

Aberdeen City Council

Transport contracts within Education and Social Care

Internal Audit Report
2014/2015 for Aberdeen
City Council

November 2014

| | Target Dates per agreed Internal Audit Charter | Actual Dates | Red/Amber/Green and commentary where applicable |
|---|---|-------------------------------------|--|
| Terms or reference agreed 4 weeks prior to fieldwork | 04 August 2014 | 01 August 2014 | Green |
| Planned fieldwork start date | 01 September 2014 | 01 September 2014 | Green |
| Fieldwork completion date | 12 September 2014 | 12 September 2014 | Green |
| Draft report issued for Management comment | 29 September 2014 | 29 September 2014 | Green |
| Management Comments received | 13 October 2014 | 09 October 2014 04 November 2014 | Amber – initial comments were received by the PTU Team Lead prior to the deadline. However, an additional close out meeting was requested by the Head of Procurement and due to diary commitments this could not be arranged until early November. |
| Report finalised | 11 November 2014 | 06 November 2014 | Green |
| Submitted to Audit and Risk Committee | 20 November 2014 | 20 November 2014 | Green |

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This report has been prepared solely for Aberdeen City Council in accordance with the terms and conditions set out in our engagement letter dated 4th October 2010. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive Summary

| Report classification | Total number of findings | | | | | ← Section 3 → |
|-----------------------|--------------------------|----------|------|--------|-----|---------------|
| Low risk | | Critical | High | Medium | Low | Advisory |
| | Control design | - | - | - | 2 | - |
| | Operating effectiveness | - | - | - | - | - |
| | Total | - | - | - | 2 | - |

Summary of findings

- 1.01 The scope of our review was to consider the design and operating effectiveness of the key controls in relation to Aberdeen City Council's transport contracts for Education and Social Care. Our testing covered each of the key sub-processes and control objectives set out in the agreed terms of reference (appendix 2); including planning, utilisation, contract assessment and contract monitoring.
- 1.02 Based on our review of the controls implemented we have identified two low risk findings:
- Improvements are needed to contract monitoring. Performance is monitored on an aggregated level (by operator) and as a result the performance of individual contracts is not recorded or reported.
 - Spot checks are performed on a regular basis to ensure drivers are compliant with regulations and service specifications, for example driver ID (demonstrating they have been PVG and licence checked, timeliness of arrival, cleanliness of vehicle, presences of an escort, number of passengers on board and the availability of a first aid kit). The documentation relating to these checks could be improved to ensure the accuracy of management information.

Management comments

We have found the internal audit process to be a worthwhile exercise in ensuring our operations are as robust as possible. The audit report is predominantly positive and highlights that many of the required processes are already in place and working well, which is testament to the hard work of the team. We welcome the findings and will endeavour to introduce the proposed measures at the earliest opportunity to improve our processes.

2. Detailed findings and recommendations

2.01 Contract monitoring – Control design deficiency

| Finding | | |
|---|---|--|
| <p>Call off contracts are monitored by the PTU every six months across three key performance indicators: complaints, appraisals (spot checks) and liquidated damages. The monitoring is at an aggregated level and as such there is no specific monitoring on a contract by contract basis. It has been highlighted by management that due to the volume of contracts in any one year, combined with some contracts being relatively short-term, it would be logistically difficult to apply performance indicators to all contracts. The PTU team highlighted that a ‘penalty-points’ system is being considered for the next tender exercise which could act as a performance indicator at the individual contract level.</p> | | |
| Risks | | |
| <p>There is a risk that the poor performance of contractors is not appropriately managed and subsequently improved. There is a risk that transport spend within Social Care is not appropriately managed and overruns may occur.</p> | | |
| Action plan | | |
| Finding rating | Agreed action | Responsible person / title |
| Low | <p>The “penalty points” system should be implemented during the next tendering exercise to allow the performance of call off contracts to be monitored on an individual basis.</p> <p>Please note that this action will not be addressed until the next Framework Agreement is set in April 2016. As this is finding is low risk it is not considered necessary to write the agreement and seek approval for this change out with the normal tendering cycle.</p> | Chris Cormack, Public Transport Unit Team Leader |
| | | Target date: |
| | | April 2016 |

