



Environment and Transport Select Committee

Completed Internal Audit – Review of Highway Contract Management 2011/12

Purpose of the report: Scrutiny of Services and Budgets/Performance Management

The purpose of this report is to inform the Committee of the Internal Audit which has been completed regarding the Review of Highway Contract Management 2011/12.

Introduction:

1. The report attached as Annexe A, including subsequent supporting annexes details the completed Internal Audit report regarding the Review of Highway Contract Management 2011/12.

Background

2. The Council Overview and Scrutiny Committee considers all relevant Internal Audit reports that have attracted an audit opinion of either “Major Improvement Needed” or “Unsatisfactory”.
3. The report attached as Annexe A was considered by the Audit and Governance Committee on the 25th June 2012, and then the Council Overview and Scrutiny Committee on the 11th July 2012.
4. In line with agreed procedure, the Council Overview and Scrutiny Committee agreed to refer the report to the Environment and Transport Select Committee for consideration, as it attracted an audit opinion of “Major Improvement Needed”.
5. Attached as Annexe B is the management action plan for the implementation of the recommendations set out within the Audit report. Also attached as Annexe C is the management update provided to the Audit and Governance Committee.

Financial and value for money implications

6. Financial and value for money implications are explored within the attached Internal Audit report.

Equalities Implications

7. There are no discernible equalities implications arising from this report.

Risk Management Implications

8. Risk Management implications are explored within the attached report.

Recommendations:

Members are asked to consider and comment on the attached Internal Audit report and annexes, and make recommendations as appropriate.

Next steps:

A Management Action Plan for implementation of the recommendations within the Audit Report is included as Annexe B.

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**SURREY COUNTY COUNCIL
AUDIT REPORT**

**Review of
Highway Contract Management
2011/12**

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Glossary:

CVI	Confirmation of Verbal Instruction
D&B	Design and Build
ITS	Integrated Transport Scheme
Maximo	May Gurney's works management system.
RoadZone	Shared document storage system for constructor and client.
SAP	Surrey's financial management system
SoR	Schedule of Rates – individual element costs used in pricing works.
WOpP	Winter Operations Plan (prepared by May Gurney).
WSP	Winter Service Plan (produced by Surrey County Council).

Audit opinions:

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

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1. INTRODUCTION

- 1.1 In November 2010, Cabinet approval was given to award contracts for Surrey Highways maintenance and construction in seven lots. The new contracts were awarded to May Gurney Infrastructure Services, Tarmac, Wilson & Scott and Glendale Managed Services and began in April 2011.
- 1.2 The core maintenance contract was awarded to May Gurney, together with the surface dressing and the gully emptying contracts, and constitutes the majority of the spend on Highways capital and revenue. In 2011/12 the spend through the May Gurney contracts was £31m.
- 1.3 A review of the Highway contract management was included as part of the 2011/12 Annual Audit Plan and was undertaken following agreement of the Terms of Reference included at Annex A. This report sets out the findings and recommendations of the review which focussed on the core maintenance contract. The completed Management Action Plan accompanies this report as Annex B.

2. WORK UNDERTAKEN

- 2.1 Discussions with officers and constructor representatives to understand and document the processes in place to meet the following control objectives.
- Management processes in place to review quality and performance, and monitor the progress of work;
 - Adequate documentation to support all amounts invoiced;
 - Official orders exist for all work invoiced;
 - Adequate approval process to authorise payments; and
 - Scheme works are adequately communicated monitored and documented in a timely manner.
- 2.2 Audit testing in order to ascertain whether the controls in place are effective and working as expected.

3. OVERALL AUDIT OPINION AND RECOMMENDATIONS SUMMARY

- 3.1 **Major Improvement Needed:** Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
- 3.2 **Recommendations analysis:**

Rating	Definition	No.	Para. Ref.
High	Major control weakness requiring immediate implementation of recommendation	7	5.9/13/14/18/19/23/51
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	13	5.8/28/32/33/38/43/50 /57/71/79/85/91/94
Low	Recommendation represents good practice but its implementation is not fundamental to internal control	6	5.58/59/67/84/88/91
Total number of audit recommendations		26	

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4. MANAGEMENT SUMMARY

- 4.1 The key objective of the highway contract is to ensure a safe highway network is provided for the public living and travelling in Surrey. This audit has been completed as the end of the first year of the contract has been reached. The view expressed by engineering staff interviewed is that the contract is achieving higher quality of repairs and better levels of productivity than the previous arrangements. There have also been a number of successes including the improved website reporting of potholes that has seen a 100% increase in usage in the past year, an improvement in residents' satisfaction with road maintenance and a reduction in the number of complaints received.
- 4.2 Following an initial six month 'bedding in' period, full performance monitoring and application of associated rewards / penalties has been introduced. This process was found to be robust ensuring that performance is always under focus by the parties to the contract. The achievement of some of the KPIs has been below target resulting in the loss of profit by the constructor, although the trend has been improving over time.
- 4.3 This audit found a number of issues relating to the use of Maximo (May Gurney's works management system). In particular the approval of orders through the Maximo system is not in line with the council's Financial Instructions and the ability to report on the information held in Maximo is very restricted which in turn impacts on the efficient and effective management of works required.
- 4.4 Delays in scheme design through limited resources and lack of defined prioritisation has led to significant variations in the levels of local ITS schemes being completed between areas. In addition the audit noted that although agreed variations to orders specify changes to the scope of work they do not typically show the cost and time implications of those changes.
- 4.5 It has been suggested that the number of defects requiring repair in 2011/12 was greater than anticipated by the constructor. This in turn has had resourcing consequences that may not be sustainable in the longer term and, as such, there may be a need to review and revise working practices to meet this workload. Other pressure points identified during this audit which will also require addressing in the short to medium term include sub-contractor performance problems and dialogue between client and constructor. In view of the above findings set out in more detail in Section 5 below, the audit opinion is, **Major Improvement Needed**.

5. FINDINGS AND RECOMMENDATIONS

- 5.1 In January 2012 officers prepared a report for the Environment and Transportation Select Committee (Item 7) entitled "Performance of Newly Appointed Highways Contractors" The report, which formed an assessment of the first six months of operation of the new contract, highlighted areas where the constructor's performance meets or exceeds requirements but also clearly highlighted a number of shortcomings. In summary, it concluded:
- "The initial six months of the Core Maintenance (contract) is therefore recognised as a success with staff effectively transitioned from the SHiP contract and a tangible increase in quality of material and workmanship. The key areas for improvement relate to productivity and surface treatment delivery and officers will report progress against targets in the annual report to be published June 2012."*

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The formal minutes of the meeting record the Chairman's congratulations to officers for "the openness of the report and their responses to Member questions".

