



FINAL INTERNAL AUDIT REPORT

HIGHWAYS MANAGEMENT OF MAJOR WORKS

PLA/05/2022

August 2023

Auditor	Principal Auditor
Reviewer	Head of Audit and Assurance

Distribution list

Job title
Director of Environment and Public Protection
Assistant Director Highways
Highway & Street Lighting Manager
Head of Performance Management & Business Support

Executive Summary

Audit Objective	The overall objective of the audit was to review the management of a sample of capital works to include controls in place to deliver to time, cost and quality. We also considered supplier Business Continuity arrangements.
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Assurance Level		Findings by Priority Rating		
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.	Priority 1	Priority 2	Priority 3
		1	2	0

Key Findings
<ol style="list-style-type: none"> 1. We noted that the condition surveys of the Highways are automated through the analysis of video surveys using artificial intelligence (AI). A boroughwide AI survey using vehicle mounted cameras along with GPS location technology was completed and the data collected was processed using the AI web-based software to identify the priorities for carriageway planned works for 2022-23. The automation of the survey process has made the results repeatable and consistent. 2. We verified from the meeting minutes that monthly contract meetings are held, where Highway major works are discussed. Progress reports are provided by the contractor prior to the meeting for discussion. 3. The Highways manager advised that since 2020 instead of filling manual remeasurement sheets, they have approved works completed for payment based on emails from the Highways Inspector confirming the final remeasurement completed at site. We checked this process for the 3 sampled schemes which have been invoiced and paid. For 3/3 schemes, Highways Inspector's email to confirm the remeasuring on site was not available. Therefore, we could not confirm if the work completed was measured and that details of what was checked were sufficient to allow the Certifying Officers to satisfy themselves that the payment was accurate and due to be paid. 4. We also noted that the agreement of work to be undertaken, interim and final inspection of work completed and remeasurements to support payment is undertaken by the same Highways Inspector. Therefore, we could not confirm if at least three designated officers were involved in the whole process (ordering / receipt of goods or services / payments approval).

5. The Highways manager advised that he quality checks the remeasurements completed by the Highways inspector by reperforming 10% of the completed measures. We asked but no evidence of the quality checks by the Highways manager was provided hence we cannot confirm if measurements to support payments are independently checked.
6. We could not test if managements own procedures are being complied with as processes for selection of schemes, agreement of work to be undertaken, raising and varying orders (price and quantity), inspections, rectification of defects, supervising arrangements, measuring works completed and payments are not documented and ratified.
7. We noted that at the ECS PDS committee meeting in March 2022, the committee members were informed that due to limited revenue budgets it is not possible to resurface all roads needing maintenance and consequently, those roads with the highest overall priority are being put forward for planned works programmes in accordance with annual budget provision for approval. We requested but management has not provided the information to verify the prioritisation process for schemes in the 2022-23 work programme and therefore the reasonableness of the process could not be fully verified.
8. We asked how the supplier risk of failure of Business Continuity is being managed and if LBB's Business continuity checklist has been completed. The Assistant Director Highways advised that they have not yet completed the Business Continuity checklist however this will be arranged.

Management has agreed actions for all findings raised in this report. **Please see Appendix A.**

*Definitions of our assurance opinions and priority ratings are in **Appendix B.***

*The scope of our audit is set out in **Appendix C.***

Appendix A - Management Action Plan

1. Compliance

Finding:

The Highways manager advised that since 2020 instead of completing manual remeasurement sheets to confirm works completed, they have approved payments based on emails from the Highways Inspector confirming that he has remeasured the site to check that the work completed. We checked this process for the 3 sampled schemes which have been invoiced and paid.

The Financial regulation states that:

“8.2.1 The overriding principle to be adhered to is that authorisation and certification checks should be meaningful. To this end, they should be carried out and evidenced by those officers who are in a position to judge, for instance, whether goods / services have actually been received or whether invoice prices are correct. The evidence should also be unambiguous e.g. an isolated signature on an invoice does not make it clear what has been checked or what is being authorised or certified and is therefore not acceptable.”

8.2.5 Certifying Officers are responsible for ensuring that adequate checks are performed and evidenced prior to the payment of an invoice to satisfy themselves that the payment is accurate and due to be paid.”

For 3/3 schemes, the Highways Inspector's email to confirm the remeasuring on site was not available. Therefore, we could not confirm if the work completed was measured and that details of what was checked were sufficient to allow the Certifying Officers to satisfy themselves that the payment was accurate and due to be paid.

