

OFFICIAL - SENSITIVE

**CONTRACT ASSURANCE AUDIT OF
HIGHWAYS ENGLAND CENTRAL
TEAMS FOLLOW UP FROM CAR
VISITS 5, 6 & 7**

FINAL REPORT

REPORT REF. 017_032

Issue Date: 07 August 2017

Audit Details and Distribution List

| Audit Details | |
|------------------------|--|
| Fieldwork started: | 27 June 2016 |
| Fieldwork completed: | 09 November 2016 |
| Draft report issued: | 22 March 2017 |
| Final report issued: | 07 August 2017 |
| Audit Manager: | [REDACTED] |
| Auditor(s): | [REDACTED] [REDACTED] |
| Circulation - Report: | <p>Nick Harris (Director, Operations)</p> <p>Tim Reardon, (Director, General Counsel)</p> <p>Mike Wilson (Chief Highways Engineer & Director, SES)</p> <p>Simon Jones (M25 and South East Regional Divisional Director, Operations)</p> <p>Lucy Fell (Health and Safety Divisional Director, SES)</p> <p>Jeremy Bird (Head of Health and Safety Delivery, SES)</p> <p>Paul Williamson (Business Finance Director, FBS)</p> <p>Karl Anderson (Group Manager, C&P)</p> <p>Marie O'Reilly (Head of Operations Governance, Operations)</p> <p>David Milligan (Contract Governance Team Leader, C&P)</p> <p>Jill Elliott (Head of Audit and Assurance, FBS)</p> <p>[REDACTED]</p> |
| Circulation - General: | <p>Jim O'Sullivan (Chief Executive and Accounting Officer)</p> <p>Colin Matthews (Non-Executive Chair)</p> <p>Executive Committee Members</p> <p>Audit and Risk Committee Members</p> <p>Matt Armitage (Company Secretary)</p> <p>Sharon McCarthy (Corporate Assurance Director)</p> <p>National Audit Office</p> |

Disclaimer:

We have prepared this report solely for the use of the Highways England and its Accounting Officer following an audit conducted at a point in time and it was not written for any other purpose. Therefore, we take no responsibility for any reliance that a third party may place on it. Where this report has been made available to a third party, it is on the understanding that the third party will use the report only for the purpose agreed and will not distribute it or any of the information contained in it outside of the third party.

EXECUTIVE SUMMARY

Introduction & Background

Objective

1. The objective of this review was to provide independent assurance to the Accounting Officer that effective action had been taken to address the weaknesses raised in a number of our previous contract assurance reviews in Procurement, Finance and Business Service and NDD Central. Our results demonstrate or identify where risk management, control and governance processes are well established or require improvement throughout the Commercial and Procurement, Finance and Business Services and Operations directorate's supply chain and regional teams. From our work we have re-assessed processes and activity in relation to agreed actions to understand whether our intervention has resulted in reducing the risk exposure for the company or if further action is required.

Scope

2. We evaluated whether Highways England has effective processes in place to implement actions identified as a result of our previous work. The topics covered were Green Claims, [REDACTED]
3. Our audit activity focused on the Highways England central teams from Operations, General Counsel, Commercial & Procurement, Safety, Engineering and Standards and Finance and Business Services.
4. The audit specifically considered the effectiveness of Highways England teams in implementing actions identified as a result of previous CAR reports.

Agreement of scope

5. The scope and approach of this review has been agreed with the Director of Operations Transition Directorate, and the Business Finance Director. The full terms of reference for this review are available on request.

About this report

6. This report presents our audit findings, which are based upon interviews with key staff and a review of all supporting documentation to determine if previous findings are closed down effectively. Testing was completed on actions to ensure that original risks identified were fully mitigated.
7. The report is an exception report. It addresses those areas where action is needed to strengthen control. We also aim to highlight examples of particularly good practice or innovation where we have observed it during our work. The absence of comment on a particular scope area means that, within the defined scope and time of our review, we found that controls were operating effectively.

Audit Opinion

Overall opinion

Moderate

We evidenced significant improvement in the green claims processes. These have enabled the regions to review final costs more effectively and should reduce the frequency of challenge to insurance claims. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

* Audit Opinion definitions can be found at [Appendix A](#).