- 5.2 Discussions held with a number of senior engineering staff during the course of the audit seemed to support the statements and conclusions of the report regarding day-to-day operational aspects of the contract in terms of 'work on the ground'. The concerns expressed in these meetings appeared to centre more on administrative and relational aspects of the contract. The feeling was that resolution of these matters would be of benefit to both parties and lead to further enhancements in performance overall.

Key Performance Indicators (KPIs)

Finding

- 5.3 In total there are 28 KPIs within the contract sub-divided into seven categories each of which has a defined impact on the percentage of potential profit that may be earned through good performance.

Category	No of KPIs	% Profit
Immediate works	2	10
Safety works	4	20
Condition	4	20
Winter service	3	16
Customer service	6	14
Sustainability	3	5
Programme & Co-ordination	6	15
	28	100%

- 5.4 Currently, the performance of the constructor has not achieved all the targets set as part of the contract specification and therefore penalties have been imposed that reduce the profit earned by the constructor. The contract has clear termination options available to the client and specifically identifies five indicators as 'Termination KPIs' whereby the client has the option to serve a final notice of termination and require the constructor to implement the 'Contract Exit Plan' (CEP). This document is required to be agreed in the first 12 months of the contract term. Examination of performance data highlighted that the constructor had not achieved all of the required targets, however, performance has been improving over time in the two indicators concerned. From the clients perspective it is essential that the CEP is put in place so that the option to terminate in line with the contract requirements is available in the future.
- 5.5 Performance is reported monthly and goes through a number of stages prior to final agreement. Certain indicators are agreed jointly between the constructor and client side staff by means of a joint 'desk audit'. Other indicators are reviewed by members of the client side using random samples checked back to supporting documentation held on the constructor's systems. A timetable for completion of the process has been established - detailed below is the timetable for the KPI audit for April 2012 which is representative of the process.

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Date	Description / activity
4 th	March data to be with constructor's Systems and Performance Manager.
5 th	'Joint' constructor / client audits of data due for completion.
10 th	Constructor's Systems and Performance Manager submits data to client side.
11 th	Client side deadline for completion of auditing process.
17 th	Review and finalise figures prior to Performance and Payment review meeting.
19 th	Performance and Payment review – Performance review - AM, Payment review – PM.

- 5.6 Whilst the timetable may appear to be constricted Internal Audit's review found that on the whole these were working as described. Slippage in some of the earlier stages of the timetable did occasionally arise through pressures of workload; however, the required checks had been completed prior to the final joint Performance and Payment review meeting.

Risk

- 5.7 There remains a risk that the short span of time available for completion of collection, calculation and checking of performance may lead to error and / or inadequate degrees of verification. However, improvements in arrangements for data collection and reporting currently being pursued by the constructor and client sides should address these concerns.

Recommendation

- 5.8 Management should periodically review the timetable for performance reporting in order to ensure that it remains practicable in terms of data collection, collation and verification.
- 5.9 The Contract Exit Plan should be agreed between the client and constructor as a matter of urgency.

Schedule of Rates and 'Maximo'Finding

- 5.10 As part of the bidding process the constructor was required to submit a comprehensive 'Schedule of Rates' (SoR) to be used in the pricing of works to be undertaken. The SoR is split into main categories of work such as sign replacement, drainage safety improvements etc. Each rate would show the elements of the constituent costs such as labour, materials, overheads and profit and would be identified by a unique reference (e.g. 10-1-123). However, examination of the SoR highlighted the fact that some 32 references had been used more than once in the SoR. Furthermore, the rates and type of work involved differed sometimes quite significantly.
- 5.11 A further test was undertaken to confirm the SoR items as bid had been properly transferred onto the 'Maximo' system which is used to compile and price bills of quantities. Of 100 rates checked 19 were found to be incorrect. The amounts involved were minimal (normally £0.01) possibly arising through rounding errors arising when applying the profit element and were in 'favour' of both the client and the constructor. However, the finding raises concerns over the level of diligence and controls employed in data input to the system.

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Risk

- 5.12 Although the amounts potentially involved at present are considered de minimus more serious errors could arise when future price uplifts are applied if adequate checking is not employed. Control would then depend on the engineer reviewing bills of quantities for reasonableness.

Recommendation

- 5.13 The client and constructor should agree a unique reference for each Schedule of Rate item that has been duplicated and implement the changes in Maximo.
- 5.14 The client should establish and consider the adequacy of any controls the constructor intends to apply in future to ensure that price uplifts are accurately reflected in 'Maximo'.

Authorisation of orders and paymentsFinding

- 5.15 The Works Ordering process is governed by the progression through a series of Gateways. The ability to create and specify work at Gateway 1 is available for all engineers. Gateway 2 is set when the work is costed and verified by May Gurney. The next stage in the process is for the accountable budget holder or a more senior officer to commit the works by setting the status to Gateway 3. At this stage Maximo triggers the creation of the purchase order in SAP for the value agreed. This process, however, does not comply with Financial Instructions as individual orders of over £5,000 under the contract are not being approved by a Level 4 officer.
- 5.16 All items that appear on the Bill Batch Payment system are individually approved for payment by a level 4 officer by selecting 'Reviewed by Customer' and changing the status on 'Maximo' to WAPPR. At the monthly 'Payment' meeting the level 4 officer approves the completed works for payment; this is also a compensating control for the lack of level four approval of the purchase order raised. The file submitted to SAP for payment, however, does not have a control total to ensure that the payment to be processed corresponded to that approved. SAP, however, will only make a payment up to the value of a valid SAP purchase order. There is a compensatory control now in place with the Senior Finance Officer for the Contract team reconciling the payment made to the Bill Batch run. In addition, all payments made during the year have been reconciled by the Senior Finance Officer to the purchase orders issued.

Risk

- 5.17 Orders are committed and payments could be made without proper authorisation.

Recommendation

- 5.18 Action should be taken to ensure orders raised comply with SCC financial instructions.
- 5.19 The total of payments approved for payment should generate a control total to ensure accurate transmission.

