



Internal Audit Report
The Environment Service
Fuel Management Assignment No. 16-15
June 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

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Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

The Fleet Management Service (FMS), part of Direct Services (Operations) within The Environment Service, is responsible for the provision of fuel supplies for vehicles, plant and equipment that is owned or used by the Council.

Their remit includes all matters concerning the fuel supply tanks at Council Depots and arrangements for the dispensing of fuel from these; fuel card provision for vehicles not using Council Depots; and provision of fuel usage reports to Service Management.

Approximately £1.24 million was spent on the fuelling of Council vehicles in 2014-2015.

Audit testing was carried out in April 2016.

Scope and Limitations

The audit concentrated on the adequacy of arrangements in place for the management of fuel held and used by the council.

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with staff from the FMS and associated Finance, Administration and Stores personnel, along with a review of documentation relating to Fuel Management.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that the Council is obtaining best value when purchasing fuel
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Audit Comments: Liquid fuel is classified as a Category A commodity by the Scottish Government, meaning that it falls within the scope of goods and services commonly used across the whole of the public sector. Procurement Scotland is responsible for developing and implementing procurement strategies for National

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Category A commodities on behalf of all Scottish Public Sector Bodies. Under these collaborative agreements Councils can access and award Call-off Contracts to the most appropriate short-listed supplier based on their specific requirements.

Testing confirmed that the fuel supply contract was reviewed and awarded under a Category A National Contract agreement in November 2015, with analysis and recommendation of supplier being completed by the Tayside Procurement Consortium. The Council has, therefore, achieved best value by procuring fuel in this way.

The fuel card contract is also awarded under a Category A National Contract agreement. The Council's current fuel card supplier is on this short-list. However, there is a lack of documented evidence to verify that the chosen supplier represents best value to the Council. The contract for this award period has not been signed and, due to the contract register not being updated, there is a risk that future contract expiration dates would be missed.

Strength of Internal Controls:

Moderate

Control Objective 2: To ensure that there is effective control over the management of fuel held and dispensed at depots

Audit Comments: The FMS use a computerised system, known as Fueltran, to assist in fuel management. The Fueltran system stores fleet vehicle details, records fuel stock levels and usage and calculates appropriate consumption charges.

Fuel pumps will not dispense unless an active, pre-programmed fob is swiped across the Fueltran terminal situated at the pump. There are additional internal controls to the Fueltran system which mitigate manipulation and risk. System access to Fueltran is restricted, although periodic review of this would be beneficial to ensure access has been disabled where appropriate.

There are current documented procedures regarding fuel management, including health & safety aspects, which require minimal update to ensure that all key process elements and recording are included.

All staff interviewed demonstrated a good knowledge of processes and awareness of controls in relation to fuel.

Strength of Internal Controls:

Moderately Strong

Control Objective 3: To ensure that there is effective control over fuel purchased which has not been dispensed at any of the depots

Audit Comments: Fuel cards are provided by the FMS for fuel to be purchased at local garages where fuelling at a depot is not considered practical.

The majority of fuel cards are assigned to specific vehicles and garages will only accept payment on cards for fuelling of the allocated vehicle and pre-defined

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purchase criteria (i.e. fuel and screen wash only). There are 13 fuel cards which are not assigned to specific vehicles. These are used for the drawing of fuel for hire cars and grounds maintenance plant and machinery as appropriate. Controls are in place to ensure that these non-assigned cards are held securely and managed appropriately, although improved documentation of the process would be beneficial to provide further assurance over transactions.

Authorisation requirements and exportation of fuel consumption information to the Fueltran system further enhances the control environment.

The service advised that a review of the Corporate Fleet and Transport Policy and Procedure Arrangements has commenced. Section guidance for drivers and users is to be updated to include reference to fuelling of vehicles.

Strength of Internal Controls:

Moderately Strong

Control Objective 4: To ensure that fuel usage figures are reliable and reconciled appropriately to provide assurance that fuel is being issued for the purposes of council business only

Audit Comments: There are effective processes in place for the charging of fuel dispensed at council depots and charges accrued on fuel cards.

