

INTERNAL AUDIT REPORT

Public Transport Follow-Up Report

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This document is a final version.

Powys Internal Audit Services

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Status of this report

This report has been prepared for the internal use of the Powys County Council and its contents are confidential. The work involved in the production of this audit report complies with the principles outlined in CIPFA's Code of Audit Practice and CIPFA Local Government Internal Audit Manual 2005.

1.0 INTRODUCTION

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the control environment. This is done by effectively contributing to the statutory requirement in the Accounts and Audit Regulation 2005 for the Council to maintain sound systems of Internal control.
- 1.2 As part of the Annual Audit plan for 20011/12 a follow up audit of the procedures for Public Transport was carried out. The original report was completed 1st August 2008. On this occasion an overall audit opinion of *Unsound* was given indicating that there existed a fundamental failure of key controls and a significant risk of failing to meet service objectives.

2.0 OBJECTIVES

- 2.1 The overall objective was to follow up the previous audit review of Public Transport, review the agreed actions on control weaknesses and ensure these have been appropriately implemented.

3.0 AUDIT APPROACH

- 3.1 Examine the previous report and obtain evidence that progress has been made, systems improved and agreed actions have been appropriately implemented.
- 3.2 As with all audit reports where an opinion of Unsound is given, the findings of the audit report August 2008 were presented to Audit Committee. On 16th January 2009 the Passenger Transport Manager presented to Audit Committee a report detailing the action which was being taken to address the weaknesses.

4.0 SUMMARY OF KEY AUDIT FINDINGS

The following summary reflects the audit findings in relation to the implementation of the action plan from the August 2008 report. The bold text below is the control weakness previously identified. Audit Recommendation relates to the recommendation made by Internal Audit to address the weakness. Client comment relates to the agreed action intended to be taken by the Passenger Transport Manager as presented to Audit Committee 16th January 2009.

4.1 **Roles and Responsibilities for the procurement, provision, payment and collection of income for Public Transport have not been clearly defined and documented. (Essential)**

Audit Recommendation: Roles and Responsibilities should be clearly defined for staff working within the Transport Co-ordination Unit and all other Departments involved in the provision of Public Transport.

Client Comment: Transport Co-ordination Unit has been restructured and resourced to form Passenger Transport Unit (PTU).

Audit Finding: Roles and Responsibilities for all members of staff within the Passenger Transport Unit (PTU) have been clearly defined within the Service Delivery Plan which has recently been signed off by the Portfolio Holder. The Plan is held on the central x drive for all staff to access. Completed September 2008.

Opinion: **IMPLEMENTED**

4.2 **Formal Procedural Guidance detailing key processes for the provision of Public Transport have not been drawn up. (Essential)**

Audit Recommendation: Formal Procedural Guidance should be drawn up.

Client Comment: A new Service Delivery Plan is currently being written and will hopefully be complete in June. (2009)

Audit Finding: Service Delivery Plan provides details of procedures and processes for staff working within the Passenger Transport Unit. Responsibility for the update of the Plan has been assigned to the Powys Passenger Transport Manager; a revision sheet has been inserted at the front of the file. It is also intended to include the Service Delivery Plan as an Agenda Item for staff meetings.

Opinion: **IMPLEMENTED**

4.3 Key contract documentation could not be located for all public service routes. (Essential)

Audit Recommendation: Key contract documentation must be held centrally and securely. All missing documentation must be located.

Client Comment: Some contract documents were archived due to very limited storage space. Documentation is being retrieved as required and included in new filing system. Ongoing.

Audit Finding: Following on from the original audit a complete review of the filing system was carried out. All contractors have their own files in which are contained framework agreements and contract documentation. A separate set of files includes details relating to the different routes.

Not all the documentation relating to previous missing files could be located. Discussions with Passenger Transport Manager identified that the documentation had been archived and as a result of an error when recording the dates has now been destroyed. All contract documentation is now retained within the Transport Section. Testing of contracts awarded since the original audit had been carried out confirmed that all contract documentation is retained within the section.

Opinion: **IMPLEMENTED**

4.4 Framework Agreements could not be located for all Contractors currently operating Public Transport routes. (Essential)

Audit Recommendation: Ensure that all Contractors have submitted a signed Framework Agreement.