Budgetary ControlFinding

- 5.20 In discussions with the Area Team Managers, Planned Maintenance Team Manager and the Highways Maintenance Team Leader comments were made as to the quality of budgetary control information available to managers. Delays in closing down individual works, updating of Maximo and processing payments to the constructor meant that the information in SAP was not considered to be sufficient for monitoring /

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management purposes. In an effort to overcome this problem managers have resorted to maintaining spreadsheets recording details of expenditure as it is incurred. The ability for managers to use Maximo to produce meaningful budget monitoring reports would remove this additional unnecessary task.

- 5.21 It was noticeable that at the end of the financial year there was a marked increase in the number of completion certificates being logged on to Roadzone, suggesting that there was a backlog to be cleared in order to pay or accrue expenditure into the correct financial year.
- 5.22 This is also evidenced by the numbers of work orders at the various Gateway stages obtained at the commencement of the audit in February that demonstrates the majority of works orders still awaited satisfactory evidence of completion.

Gateway 1 – specification and initial cost by SCC	23
Gateway 2 – costed and verified by May Gurney	187
Gateway 3 – committed work by SCC	1148
Gateway 4 – completed & acceptance of final cost by SCC	100
VALID - agreement to add to application for payment	42

Risk

- 5.22 By using estimated costs the accuracy of information used to make management decisions in relation to expending budgets may be of limited value. Any changes in projected cost outcomes may be overlooked leading to decisions being made with inaccurate / incomplete information.

Recommendation

- 5.23 Management should review arrangements to ensure that all components contributing to the management information system are updated accurately at the earliest opportunity, including the development of timely and easily accessible budget monitoring reports.

SchemesFinding

- 5.24 Local committees annually agree a programme of Integrated Transport and developer funded schemes to be undertaken within the borough or district. These may involve the design of a scheme for implementation at a future time or involve full design and build (D & B) within the financial year. Scheme designs are normally carried out in-house by Surrey's own Resource Pool. From discussions with the Area Team Managers (ATMs) there would appear to be no process for prioritising the order this work is undertaken in and this is borne out by an analysis of programme completion data provided by the ATMs covering the North West and North East of the county – see below.

Area	Borough / District	D & B schemes programmed	D & B schemes completed	%
North West	Runnymede	9	7	77.8
	Surrey Heath	4	1	25.0
	Woking	6	2	33.3
	Total	19	10	52.6
North East	Elmbridge	8	6	75.0
	Epsom & Ewell	7	6	85.7
	Spelthorne	7	6	85.7
	Total	22	18	81.8

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5.25 As can be seen from the table above the variation in the levels of works completed is not only significant at the area level but also between boroughs and districts within an individual area.

5.26 It is acknowledged that the Resource Pool has a limited number of staff and that the level of work required in designing and building schemes can vary significantly on an individual basis depending on the type. Similarly, other factors such as 'external' pressure or the need to expend developer contributions to avoid having to return them may influence how schemes are approached. Nevertheless, it is essential that, as far as possible, no one individual local committee programme bears the brunt of such pressures to the benefit of others.

Risk

5.27 Work could be delayed unnecessarily requiring funds to be carried forward into subsequent financial years with the potential of repayment of developer contributions where completion timescales under the relevant agreement are exceeded.

Recommendation

5.28 Design work should be prioritised to ensure work meets required timescales, with a fair and equitable spread across the county. Such prioritisation should also take account of developer contributions which may be at risk and the lead time required to complete individual tasks. A protocol should also be established to ensure that information from statutory undertakers is considered at the design stage in order to ensure that construction work is not delayed.

Minor worksFinding

5.29 Minor works are logged on Maximo using schedules of rates to cost the work. It was established by enquiry that not all officers are proficient with the selection of schedule of rates items as this is a new area for some officers with resulting delays in the progression of some work. The change in working practice should be supported by additional training.

5.30 All documents are held on a central SharePoint database "RoadZone" so that information is accessible to all. It was not easy to trace individual documents due to the sheer volume of information held, and therefore would benefit from better title description and further sub-classification of the categories used.

Risk

5.31 Work could fail to be completed. As further documents are added to the database the task of locating specific items will become more difficult and time consuming.

Recommendation

5.32 Training should be targeted to support the changes in working practices for officers inputting Schedule of Rates items.

5.33 Guidance in the use of RoadZone should be considered so that clearer document titles and classification assists in the identification and location of documents.

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Variation OrdersFinding

- 5.34 A 'Confirmation of Verbal Instruction' (CVI - also known as a 'Variation Order') is a serially numbered document which is issued to record any verbal instruction given to the constructor by the client's representative (usually on site). Amongst other things the CVI will be used to record:
- increases / decreases in the dimensions or extent of the works;
 - revisions to the length of time allocated for completion of the works (Extensions of Time); and
 - cessation, temporary or otherwise, of the works.
- 5.35 The CVI should be signed by both parties to indicate agreement of its content and, as far as possible, contain indicative details of any cost increases or reductions and extensions or reductions in the time for completion of the works. During the course of a particular piece of work it is possible for multiple CVIs to be issued and it is important to keep track of the cumulative effects of these in order to effectively manage the works.
- 5.36 A random sample of CVIs issued for both major and minor works was selected for examination. In the majority of the forms reviewed sufficient detail as to the change in scope of the works had been recorded, however, it was noted that the possible cost and time impacts almost invariably had not. Furthermore, examples of CVIs were noted where the constructor appeared to have completed and signed the document without obtaining a countersignature from the client side representative.

Risk

- 5.37 Changes may be made to the scope of works without consideration of the impact in terms of costs and time for completion. Where multiple CVIs have been issued then management of the scheme may become more difficult and costs and / or time overruns may become the subject of dispute.

Recommendation

- 5.38 Guidance should be issued to both the client and constructor's staff to ensure that, as far as possible, where a CVI is issued an indication of the anticipated cost and / or time impact is recorded on the document at the time of issue. All CVIs should contain an authorised signature from both parties concerned and it should be made clear that where this does not occur then the document may be subject to rebuttal.

