

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	School Transport
AUDIT DATE	December 2015

2015/2016



1. BACKGROUND

A review of the School and Public Transport Services department has been planned as part of the 2015/16 Internal Audit programme.

The School and Public Transport service works to ensure that school and public transport meets the needs of our communities, and contributes to the sustainability of the local area by maintaining a light vehicle fleet to support the requirements of services across the authority.

The Single Outcome agreement contains 2 national outcomes to which school transport contributes namely:

- We live in well-designed sustainable places where we are able to access the amenities and services we need;
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

The Transport service manages in the region of 70 school contracts carrying approximately 3,300 pupils on a daily basis. In order to meet these requirements the service is delivered via a combination of internal and external provision. The service has 77 vehicles which are used to support in house school transport.

It is a statutory provision contained within the Education Scotland Act that schools provide transport for entitled mainstream and ASN pupils to and from school.

The overall direct School transport budget is £6.3m.for 2015/16. There are 49 FTE equivalents including drivers and escorts. Grant Aided Expenditure received for school transport from central government is £2.4m.

2. AUDIT SCOPE AND OBJECTIVES

The audit scope will be limited to:

- Review of policy and processes ;
- A review of in-house contracts specification processes;
- A review of external contracts to assess whether contractual payment arrangements are adhered to;
- Contracts payments are monitored and reported effectively.

Control objectives will include Authority, Occurrence, Completeness, Measurement, Timeliness and Regularity.

3. RISKS CONSIDERED

- Inability to carry out statutory school transport requirements through increased costs of retendered contracts;
- Contracts specifications does not maximise efficiency;
- ORR –School and Public Transport fails to meet the need s of the Communities.

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Scope 1: Policy

Policy

- It was evidenced that the Council has a policy on the provision of school transport dated August 2010 and that this is available on the Council HUB .The policy outlines the circumstances in which the Council will provide transport, namely;
 - Where a child at primary school, at the start of the school session, lives more than 2 miles away from the local primary school (by the shortest safe walking route).
 - Where a child at secondary school, at the start of the school session, lives more than 3 miles away from the local secondary school (by the shortest safe walking route).
 - Special cases such as on medical grounds, safety reasons, availability of places at nearest school, privileged rides.

In order to ascertain what is the shortest safe working route the Council adopted the West of Scotland Road Safety Forum guidelines at a meeting of the Strategic Policy Committee. The Transport Service has also published details of all of the school route inspections for each of the 4 areas detailing the outcome of each assessment as to whether the route is safe or not and the criteria used. This information is available on the Council website.

Testing showed that 8 of the 10 applications for transport had been properly completed and were in accordance with policy requirements. The remaining 2 applications were not signed by the Head Teacher to confirm that the pupil was registered at the school. However, as noted above this has been mitigated by the transport department checking eligibility for transport in accordance with the Councils approved transport policy.

- The policy also sets out the requirements regarding:
 - Conduct expected of drivers and escorts
 - Contractual requirements in regard to condition of vehicles and termination of contract
 - Contract compliance monitoring in relation to service provision
 - Complaints procedures
 - Pupil Safety

It was evidenced that there is a document for Council drivers and escorts outlining what they should and should not do in relation to their personal conduct and the checks that should be carried out regarding the condition of their vehicle. It has been evidenced that this document has been communicated and issued. This document is not forwarded to external contractors as these issues are addressed via the Invitation to Tender which includes Protection of Vulnerable Groups (PVG) requirements and vehicle requirement conditions.

It was evidenced that the contractual arrangements in regard to condition of vehicles, termination of contracts, etc. are detailed in the tender documents sent to all contractors.

It was evidenced that for external contracts a monitoring visit to the contractor is carried out by management and a report is prepared covering the following categories; quality, service, complaints, delivery, cost and traffic returns.

