are responsible for designing and commissioning works within the budgets allocated to them. Work is directed first to the Edinburgh Roads Service (ERS), before being sent to a framework contractor where ERS do not have the skills or capacity to complete the work.

This audit focussed on works completed by the ERS which were commissioned by the West Neighbourhood Office. However, the findings should be taken as indicative of areas where it is possible that adequate controls and processes have not been fully adopted by all the neighbourhood offices. Management have proposed actions to address our findings which will be rolled out across the new locality roads teams.

Scope

The scope of this review will be to assess the design and operating effectiveness of the Council's controls for the prioritisation of maintenance and improvement works and controls over works contract management. The sub-processes and related control objectives included in the review are:

- Prioritisation of work;
- Allocation of work; and
- Contract Management

Testing for this audit was limited to work completed by the internal Edinburgh Roads Service and commissioned by the West Neighbourhood Office. We also walked through the process used by the central Transport team to manage works carried out by Edinburgh Roads Service to assess the design and implementation of controls.

Local Roads Programme works completed by external framework contractors are included within the scope of the Neighbourhood Partnerships review.

Summary of High Risk Findings

Budgetary control and financial management

There is no consistent or robust process for managing the costs of works undertaken by ERS. Through discussions with officers at the West Neighbourhood Office and the Central Transport department we noted that:

- There is no schedule of rates for works carried out by ERS. This means budgets for works cannot be completed accurately;
- ERS are not required to obtain approval from the commissioning manager for an extension to approved works, or where additional labour, plant or materials are required;
- As ERS is part of the Planning and Transport service, payment for labour, plant and materials is by internal transfer which does not have to be authorised by the commissioning manager from the Transport department or the Neighbourhood Office;
- There was no evidence retained that costs charged by ERS are reviewed by the commissioning manager; and
- Costs are recorded on Axim, while the estimated works budget is recorded on the Confirm project management system. There is no link between the systems, so budget variances must be calculated manually.
- The additional costs of any remedial works are charged to the commissioning roads teams on top of the original budget. They are not able to reclaim those costs from ERS.

Quality

Reviews undertaken by the Transport Interim Quality Audit Team identified works and materials failures resulting in major remedial works at additional cost to the Council. The Transport Interim Quality Audit Team was a short-life working group and has now been disbanded.

Officers were unable to demonstrate that site visits are carried out as a matter of routine by project or commissioning managers to confirm that the quality and extent of works completed are satisfactory.

Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Contract Management - Financial Management</p> <p>The road and footway contract process should include robust monitoring of contract expenditure. This should include:</p> <ul style="list-style-type: none"> • Accurate budgeting of work assisted by a schedule of rates; • Documented approval of variations to agreed work; • Exception reporting to highlight overspend against budget; and • End of works review of expenditure to ensure commissioning managers are satisfied that all work and costs are appropriate. 	<ol style="list-style-type: none"> 1. For Locality (Revenue) Work, estimated works costs are prepared and noted on Confirm (Works Management System) making use of compound rates. Ensure that future works estimates make use of agreed and future schedule of rates. Responsible Officer: North-West Local Transport & Environment Manager 2. For Locality (Revenue) Works, introduce a protocol to ensure that additional works are agreed, where reasonably possible, with the Commissioning team prior to commencement. Responsible Officer: North-West Local Transport & Environment Manager 3. For all Capital and Revenue Work, introduce an internal contract process to manage works estimating, charging, completion sign off by the 	<p>30 June 2016</p> <p>1 October 2016</p> <p>30 October 2016</p>	<p>Not due</p> <p>Not due.</p> <p>Not due.</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>client and final account closure.</p> <p>Responsible Officer: Transport Infrastructure Manager</p> <p>4. Establish remedial works protocol to ensure Commissioning teams are not charged for defective works.</p> <p>Responsible Officer: ERS Manager</p>	1 October 2016	Not due.
<p>End of Works Quality Assessment</p> <p>An end of works quality assessment should be conducted and documented before final payments are made to contractors and ERS. This review should be carried out by a qualified member of staff who can assess the work carried out against the industry standards and contract requirements.</p>	<p>1. Recommendation accepted – ongoing site visits to be adequately recorded and final quality inspection process to be developed, by the Locality Transport teams, for appropriate works.</p> <p>Responsible Officer: North-West Local Transport & Environment Manager</p> <p>2. Sample Inspections for Revenue works (commissioned by Locality Teams) are currently undertaken and will be recorded through Confirm. (Audits of above to be undertaken to ensure compliance)</p> <p>Responsible Officer: North West Local Transport & Environment Manager</p> <p>3. Site visits (and Final Inspections) to be carried out by commissioning teams for all Capital schemes and significant revenue works.</p>	<p>30 June 2016</p> <p>30 June 2016</p> <p>30 June 2016</p>	<p>Not due</p> <p>Not due</p> <p>Not due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>Responsible Officer: Transport Infrastructure Manager</p>		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.