Certificate of CompletionFinding

- 5.39 In discussions with staff on both the constructor and client sides comments were made over the promptness with which the 'Certificate of Completion' (which is required before payment can be authorised) was being produced. A sample of 25 jobs was selected and a comparison made between when the work was shown as completed by the constructor and when the certificate was countersigned by the client's engineer. This analysis showed:

- | | |
|--------------------------|----------|
| • 0 to 5 calendar days | 19 (76%) |
| • 6 to 10 calendar days | 3 (12%) |
| • 10 to 25 calendar days | 1 (4%) |
| • 25+ calendar days* | 2 (8%) |

**Note that in this last grouping the delays were 74 and 89 calendar days.*

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- 5.40 'Reverse testing' was not possible so as to identify if there was a problem over late submission by the constructor after the works were physically completed as this is taken to be the date as shown on the certificate. There was however anecdotal evidence from the client side that approaches for payment were being made but without the necessary certificate being available for signature.
- 5.41 It was also noted that in a significant number of cases the certificates were not being fully completed. Fields regularly left blank included:
- Agreed estimated cost
 - Final cost
 - Extension of Time / Variation Order Numbers.

Whilst not considered a significant system failure / risk it may be indicative of a less than proficient approach to the task in hand.

Risk

- 5.42 Delays on the client side in completing the certificate may mean that payment(s) due in one month may be delayed until the following month thus distorting budgetary control information, affecting the constructor's cash flow and impacting on the contractual relationship.

Recommendation

- 5.43 Arrangements for the prompt and full completion and submission of certificates by both parties should be reviewed to ensure that the potential for delays on either side is minimised as far as possible.

Highway safety inspectionsFinding

- 5.44 The safety inspections process has been automated with the use of handheld PDAs to allow instant recording of defects found. There were significant issues with the mobile technology in the first seven months, including the creation of multiple orders for one defect. These, however, have now been overcome to a large extent, although there continue to be some connectivity issues across the county which impact on the use of the PDAs. The inspection routes are pre-programmed onto the PDA and the data recorded at the site of each defect so that the position is accurately mapped.
- 5.45 This change in practice has improved control as roads for inspection remain on the handheld until they have been completed by the Highway Safety Inspector thus giving certainty of completeness.
- 5.46 There were in excess of 58,000 defects recorded on Maximo inspector log with 35,400 (61%) recorded as Category 1, 2 or 3, although a proportion of these would be duplicates raised as a result of early issues with the mobile technology mentioned above. Work is recorded as completed for 85% of items on the log with 172 items overdue in the work pending for Category 2 or 3 work.
- 5.47 Maximo was expected to assist the Highway Safety Inspectors to identify where clustering work would deal with defects more effectively as minor works but this does not appear to be happening. The ability to be able to match defects to programmed works would also be of benefit. This area is currently under discussion with May Gurney.
- 5.48 There were also 336 cases reported as a temporary fix. A sample were reviewed and found that in 4 of the 10 cases checked by the auditor, the work had been completed but the enquiry screen had not been updated when the works order had been closed.

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Risk

- 5.49 Inaccurate data results in additional time to provide answers to queries from the public, members and officers.

Recommendation

- 5.50 Review the data held on the Maximo system for work outstanding to ensure it is accurate and up to date.
- 5.51 The development of Maximo to provide the information and facilities promised as part of the contract bid should continue to be pursued.

Accuracy of Maximo dataFinding

- 5.52 It has been reported that category information is being changed after defects are logged on Maximo by the highway safety inspector. The category is set by the type of defect selected on the handheld. A review of the consistency of the category with the defect description identified 243 defects that had been downgraded from a category 2 to a category 4. A review of two of these defect category changes was undertaken with the Highways Inspection Team Leader. The outcome was inspector error in one case but an incorrect change in the other. Photographs of the defects are attached to Maximo and so where issues are identified these should be reviewed and lessons learnt.
- 5.53 May Gurney agreed a lump sum price to repair all safety defects which were assumed would be approximately 30,000 per year. In reality there have been 35,000 category 1-3 defects logged by the inspectors, as well as over 10,000 defects logged from other sources, such as web and telephone calls. It must be remembered however that there will be duplicated entries in the system as a single defect could have been reported by the Inspector and also numerous members of the public. May Gurney has significantly increased the resources to tackle defect repairs at their own cost.
- 5.54 Maximo is composed of a number of modules – Enquiry system, Works Ordering system and the Bill Batch payment system. It also has a complex list of status levels that can be selected for enquiries / work being progressed. The use of an individual status was unclear and appeared to be left to the person using the system. The inconsistency in usage affected the ability to provide information on the current position at an individual works order level. In addition, the accuracy of the data held on Maximo is difficult to assess as the change in status of the works order is not automatically updated on the enquiry screen. This impacts on the ability to respond to queries from the public, officers and members. There is a link in Maximo between the enquiry reference and the works order; however, the status in both screens needs to be updated to provide accurate information.
- 5.55 The ability to report on the information in Maximo is very restricted. Reports can only be requested and produced by the IT department at May Gurney. They set up the report so that they are available to be run at any time with different parameters within the set fields, however the flexibility to report on any area in Maximo has not been provided. This also falls under the development of Maximo in para. 5.51 above.

Risk

- 5.56 Failure to meet highway safety responsibilities.

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Recommendation

- 5.57 It is recommended that errors identified in the logging of defects are formally raised so that any training issues can be resolved.
- 5.58 The use of Maximo should be reviewed to ensure consistency of practice, for example in the selection of the status and the recording of an owner or owner group, which would result in improved information for tracking purposes. This may result in the need for staff training.
- 5.59 Consideration should be given to allow the status of the works order to populate the enquiry status.

Winter StrategyFinding

- 5.60 Surrey County Council's (SCC) strategy for dealing with severe winter weather is outlined in its 'Winter Service Policy' document which was initially approved by the Transportation Select Committee and Cabinet in September 2009 and subsequently updated to reflect the recommendations of the 'Winter Performance Task Group' in September 2010. This document is publically available on the SCC website and is intended to inform the general public what service will be provided and the rationale behind this.
- 5.61 At the operational level arrangements for the winter service are outlined in three supporting documents:
- the 'Winter Service Plan 2011/12';
 - the 'Core Maintenance Contract Term Brief - General specification'; which in turn informs
 - the 'Winter Operations Plan'.

The first two of these documents have been prepared by SCC whilst the latter is the responsibility of the highways maintenance constructor May Gurney.

- 5.62 A review of these documents confirmed that in combination they provide a comprehensive guide as to how the service is to be operated defining specific responsibilities and timescales for response. One minor point noted was that the annual Winter Service Plan document was only finalised on 24th November 2011 just over a month after the winter service period commenced.