Client Comment: All contracts have been let in accordance with EU procurement requirements. All Framework Agreements are signed by the contractors. Complete.

Audit Finding: Previously a number of contracts were found to be operating outside the Framework Agreement. All 33 contracts relating to Public Transport are now operating in line with the conditions of the framework agreement.

Opinion: **IMPLEMENTED**

4.5 Framework Agreements were not signed or dated by Powys County Council. (Essential)

Audit Recommendation: All key documentation should be signed and dated where applicable.

Client Comment: Framework Agreements will be signed as required. Ongoing.

Audit Finding: All Framework Agreements have now been signed by the Senior Manager Engineering and Transportation.

Opinion: **IMPLEMENTED**

4.6 Purchase Orders have not been completed in accordance with instructions received from the Procurement Unit. (Essential)

Audit Recommendation: Purchase Orders should be completed in accordance with instructions issued by the Procurement Unit.

Client Comments: All new purchase orders are kept on file. Current.

Audit Finding: Copies of purchase orders were not originally retained. All contractors were written to and a copy of the order requested, therefore providing evidence that an order had been issued. A copy of all orders issued is now retained on file. Sample testing was carried out and assurance gained that the order number matched the purchase order with the name of the contractor recorded in the purchase order book.

Opinion: **IMPLEMENTED**

4.7 Copies of authorised Purchase Orders have not been taken and retained in the order book as per instructions received from the Procurement Unit. (Essential)

Audit Recommendation: Copies of authorised Purchase Orders should be retained in the Order Book.

Client Comment: All copies of new purchases orders will be kept on file. Current.

Audit Finding: Evidence seen to confirm that copies of purchase orders are retained on file. It is understood that an overview of purchasing procedures will be carried out during the next tendering exercise.

Opinion: **IMPLEMENTED**

4.8 In some cases it was not possible to determine the price at which contracts had been awarded. Where there had been changes to journeys and prices part way through the contract there was no contract variation notice or documentation completed. (Essential)

Audit Recommendation: Contract awards and variation contract notices to be completed and retained on file.

Client Comment: New spreadsheet has been created to follow contract create adjustments. Current.

Audit Finding: Assurance was given that all changes to contract prices are evidenced in writing. Sample testing (route 71/1/A) confirmed this to be the case.

Opinion: **IMPLEMENTED**

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- 4.9 **Payments are currently being made for a route, which is not identified on any of the records maintained. Contract documentation for this route could not be located. (Essential)**

Audit Recommendation: Documentation for Route D79 should be located and assurance obtained that all key processes have been followed.

Client Comment: Route will be terminated and complete new contract tendered. June 2009.

Audit Finding: Route D79 was terminated 9th January 2009. Instructions have been issued to BPU staff that only routes recorded on the master spreadsheet can be processed for payment.

Opinion: **IMPLEMENTED**

- 4.10 **There is no Marketing Strategy in place. (Essential)**

Audit Recommendation: A Marketing Strategy should be introduced and implemented as soon as possible.

Client Comment: Service Delivery Plan. June 2009.

Audit Finding: A marketing strategy has been drawn up. It was explained by the Passenger Transport Manager that due to current resource issues it has not yet been fully implemented however, it is understood that passenger numbers are increasing each year.

Opinion: **PARTIALLY IMPLEMENTED**

- 4.11 **There is no Monitoring Plan in place. (Essential)**

Audit Recommendation: A monitoring plan should be drawn up and implemented as soon as possible.

Client Comment: Service Delivery Plan. June 2009.

Audit Finding: A number of changes regarding ticketing have occurred since the previous audit. A smart card system is used on the majority of buses with the back office system sited in the Public Transport main office. Monitoring is both reactive and planned; the operators are not aware of when visits are going to be carried out.

Following on from the previous audit where there was no plan at all Powys was divided into areas with the key objective of covering each area within a predefined time scale. This was a lengthy process and when evaluated it was agreed that it was not the most effective use of time. From this has evolved monitoring at the main Interchanges: Brecon, Builth, Llandrindod Wells, Newtown and Welshpool. The key objective is to ensure that buses are running on time. A monthly report is produced detailing the bus journeys tested this is signed off by the Powys Passenger Transport Manager.

