

# Final Internal Audit Report

## Highways Contract Management

### January 2020

**Distribution:** Executive Director of Place (Final only)  
Director of Public Realm  
Head of Highways  
Highway Asset Manager

Assurance Level	Identified Issues	
Substantial Assurance	Priority 1	0
	Priority 2	4
	Priority 3	0

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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### 1. Introduction

- 1.1 Under the Highways Act 1980, the London Borough of Croydon (Council) has an ongoing requirement to maintain all highways in the borough that are not the responsibility of Highways England or Transport for London, acting as the highway authority for all GLA roads. In addition to maintenance, the Council also invests in improvement schemes funded through s106, Community Infrastructure Levy, Growth Zone and other capital funding streams, including the Council's Capital Programme. These vary from minor improvements to multi-million pound major public realm schemes.
- 1.2 The Cabinet of the Council agreed on 11 June 2018 to appoint FM Conway Ltd as the preferred bidder for the provision of the Next Generation Highways Maintenance and Improvement Works in Croydon at a maximum contract value of £130m over ten years (7+1+1+1). This contract commenced on 1 September 2018.

### 2. Key Issues

<b>Priority 2 Issues</b>
Although there was evidence of the Highway Asset Management Plan (HAMP) being endorsed by the Cabinet Member, this was not formally approved by Cabinet and the HAMP published on the Council's website was the previous version. <b>(Issue 1)</b>
The Highway Policy, dated June 2017, was still in draft and copies of the Asset Plan and respective Operating Policies & Procedures that comprise the Asset Management Framework were not available. <b>(Issue 2)</b>
Instead of a simple purchase order being raised for the year for contract payments to FM Conway, multiple orders had been raised. One of these had been duplicated. <b>(Issue 3)</b>
Minutes of the Monthly Contract Management for February 2019 and the Weekly Task Order meetings for February and March 2019 were not available. <b>(Issue 4)</b>

There were no Priority 3 issue(s) arising.

### 3. Action and Key Findings/ Rationale

<b><u>Control Area 1: Management, Organisational and Legislation</u></b>		
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 1</b>
<b>2</b>	<p>A revised version of the Highway Asset Management Strategy, Policy and Plans has been produced to reflect changes to the Code of Practice 'Well-managed highway infrastructure'. The document also sets out targets for our assets for the next 3 to 5 years. These targets are currently being reviewed to ensure they are realistic and once confirmed in January 2020 will be put to our senior decision makers to endorse and uploaded to our website. The Cabinet member has delegated decision making and it would be his decision whether he wishes the report to be presented to Cabinet.</p> <p>The current sign off by the Cabinet member met the requirements of the Highway Infrastructure Asset Management Guidance, published in 2013 which has since been superseded by the 'Well-managed Highway Infrastructure' Code of Practice published in 2016 but became effective from 1 October 2018.</p>	<p>The Highway Infrastructure Asset Management Guidance, published in 2013 by the UK Roads Liaison Group (UKRLG), with the support of the Highways Maintenance Efficiency Programme (HMEP), provides detailed advice to Council's to enable the successful implementation of good asset management practices. This guidance includes the following recommendations:</p> <p>'An Asset Management Framework should be developed and endorsed by senior decision makers. All activities outlined in the Framework should be documented;</p> <ul style="list-style-type: none"> <li>• Relevant information associated with asset management should be actively communicated through engagement with relevant stakeholders in setting requirements, making decisions and reporting performance; and</li> <li>• An asset management policy and a strategy should be developed and published. These should align with the corporate vision and demonstrate the contribution asset management makes towards achieving this vision</li> </ul> <p>Discussion with the Highway Asset Manager determined that the Highways Strategy (included in the Highway Asset Management Plan (HAMP)) is reviewed at regular intervals to ensure it is relevant and up to date. Evidence was provided that a briefing with the Cabinet Member took place on 1 September 2017 and examination of these discussion notes, noted that it was recommended that the Strategy be approved by Cabinet in order to demonstrate Croydon's commitment to asset management. Evidence of Cabinet approval was not provided and the Highway Asset Manager explained that the HAMP is not required to be approved by Cabinet.</p> <p>It was also noted the version of the HAMP publicly available on the Croydon website is the 2015 version and not the current 2017 version.</p>