Response times following mobilisationFinding

- 5.63 There are two key response times relating to the salting operation -

(i) Decision to Mobilise

- 5.64 Responsibility to instruct undertaking precautionary salting operations lies with the constructor's Duty Manager and the decision will be made using weather information from a number of different sources. According to SCC's 'Winter Service Plan' the response time to mobilise the gritting fleet will be:

"one hour from the time the Constructor's decision maker has indicated treatment is required".

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5.65 A sample of 15 decision sheets for instances where mobilisation took place in the period December 2011 to February 2012 was selected and matched with the associated 24 hour weather forecast to confirm that the order to mobilise was reasonable. In each instance the order to mobilise appeared to be valid. However, it was noted that in practice the Duty Manager would make a decision to mobilise but at a time anything up to two to ten hours after the time at which the actual decision was made. Whilst appearing to run counter to 'Winter Service Plan' requirements, in practice it reflects the content of the forecasts which provide an indication of when icing is expected to commence. The practice, therefore, can be justified on the grounds of providing sufficient warning for crews to adequately prepare for prompt mobilisation.

Risk

5.66 None identified.

Recommendation

5.67 The 'Winter Service Plan' should be amended prior to commencement of the 2012/13 season to reflect operational arrangements currently in place which are considered to reflect best practice in ensuring appropriate mobilisation of the winter fleet.

(ii) Completion of Salting Routes

5.68 Once mobilised the operational requirement is to complete the treatment of routes within two and a half hours from when salting commences and the constructor's performance against these targets should be monitored by the Maintenance Operations Manager. The winter maintenance fleet is fitted with tracking equipment which shows progress through the route and the operation of equipment (such as the spreader) on the vehicle. A sample of eight tracking reports was provided to Internal Audit and this was reviewed to ensure there was evidence of compliance with prescribed time limits. In a number of instances the report appeared to indicate that some routes had been completed outside of the time limit.

5.69 This was raised with the constructor's staff who advised that the data contained in the report only showed start and shutdown times for the vehicles engines. In order to check that a route had been completed in time it was necessary to run a visual GPS based 'animation' of the vehicles route and manually record detail of the start and end times of spreading as this was the data against which performance was concerned. Internal Audit enquired as to whether it was possible to obtain reports which showed the commencement and end of spreading rather than the current format. The officer concerned was uncertain but agreed to contact the system supplier to establish if this option was available.

Risk

5.70 Staff resources are poorly utilised through the need to manually intervene in reporting processes.

Recommendation

5.71 The constructor should confirm the availability or otherwise of reports detailing commencement and end times for spreading activities. If such a report is available then arrangements should be made to ensure it is in place for use during the 2012/13 winter season.

Highway Contract Management - 2011/12

Salt stocksFinding

5.72 SCC's 'Winter Service Plan' (WSP) states:

"Surrey held 7,500t of salt across the six county barns at the end of last season further deliveries during September and October have brought the pre-season total up to a minimum of 17,000t. To ensure that stocks are maintained at maximum capacity we have joined Salt Unions stock control monitoring system whereby deliveries are automatically released as stocks are used. By maintaining stock levels the impact of any national shortage will be reduced. Orders can be sourced from abroad but this is more expensive and not the preferred option although certainly an essential course of action during 11/12. If possible, Members wish to see salt stocks maintained at the maximum level that storage permits."

5.73 The constructor's 'Winter Operations Plan' (WOpP) shows stocks of salt to be held at four salt barns across the county, i.e. Bagshot, Godstone, Merrow and Witley. In addition, an external stock would be held under sheeting at Merrow giving a combined capacity of 14,400t. No reference is made to the depots at Beare Green or Kingswood, however, Internal Audit was subsequently advised that stocks totalling some 2,863t were held at these locations but not used.

5.74 A comparison of the information contained in various documents gives a less than clear indication of stocks held. For example, the WOpP document shows the depot at Godstone to have a capacity of 3,800t whilst the spreadsheet used to control / monitor salt stocks shows an opening balance of 4,165t also Merrow depot is shown with a capacity of 1,800t but an opening balance of 5,996t. (In the latter case it is assumed that the externally held stocks referred to in the WOpP have been included in this figure.) Furthermore, the spreadsheet makes no mention of the Beare Green and Kingswood holdings.

5.75 Analysis across the winter service period showed that the levels of stocks had reduced to below 15,000t in December 2011 to a minimum of approximately 11,900t in mid February 2012. Despite this, a number of press releases and statements made by members continued to refer to stocks of 17,000t as being available.

5.76 In order to maintain the stockholding as described in the WSP it was necessary to store in excess of 20% of the total in the open under tarpaulin at Merrow depot rather than in a purpose built, secure storage barn. The forthcoming rationalisation of depots will place further pressure on storage space and will mean that an even greater amount of the stock may have to be held in this manner.

Risks

5.77 It is acknowledged that the matters noted above did not have any discernible impact on provision of the winter service. However, inconsistent presentation of information may possibly lead to decisions being made which are not based on the accurate position. In times of severe weather such as experienced over the last two winters it is considered essential that information provided to management to assist in making decisions is as accurate as possible. It is also important to ensure that members are provided with accurate information particularly where public statements are involved.

5.78 Whilst perhaps not viewed as an 'attractive' commodity the approximate value of the stock currently held in the open (and possibly due to increase) is in excess of £150,000 and represents a significant amount to be placed at potential risk of damage, waste or theft. There may also be environmental impacts of salt leaking into the ground causing contamination.

Highway Contract Management - 2011/12

Recommendation

- 5.79 Management should ensure that as far as possible information provided to both the public and members is as accurate, consistent and transparent as possible. In view of the impending reduction in depot capacity, management should liaise with elected members to revise and agree the policy on salt stockholdings.

Accurate recording salt stock usageFinding

- 5.80 When vehicles are mobilised for a salting run they are weighed both out and back into the depot in order to establish the amount of salt used on that particular run. The weighbridge tickets are attached to a manually completed A4 sheet which details such information as vehicle registration, driver, dates and time etc. The salt usage information is then manually transferred to the salt stocks monitoring spreadsheet.
- 5.81 Internal Audit selected a random sample of eight mobilisations from the three depots in the west of the county and examined the supporting documentation for evidence of weighbridge tickets, correct calculation and recording of stock usage and accurate transcription to the spreadsheet - see below.

