



Internal Audit Report
The Environment Service
School Transport Contracts Assignment No. 15-13
March 2016

Final Report

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

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 2015/16, which was approved by the Audit Committee on 1 April 2015.

The Public Transport Unit (PTU), part of The Environment Service, plans, organises and manages free school transport for approximately 4,000 mainstream scholars and 150 scholars with additional support needs. The service has advised they manage over 400 transport contracts.

Over 100 transport operators, using various types of vehicles, are used to provide these journeys to and from school. The vehicles range from double deck buses to cars adapted to carry a single passenger in a wheelchair.

The transport operators are subject to detailed Conditions of Contract, which cover a wide range of requirements relating to the safe and legal operation of transport contracts.

The Public Transport Unit is currently undergoing a corporate review to better align workload with a reduced staffing commitment.

Audit testing was carried out in January and February 2016.

Scope and Limitations

This audit concentrated on the contract management arrangements in place within The Environment Service’s PTU for the provision of school transport on behalf of Education and Children’s Services (ECS).

In order to arrive at an opinion on the achievement of the control objective, the audit included interviews with staff from the PTU and the Corporate Procurement Manager, and a review of documentation relating to contracts and contract management.

Limitations of the Audit: this audit did not examine the arrangements within ECS for the assessment of the entitlement for school transport. In addition, due to ongoing tendering activity within the PTU, this audit did not include a specific review of the tendering process for education transport contracts. These areas will be considered separately for future Internal Audit review.

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: To ensure that the management arrangements for education transport contracts are adequate.	
<p>Auditor's Comments:</p> <p>The PTU successfully plans, organises and manages transport for over 4,000 pupils in the Perth and Kinross region on a daily basis.</p> <p>The Public Transport Technicians (PTTs) are very knowledgeable of the contracts held and routes taken to provide transport within their individual areas and liaise with operators, parents, schools and other Council staff on a daily basis to resolve any operational issues highlighted to them.</p> <p>Additional support needs are duly considered in the provision of education transport through specific information obtained from the parent/guardian about their child's needs. In conjunction with ECS, work is on-going to streamline the application processes, whilst at the same time gaining more relevant transport feedback.</p> <p>There are procedures and standard documents in place to support management arrangements. As some of these are now over 5 years old, these would benefit from review to ensure that they are in line with current processes. Additional procedures could be documented to facilitate greater clarity around contract administration and contractor default in performance.</p> <p>The PTU are aware of the processes in regards to tendering and contract award and are keeping appropriate documentation to support verification of the submission, evaluation and award process and rationale. There is, however, scope for improvement to the control environment to ensure that updated contract rules are applied consistently and in their entirety in relation to authorisation levels, performance monitoring, physical contract security and contract administration, including the updating of the Contracts Register.</p> <p>The auditor is satisfied that there is engagement with appropriate bodies and internal personnel to ensure that legislative requirements are considered within contracts. The Conditions of Contract for both Public Service Vehicles (PSV) and taxi/private hire cars (PHC) will be reviewed before the next large tender exercises and, in the case of the taxi/PHC document, this should include consideration of additional checks/conditions for taxi drivers and operators to standardise contracts in line with PSV operators.</p>	
Strength of Internal Controls:	Moderately Strong

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. Appendix 3 lists issues identified during the audit which would benefit from attention, but which are considered to be out-with the scope. This will also be monitored via the follow up arrangements.

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 PTU staff and M Mitchell, Corporate Procurement Manager, 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
Keith McNamara, Head of Strategic Commissioning and Organisational Development
B Renton, Director (The Environment Service)
S Devlin, Director, Education & Children's Services
S MacKenzie, Head of Performance and Resources
J Symon, Head of Finance
G Taylor, Head of Democratic Services
A Warrington, Public Transport Manager
M Mitchell, Corporate Procurement Manager
J Cockburn, Finance and Governance Manager, Education & Children's Services
F Crofts, Finance and Resources Manager, The Environment Service

Internal Audit Report

P Dickson, Complaints & Governance Officer
External Audit

Authorisation

The auditor for this assignment was Lorna Ferguson. The supervising auditor was Moira Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 9 March 2016

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Internal Procedures	Medium
2	Authority to Contract	Medium
3	Contract Oversight & Performance Monitoring	Medium
4	Physical Security of Contracts	Low
5	Conditions of Contract	Medium
6	Appendix 3 - Contract & Procurement Guidance	Low

Appendix 2: Action Plan

Action Point 1 - Internal Procedures

The PTU has a number of internal procedure documents, which give detailed instruction on how to perform required duties. However, some of these documents have not been updated within the past 5 years.

A review of procedures, with subsequent upload to SharePoint of current versions, would be beneficial to ensure that there is clarity in respect of current processes. When reviewing, consideration should be given to the following:

During testing it was noted that not all contracts and extensions have been acknowledged by operators, and in some instances information is not being provided timeously. There are currently no written procedures regarding contract administration and these would be useful in defining roles and expectations with regard to the flow of information between the PTU and Operators as well as the extent of responsibilities of PTTs and Public Transport Officers (PTOs).

Additionally, enhanced procedures in respect of contractor default in performance would provide further clarity.

Management Action Plan

The PTU will review existing procedures, updating as appropriate to reflect current processes. The review will also consider implementing enhanced procedures in respect of contract management and contractor default in performance.

