

FINAL INTERNAL AUDIT REPORT

ENVIRONMENT AND COMMUNITY SERVICES DEPARTMENT

REVIEW OF VEHICLE CROSSOVERS AUDIT FOR 2017-18

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INTRODUCTION

1. This report sets out the results of our systems based audit of Vehicle Crossovers. The audit commenced in quarter four as part of the programmed work specified in the 2017/18 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.

AUDIT SCOPE

3. The scope of the audit was outlined in the Terms of Reference issued on 9th February 2018.

AUDIT OPINION

4. Overall, the conclusion of this audit was that Substantial Assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

MANAGEMENT SUMMARY

5. The construction of Vehicle Crossovers forms part of the Minor Works contract which, from 2010 until 30th June 2018 was operated by Contractor A. Its remit also included day to day reactive maintenance works including repairs to pot holes, minor scheme works and operating the Council's fleet of winter maintenance vehicles. The recommendation for the award of the new contract for Highway Maintenance (Major and Minor), for a term of eight years from 1st July 2018 to Contractor B, was approved by the Executive on 20th April 2018. The audit covers a time period for which Contractor A was responsible for delivery of the contract and all references to 'the contractor' should be read as 'Contractor A' unless otherwise stated.

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6. Between 2015/16 and 2017/18, 835 Crossovers were paid for through the Cost Centre 711679 with the detail depicted in Table 1 below:-

Table 1

Year	Number of Crossovers	Total paid	Average payment
2015/16	292	£239k	£820
2016/17	286	£209k	£731
2017/18	257	£194k	£754
Total	835	£642k	

7. Our testing identified the following issues which we would like to draw to management's attention:-

Policy and Guidelines - Application of charges and income

- Report ES 11110 'Criteria for approval of Footway Crossovers' was submitted to the Environment PDS on 18th January 2012 recommending approval of:-
 - a) revised Policy and Guidelines,
 - b) the introduction of a non returnable application fee set at £100 and administration charge of £200 for every installation, with any administration costs over and above this figure being charged to the applicant,
 - c) the introduction of a non returnable combined application and administration fee set at £100 for every application to extend (widen) an existing Crossover.

Examination of the Vehicle Crossover Estimate form shows the £200 administration charge referred to in b) above as 'fixed admin' and there is no reference to the possibility of costs over and above this figure being recouped from the applicant.

Policy and Guidelines - Review of charges

- The Policy and Guidelines presented to Environment PDS in January 2012 state in Paragraph 28 'Fees and Charges' that, *'the fees and charges will be regularly reviewed by officers, in light of relevant legislation/regulation, changes in contracts and changes in resource costs. Any revisions considered necessary will be implemented under delegated powers.* In view

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of the fact that the application fee of £100, the £200 administration fee and the ability to recoup administration costs over the £200, were set in 2012, the department may wish to review the scale of charges during implementation of the new contract.

Process and Procedures

- Whilst there is a process map in place for the Crossover procedure, not all members of staff involved in the function are aware of the document and it does not accurately reflect the current end to end process.

Documentation and record keeping

- Documentation to support the Crossover process is kept in a variety of forms, both paper and electronic, and locations, with no one definitive source of information.

Confirm System

- The Confirm system is manually set to select a random 10% sample of all Minor Works due for payment and automatically reports all jobs which, at that stage fall outside of a tolerance of +/- £50 or 5% when the 'value' on completion is compared to the 'value' initially recorded in the Confirm system. As the criteria for the samples is everything within the Minor Works contract and not just the 'Crossovers' element, the number of Crossovers randomly selected in the 10% sample for inspection could be nil.

Reconciliation of Data

- The Confirm system does not have a direct interface with the Financial System and therefore there is no automatic, or manual, reconciliation of the data (income from applicants and payments to the contractor) between the two systems.

Uplifts

- Uplifts payable to Contractor A for the whole of the Minor Works contract are applied in line with the 'Baxter' indices. These rates are published retrospectively necessitating a retrospective bulk payment to be made, the Crossover element of which is funded from the application and administration fees and is not recouped from the individual applicants. At the time of the audit, the 2016/17 and 2017/18 rates of 0.7% and 2.4% respectively had not been applied.