Depot	Routes	Total runs examined	Ticket(s) missing	Transfer errors	Comments
Bagshot	7	56	0	2	
Merrow	14	112	16	9	
Witley	6	48	24*	0	Weighbridge inoperative during part of sample
TOTAL	27	216	40	11	

* 18 instances related to inoperative weighbridge – estimates used instead.

- 5.82 The monitoring spreadsheet was reviewed using Internal Audit's spreadsheet analysis software SPACE and was found to contain errors so that the salt stock used was under-recorded by 585 tonnes due to formula errors excluding the last four salt runs. This is not, however, a material misstatement of the stock.

Risk

- 5.83 Residual risk that salt stocks may be mis-stated although this is unlikely to be by a material amount.

Recommendation

- 5.84 Management should conduct random testing of prime documents to the stock records to ensure that as far as possible information has been accurately transferred. Drivers should also be reminded of the need to obtain and retain weighbridge tickets to demonstrate salt used.
- 5.85 The spreadsheet used to manage salt stocks should be designed so that the addition of columns does not compromise its integrity.

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Pressure points**(i) Defects**

- 5.86 It was noted that the constructor had significantly increased the resources employed to deal with the level of potholes being reported both by the public and Surrey staff. This increased resource has had a financial impact on the constructor as their initial accepted bid was to undertake this service of work as a lump sum cost based on an original estimate of 30,000 potholes. Whilst the current approach is cost effective for Surrey and addresses public opinion, it may not be financially sustainable in the longer term from the constructor's perspective. It is fair to assume that there will be a need to re-evaluate how this work is organised in order to balance costs and productivity. A possible solution would be for inspectors to schedule works to address a number of defects around the immediate area of the identified damage with the advantage that resource is better employed and co-ordinated and the public would see an improved road surface.

Risks

- 5.87 Inability to show continuous improvement.

Recommendations

- 5.88 Management should review, with the constructor, the approach to handling defects where public safety is not of immediate concern.

(ii) Sub-contractors

- 5.89 There are elements of the contract and associated other lots where May Gurney have elected to use sub-contractors. In these circumstances it is important to ensure adequate communication and supervision takes place in order that the required level of service is obtained. Problems over the surface dressing programme have been previously reported on in the half year report to Transportation Select committee and hopefully should not re-occur. During the course of the audit it was highlighted that the programme for the drainage contract had slipped by three weeks and also that the production of a GPS based asset map had not been completed as required. The use of sub-contractors for elements of the reactive work does not appear to be strictly controlled as details of their productivity are limited and in some cases evidence required to substantiate reported performance has not been provided leading to performance penalties for the main contractor.

Risks

- 5.90 Progress monitoring and the availability of information is poorly affected.

Recommendations

- 5.91 Management should emphasise the importance of the supervision of sub-contractors to ensure improved transparency and availability of information.

(iii) Dialogue between client and constructor

- 5.92 Whilst the framework established under the contract for formal meetings, such as 'Core Group' and 'Performance and Payment' are taking place, there remain a number of basic operational issues which affect both parties. For example, the constructor has voiced concerns over obtaining written confirmation that works have been completed and are therefore ready for payment. Conversely managers on the client side explain that the reason for a significant number of incomplete jobs is that they have not been provided with evidence of their completion. The lack of this basic mechanism almost a

Highway Contract Management - 2011/12

full year into the contract is of concern, and perhaps indicates a lack of communication at the operational level.

Risks

- 5.93 A lack of joined up working leads to unnecessary delays and the need for follow up of actions.

Recommendations

- 5.94 It is recommended that both parties assess the existing lines of communication and agree how these can be improved at an operational level. It is particularly important that where changes in structure / personnel are made, established lines of communication are not lost.

6. ACKNOWLEDGEMENT

- 6.1 The assistance and co-operation of all the staff involved was greatly appreciated.

TERMS OF REFERENCE

Highway Contract Management 2011/12

BACKGROUND

In November 2010, Cabinet approval was given to award contracts for Surrey Highways maintenance and construction in seven lots. The new contracts were awarded to May Gurney Infrastructure Services, Tarmac, Wilson & Scott and Glendale Managed Services and began in April 2011.

The core maintenance contract was awarded to May Gurney, together with the surface dressing and the gully emptying contracts, and constitutes the majority of the spend on Highways capital and revenue. This audit therefore will focus on the core maintenance contract but will also aim to provide some assurance on their other contracts.

PURPOSE OF THE AUDIT

To ascertain whether controls are in place to ensure effective management of the contract, including the management of key performance indicators, ordering and approval of work, accruals, budgetary control and the adequacy of the management trail for payments.

WORK TO BE UNDERTAKEN

Discussions with officers and contractor representatives to understand and document the processes in place to meet the following control objectives.

- Management processes in place to review quality and performance, and monitor the progress of work;
- Adequate documentation to support all amounts invoiced;
- Official orders exist for all work invoiced;
- Adequate approval process to authorise payments; and
- Scheme works are adequately communicated monitored and documented in a timely manner.

Audit testing in order to ascertain whether the controls in place are effective and working as expected.

OUTCOMES

The findings of this review will form a report to Surrey County Council management, with an overall audit opinion on the effectiveness of systems in place and recommendations for improvement if required. Subject to the availability of resources, and the agreement of the auditee, the audit will also seek to obtain an overview of arrangements in place for:

- Data quality and security;
- Equality and diversity;
- Value for Money;
- Business continuity, and
- Risk management.

The outcome of any work undertaken will be used to inform our future audit planning processes and also contribute to an overall opinion on the adequacy of arrangements across the Council in these areas.