Opinion: **IMPLEMENTED**

4.12 There is no Monitoring Checklist or structured procedure for the carrying out of monitoring visits. (Essential)

Audit Recommendation: Procedures should be drawn up for the overall monitoring process. These should include a checklist and completion of a central record.

Client Comment: Service Delivery Plan. June 2009.

Audit Finding: Detailed monitoring checklists are in place. The most commonly used being the Interchange Monitoring checklist list detailing all expected arrival times. The findings from these are used for performance indicator purposes to measure the number of buses running on time. A Bus Monitoring checklist is available and is used normally for reactive work where an adverse report has come in which needs investigating.

Opinion: **IMPLEMENTED**

4.13 There is no structured procedure for dealing with complaints. (Important)

Audit Recommendation: A structured complaints policy should be drawn up which includes maintenance of a central database ensuring that all complaints are dealt with fairly and recurring issues are identified.

Client Comment: Service Delivery Plan. June 2009.

Audit Finding: A procedure has been drawn up for dealing with complaints. All complaints received are recorded on a specific complaint form which is stored in a central file. A brief examination of the file noted all forms to have been fully completed with the name of the officer dealing with the complaint and any action taken noted.

Opinion: **IMPLEMENTED**

4.14 A formal procedure does not exist for the issuing of penalties and awarding of liquidated damages. (Essential)

Audit Recommendation: Formal procedures should be drawn up for the issuing of penalties and awarding of liquidated damages.

Client Comment: Service Delivery Plan. June 2009

Audit Finding: Penalties are not awarded. It is understood that discussions with officers in Legal Services have indicated that the process of applying Penalties is illegal and only the cost recoverable to the council for acting on the default can be recovered. The Passenger Transport Manager does not consider that the overall process of awarding the penalty and issuing the invoice represents good value for money.

Notwithstanding this, it is part of the Framework Agreement and no evidence was seen to confirm that the decision taken to not apply penalties was fully authorised. It is understood that a system of penalty points will be implemented within the new framework.

Opinion: **NOT IMPLEMENTED**

4.15 Records of Operators Licences are not maintained. (Essential)

Audit Recommendation: Ensure compliance with Framework Agreement 9.1.2 and record all copies of Operators Licences seen.

Client Comment: Not essential, operator must have a valid O licence. Will be picked up by local enforcement. June 2009.

Audit Finding: Detailed spreadsheets are maintained detailing all Operators licenses.

Opinion: **IMPLEMENTED**

4.16 Minimal monitoring visits are carried out. (Essential)

Audit Recommendation: Monitoring visits should be carried out on a more frequent basis.

Client Comment: Rolling programme of monitoring to start November 2008.

Audit Finding: It was identified during the previous audit that because of the low number of monitoring visits which were carried out, there was a risk that drivers without the appropriate CRB checks would not be identified. Following a decision by the Executive Management Team (EMT) CRB checking is now carried out by the contractors who are required to submit certificate numbers to the Compliance officers. Detailed records of these were noted.

The certificate numbers do not allow the council site of any spent offences.

Opinion: **IMPLEMENTED**

4.17 An Operator did not submitted a list of their drivers operating Powys Bus Routes. (Essential)

Audit Recommendation: Ensure that the Operator complies with Framework Agreement.

Client Comment: Awaiting confirmation from Powys County Council and new CRB policy.

Audit Finding: The Operator does not currently operate any Powys County Council bus routes. All bus contractors operating Powys County Council bus routes have completed a Framework Agreement.

Opinion: **IMPLEMENTED**

4.18 Copies of MOT certificates are not requested. (Essential)

Audit Recommendation: Ensure compliance with Framework Agreement 9.7.1 and request copies of MOT certificates.

Client Comment: Not essential, operator must have a valid MOT certificate. Will be picked up by local enforcement. June 2009

Audit Finding: Copies of all MOT certificates are retained on file. A spreadsheet is used to record all relevant dates.

Opinion: **IMPLEMENTED**

4.19 Not all Contractors have submitted copies of their Health and Safety Policy. (Essential)

Audit Recommendation: Ensure compliance with Framework Agreement 9.4 and request copies of Health and Safety Policy from all Operators who have not provided copies.

Client Comment: Not all contractors require H & S policy due to number of staff employed.

