

Aberdeen City Council

Fleet Management Governance

Internal Audit Report
2014/2015 for Aberdeen
City Council

June 2015



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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					
	Critical	High	Medium	Low	Advisory	
Medium risk	← Section 3 →					
	Control design	-	1	1	-	-
	Operating effectiveness	-	-	-	-	-
	Total	-	1	1	-	-

Background and summary of findings

- 1.01 Following the outcome of a Traffic Commissioner public inquiry in September 2014, management at Aberdeen City Council (‘the Council’) have acted to implement significant change in fleet services to address the governance and control failures identified in the Commissioner’s report. As a result management requested that we conduct an internal audit review of these proposed changes to evaluate the design and adequacy of the governance and control arrangements being implemented.
- 1.02 It is our view that the governance and control arrangements being implemented substantively address the control objectives set by management. Our interviews with key management and those charged with governance of fleet services evidenced that previous failings in controls, and operational procedures, had been identified and that actions were being taken. However, we have identified two areas where we believe further action is required and where management should consider the governance and control arrangements in place.
- 1.03 Our primary finding is considered to be high risk and concerns how the Council manages and controls its fleet management software, Tranman. In a report to the Audit, Risk and Scrutiny Committee on 11 May 2015 we reported the results of our fleet asset verification exercise, in this we identified a significant number of assets that were recorded on Tranman but which could not be physically verified. The root cause of this issue is a lack of proper governance and controls around how Tranman is updated and maintained. The result is that management do not have a complete and accurate picture of all the fleet assets, and their current condition, held by the Council.
- 1.04 We have also identified that Elected Members do not have clear oversight over fleet compliance, as at present fleet services and services which use fleet assets do not report to any Council Committee on performance. This represents a gap in the current governance process and consideration should be given to ensuring fleet compliance is reported to an appropriate committee.

Management comments

Following the PWC report about the fleet asset verification exercise, to the Audit, Risk and Scrutiny Committee on 11 May 2015, a reconciliation of the assets that were not physically verified by PWC is currently being carried out. The issue of lack of governance and controls around how Tranman is updated and maintained is to be addressed through a process which considers how the council procures new vehicle, plant and equipment assets that are maintained by Fleet services but are managed by other council services. This process will be included in the ISO 9001:2008 documentation and will form a part of the Fleet Services quality assurance operational practices. These processes will form the future “good practice” for the council and will be auditable.

It is intended Elected Members will have clear oversight over corporate fleet compliance of Fleet and all associated services through a reporting mechanism and a suite of PI's. The PI's are being developed and it is intended to report to each Health and Safety Committee the performance of the fleet compliance management in the council. It is intended that reports detailing the day to day operations and associated operational requirements of the Fleet Service will be reported to the appropriate service committee; which is currently Communities, Housing and Infrastructure.

2. Background and scope

Background

- 2.01 In response to a Traffic Commissioner ('the Commissioner') public inquiry in September 2014, management at Aberdeen City Council ('the Council') have sought to address the concerns raised around current governance and controls over fleet services. We have conducted a review into the efforts of the Council to rectify the failings within the governance and controls arrangements, and have endeavoured to provide further recommendations on where improvements should be made.
- 2.02 Management have engaged with two ex-VOSA consultants to help overhaul the fleet management governance and controls at the Council. The following summarises the key actions being taken to address the concerns raised in the Commissioner's report:
- A clear understanding of the importance of a clean fleet management process has been communicated throughout, from mechanics and drivers, to line managers and foremen. Handbooks are being developed for each line of service for employee reference;
 - KPIs such as test history, prohibition history, MOT failures and overdue services will be implemented. Tranman has these reporting requirements and will be utilised (note that the controls over Tranman need to be made more robust – Section 3 provides more detail);
 - Training for Tranman is being rolled out to ensure that Council staff are aware of what they need to enter into the system and what tasks the office team at Marischal College will now perform;
 - Standard times for each service will be agreed for standard jobs such as MOTs, and these will be built into KPI reporting;
 - Risk assessments will be carried out regularly whilst the improvements to the fleet management process are being implemented. These will be updated annually once concerns over fleet management are considered to have been sufficiently reduced;
 - An experienced external party has been conducting vehicle and driver audits, such as gate checks, e.g. assessing the driver's competence at their daily vehicle inspection;
 - Health and Safety will take prominence over customer service;
 - A training matrix exists and will be updated regularly to ensure drivers are fully aware of their responsibility regarding compliance and regulatory requirements, and to identify training needs;
 - Apprentices will go on shifts to provide them with more experience and closer working with management, so that they are aware of the Council's policies and management structure;
 - Recruitment of agency foremen and mechanics is being considered to allow for unbiased reporting of fleet failures;
 - Breakdowns and defects calls will go directly to the workshop so that the vehicle condition can be immediately assessed by a trained mechanic;
 - Tranman will be checked regularly on a 10% sample basis, and vehicles also sampled on a 10% basis to ensure up to date inspection records exist;
 - Drivers' information will be spot checked on a random basis, to ensure overall compliance, and not just vehicles; and
 - A compliance officer for fleet will be nominated in every line of service.