Highway Contract Management - 2011/12

REPORTING ARRANGEMENTS

Auditor:	George Atkin
Supervisor:	Diane Mackay
Reporting to:	Jason Russell
Audit Ref:	A3900/2011/12

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.8	Management should periodically review the timetable for performance reporting in order to ensure that it remains practicable in terms of data collection, collation and verification.	M	Terms of Reference for Annual Contract Review will be amended to incorporate mandatory review of Monthly Performance Timetable to ensure it continues to be fit for purpose and delivering accurate data.	Terms of Reference to be amended by 1 st August	Paul Wheadon	✓
5.9	The Contract Exit Plan should be agreed between the client and constructor as a matter of urgency.	H	Contract Exit Plan will be jointly agreed by both parties prior to next contract review.	Contract Exit Plan to be agreed by 30 th August	Paul Wheadon	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.13	The client and constructor should agree a unique reference for each Schedule of Rate item that has been duplicated and implement the changes in Maximo.	H	A full audit will be undertaken of Schedule of Rates to ensure all rates have unique identifier. Following audit, required changes will be actioned in Maximo	Schedule of Rate Audit to be complete by 1 st August and any required amendments made to Maximo by 1 st September	Paul Wheadon	✓
5.14	The client should establish and consider the adequacy of any controls the constructor intends to apply in future to ensure that price uplifts are accurately reflected in 'Maximo'.	H	A bi-annual audit process has been agreed with May Gurney. Client will undertake full audit of Schedule of Rates each April and October	Audit to be scheduled for mid October. To provide increased confidence a retrospective audit will be completed by 30 th June, to validate price amendments actioned in April.	Paul Wheadon	✓
5.18	Action should be taken to ensure orders raised comply with SCC financial instructions.	H	All gateway controls will be reviewed against Financial Instructions. Where non-compliance is identified, highways will either (a) agree amendment to Maximo to reflect financial instructions OR (b) seek approval from Section 151 officer for approved exemption to financial instructions.	Gateway Control review to be complete by 30 th June, with required actions implemented by 30 th September.	Paul Wheadon	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.19	The total of payments approved for payment should generate a control total to ensure accurate transmission.	H	The interface between Maximo and SAP will be enhanced to ensure there is no manual intervention of payment following budget holder approval, mitigating risk of error.	New SAP interface to be implemented by 30 th October	Paul Wheadon	✓
5.23	Management should review arrangements to ensure that all components contributing to the management information system are updated accurately at the earliest opportunity, including the development of timely and easily accessible budget monitoring reports.	H	<p>The Task Completion Certificate process will be upgraded to electronic form, this will allow automatic report to confirm real time status of schemes</p> <p>A monthly Scheme Report will be generated to confirm to Budget Holders any scheme risks, e.g. scheme completed however, no completion certificate submitted within agreed tolerance of 30 days. This will also confirm schemes gateway status.</p>	<p>Electronic Completion Certificate will be delivered by 1st August</p> <p>Monthly Scheme Report will be in place for the commencement of Q3 financial period.</p>	Paul Wheadon	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.28	Design work should be prioritised to ensure work meets required timescales, with a fair and equitable spread across the county. This should also take account of developer contributions which may be at risk and the lead time required to complete individual tasks. A protocol should also be established to ensure that information from statutory undertakers is considered at the design stage in order to ensure that construction work is not delayed.	M	<p>An end-to-end Design Review is currently being undertaken. The review will include creating “categories” of design activity. Each Design Category will then be prioritised based upon their “lead in” time, e.g. categories with the greatest complexity and required design time will be highlighted and specifically monitored to ensure completion before year end.</p> <p>Review will also review process for gathering / assessing design inputs (including statutory undertakers) and improvements recommended.</p> <p>A Rapid Improvement Event will be held in July to understand member concerns and ensure their objectives are incorporated into revised design process.</p>	<p>End to End Review (including Rapid Improvement Event) completed by end of July with clear recommendation of new design and prioritisation process.</p> <p>Following agreement of review recommendation, new process will be implemented and trained to all SCC staff by 1st October.</p>	Matthew Scriven	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.32	Training should be targeted to support the changes in working practices for officers inputting Schedule of Rates items.	M	A formal training programme will be provided in August to ensure all staff fully understand how to apply schedule of rates. This will supplement the original training provide in 11/12.	Training programme delivered by 1 st September	Paul Wheadon	✓
5.33	Guidance in the use of RoadZone should be considered so that clearer document titles and classification assists in the identification and location of documents.	M	Use of Roadzone will be reviewed to ensure it is "user friendly" and guidance will be issued as part of training programme delivered in 5.32.	Roadzone review and any required actions delivered by 1 st September	Paul Wheadon	✓
5.38	Guidance should be issued to both the client and constructor's staff to ensure that, as far as possible, where a CVI is issued an indication of the anticipated cost and / or time impact is recorded on the document at the time of issue. All CVIs should contain an authorised signature from both parties concerned and it should be made clear that where this does not occur then the	M	The CVI Form will be amended to ensure both re-measure and price are recorded on the same form, and signed by Client before completion. Client will automatically reject any CVI without pre-approved signatures.	CVI form revised and implemented by 30 th June.	Paul Wheadon	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
	document may be subject to rebuttal.					
5.43	Arrangements for the prompt and full completion and submission of certificates by both parties should be reviewed to ensure that the potential for delays on either side is minimised as far as possible.	M	<p>May Gurney will undertake internal audit to identify any users not complying with agreed process and take necessary action.</p> <p>A monthly Scheme Report will be produced highlighting any completed schemes where no Completion Certificate has been submitted. Scheme Report will also highlight any areas where Client has withheld approval for unreasonable time period.</p>	<p>Internal MG Audit and compliance to process to be delivered by May Gurney by 30th June</p> <p>Monthly Scheme Report will be in place for the commencement of Q3 financial period.</p>	Paul Wheadon	✓
5.50	Review the data held on the Maximo system for work outstanding to ensure it is accurate and up to date.	M	May Gurney/SCC will undertake joint data cleanse exercise of Maximo data, this will ensure all active data records are accurate, with all records pre 31st March 2012 closed.	Data Cleanse activity to be completed by 30 th July.	Paul Wheadon	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.51	The development of Maximo to provide the information and facilities promised as part of the contract bid should continue to be pursued.	H	May Gurney to implement Maximo Spatial software module and implement GIS solution to enable clustering of schemes to identify key roads requiring larger intervention.	New Maximo software to be implemented by 31 st December 2012.	Paul Wheadon	✓
5.57	It is recommended that errors identified in the logging of defects are formally raised so that any training issues can be resolved.	M	A project team has been created to review Safety Defects process, the project team will highlight continual defect errors and instigate appropriate training plans/individual performance issues	Safety Defects team to identify trends and develop formal action plan to improve defect categorisation by 30 th July	Lucy Monie	✓
5.58	The use of Maximo should be reviewed to ensure consistency of practice, for example in the selection of the status and the recording of an owner or owner group, which would result in improved information for tracking purposes. This may result in the need for staff training.	L	MG have appointed a dedicated project manager to lead on gap analysis of Maximo, and develop/implement a concurrent training and system improvement plan to embed delivery though Maximo.	Improvement Project & training to be delivered by 30 th September	Paul Wheadon	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.59	Consideration should be given to allow the status of the works order to populate the enquiry status.	L	This will be actioned as part of the project detailed in 5.58.	Improvement Project & training to be delivered by 30 th September	Paul Wheadon	✓
5.67	The 'Winter Service Plan' should be amended prior to commencement of the 2012/13 season to reflect operational arrangements currently in place which are considered to reflect best practice in ensuring appropriate mobilisation of the winter fleet.	L	As per contract requirement, Winter Service Plan will be reviewed in July, and will incorporate, where appropriate, existing operation requirements not reflected in 11/12 plan.	Revised Winter Service Plan to be agreed by Core Group by 30 th August	Tony Casey	✓
5.71	The constructor should confirm the availability or otherwise of reports detailing commencement and end times for spreading activities. If such a report is available then arrangements should be made to ensure it is in place for use during the 2012/13 winter season.	M	May Gurney to identify solution to providing report data and incorporate revised report in Winter Service Plan	Revised Winter Service Plan to be agreed by Core Group by 30 th August	Tony Casey	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.79	Management should ensure that as far as possible information provided to both the public and members is as accurate, consistent and transparent as possible. In view of the impending reduction in depot capacity, management should liaise with elected members to revise and agree the policy on salt stockholdings.	M	The required Stock Levels policy for 2012/13 season will be agreed with Transport Select committee as part of new Winter Service Plan, with stock levels fully considering depot storage constraints.	Revised Winter Service Plan to be agreed by Core Group by 30 th August	Tony Casey	✓
5.84	Management should conduct random testing of prime documents to the stock records to ensure that as far as possible information has been accurately transferred. Drivers should also be reminded of the need to obtain and retain weighbridge tickets to demonstrate salt used.	L	Recommendation will be agreed as part of revised Winter Service Plan for 2012/13	Revised Winter Service Plan to be agreed by Core Group by 30 th August	Tony Casey	✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.85	The spreadsheet used to manage salt stocks should be designed so that the addition of columns does not compromise its integrity.	M	Recommendation will be agreed as part of revised Winter Service Plan for 2012/13	Revised Winter Service Plan to be agreed by Core Group by 30 th August	Tony Casey	✓
5.88	(i) Management should review, with the constructor, the approach to handling defects where public safety is not of immediate concern.	L	Review and best practice of defect handling will be reviewed as part of business improvement project "Safety Defects Improvements" and any required actions implemented for 30 th October	Action Plan to be agreed by 30 th July and implemented by 30 th October.	Lucy Monie	✓
5.91	(ii) Management should emphasise the importance of the supervision of sub-contractors to ensure improved transparency and availability of information.	M	All May Gurney supervisors will attend mandatory Supervision Course in 2012/13 to confirm role of supervision. May Gurney to also appoint nominated contract manager for key activities, to ensure clear accountabilities and responsibilities. Supervision process will be jointly reviewed to remove waste and unnecessary processes	Supervision Training completed by 30 th December. Nominated MG Contract Managers to be in place by 30 th July. Process Review completed by 30 th October.		✓