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SIGNIFICANT FINDINGS (PRIORITY 1)

8. There are no significant findings.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

9. 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

10. 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><u>Policy and Guidelines - Application of charges and income</u> The minutes of the Environment PDS Committee Report ES 11110, 18th January 2012, 'Criteria for Approval of Footway Crossovers' confirm approval of an administration charge of £200 for every new installation, with the additional flexibility for <i>any administration costs over and above this figure being charged to the applicant</i>'. The Vehicle Crossover Estimate form shows the £200 as 'fixed admin' and there is no provision on the form for levying additional costs.</p> <p>Sample number 4 with the narrative 'construct block Crossover extension, use blocks that are on site' and Sample number 6 with the narrative 'extend existing Crossover', have had the £200 administration charge for every new installation applied. The narrative 'extension/extend' was at odds with the £200 new installation charge and it could not be established whether these jobs should have been treated as new Crossovers or as extensions and whether the charges applied were correct. It was noted for Sample number 4 that there was no reduction in the price of the job (either charged to the applicant or paid to the contractor), for using the 'blocks that are on site'.</p>	<p>Administration costs may not be recouped in full as authorised by the Policy.</p> <p>Incorrect/inconsistent charges may be applied to work carried out on existing Crossovers.</p>	<p>The Vehicle Crossover Estimate form should:-</p> <p>a) include provision for the levying of additional costs over and above the £200 administration fee.</p> <p>b) be clear and consistent across the narrative and charges as to whether the application is for a new Crossover or an extension to an existing Crossover and charged accordingly.</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
	<p>Sample number 7 relates to the reconstruction of an existing Crossover to prevent the car from grounding and therefore the application and administration fees were not applied. Authorisation to wave these fees could not be located.</p> <p>Sample number 10 included a £320 charge for the removal and replacement of a tree. Whilst receipt of this amount could be confirmed, the transfer of funds to the Tree Planting and Maintenance code (068000 6130 F7013) could not be identified and was subsequently effected during the course of the audit on 26th June 2018.</p>	<p>Decisions to waive charges are not properly authorised</p> <p>Internal Accounts may not reflect the true position.</p>	<p>c) include provision for the waiving of fees.</p> <p>d) include provision for the apportionment of fees.</p> <p>Priority 2</p>

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
2	<p><u>Policy and Guidelines - Review of charges</u> The 'Provision of Footway Crossovers; Policy and Guidelines' adopted in January 2012 states, in paragraph 28 (Fees and Charges) '<i>The fees and charges will be regularly reviewed by officers, in light of relevant legislation/regulation, changes in contracts and changes in resource costs. Any revision considered necessary will be implemented under delegated powers</i>'.</p> <p>In view of the fact that the application fee of £100, the £200 administration fee and the ability to recoup administration costs over and above the £200, as detailed in Committee Report ES 11110 were set in 2012, the department may wish to review the scale of charges during implementation of the new contract.</p>	<p>Fees which have been in place since 2012 may no longer cover the cost of providing the service.</p>	<p>The department should review the internal application (£100) and administration (£200) fees introduced in 2012 and consider if any changes should be made to reflect increases in costs.</p> <p>Priority 3</p>

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
3	<p><u>Process and Procedures</u> Whilst there is a process map in place for the Crossover procedure, not all members of staff involved in the function are aware of the document and it does not accurately reflect the current end to end process, for example, the percentage of completed Crossovers checked prior to payment being made to the contractor.</p> <p>Sample number 5 was for the construction of a 'temporary Crossover to assist with building works. Once building works complete, construct permanent Crossover'. Charges had been levied accordingly with the applicant paying for, and the contractor being paid for, both the temporary (£534.06) and permanent (£672.05) Crossover. The notes against the enquiry on the Confirm system imply that the temporary Crossover was not constructed and it could not be established whether the cost of the temporary Crossover had been reclaimed from the contractor and refunded to the applicant.</p>	<p>The lack of up to date guidance may lead to the process not being carried out consistently.</p> <p>Payment may be received from an applicant, and paid to a contractor, for works which have not been undertaken.</p>	<p>A review of data flows and processes within the Crossovers workstream, including forms and aide memoires, should be undertaken, with the up to date procedure documented and made available to all relevant members of staff.</p> <p>The guidance should state when, and how, payment for elements of work which formed part of the initial specification and were not undertaken, can be recouped from the contractor and repaid to the applicant.</p>