- 2.03 Management consider that by implementing these actions they will ensure a sound system of processes and controls that address the concerns raised in the Commissioner's report. Our review, and the conclusions we have reached in this report, are based on the assumption that management will implement the above actions to improve the current governance control arrangements in fleet services.

Scope and limitations of scope

- 2.04 The detailed scope of this review is set out in the agreed terms of reference in Appendix 2.

3. Detailed findings and recommendations

3.01 Governance of Tranman – control design effectiveness

Finding

Tranman is the Council's fleet management software, used to manage and track the Council's fleet assets. To ensure proper oversight of fleet assets, it is critical that Tranman is complete and accurate to ensure that all items of fleet are accounted for and that management can discharge its responsibility to ensure assets are being maintained to a safe operating standard.

In our report on 'Fleet Asset Verification' to the Audit, Risk and Scrutiny Committee on 11 May 2015 we highlighted 229 assets that were recorded on Tranman but which we could not physically verify. Our inquiries with management have identified that the root cause of these issues is a lack of proper governance and control over how Tranman is maintained and updated. As Tranman does not interface with the procurement systems at the Council, manual intervention is required to ensure Tranman is updated when new fleet assets are purchased or disposed of by services. However, it was identified that there is a lack of ownership as to who is responsible for maintaining the records on Tranman, with key controls around purchases and disposals not operating. This has led to the system not being properly updated when assets are purchased and disposed of by services.

The Tranman system is also not currently being fully utilised to help record the condition of fleet assets. The system is not configured to require mandatory fields to be completed with information on asset condition or service history, for example. This information however is critical to helping the Council discharge its compliance and statutory obligations for fleet management. Improving the quality of data recorded on Tranman and enforcing the use of mandatory fields to record this information would enable management to produce better quality reporting on fleet relevant to their requirements. For example, fleet records could be interrogated to identify fleet assets requiring service or to identify numbers of fleet assets that are out of service.

Ensuring Tranman is properly maintained and fully utilised is vital to any redesign of processes and controls in fleet management.

Risk

The Council is unable to verify the completeness and accuracy of its fleet assets listings and is therefore exposed to the risk of non-compliance with statutory obligations for fleet maintenance and health and safety regulations; financial risks around proper recording of assets; and the risk to operational performance of not being to locate fleet assets.

Action plan		
Finding rating	Agreed action	Responsible person / title
High	<p>Procurement and disposal of fleet assets will be centralised and managed through fleet management to ensure scrapped, sold or purchased assets are completely and accurately recorded on Tranman. Service managers will be made aware of their responsibilities for ensuring that fleet asset records on Tranman are complete and accurate and the importance of following the Council's financial policies and controls around the purchase and disposal of assets.</p> <p>Tranman will be configured to require the recording of certain mandatory information relevant to the management of fleet assets. This information will be used for reporting to monitor operational performance and compliance with statutory obligations.</p>	<p>Head of Public Infrastructure and Environment</p> <hr/> <p>Target date:</p> <p>30 June 2015</p>