There are appropriate controls in place for identifying fuel used by Tayside Contracts drawn from Council sites and vice versa, however, this arrangement should be formalised and documented with particular reference to fuel price calculations.

In line with Control Objective 2, there are controls applied to give assurance over security of fuel stocks, such as those provided by Fueltran and the fob operating system, CCTV and/or locked cabinets in which fuel pumps and tanks are stored.

The FMS is aware, however, that the level of fuel held within the tanks does not correspond with anticipated fuel levels, as identified by the Fueltran system. In response to this, the Service has been monitoring and investigating stock levels monthly. The FMS is able to gain assurance on the accuracy of consumption figures through comparison of a time-specified Fueltran system report to documented metered-use figures from the physical pumps. Audit testing has confirmed that the figures of fuel dispensed through the pumps and that recorded on Fueltran are consistent. Given the level of control observed, there is evidence to support that the fuel usage figures are reliable and charged appropriately. The Service is aware that ongoing stock level variance issues and resultant impacts on stock ordering and storage assurance need to be resolved.

The FMS is not currently providing Services with vehicle mileage reports for fuel consumption in line with its policies to enable monitoring of vehicle usage. The FMS has advised that a transformation project due to be undertaken in 2016 will address this.

Strength of Internal Controls:

Moderate

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Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the FMS during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development)

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

B Renton, Director (The Environment Service)

W Young, Head of Environmental and Consumer Services

S MacKenzie, Head of Performance and Resources

N Taylor, Direct Service (Operations) Manager

B Morton, Fleet Manager

J Symon, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

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Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 1 June 2016

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Fuel Card Contract	High
2	Recording of Key Controls and Processes	Low
3	System Access Controls	Medium
4	Fuel Site Sharing & Charging Agreement	Medium
5	Fuel Stock Levels	Medium
6	Vehicle Use Performance Monitoring	Medium

Appendix 2: Action Plan

Action Point 1. Fuel Card Contract

There is currently no signed contracted agreement with the fuel card supplier. Whilst there is some evidence to confirm that there was a review of the contract in 2015, the documentation to verify that the chosen supplier represents best value to the Council is incomplete.

In addition, fuel supplies contracts are not documented on the Contracts Register, which could lead to expiration dates being overlooked in the future.

Management Action Plan

- a) The FMS will investigate fuel usage and spend patterns on fuel cards across the Council. Using this information, the Service will review the potential suppliers from the National Category A shortlist and document the decision making process for the award of the direct call-off contract. This decision will ensure that all aspects of the contract will be taken into consideration and ensure that the Council achieves best value. The Service will then sign a contract with the chosen supplier.
- b) The FMS will liaise with the Procurement Manager to ensure that the Contracts Register is updated for all contracts held.

Importance:	High
Responsible Officer:	B Morton, Fleet Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) August 2016 b) August 2016
Required Evidence of Completion:	a) Documented analysis and contract award b) Extract from Contracts Register

Auditor's Comments

Satisfactory

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Action Point 2. Recording of Key Controls and Processes

It was noted during the audit that three of the key controls being applied by the FMS, in relation to odometer recording, authorisation and missing fobs and cards, were not documented within the procedure. In the event of staff absence, this could lead to these controls not being applied.

Depot Supervisors record and govern the security, use and spend on non-vehicle assigned fleet fuel cards used for fuelling grounds maintenance/plant machinery. Whilst it was observed that all Supervisors follow a similar process in regards to the security of their fleet card and recording transactions for use, the Service would benefit from standardising and further documenting this procedure.

Section guidance for drivers and users contained within the Corporate Fleet and Transport Policy and Procedure Arrangements do not include reference to fuelling of vehicles.

Management Action Plan

- a) The Fleet Manager will review the Fuel Procedures and ensure all key controls (odometer recording, authorisations, lost/stolen fobs and cards) are included within these.
- b) Written procedures will be enhanced to further document the recording of transactions for fleet fuel cards and Supervisors' responsibilities in relation to these.
- c) Information will be included on fuelling systems, their acceptable usage, and the security of fuel cards and fobs within the Responsibility of all Drivers and Users section of the Corporate Fleet and Transport Policy and Procedure Arrangements.