Audit Finding: Contractors have now submitted copies of their Health and Safety certificates; in many cases this is just a download from the Internet with the relevant changes applied. The overall process is weak and it is understood that changes will be made to the new framework whereby the responsibility for ensuring that appropriate Health and Safety Policies are held will be that of the Contractor who will be required to complete a disclosure statement.

Opinion: **IMPLEMENTED**

4.20 There are no criteria for ensuring that Health and Safety Policies submitted are correct and appropriate. (Essential)

Audit Recommendation: Ensure that for all future tender awards criteria are set to ensure that correct and appropriate Health and Safety Policies have been submitted.

Client Comment: Service Delivery Plan. June 2009

Audit Finding: The framework will be amended to require that the Contractor provides assurance that the appropriate Health and Safety Policy is held.

Opinion: **NOT IMPLEMENTED**

4.21 No documented procedures detailing processes to be applied when processing payments. (Essential)

Audit Recommendation: Draw up procedures which include clear instructions on how invoices should be processed.

Client Comment: Service Delivery Plan. June 2009

Audit Finding: Basic Instructions for the processing of invoices are recorded on the spreadsheet used to record all invoice information relating to Public Transport.

Invoices are processed by officers working in the BPU. Concerns regarding the overall process have been raised by the Passenger Transport Manager and a report was commissioned. A number of points were raised and recommendations made which do not appear to have been fully addressed. The Passenger Transport Manager does not have full assurance regarding the integrity of the overall process.

Opinion: **PARTIALLY IMPLEMENTED**

4.22 There is no budget monitoring or budgetary control exercised over expected costs and actual costs incurred. (Essential)

Audit Recommendation: That regular monitoring of budgets is undertaken.

Client Comment: Service Delivery Plan. June 2009

Audit Finding: Budget reports are received on a monthly basis detailing income received and payments made. A spreadsheet is also completed by officers in the BPU detailing all income received and payments made. This spreadsheet enables comparisons between months to be made and variations or anomalies noted.

Opinion: **IMPLEMENTED**

4.23 Payments are being processed without the correct claim forms being submitted. (Essential)

Audit Recommendation: Ensure that only invoices received with the duly completed claim form are processed for payment.

Client Comment: Service Delivery Plan. June 2009

Audit Finding: All claims are now supported by either an electronic or hard copy of the claim form; the details of which are entered directly onto the central spreadsheet detailing all contract payments. However, there is no formal process for verifying the information on the claim form prior to making payment. The income information originates from the Passenger Transport Unit (back office system) who send it to the bus contractors who then complete the claim form and send it for payment. No check is carried out between the Passenger Transport Unit and the BPU to ensure that the contractors have submitted the correct information.

Opinion: **IMPLEMENTED**

4.24 Minimal on-bus monitoring is carried out, with all visits announced in advance. (Essential)

Audit Recommendation: On-bus monitoring, including random unannounced checks, should be undertaken on a more regular basis. Priority should be given to those routes being operated on a Gross Contract basis.

Client Comment: Rolling programme of monitoring to start November 2008.

Audit Finding: Full assurance could never be given regarding the accuracy of income received. A Smart Card system has now been introduced with the back office system sited within the PTU office. Whilst reports are produced each month for the contractors, enabling them to submit their claims there is no formal process in place to review the information produced from the ticket runs. The risk therefore still exists that Operators may not be submitting accurate information to the council and there could, therefore be a loss of income.

Opinion: **PARTIALLY IMPLEMENTED**

4.25 Requests for ticket runs are only requested following an inspection. (Important)

Audit Recommendation: Ticket runs should be requested on a routine basis and checked against claim forms.

Client Comment: Rolling programme of monitoring to start November 2008.

Audit Finding: Ticket information is produced each month. Those contractors who have their own systems and are not on the Smart system "may" submit their ticket runs but this is not always the case. There is no system in place for requesting this information and comparing it to claim forms.

Opinion: **PARTIALLY IMPLEMENTED**

4.26 Incorrect information is being used for Performance Indicators. (Essential)

Audit Recommendation: Ensure that the correct data is entered onto the master spreadsheet.

Client Comment: How does the Author confirm that inaccurate information is being used for PI's?