3.02 Management Reporting – control design

Finding		
<p>The current framework of management reporting for fleet services does not provide an adequate process for escalation of issues identified in the service through performance monitoring. As identified in finding 3.01, Tranman is not currently being optimised to produce relevant and timely management information to aid with identifying service performance issues. As a result management at the Council do not have oversight over the activities of the service and any developing performance issues through evaluation of relevant key performance indicators. The failure to properly identify issues, and then escalate these appropriately to senior management, was identified as a root cause of the failings in the Service that led to the Traffic Commissioner inquiry.</p> <p>Furthermore, fleet services and services that use fleet assets do not currently report to Elected Members on any Council Committee. There was a consensus within fleet management that reporting should exist and that this could be made through the Health and Safety Committee to ensure that there is an appropriate focus on the service’s compliance with statutory obligations to ensure fleet is properly maintained.</p>		
Risk		
<p>There is a risk that serious issues of non-compliance with statutory obligations in fleet management and other services are not appropriately escalated for the attention of senior management and Elected Members exposing the Council to financial, reputational and legal risks where these issues are not addressed.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	<ul style="list-style-type: none"> Fleet management services will developed a suite of management reporting based around the key performance indicators (KPIs) currently being developed within Tranman. These will be reported to the management team within the Infrastructure and Environment Service and to the Corporate Management Team. The KPIs will be monitored to actively identify developing issues, for example where the number of MOT failures exceeds accepted tolerance levels. Fleet management services and services that use fleet assets will also report to the Health and Safety committee on a defined set of KPIs. These KPIs will focus on the Council’s compliance with relevant laws and regulations that impact fleet services to ensure proper scrutiny of the Service’s performance in achieving agreed targets. 	Head of Infrastructure and Environment <hr/> Target date: 30 June 2015

Appendix 1 – Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
Critical	A finding that could have a: <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; <i>or</i> • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact ; or • Significant breach in laws and regulations resulting in significant fines and consequences ; <i>or</i> • Significant impact on the reputation or brand of the organisation.
Medium	A finding that could have a: <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	A finding that could have a: <ul style="list-style-type: none"> • Minor impact on the organisation’s operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
Low risk	6 points or less
Medium risk	7– 15 points
High risk	16– 39 points
Critical risk	40 points and over

Appendix 2 – Agreed Terms of reference

This review is being undertaken at the request of the Head of Public Infrastructure and Environment and the Chief Executive following a number of control failures identified within the Fleet Management Service.

Background

The Council's fleet management arrangements were subject to a Traffic Commissioners public inquiry in September 2014, reflecting an overall failing fleet service. The Traffic Commissioner raised a number of concerns in respect of fleet including: discrepancies in fleet management records; maintenance contracts with 3rd parties; documentation around ownership of assets; adequate maintenance including PMI records and interval checking. Following the inquiry, Council Officers have further investigated the arising issues and have determined the need for a complete overhaul of fleet management arrangements.

A number of ongoing actions are in place in respect of the fleet service. Internal Audit has specifically been asked to consider the asset verification of the fleet and plant and equipment to confirm existence. The Council holds circa 2000 items of fleet and plant and equipment, across approximately 16 to 20 locations in Aberdeen, including three roads depots and one waste depot. All Service Managers have reviewed records of the relevant assets within their responsibility and have individually confirmed: the existence of the assets; identifying where assets are held in a different location (on the basis they appear on another Service Managers list); assets no longer held; or held but not described/recorded accurately.

In addition, the Head of Public Infrastructure and Environment would like internal audit to consider the current reporting arrangements for fleet management. In particular how issues arising, state of the fleet, compliance with legislation is escalated and reported within the Council's governance structure.

Scope

Our work around reporting will consider:

Sub-process	Control Objective
Fleet Management Governance and reporting	<ul style="list-style-type: none">• An escalation process is in place to highlight fleet management issues at a Council Officer, Corporate Management Team and to Elected Members via the Council's committee governance structures;• Fleet management arrangements for example fleet management performance, compliance with Health and Safety and legislative requirements are given sufficient prominence within the Council;• Appropriate lines of defence are in place in respect of fleet management (1st/2nd and 3rd lines) and information and reporting is consistent;• As a Council it is clear how the Council fully discharges its legal obligations in respect of fleet and roles and responsibilities are set out and understood; and

- | | |
|--|--|
| | <ul style="list-style-type: none">• Management reporting is aligned with the governance arrangements for fleet Management. |
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As part of our work on reporting we will consider what other potential fleet management committee reporting arrangements could be established, whether this is through the establishment of a new/amended committee or could be considered within the scope of a current committee for example: the Health and Safety Committee.

Limitations of scope

The scope of our review and limitations are outlined above.

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.

Audit approach

Our audit approach for fleet and plant and equipment asset verification is as set out in the scope.

Appendix 3 – Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of the Council's Fleet Management Governance controls, 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 Fleet Management Governance controls is as at 31 March 2015. 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.

This document has been prepared only for Aberdeen City Council and solely for the purpose and on the terms agreed with Aberdeen City Council in our agreement dated 4 October 2010. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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