MANAGEMENT ACTION PLAN

Para Ref	Recommendation	Priority Rating	Management Action Proposed	Timescale for Action	Officer Responsible	Audit Agree?
5.94	(iii) It is recommended that both parties assess the existing lines of communication and agree how these can be improved at an operational level. It is particularly important that where changes in structure / personnel are made, established lines of communication are not lost.	M	Weekly Governance meetings will be introduced for on-site engineers to resolve issues and improve communication. An escalation processes will be clearly implemented to ensure that issues that cannot be resolved at weekly tactical meetings are escalated to monthly review meetings.	Weekly meetings and escalation process to be instigated by 30 th June.	Paul Wheadon	✓



Audit & Governance Select Committee
25th June 2012

Surrey Highways – Response to Audit Report

1. The first full year of any new contract, with the scale and scope of highways works, is always expected to be a difficult year for embedding new processes and relationships.
2. However, both SCC and May Gurney were extremely disappointed by the number of “Major Improvements” identified by the internal audit report and are fully committed to improving the controls and processes as highlighted. As a consequence the report has been fully scrutinised both independently and jointly by the Surrey Highway and May Gurney Senior Management.
3. It is welcomed that the report highlights specific areas of success in the first year, in particular highlighting:
 - a. The improved contract operational delivery with tangible benefits delivered to the Surrey residents e.g. increased number of schemes, improved quality, and majority of high priority potholes made safe with 24 hours.
 - b. Improved winter service with higher achieved standard than in previous years and tangible improvements in snow clearance
4. The report, although not finding any material financial issues, however, does highlight the genuine need to improve overall financial controls and processes.
5. This risk had been identified by Surrey Highways as part of the annual budget management cycle, and steps were already being implemented to provide “compensatory controls” and increase the level of administrative support to mitigate any potential risk of financial irregularity. The increased manual controls, are also supplemented by the overarching contract which governs operational relationships and ensures issues are controlled on a day to day basis.
6. However, going forward both parties recognise the need for embedded and lean processes that support the Control Environment rather than hinder. Thus in addition to the agreed Management Action Plan, a dedicated

Project Team has been jointly funded and implemented to deliver three specific levels of action:

Level	Milestone	Output
Level One	30 th July 2012	improve accountability and document controls
Level Two	30 th October 2012	review and embed new financial processes
Level Three	30 th March 2013	implement improved IT systems and automatic financial reports

7. The detailed plans and initial responses for these projects are available on request. However, several immediate actions have been delivered as part of the Level One response, including:

- Consultation launched on reorganisation of May Gurney structure, with new job profiles clarifying financial accountability
- Unique reference number for rates prepared and circulated for review and audit
- Revised Completion Certificates and Variation Forms prepared and circulated for review and audit
- Manual process in place to ensure orders over £5k are correctly authorised before work commences
- Additional Resource brought in to cleanse data on Maximo
- Audit commenced to ensure client approved paperwork is scanned and available for all approved orders
- Draft Exit plan prepared and circulated for review and audit

8. Based upon the agreed action plan and dedicated project team, Surrey Highways are confident that we can build on a very successful first year. Embedding improved processes and systems will realise improved efficiencies and support a positive and controlled contract environment.