Audit Finding: The information used for Performance Monitoring is gathered by the Compliance Officers and submitted for verification each month to the Powys Transport Manager. Figures are collated each quarter.

Quarter 3 = 100%
Quarter 2 = 97.5%

It is not a national indicator. The only national indicator relating to Public Transport is in respect of Concessionary Travel.

Opinion: **IMPLEMENTED**

4.27 **There have been no surveys carried out measuring customer satisfaction. (Useful)**

Audit Recommendation: Consideration should be given to carrying out customer surveys.

Client Comment: Rolling programme of monitoring to start November 2008.

Audit Finding: The Passenger Transport Manager confirmed that no customer satisfaction surveys have been carried out due to insufficient staff resources. However, there is a robust complaints procedure in place to monitor any adverse opinion. Passenger numbers are also increasing each year.

Opinion: **NOT IMPLEMENTED**

4.28 **No Contingency plan has been drawn up in the event that a contractor is unable to fulfil his service obligations. (Important)**

Audit Recommendation: Contingency arrangements should be drawn up covering all key eventualities.

Client Comment: Service Delivery Plan. June 2009.

Audit Finding: There is no formal Contingency Plan in place. Discussions with the Passenger Transport Manager confirmed that in the event of a contractor pulling out it would be highly likely that the service could be provided by an alternative contractor.

Opinion: **NOT IMPLEMENTED**

5.0 OPINION

The follow up audit review of Public Transport has identified significant progress in the implementation of agreed actions from the previous audit. A restructure of the service and a complete review of the filing system combined with the introduction of the Service Delivery Plan have addressed the fundamental shortcomings previously identified.

Twenty four of the twenty eight recommendations have been partially or fully implemented. Those partially implemented relate in the main to the tender exercise which is due to be carried out later this year.

An overall opinion of **Qualified Assurance** is given, indicating that the majority of key controls exist, but some areas of inconsistent application. These should not significantly affect the service objectives.

6.0 THE WAY FORWARD

- 6.1 It is recommended that an action plan is compiled and implemented to address the outstanding issues raised and referenced in Section 8 of this report.
- 6.2 The Internal Audit Team offer management help and guidance on matters of internal control. However, it should be made clear that the existence of internal audit does not diminish the responsibility of management to maintain effective systems of internal control.
- 6.3 If the opinion of your audit review determines that "Low Assurance" can be gained on the systems of control, the report is sent to the Head of Finance (Section 151 Officer) , the Cabinet Portfolio Member and the chair of the Scrutiny Committee for that Service. In addition, a summary of the key elements of the report will also be reported to Audit Committee for their consideration. Officers may be asked to attend the Audit Committee to explain why the service has failures in internal control and to outline their suggested corrective measures.
- 6.4 Service Managers are responsible for implementing the agreed actions. However, Internal Audit will undertake follow-up visits on all areas with unsatisfactory levels of internal control i.e. where no assurance could be given. During these reviews, we use the completed action plan as a basis for the work to be undertaken and examine the progress on the agreed recommendations. The results of these exercises are also reported to the Audit Committee.

7.0 ACKNOWLEDGEMENTS

- 7.1 The Internal Auditor wishes to thank all of those people who assisted in the production of the audit report. If you would like to discuss this or any related matters in further detail, Please contact Janis Pritchard, Principal Auditor on Ext 6820.

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8.0 OUTSTANDING CONTROL WEAKNESSES

Ref (Original Action Plan)	Control Weakness	Consequences / Risk	Grading
8.1 (8.14)	A formal procedure does not exist for the issuing of penalties and awarding of liquidated damages.	Penalty points will replace liquidated damages. Without a formal procedure a consistent approach may not be applied.	Fundamental
8.2 (8.20)	There are no criteria for ensuring that Health and Safety Policies submitted are correct and appropriate.	Contractors may be operating with an inappropriate Health and Safety Policy placing Powys residents in a position of risk.	Fundamental
8.3 (8.27)	There have been no surveys carried out measuring customer satisfaction levels.	The service currently being provided may not match the requirements of the public.	Merits Attention
8.4 (8.28)	No Contingency Plan has been drawn up in the event that a Contractor is unable to fulfil his service obligations.	Adverse publicity in the vent of a bus service being withdrawn at short notice. Increased costs may occur.	Significant