2.02 Documentation of spot checks – control design

| Finding | | |
|---|--|--|
| <p>Spot checks are carried out on each individual call-off contract to ensure they are compliant with the requirements of the contract. Checks include but are not limited to the driver ID (demonstrating they have been PVG and licence checked, timeliness of arrival, cleanliness of vehicle, presences of an escort and the availability of a first aid kit). During our review we noted improvements which could be made to how spot checks are documented:</p> <ul style="list-style-type: none"> There were a number of blank fields which make it difficult to assess whether the checks have been performed or not. From discussions with the CMO it was noted that on occasion there is not enough time to check each element of the check. This can be due to a vehicle arriving late or the narrow window available in which vehicle can be inspected. Documentation should clearly state if the check has not been performed and the reason for this. Spot checks include ensuring the correct number of passengers are in the vehicle, as there is a risk that someone is no longer using the service and has not notified the PTU. This element of the check is not formally documented and therefore we were unable to test the operating effectiveness. | | |
| Risks | | |
| <p>There is uncertainty as to the results of spot checks, and as a result management information relating to performance may be inaccurate.</p> <p>Management have little assurance that the check relating to passengers numbers is being carried out. In addition there is no management information to allow analysis of the results.</p> | | |
| Action plan | | |
| Finding rating | Agreed action | Responsible person / title |
| Low | <p>Documentation relating to spot checks should be improved to clearly evidence:</p> <ol style="list-style-type: none"> The elements which were not performed due to time constraints; and The number of passengers vs number of passengers expected | Chris Cormack, Public Transport Unit Team Leader |
| | | <p>Target date:</p> <p>31 December 2015</p> |

Appendix 1 – Background and scope

Background

- 2.01 Aberdeen City Council holds contracts with a number of local firms to provide transport, including journeys to and from school, and for social care reasons. The Public Transport Unit (PTU) within Enterprise, Planning and Infrastructure (EP&I) manage these contracts on behalf of Education, Culture and Sport (EC&S) and Social Care and Wellbeing (SC&W). The budget for EC&S is owned by EP&I, whereas the budget for SC&W is managed within the directorate.
- 2.02 Education spent £2,908,196 and Social Care spent £326,224 on transport contracts in 2013/14.

Planning and Utilisation

- 2.03 Transport requests are sent to the PTU by the services and are channelled into two sub teams, the School Transport Team (STT) and the Social Work Transport Team (SWTT). The PTU has limited involvement in forecasting transport requirements as a significant amount of the work are demand initiated requests which have a minimal lead time. Mainstream school transport requests can be forecast based on student numbers and do not change substantially year on year. This is informally forecast during the summer renewals period.
- 2.04 Utilisation of transport contracts is partially monitored by the PTU through the role of the Contract Monitoring Officer (CMO). The CMO performs random spot checks on vehicles and considers utilisation as part of this check. It was noted however that these utilisation checks are not documented and as such we are unable to confirm the operating effectiveness of this control. During the review we observed one spot check and noted from observation that the CMO compared the passengers in the vehicle to the list of names per the contract to identify if expected passengers were no longer using the contract.
- 2.05 Operators may use any size of vehicle as long as it meets the capacity requirements stipulated by the Council for the journey in question. As a result, it is difficult for the PTU to monitor true utilisation levels. The Council does not pay extra if a larger vehicle is utilised by an operator.
- 2.06 The Council previously invested in a route planning system “Logical Transport”. However, due to system difficulties and the investment in time needed to operate the system, Logical was not used in the live environment and was fully withdrawn following Committee approval in 2011. As a result, the PTU work using a manual system and consider this to be more efficient. During the close out phase of the review, Head of Procurement highlighted that Aberdeenshire Council use the Trapeze system for route planning. Whilst Internal Audit is satisfied with the manual procedures in place, it has been agreed that the PTU Team Lead will meet with Aberdeenshire Council to discuss the possible efficiencies to be gained from using the Trapeze system.

