

**FINAL INTERNAL AUDIT REPORT**  
**ENVIRONMENT & COMMUNITY SERVICES**

**REVIEW OF STREET LIGHTING - INVEST TO SAVE - AUDIT FOR 2013-14**

**Issued to:** Nigel Davies, Director of Environment and Community Services [Final only]  
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**Report No.:** ENV/010/01/2013

## REVIEW OF STREET LIGHTING AUDIT FOR 2013-14

### INTRODUCTION

- 1 This report sets out the results of our systems based audit of Street Lighting – Invest to Save Audit. The audit was carried out in quarter Q4 as part of the programmed work specified in the 2013-14 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
- 2 The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
- 3 The original scope of the audit was outlined in the Terms of Reference issued on 07/01/14. The period covered by this report is from 01/04/13 to 13/03/14.
- 4 The Street Lighting Maintenance and Improvement Services Contract with Contractor A commenced 1/4/13 and ends 31/3/23 with an estimated total value £16,950,000 or £845,000 per year.

### AUDIT SCOPE

- 5 The scope of the audit is detailed in the Terms of Reference.

### AUDIT OPINION

- 6 Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls of the street lighting contract and the invest to save scheme. Definitions of the audit opinions can be found in Appendix C.

### MANAGEMENT SUMMARY

- 7 Controls were in place and working well in the areas of preparing a gateway review with the proposal of the new street lighting contract, preparing a key decision document, approving contract arrangements and costs, appropriate advertising prior to

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contract award, correct assessment and evaluation of tenders and actual award of contract. Contract monitoring meetings are held monthly and are clearly documented highlighting the actions to be undertaken and the contracts register has been updated as expected.

8 The project board developed

- a communication plan, to clearly state the processes needed to be carried out in advance of and during the project's undertaking, including correspondence circulated to residents informing them of the upgrade to street lighting and a contact should they experience problems. Satisfaction questionnaires are still being developed despite some lamps being erected over six months ago.
- A risk register, showing a description of risk, risk rating, impact and direct cost impact.

At the meeting held 25/3/13 the project board was to confirm its acceptance of the Urbis lantern however in the absence of the summer meeting this was not documented nor was it described at further meetings held 04/11/13 and 25/03/14. Minutes highlights that the Central Management System [CMS] is still being developed by the contractor. This system is an essential requirement in profiling lanterns and to generate potential further energy savings. Bearing in mind the current increases in energy prices the CMS needs to be in operation promptly. As there is a commitment to introduce this system no recommendation is being made.

9 A sample of 5 jobs was selected from the 13.03.14 contractual payments list to confirm works were complete. Lamp columns in Bark Hart Road and Ramsden Road Orpington had not been numbered however the contract monitoring minutes of meeting held 16.01.14 confirmed "painting will commence in the summer on conversions."

10 On 28/11/12 Executive Committee agreed to £8.507m be drawn down from the Invest to Save fund to allow not only the replacement of 8,000 life expired lighting columns but also the replacement of 4,000 inefficient street lighting lanterns and implementation of a central management system. The problems, delays and progress relating to the invest to save lamp column replacement programme are reported at Environment Policy & Development Committee, as required. At the time of the audit management were not evaluating energy and carbon emissions savings. However an energy monitoring spreadsheet has now been prepared to confirm the number of lanterns replaced each month, associated energy savings

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based on 4187 hours burning per year, equating to energy savings at the end of April 2014 of 247130kWh totalling £24,713 [at a unit rate of £0.10] and 146.5 tCOe carbon emission savings which will be included within the yearly submissions.

11 The following are to be raised for management attention

- the contract is to be sealed, signed by all parties and forwarded to the legal team for safe storage
- the Street Lighting Maintenance and Improvement Contract Award is to be published in the OJEU

### SIGNIFICANT FINDINGS (PRIORITY 1)

12 None.

### DETAILED FINDINGS / MANAGEMENT ACTION PLAN

13 The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

### ACKNOWLEDGEMENT

14 Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>The Street Lighting Maintenance and Improvements Contracts was awarded 17/12/12 to Contractor A and commenced on 01/03/14 The Highways Asset Manager confirmed that the contract has been signed and sealed by The Authority however the 2 copies are with the contractor awaiting signature</p> <p>A parent company guarantee and/or performance bond was not evidence</p>	<p>Failure to retain signed contract may increase the risk to the Authority should subsequent claims be made against the contractor</p> <p>Failure to have the required guarantee or bond in place may increase contract costs and jeopardise service delivery</p>	<p><b>Ensure the contract is sealed, signed by all parties and forwarded to the legal team for safe storage</b> [Priority 2]</p> <p><b>A parent company guarantee and/or performance bond should be presented to audit as evidence</b> [Priority 2]</p>
2	<p>The tender arrangements for the Street Maintenance and Improvements Contract was placed in the Supplement to the Official Journal of the European Union (OJ/S) on 12/04/12 by procurement however the Highways Asset Manager confirmed it was an oversight that the Contract Award Notice was not submitted to OJEU within the EU 48 day rule deadline. No further action is proposed in this case given the elapsed time.</p>	<p>Failure to comply with Article 35 of Directive 2004/18/EC of the European Parliament causing reputational risk</p>	<p><b>In future, ensure Contract Awards are published in the OJEU no later than 48 days after awarding a contract, in accordance with Article 35 of Directive 2004/18/EC of the European Parliament and of the European Council of 31 March 2004.</b></p>

**Priority 1**  
Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
Required to address issues which do not represent good practice

**Priority 3**  
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
			[Priority 2]

**Priority 1**  
Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
Required to address issues which do not represent good practice

**Priority 3**  
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	Ensure the contract is sealed, signed by all parties and forwarded to the legal team for safe storage	2	To be actioned	Head of Highways	July 2014
	A parent company guarantee and/or performance bond should be presented to audit as evidence	2	To be actioned	Head of highways	July 2014
2	In future, ensure Contract Awards are published in the OJEU no later than 48 days after awarding a contract, in accordance with Article 35 of Directive 2004/18/EC of the European Parliament and of the European Council of 31 March 2004.	2	To be actioned with future contracts	Head of Procurement / Head of Highways	All future contracts

**Priority 1**  
 Required to address major weaknesses and should be implemented as soon as possible

**Priority 2**  
 Required to address issues which do not represent good practice

**Priority 3**  
 Identification of suggested areas for improvement

## OPINION DEFINITIONS

## APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

### **Assurance Level**

### **Definition**

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.