Importance:	Medium
Responsible Officer:	A Warrington, Public Transport Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Updated procedures available on SharePoint

Auditor's Comments

Satisfactory

Action Point 2 - Authority to Contract

Internal Contract Rules specify that there must exist both statutory and Council authority before inviting any tender and entering into any contract. Furthermore, each Service shall maintain a scheme of delegation of authority to enter into contracts within their Service. Within The Environment Service, the authorised signatories list is the scheme of delegation of authority for signing contracts.

During testing it was observed that a contract had been entered into by a PTO for more than the limit of their authorisation.

Additionally, a supplier agreement, below the value of £5,000, was signed by a PTT who does not have the appropriate authorisation to enter into contracts on behalf of the Council.

Management Action Plan

The authorisation limits for PTOs and PTTs will be reviewed to ensure that they can award contracts with the appropriate authorisation. Updated guidance will be provided to all PTU staff.

Importance:	Medium
Responsible Officer:	A Warrington, Public Transport Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	March 2016
Required Evidence of Completion:	Copy of updated authorised signatories list and copy of updated guidance.

Auditor's Comments

Satisfactory

Action Point 3 - Contract Oversight & Performance Monitoring

Within the PTU each contract is assigned to a PTT by area, with the provision of oversight by their aligned PTO. The PTU do not have a master list of contracts which details the aligned Contract Compliance Officer, key contract dates or values.

Testing has shown that not all contracts are listed on the contract register in line with policy. The PTU are aware of this and are working with Procurement to ensure that the Contracts Register will be updated appropriately.

Whilst there is evidence of daily interaction and responsiveness to operational problems, there is scope to develop appropriate contract & supplier management plans for future awards to ensure compliance with the updated Contract & Procurement Guidance.

Management Action Plan

- a) The existing contract lists will be expanded to identify the nominated Contract Compliance Officer(s) and underpin the information required for publication on the Contract Register.
- b) The Public Transport Manager will liaise with the Procurement Manager to develop appropriate contract & supplier management plans for future awards.

Importance:	Medium
Responsible Officer:	A Warrington, Public Transport Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) March 2016 b) August 2017
Required Evidence of Completion:	a) Copy of updated master lists for PSVs and taxis/PHCs on SharePoint. b) Evidence of Contract & Supplier Management Plan

Auditor's Comments

Satisfactory

Action Point 4 - Physical Security of Contracts

Contracts are not being stored in line with physical security requirements set out in the Contract Rules and Contract and Procurement Guidance. They are being held in a centralised location, however, keys are not in use and there is no register system in place to sign contracts in or out.

Management Action Plan

- a) Whilst the PTU consider that the risks involved are very low, new locks have been fitted to all cabinets, and they are kept locked out with office hours.
- b) A register will be introduced to log any contract files taken out of Pullar House.

Importance:	Low
Responsible Officer:	A Warrington, Public Transport Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) Completed b) March 2016
Required Evidence of Completion:	a) Physical check of cabinets b) Copy of register to be provided

Auditor's Comments

Satisfactory

Action Point 5 - Conditions of Contract

Conditions of Contract and General Specifications are robust and clearly apportion roles and responsibilities of the supplier and the PTU, as well as setting out implications of non-conformance in line with legislation and internal guidance.

A review of contracts and procedures in regards to the current vetting regime of Taxi/PHC drivers may be appropriate to ensure that the council is fully complying with Protection of Vulnerable Groups (Scotland) Act 2007.

Management Action Plan

A review of contracts and procedures to be carried out to ensure that the council is fully complying with Protection of Vulnerable Groups (Scotland) Act 2007.

Importance:	Medium
Responsible Officer:	B Atkinson, Director (Social Work)
Lead Service:	Corporate and Community Development Services
Date for Completion (Month / Year):	June 2016
Required Evidence of Completion:	Evidence that a review has been undertaken

Auditor's Comments

Satisfactory

Appendix 3: Action Plan

Action Point 6 - Contract & Procurement Guidance

There is extensive operational guidance relating to tendering, contracts and management of these within the Procurement pages of ERIC.

The supplementary Sustainable Procurement Policy and Contract & Procurement Guidance are undated. The introduction of a version control system which records, for example, the date and summary of amendments and the approver of such changes would be useful.

The Contract & Procurement Guidance would benefit from review to take into account amended requirements under the Procurement Reform (Scotland) Act 2014 and subsequently the Public Contracts (Scotland) Regulations 2015, as well as a general review to fix links to other documents and webpages. Of particular significance to this audit, the guidance regarding standstill periods should be updated to specify a 15 day standstill period where any recipients do not receive notice by fax or email. Additionally, the guidance regarding the retention of contracts should be amended to correctly reflect adoption of the Scottish Council on Archives Records Retention Schedule (SCARRS) regime.

Management Action Plan

The Contract & Procurement Guidance & Sustainable Procurement Policy will be reviewed and updated with version control applied, as appropriate.

Importance:	Low
Responsible Officer:	M Mitchell, Corporate Procurement Manager
Lead Service:	Strategic Commissioning & Organisational Development
Date for Completion (Month / Year):	July 2016
Required Evidence of Completion:	Confirmation that guidance has been updated

Auditor's Comments

Satisfactory