Contract Assessment

- 2.07 The PTU awards contracts for transport based on a framework of operators that is created through a tender process, which presently, is every two years with the most recent having taken place in April 2014. To become part of this framework operators must provide details about minimum requirements for driver licencing, Protection for Vulnerable Groups (PVG) membership, insurance and vehicle licensing. Additionally checks are performed over the financial health of the prospective operator and, where an operator has five or more employees; there are minimum health and safety and equal opportunities requirements. Not all of these requirements need to be in place at the time of tender; however there must be a reasonable expectation that prior to being awarded the contract, the operator will be fulfilling these requirements. These checks are recorded in a central spreadsheet which also details the final decision as to whether the contractor is accepted into the framework. Contracts for individual transport requests under this framework (known as 'call off contracts') are then awarded, based on value for money, using mini-tenders for competed services and rankings for standard services.
- 2.08 Continued compliance with the requirements outlined in the invitation to tender and the contracts is monitored through spot checks and annual appraisals performed by the CMO. The spot checks, which are performed on a random basis include reviews of the vehicle condition and, in particular, whether drivers are approved by the Council (demonstrating that they have been PVG and licence checked) and escorts are present. The PTU have the ability to terminate a contract if there is a serious breach noted during the spot check. The PTU aim to assess 60% of contracts every six months.
- 2.09 Annual appraisals are performed on all operators who are not sole traders (who would be assessed during the spot checks) and have taken contracts under the framework. This check includes reviews of vehicles and drivers. The CMO also obtains copies of insurance certificates and monitors that they are all current through a manually maintained spreadsheet.
- 2.10 Prior to the annual tender the PTU made efforts to increase the number of operators under the framework through contacting transport operators in Aberdeen City as well as Aberdeenshire. Efforts to advertise also included promoting the tender to over 400 taxi drivers when they were required to get their meter adjusted and were all at the same location in one day. Improved service delivery is encouraged by the PTU at the call off contract level through monitoring of complaints and taking action such as issuing warnings, damages and potential contract cancellations depending on severity.
- 2.11 The PTU does not extend contracts, either through implicit or explicit renewals. All contracts that expire are either put out to a new mini-competition (for competed services) or the highest available operator per the rankings is selected (for standard services) to ensure that contracts are awarded to get best value for all contracts.

Contract Monitoring

- 2.12 There is a standard process within the PTU to ensure that billing is correct and that only utilised journeys are taken (excluding journeys where cancellation charges may reasonably apply in line with the contracts). This process is formalised into process guidance, and the STT and SWTT consistently follow this process (with minimal variations to reflect the realities of their areas). Both teams, when receiving an invoice, will review the invoice against the contract and confirm that the rate applied is accurate. Amounts are recorded in a payment record (competed services only) or compared to expectations (standard services only). Once reviewed an invoice will be approved by an appropriate individual who evidences their review through stamping, signing and dating the invoice. After this the invoice will be passed for payment. The team will contact operators if there are any queries.

- 2.13 As EP&I own the Education transport budget, the PTU Team Leader performs a review of contract spend with accountants on a monthly basis to evaluate how contracts are performing. Any overspend noted is discussed and the Team Leader will provide any explanations for why this has occurred. The Team Leader communicates any incidence of overspend to the Head of Planning and Sustainable Development as and when it may arise; however a formal record of these conversations is not maintained.
- 2.14 Social Care's budget is held outside of EP&I and as such monitoring is expected to be performed by the budget holder within SC&W. SWTT produce reports to allow the monitoring of contract spend and this is communicated to SC&W. During the course of the review we were unable to obtain evidence that these specific reports were being reviewed as expected by SC&W. However, we have obtained evidence that budgets are reported to the Social Care, Wellbeing and Safety Committee. From review of committee papers we can confirm that transport costs are highlighted by service and a variance analysis is provided.
- 2.15 Every six months the PTU produces a Contract Performance Report which details how all contracts are performing in aggregate against specified performance indicators including Complaints, Transport Appraisals (i.e. the checks performed on the contracts) and Liquidated Damages. This report is distributed internally to the team and management, and is also shared with operators to help them identify areas for improvement. Performance indicators are not set for individual contracts; however the team has proposed introducing a 'penalty points' system to provide a metric, in the next Framework Agreement with an anticipated commencement of April 2016, to assess performance for individual contracts.