It was evidenced that for in house contracts a monitoring inspection report is completed which covers condition of vehicle, paperwork, passenger safety, timekeeping, etc. It was also noted that all Council vehicles undergo a vehicle inspection every 10 weeks and that all vehicles have tracking system installed.

It was evidenced that the policy document published on the web details the complaints procedure that should be followed.

The transport department publishes a guide on who is eligible for school transport on an annual basis. This guide covers all aspects of school transport which may be of help to both parents and pupils, including pupil safety considerations. This document is issued by the Head Teachers to all new pupils and to P7 pupils before they move to secondary school.

Processes

- A number of processes and protocols are in place including school transport applications, catchment areas route safety assessment, and procedures for updating the school and public transport database. However aspects of these processes have not been formally documented and/or are not reflective of current practice e.g. privileged rides.
- The processes regarding applications for school transport outline the following actions:
 - Transport section receives application from the school requesting school transport;
 - Criteria is checked to ensure application is within catchment area guidelines;
 - Check is made as to whether the application will be handled in house or by an external contractor
 - Confirmation is sent to applicant confirming or rejecting application
- A sample of applications was reviewed and was evidenced that school transport procedure is being adhered to in respect of the 4 bullet points above

Scope 2: A review of in house contracts specification process

- A sample of 12 in house school contracts which had previously been carried out by external contractors was chosen. These contracts were reviewed as regards:
 - Evidence that in house bids had been properly costed
 - Evidence that contract award resulted in value for money
 - Contract Award had been properly authorised

- A review of all 12 contracts showed that in house costs had been properly estimated as per the tender requirements and included direct labour costs, vehicle costs and fuel costs. A further review was undertaken in respect of current costs of these 12 contracts which supported original estimates. It was however noted that a fixed cost of £1,176 is allocated to all in house tenders to cover both direct and indirect overhead costs, however as the basis for the overhead calculation dated back to 2008 we were unable to evidence the basis of this calculation and whether this figure has been updated or reviewed.
- The Contract Award Recommendation Report (CARR) was reviewed and it was evidenced that in all cases the contracts had been properly authorised as per the procurement manual and that the figures showed that the cost of providing school transport in-house was significantly lower. (Subject to weakness identified in relation to basis of overhead cost).

Scope 3: A review of external contracts to assess whether contractual arrangements are adhered to including contract amendments

- A sample of 12 external contracts was chosen from the School and Public Transport database. This database records all financial data pertaining to each of the external contracts and generates a monthly payment schedule. Control weaknesses were identified in relation to authorisation controls; whereby new contracts are entered onto the database without being independently verified or authorised.
- The terms and conditions stipulate that before a payment is made to an external contractor the contractor must submit a 4 weekly traffic return by a prescribed date. Failing this the contractor will not be paid and in addition will incur a £10 penalty the following month. The return details the days the contractor operated and if appropriate the number of passengers. A sample of 12 contracts were reviewed and it was evidenced that:
 - 4 weekly returns had been submitted in time for all contracts as evidenced from the received date stamp on each of the returns. The payment database had been updated to show that the 4 weekly returns had been received however it was not evidenced that there is any independent check or verification of the return.

- The sample included a Special Educational Needs (SEN) contract where an invoice had been sent from the taxi hire company. It was evidenced that the invoice had been checked and properly entered onto the payments database.
 - The payment database has an in built control that will automatically stop a payment being made if a 4 weekly return has not been received and updated on the payments database.
 - A monthly unpaid contractor report is generated showing those contractors where payment has been stopped. A sample of 3 monthly reports was reviewed and it was evidenced that that payments had been properly withheld.
 - Variations from agreed contractual requirements are noted on the traffic return sheet. No variations were applicable from the sample checked above. However, a further sample of 4 traffic returns where variations were applicable was checked and found to have been properly authorised and updated on the database.
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- In addition for each of the 12 Contracts chosen the following criteria was checked against information on the database as regards to data quality in relation to:
 - Contract Price
 - Contract start and end date
 - Value of Monthly payment
 - Contract route details
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- For 11 of the 12 contracts reviewed it was evidenced that the payments database had been properly updated as regards to the contract price. The contract start and end date had been properly entered with exception of one of the contracts where the end date had been extended but had not been entered onto the database. It was noted that for the SEN contract included in the sample there was no end date due to the nature of the contract. SEN contracts are paid on invoice as outlined above.