The Financial regulation also states that:

“8.1.17 Chief Officers should ensure that all invoices input onto Accounts Payable for payment have been properly authorised and certified, with evidence of at least three designated officers having been involved in the whole process (ordering / receipt of goods or services / payment). The Director of Finance must specifically approve exceptions to this requirement e.g. where authorisation / certification is performed electronically or where less than three officers are involved in the process.”

We also noted that the agreement of work to be undertaken, interim and final inspection of work completed and remeasurements to support payment is undertaken by the same Highways Inspector. Therefore, we could not confirm if at least three designated officers were involved in the whole process (ordering / receipt of goods or services / payments approval).

The Highways manager advised that he quality checks the remeasurements completed by the Highways inspector by reperforming 10% of the completed measures. We asked but no evidence of the quality checks by the Highways manager was provided hence we cannot confirm if measurements to support payments are independently checked.

Risk:

- Payment for works that have not been completed.
- Lack of segregation of duties may lead to fraud or error being undetected.

Recommendation

Management should ensure that

- the work completed are measured and details of what is being checked is sufficient to allow the Certifying Officers to satisfy themselves that the payment is accurate and due to be paid.
- Supporting evidence for payment i.e. the Highways Inspector’s emails to confirm the final site remeasurement are retained.
- at least three designated officers were involved in the whole process (ordering / receipt of goods or services / payments approval).
- All site visits by Highways officers, and their observations are recorded and retained.

Rating

Priority 1

Management Response and Accountable Manager

- All works are currently measured and details recorded to allow the Certifying Officers to satisfy themselves that the payment is accurate and due to be paid, a process which will continue – **no further action required**
- Supporting evidence of site measurements for payment are currently recorded. Moving forward these documents will be retained on SharePoint to confirm the final site remeasurements – **Highway & Street Lighting Manager**
- Three designated officers are currently involved in authorising all contractual payments – **no further action required**
- Details of site visits by Highways officers, and their observations are currently recorded. Moving forward these documents will be retained on SharePoint – **Highway & Street Lighting Manager**

Agreed timescale

N/A

September 2023

N/A

September 2023

2. Procedure notes

Finding:

We could not test if managements own procedures are being complied with as processes for the selection of schemes, agreement of work to be undertaken, raising and varying orders (price and quantity), inspections, rectification of defects, supervising arrangements, measuring works completed and payments are not documented and ratified.

Risk

Poor management leading to delays and overspend.

Recommendation

Management should ensure that written procedure notes are produced and agreed for the selection of schemes, agreement of work to be undertaken, raising and varying orders (price and quantity), inspections, rectification of defects, supervising arrangements, measuring works completed and payments.

Rating

Priority 2

Management Response and Accountable Manager

A written procedure will be prepared for the selection of schemes, agreement of work to be undertaken, raising works orders, inspections, rectification of defects, supervising arrangements, measuring works completed and payments – **Highway & Street Lighting Manager**

Agreed timescale

December 2023

3. Selection process

Finding:

We noted that at the ECS PDS committee meeting in March 2022, the committee members were informed that due to limited revenue budgets it is not possible to resurface all roads needing maintenance. They were advised that those roads with the highest overall priority are being put forward for planned works programmes in accordance with annual budget provision for approval. We requested but management has not provided the information to evidence the prioritisation process applied for selecting the schemes included in the 2022-23 work programme and therefore the reasonableness of the process could not be fully verified.

Risk

Failure to manage highways leading to unsafe conditions for highway users and unnecessary expenditure on schemes that do not require it.

Recommendation

Management should ensure that the rationale for prioritising the Highways major work schemes is fully documented and the reasonableness of their selection should be evident.

Rating

Priority 2

Management Response and Accountable Manager

Prioritisation of major work schemes is based on condition survey results, network hierarchy and engineering judgement. A procedure will be prepared to clarify the processes and decisions taken in selecting schemes before submission to members for approval – **Highway & Street Lighting Manager**

Agreed timescale

April 2024

Appendix B - Assurance and Priority Ratings

Assurance Levels

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Action Priority Ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.

Appendix C – Audit Scope

Audit Scope
<p>We reviewed the adequacy and effectiveness of controls over the following risks:</p> <ul style="list-style-type: none">• Failure to manage highways leading to unsafe conditions for highway users• Poor quality repairs leading to insurance claims (trips, falls and Road Traffic Accidents) and reputational damage• Poor contract management leading to delays and overspent on capital works <p>Our audit included a review of the relevant documentation and testing of related procedures, processes, and systems.</p> <p>Our testing focused on the list of schemes approved by committee for completion in 2022-23. A random sample was selected and then tested against available information. We included the following as part of our scope:</p> <ul style="list-style-type: none">• Financial management including payments and arrangements for monitoring and measuring works completed• Change control and order variations• Project monitoring and contract management• Supplier Business Continuity arrangements