		Where the recommendations of the Highway Infrastructure Asset Management Guidance are not fully complied with, there is a risk that good asset management practices are not in place.
<b>Responsible officer</b>	<b>Deadline</b>	
Highway Asset Manager	February 2020	

<b><u>Control Area 1: Management, Organisational and Legislation</u></b>						
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 2</b>				
<b>2</b>	Revised version of both the Highway Policy and the Asset Plan have been produced and await sign off.	<p>The 'Well-managed Highway Infrastructure' Code of Practice, effective from 1 October 2018, provides detailed advice to enable the successful implementation of good asset management practices. This guidance includes the recommendation that, 'An Asset Management Framework should be developed and endorsed by senior decision makers. All activities outlined in the Framework should be documented.</p> <p>The Asset Management Framework consists of:</p> <ul style="list-style-type: none"> <li>• Highway Policy - A high level summary, with political buy-in that sets out the corporate objectives;</li> <li>• Asset Management Strategy - This establishes the high level drivers for maintaining the asset and links corporate objectives to delivery;</li> <li>• Asset Plan (Carriageway, Structures, Footway, Drainage and Highway Tree) - Building on the foundations of the strategy, this provides 'the what' and 'how' for each asset; and</li> <li>• Operating Policy/Procedure - The operating policy sets the asset specific goals, which link to the highway objectives and in turn the corporate goals. The operating procedure will then outline how this aim will be delivered.</li> </ul> <p>A copy of the asset management strategy (i.e. the HAMP) was provided (see issue 1); however:</p> <ul style="list-style-type: none"> <li>• The copy of the Highway Policy provided was still in draft and was dated June 2017; and</li> <li>• Copies of the Asset Plan (Carriageway, Footway, Structures, Drainage and Highway Trees) and respective Operating Policies &amp; Procedures were not provided to us during the course of the audit.</li> </ul> <p>Discussion with Highway Manager determined that these documents are being updated and expected to be completed before December 2019.</p> <p>Strategies, Plan and Policies &amp; Procedures serve as an essential component in Asset Management Framework in Highway's operation. Where these components are not in place are not being regularly reviewed and approved, there is risk of inconsistency and poor decision making in the highways management.</p>				
	<table border="1"> <thead> <tr> <th><b>Responsible officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Highway Asset Manager</td> <td>February 2020</td> </tr> </tbody> </table>	<b>Responsible officer</b>	<b>Deadline</b>	Highway Asset Manager	February 2020	
<b>Responsible officer</b>	<b>Deadline</b>					
Highway Asset Manager	February 2020					

<b>Control Area 5: Contract Payment</b>		
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 3</b>
<b>2</b>	<p>The Council’s contract with FM Conway (available upon request) sets out the requirements for payment in Clause 114 and other areas of the contract.</p> <ul style="list-style-type: none"> <li>• The assessment interval is monthly</li> <li>• The Contractors monthly application is payment for Task Orders approved during that month by the Overseeing Organisation</li> <li>• The Contractors application for payment shall contain the valuation for completed Task Orders only. Interim payments against Task Orders shall only be paid when agreed and instructed within the Task Order for the works by the Overseeing Organisation.</li> <li>• The Contractors application for payment shall include: a)A summary of the Task Order works included within the preceding application for payment ;b)Details of how the application amount has been assessed; c)A summary of all Task Order works included within the application the Contractors application for payment; d)A summary of the total spend in the current financial year;.....</li> </ul>	<p>The Council’s Procure 2 Pay (P2P) guidance, Section 5, details that ‘the value of Purchase Order should not be split to circumvent the approval thresholds or the Public Contracts Regulations or Concession Contracts Regulations.’ Compliance with this is mandatory in the Council.</p> <p>Review of purchase orders since 1 April 2019 for FM Conway on the MyResources established that:</p> <ul style="list-style-type: none"> <li>• Individual monthly purchase orders had been raised for the months up to September 2019 and then a single purchase order for 3 months from October 2019 to December 2019 rather than a single purchase order for the whole year;</li> <li>• The June 2019 purchase order for £855,873.79 had been duplicated; and</li> <li>• Due to deductions to the monthly contract payments, the purchase order amounts for September 2019 exceeded the invoice amount leaving a balance of £10,944.76 on the purchase order. This balance had not been receipted.</li> </ul> <p>Where multiple orders are raised, the P2P guidance is not being complied with and there is a risk of flawed budget monitoring with the commitment for the whole year not being detailed and also a risk that duplicate orders may be raised. Where balances are left on purchase orders, there is a risk that these may be misused and there is a greater administrative burden clearing these at year end.</p>