Importance:	Low
Responsible Officer:	B Morton, Fleet Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	July 2016
Required Evidence of Completion:	a) Revised Fuel Procedure b) Procedure for Supervisors for Fleet Fuel Cards c) Updated Corporate Fleet and Transport Policy and Procedure Arrangements

Auditor's Comments

Satisfactory

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Action Point 3. System Access Controls

It was identified during the audit that some staff no longer requiring access to the Fueltran system had not had their access disabled. One staff member who required access did not have their own log-in for either the fuel card or fuel fob systems.

Management Action Plan

- a) The Service will document the appropriate roles requiring access to the Fueltran system and the level of access required.
- b) The Service will complete periodic reviews to ensure access has been granted and disabled as appropriate.

Importance:	Medium
Responsible Officer:	B Morton, Fleet Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) July 2016 b) May 2017
Required Evidence of Completion:	a) Documented list detailing appropriate roles and system access b) Evidence of review

Auditor's Comments

Satisfactory

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Action Point 4. Fuel Site Sharing & Charging Agreement

There is no documented agreement between the Council and Tayside Contracts regarding the fuelling of vehicles from pumps sited within Depots and the associated charging arrangements.

It was observed during testing that there are appropriate controls in place for identifying fuel used by Tayside Contracts drawn from Council sites and vice versa. However, there is a lack of clarity regarding the methodology employed by Tayside Contracts when calculating the fuel price to be recharged to the Council.

Management Action Plan

The Fleet Manager will discuss the reciprocal fuel site sharing agreement with Tayside Contracts and with Legal and Governance Services to ensure an appropriate arrangement is entered into by both parties. This should include charging structures and invoice calculations.

Importance:	Medium
Responsible Officer:	B Morton, Fleet Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	October 2016
Required Evidence of Completion:	Signed agreement with Tayside Contracts

Auditor's Comments

Satisfactory

Action Point 5. Fuel Stock Levels

The level of fuel held within the tanks is monitored by either a pressure gauge, a float or an electrical measure. The Fueltran system records how much stock should be held in the tank based on delivery amounts and output via the pumps. Presently, the level of fuel held within the tanks does not correspond with the Fueltran computer system. The FMS is aware of these stock reconciliation issues and has been carrying out monthly stock checks at all of the sites, recording and investigating variances. The variances can be large, but there is no identifiable trend and fuel stock levels can fluctuate between the tank and computer readings in terms of both positive and negative values.

Inconsistent stock level readings have an impact on stock ordering and delivery. Additionally, any problems with physical tanks, such as leaks, would not be readily identifiable and complete assurance cannot be given over the security and appropriate use of fuel stock.

Management Action Plan

- a) The Fleet Manager will source and install Fueltran-compatible internal tank measures within all fuel tanks.
- b) The Service will establish a compatible procedure for stock ordering once the measures have been fitted.
- c) The Service will record a schedule of tank gauge and dispensing pump calibrations and document the findings of these.

Importance:	Medium
Responsible Officer:	B Morton, Fleet Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) December 2016 b) January 2017 c) July 2016
Required Evidence of Completion:	a) Confirmation from Fleet Manager that all internal tank measures have been fitted b) Revised stock ordering procedure c) Schedule of tank gauge and dispensing pump calibrations

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Action Point 6. Vehicle Use Performance Monitoring

The FMS policies state that Services should be monitoring fuel usage per vehicle and user to ensure efficient and effective use of council assets. The FMS role is to produce reports, develop a monitoring system and a set of mileage related standards to facilitate this.

The FMS is not currently providing this information to Services. The Fleet Manager has advised that a transformation project has been approved for 2016 which will look at Council Vehicle Fleet Utilisation and Optimisation. Performance monitoring of vehicles will be included within the scope of this project.

Management Action Plan

The FMS will liaise with the Transformation team to develop a procedure and set of standards to enable clarity of expectations of service monitoring.

Importance:	Medium
Responsible Officer:	B Morton, Fleet Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	June 2017
Required Evidence of Completion:	Performance Monitoring Procedure

Auditor's Comments

Satisfactory