Opinion rating of audit areas under review

| Audit subject | Original rating | New assessment following this review |
|----------------|-----------------|--------------------------------------|
| A Green Claims | Partial | Substantial |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |

Summary of Findings by Terms of Reference Activity

| Activity | Assessment |
|------------|------------|
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |

Key Findings

Issues

[REDACTED]

[REDACTED]
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• [REDACTED]
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Observations

[REDACTED]

Green Claims

12. We can confirm that there has been significant improvement in the green claims processes resulting in improved guidance, communications and co-ordination. This allows the regions to review the final costs more effectively and should reduce the frequency of challenge to insurance claims. We noted that the NDD Central action to review the Annex 19 reporting (which defines what reporting is available to Highways England to request from the service provider) is still open. Currently, the reporting requirements are inconsistent across all contracts and the action was for NDD Central to review the reporting and identify what, if any, information is actually required to inform decision making. This activity has now been included in the current Lean review of the green claims process completed in May 2017. Whilst the risk is low to Highways England it can mean service providers with more than 1 area can question the value of the activity if there is inconsistency and hence this should be resolved and clearly communicated to all relevant parties.

[REDACTED]

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MANAGEMENT ACTION PLAN

| Finding 1 | Related scope line: | C | Priority: | Unmanaged Risk or Issue: |
|---|---------------------|---|-----------|---|
| | Related paragraph: | 8 | | |
| <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> | | | Medium | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> |

| Agreed Actions: | | | Action owner: | Target date: |
|-----------------|---|--|---|-------------------|
| 1. | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> | | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> | <p>[REDACTED]</p> |

| Finding 2 | Related scope line: | D | Priority: | Unmanaged Risk or Issue: |
|---|---------------------|---|-----------|---|
| | Related paragraph: | 9 | | |
| <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> | | | Low | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> |

| Agreed Actions: | | | Action owner: | Target date: |
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| 1. | <ul style="list-style-type: none"> [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] | | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> | <p>[REDACTED]</p> <p>[REDACTED]</p> |

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| | <ul style="list-style-type: none">• [REDACTED] | | |
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| 3. | <ul style="list-style-type: none">• [REDACTED]• [REDACTED]• [REDACTED]• [REDACTED]• [REDACTED]• [REDACTED] | <ul style="list-style-type: none">• [REDACTED]• [REDACTED]• [REDACTED]• [REDACTED]• [REDACTED] | <ul style="list-style-type: none">• [REDACTED] |

| Finding 3 | Related scope line: | E | Priority: | Unmanaged Risk or Issue: | |
|-----------------|---------------------|----|-----------|--------------------------|--------------|
| | Related paragraph: | 10 | | | |
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Appendix A - Categorisation of Audit Opinions and Findings

Audit Opinions

| Opinion | Explanation |
|-----------------------|---|
| Substantial | The governance, risk management and control framework is well established, working effectively and provides reasonable assurance that risks are being managed appropriately and that objectives will be met. |
| Moderate | Some improvements are required to enhance the governance, risk management and control framework. The framework is considered to be adequate and effective and provides reasonable assurance that risks are being managed appropriately and that objectives will be met. |
| Limited | There are significant weaknesses in the governance, risk management and control framework and it is unlikely to provide reasonable assurance that risks are being managed appropriately and that objectives will be met. |
| Unsatisfactory | There are fundamental weaknesses in the governance, risk management and control framework and it is unlikely to provide any assurance that risks are being managed appropriately and that objectives will be met. |

Audit Findings and Corrective Action: Definitions of Priorities

| Priority | Explanation |
|---------------|--|
| Low | Minor weakness in control which expose the Accounting Officer / Director to relatively low risk of loss or exposure. |
| Medium | Significant weaknesses in control, which, although not fundamental, expose the Accounting Officer / Director to a risk of loss, exposure or poor value for money. |
| High | Fundamental weaknesses in control which expose the Accounting Officer / Director to high risk or significant loss or exposure in terms of failure to achieve key objectives, impropriety or fraud. |