	<p>Payment to FMC as summarised above is based on work completed the previous month. The issuing of individual or quarterly purchase orders is to better manage and track individual monthly certified invoices and payments to the contractor rather than to circumvent the P2P system.</p> <p>The recommendations are; however, noted and will be implemented from 1<sup>st</sup> April 2020.</p>	
<b>Responsible officer</b>	<b>Deadline</b>	
Highway Asset Manager	1 April 2020	



<b><u>Control Area 6: Performance Management</u></b>						
<b>Priority</b>	<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 4</b>				
<b>2</b>	It is acknowledged that during the months of February and March 2019 some of the formal weekly and one monthly meeting was cancelled due to staff changes for both LBC and FM Conway staff. Regular weekly and monthly meeting have since been diarised and occur on a regular basis.	In accordance with the Highways Contract – vol. 2.1 Scope of Service and Management - General Management (Section 4), Quarterly and Monthly Contract Management meetings are required to be held to monitor the progress of Contractor's plan, task orders and performance against the key performance indicators (KPI) and weekly 'Task Order Meetings' are required to be held to deal with any queries in respect to individual task orders and consider both programme and financial matters.  Copies of minutes of various Monthly Contract Meetings and Weekly Task Order meetings were obtained, however, the February 2019 minutes of the Monthly Contract Meetings and the February and March 2019 minutes of the Weekly Task Order meetings were not available.				
	<table border="1"> <thead> <tr> <th><b>Responsible officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Highway Asset Manager</td> <td>December 2019</td> </tr> </tbody> </table>	<b>Responsible officer</b>	<b>Deadline</b>	Highway Asset Manager	December 2019	Where regular contract management meetings are not held, there is risk poor performance may not be identified in a timely manner or that issues may not being resolved promptly.
<b>Responsible officer</b>	<b>Deadline</b>					
Highway Asset Manager	December 2019					

## TERMS OF REFERENCE

### Highways Contract Management

#### 1. INTRODUCTION

- 1.1 Under the Highways Act 1980, the Council has an ongoing requirement to maintain all highways in the borough that are not the responsibility of Highways England or Transport for London, acting as the highway authority for all GLA roads. In addition to maintenance, the Council also invests in improvement schemes funded through s106, CIL, Growth Zone and other capital funding streams, including the Council's Capital Programme. These vary from minor improvements to £multi-million major public realm schemes.
- 1.2 Cabinet agreed on 11 June 2018 to appoint FM Conway Ltd as the preferred bidder for the provision of the Next Generation Highways Maintenance and Improvement Works in Croydon at a maximum contract value of £130m over ten years (7+1+1+1). This contract commenced from 1 September 2018.
- 1.3 This audit is being conducted as part of the agreed Internal Audit Plan for 2019-20.

#### 2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly

#### 3. SCOPE





- 3.1 This audit examined the Council's arrangements for Highways Contract Management and included the following scope areas:

Control Areas/Risks	Identified Issues		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Management, Organisational and Legislative Requirements	0	2	0
Contract Award and Formalities	0	0	0
Contractor Quality Monitoring	0	0	0
Contract use by services outside of the Public Realm Division	0	0	0
Contract Payments	0	1	0
Performance Management	0	1	0
Budgetary Control	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>4</b>	<b>0</b>

## DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

## STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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