- A sample of 9 contract amendments were reviewed and checked against the School and Public Transport database to evidence that the amendments had been properly accounted for and authorised. Of the 9 amendments checked, all were evidenced as having been properly updated on the database. However, there was no evidence of authorisation for one of the 9 amendments.

Scope 4: Contracts are monitored and reported effectively

- It was evidenced that there is adequate financial reporting in place where a summary of all School Transport cost centres is forwarded to the transport manager by the finance department on a monthly basis. The report shows a comparison of year to date actual against budget for each account heading and a projected year end variance which is recorded through the financial ledger. It was evidenced that a summarised version of this report is presented at the monthly Departmental Management Team (DMT) meetings and an explanation is provided for year to date variances along with a projected year end variance.
- It was noted that within the public transport costs centre there is a current projected underspend for 15/16 financial year of £450,000. Appropriate governance arrangements are in place whereby this figure has been reported and explained as part of budget monitoring to the Strategic Management Team which meets on a monthly basis and also to the Policies and Resources Committee which meets on a quarterly basis.
- A monthly payment schedule is generated from the database for each of the external contracts which are input to PECOS to generate the required monthly payment. Authorisation controls are in place at a batch level i.e. total monthly run; however weaknesses were identified in relation to segregation of duties and authorisation controls whereby individual payments are not independently verified or authorised, consequently there is a risk of overpayment and non-recovery in the circumstance where a provider ceases trading mid contract leaving the Council financially exposed.
- At the end of each contract, reconciliations are undertaken to verify that contractual payments are in line with the agreed contract terms. A sample of 12 completed contracts was reviewed in order to verify that the reconciliation had been carried out and independently checked. Of the 12 reviewed, 8 contracts showed that monies were owed to the contractor at the end of the contract period averaging £1,520 per contract. 2 contracts showed being in line and 2 contracts had been overpaid. Of the 2

contracts where an overpayment had been made, one overpayment was for £10,222 which was due to the contract being erroneously calculated over 21 months rather than 24 months. This error was identified 5 months before the end of the contract period. The second contract overpayment was for £1,784.

6. CONCLUSION

This audit has provided a Substantial level of assurance. General control areas displayed little residual risk however one area identified showed an unacceptable risk in relation to payment controls and contract recording which must be addressed within a reasonable timescale. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There are 2 high and 1 medium recommendation set out in Appendix 1 which will be reported to the Audit Committee. There is 1 low recommendation which is not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Integrated Transport staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Processes		High/ Medium or Low		
Aspects of operational procedures are not formally documented	Failure to have up to date operational procedures can lead to failures in service delivery resulting in failure to meet the needs of the community	High	Process procedures will be mapped for all school transport applications.	Integrated Transport Manager 29th February 2016
2. Authorisation controls				High/ Medium or Low
Weaknesses were identified in relation to authorisation controls and segregation of Duties	Failure to have adequate authorisation controls can lead to unauthorised service provision resulting in potential additional expenditure.	High	Authorisation processes will be implemented.	Integrated Transport Manager 29th February 2016

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
3. Contract Reconciliations				High/ Medium or Low
Contract reconciliations are not carried out on a periodic basis.	Failure to monitor contract payments on a regular basis may lead to financial loss if contractor ceases trading.	Medium	Risk of overpayment is mitigated by payments being one month in arrears and by 15% retention on initial payment. The service acknowledges the Residual risk of financial loss.	Integrated Transport Manager Completed :Management accepts the risk



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