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No.	Findings	Risk	Recommendation
			<p>Where a temporary Crossover is to precede a permanent Crossover in a location, consideration should be given to separately priced, cross referred, jobs being raised. By separating the temporary and permanent elements of the work, the possibility of paying the contractor for work which has not been undertaken, will be reduced.</p> <p>Priority 2</p>

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No.	Findings	Risk	Recommendation
4	<p><u>Documentation and record keeping</u> Documentation to support the Crossover process is kept in a variety of forms, both paper and electronic, and locations. For example, the paper application forms, once the initial £100 application fee has been processed, are sent by internal post from the Exchequer Contractor to the Highways Area Manager at the Civic Centre and then onto the Technical Support Officer at the Central Depot. These, together with the paper Vehicle Crossover Estimate Forms which are completed by hand, are stored as paper files at the Civic Centre.</p> <p>Other elements of the process such as requests for the identification of utilities at the proposed work location are carried out via E mail, with scanned PDF attachments of the Vehicle Crossover Estimate forms being E mailed between the Central Depot and the Civic Centre, and copied to the contractor as their initial notification of the job.</p> <p>Running in parallel with these paper based and electronic (scanned/PDF/E mail) systems are the records held on Confirm, to which Contractor A had access.</p>	<p>A full audit trail may not be available.</p>	<p>The feasibility of scanning paper documents and uploading them to an agreed location in one system to ensure that there is a full audit trail, should be considered. Ideally this would be in a shared directory, so that it can be accessed by all relevant officers involved in the process when required.</p> <p>Priority 3</p>

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	<p>Whilst all Crossover jobs are recorded on the Confirm system, there is no link between the enquiry record at the application stage and the record created once the application has been approved as meeting all criteria within the policy, and the applicant has confirmed that they wish to proceed. This fragmented system does not support the production of robust management information to the extent that the number of Crossovers applied for and completed within the year was not readily available.</p>		
5	<p><u>Confirm System</u> The Confirm system is manually set to select a random 10% sample of all Minor Works due for payment and automatically reports all jobs which, at that stage fall outside a tolerance of +/- £50 or 5% when the 'value' on completion is compared to the 'value' initially recorded in the Confirm system. The items reported are automatically suppressed for payment pending a visual check of the work by a member of the Highways team (note, this could be the same inspector who initially undertook the estimate and authorised the work). As the criteria for the sample is everything within the 'Minor Works' contract and not just the 'Crossovers' element, the number of Crossovers randomly selected in the sample for inspection could be nil.</p>	<p>Works may not be carried out in line with the job specification.</p>	<p>The parameters of the 10% sample to be independently checked, to ensure that work has been carried out as specified, should be refined to ensure that each element of the Minor Works contract for which payment is being made is within the sample.</p> <p>Priority 2</p>

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
6	<p><u>Reconciliation of Data</u> The Confirm system does not have a direct interface with the Financial System and therefore there is no automatic reconciliation of the data (income from applicants and payments to the contractor) between the two systems.</p> <p>The lack of reconciliation between Confirm and the Financial System was also raised as a Priority 2 recommendation in the 'Review of Confirm Audit for 2015/16' issued on 14th November 2016.</p>	<p>Income due may not be received and incorrect payments may not be identified.</p>	<p>To ensure that all income is accounted for, a periodic reconciliation of income received from applicants and recorded on the Financial System to the values on Confirm and the subsequent payments to the contractor (less the £200 (or higher) administration fee) should be carried out.</p> <p>Should an IT solution not be viable, the Highways Department should consider a manual reconciliation between the two systems in which a data extract is taken for a set time period (minimum quarterly).</p> <p>Priority 2</p>

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
7	<p><u>Uplifts</u> Uplifts payable to Contractor A for the whole of the Minor Works contract are applied in line with the ‘Baxter’ indices. These rates are published retrospectively necessitating a retrospective bulk payment to be made, the Crossover element of which is funded from the application and administration fees and is not recouped from the individual applicants.</p> <p>At the time of the audit, the 2016/17 and 2017/18 rates of 0.7% and 2.4% respectively had not been applied.</p>	<p>Delay in applying the published rates will result in a higher retrospective bulk repayment being made from the application and administration fees.</p>	<p>The current process for applying uplifts payable to the contractor should be reviewed to minimise the number and value of Crossovers for which a retrospective payment is made to the contractor funded from the application and administration fees.</p> <p>Priority 2</p>