Transport Strategy

- 2.16 Whilst the strategy of the PTU was not within scope of this review, during discussion with the Head of Procurement it has been highlighted that there is an opportunity for the PTU Team Leader to work alongside the Head of Procurement to help drive the strategy going forward. Early consideration is being given to sharing fleet across Aberdeen City Council, Aberdeenshire Council and the NHS. As noted above, the Head of Procurement and the PTU Team Leader will also work together to consider options in relation to the Trapeze system.

Scope and limitations of scope

- 2.17 The detailed scope of this review is set out in Appendix 2. We have undertaken a review of the design and operating effectiveness of the Council's transport contracts within Education and Social Care. Our work was undertaken using a sample based approach.
- 2.18 See agreed terms of reference at Appendix 2.

Appendix 2 – Agreed Terms of reference

Background

Aberdeen City Council holds contracts with a number of local firms to provide transport, including journeys to and from school and for social care reasons. The Public Transport Unit within Enterprise, Planning and Infrastructure (EP&I) manage these contracts on behalf of Education, Culture and Sport and Social Care and Wellbeing. The budget for Education, Culture and Sport is owned by EP&I.

Scope

We will review the design and operating effectiveness of the key controls in place over transport contracts. The sub-processes included in this review are:

| Sub-process | Control objectives |
|--------------------------|---|
| Planning and Utilisation | Transport demand is forecast by the services on a regular basis using up to date information where possible. Forecasts are used by the Public Transport Unit to plan routes and maximise utilisation. |
| | Utilisation is monitored and actions are taken to address poor utilisation if required. |
| Contract Assessment | The awarding of contracts is assessed on value for money, as well requirements such as licencing, Protection for Vulnerable Groups (PVG) checks, insurance and the road worthiness of vehicles; |
| | Checks are in place and consistently followed to seek assurance on the above requirements on a regular basis; |
| | Efforts are made to increase competition among transport firms in the local area and improved service delivery is actively encouraged; and |
| | Value for money/best value can be demonstrated where a firm is continued to be used either via a contract extension or an implied contract. |
| Contract Monitoring | Process are in place and consistently follow to ensure billing is correct and only journeys taken are paid for; |
| | Contract spend is monitored against approved contract value/ budget and overspend is highlighted to management on a timely basis; and |
| | Performance indicators are set and contract performance is monitored on a regular basis. |

Limitations of scope

The scope of our review is outlined above. This will be undertaken on a sample basis. Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Fieldwork start

01 September 2014

Audit approach

Our audit approach is as follows:

- ☐ Obtain an understanding of the procedures in place through discussion with key personnel and review of documentation.
- ☐ Identify the key risks in respect of transport contracts
- ☐ Evaluate the design of the controls in place to address the key risks.
- ☐ Test the operating effectiveness of the key controls on a sample basis.

Key Council Contacts

| Name | Title | Role | Contact details |
|-----------------|--|-------------|-----------------|
| Ewan Sutherland | Director of Corporate Governance (Interim) | Sponsor | 01224 522192 |
| Craig Innes | Head of Procurement | Sponsor | 01224 665650 |
| Maggie Bochel | Head of Planning & Sustainable Development | Sponsor | 01224 523133 |
| Chris Cormack | Public Transport Unit Team Leader | Key contact | 01224 523762 |

Agreed timings

Note: If the Council amend or delay the timing of this review at short notice and we cannot utilise the internal audit staff on other reviews then the originally agreed days may still be charged at the normal day rate, in addition to the rescheduled days.

| | |
|---|-------------------|
| Fieldwork completed | 19 September 2014 |
| Draft report to client | 06 October 2014 |
| Response from client | 20 October 2014 |
| Final report to client | 27 October 2014 |
| Reported to Audit and Risk Committee | December 2014 |

Appendix 3 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of transport contracts within Education and Social Care, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to transport contracts Education and Social Care is as at August 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

In the event that, pursuant to a request which Aberdeen City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Aberdeen City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Aberdeen City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation. If, following consultation with PwC, Aberdeen City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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