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	<p><u>Policy and Guidelines – Application of charges and income</u> The Vehicle Crossover Estimate form should:-</p> <p>a) include provision for the levying of additional costs over and above the £200 administration fee.</p> <p>b) be clear and consistent across the narrative and charges as to whether the application is for a new Crossover or an extension to an existing Crossover and charged accordingly.</p>	2	<p>a) Provision for the levying of additional costs over and above the £200 administration fee will be accommodated on the estimate form and policy documents.</p> <p>b) The estimate form and policy documents will be updated.</p>	<p>Highway Area Manager</p> <p>Highway Area Manager</p>	<p>October 2018</p> <p>October 2018</p>

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	c) include provision for the waiving of fees. d) include provision for the apportionment of fees.		c) Criteria for waiving fees to be reviewed. d) Action has already been taken to address this issue.	Assistant Director (Highways) Completed	November 2018 n/a
2	<u>Policy and Guidelines – Review of charges</u> The department should review the internal application (£100) and administration (£200) fees introduced in 2012 and consider if any changes should be made to reflect increases in costs.	3	There are no changes in costs of providing vehicle crossings under the new contract that are not already reflected in the quotations. The current scale of administration charges is considered appropriate for the tasks involved, and usually covers all costs incurred. If additional administration costs are considered necessary, these will be picked-up at the quotation stage, and 1.a) above.	n/a	n/a

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
3	<p><u>Process and Procedures</u> A review of data flows and processes within the Crossovers workstream, including forms and aide memoires, should be undertaken, with the up to date procedure documented and made available to all relevant members of staff.</p> <p>The guidance should state when, and how, payment for elements of work which formed part of the initial specification and were not undertaken, can be recouped from the contractor and repaid to the applicant.</p>	2	<p>This process has been reviewed to bring all tasks within the Highways team. Processes will be documented and made available to all relevant members of staff.</p> <p>Separately priced, cross referred, jobs are raised, separating the temporary and permanent elements of the work.</p>	<p>Highway Area Manager</p> <p>Highway Area Manager</p>	<p>October 2018</p> <p>Completed</p>

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	Where a temporary Crossover is to precede a permanent Crossover in a location, consideration should be given to separately priced, cross referred, jobs being raised. By separating the temporary and permanent elements of the work, the possibility of paying the contractor for work which has not been undertaken, will be reduced.				
4	<p><u>Documentation and record keeping</u> The feasibility of scanning paper documents and uploading them to an agreed location in one system to ensure that there is a full audit trail, should be considered. Ideally this would be in a shared directory, so that it can be accessed by all relevant officers involved in the process when required.</p>	3	Following the review of administering vehicle crossing applications, all future applications will be stored electronically for internal use.	Highway Area Manager	October 2018

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
5	<p><u>Confirm System</u> The parameters of the 10% sample to be independently checked, to ensure that work has been carried out as specified, should be refined to ensure that each element of the Minor Works contract for which payment is being made is within the sample.</p>	2	All vehicle crossings will be included in sample inspections prior to payment.	Highway Area Manager	September 2018
6	<p><u>Reconciliation of Data</u> To ensure that all income is accounted for, a periodic reconciliation of income received from applicants and recorded on the Financial System to the values on Confirm and the subsequent payments to the contractor (less the £200 (or higher) administration fee) should be carried out.</p>	2	Discussions will be held with Finance in an effort to reconcile income and expenditure.	Highway Area Manager	November 2018

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	Should an IT solution not be viable, the Highways Department should consider a manual reconciliation between the two systems in which a data extract is taken for a set time period (minimum quarterly).				
7	<p>Uplifts The current process for applying uplifts payable to the contractor should be reviewed to minimise the number and value of Crossovers for which a retrospective payment is made to the contractor funded from the application and administration fees.</p>	2	The current process for applying uplifts payable to the contractor will be reviewed to improve accuracy of quotations – next uplift due in July 2019.	Assistant Director (Highways)	May 2019

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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.