

BUS LANE ADJUDICATION SERVICE JOINT COMMITTEE

28TH JUNE 2011

Item 10

Appendix 3

Internal Audit Report

**PATROL - Annual Returns
(Parking & Bus Lanes)**

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Corporate Services**

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1 Introduction

1.1 This report summarises the findings and conclusions from our review of the adequacy of internal controls and procedures in operation within the Parking and Traffic Regulations Outside London Adjudication Joint Committee (PATROL AJC) and Bus Lane AJC. The purpose of this work was to inform Section 4 of the Audit Commission Small Bodies in England Annual Returns for the year ended 31 March 2011.

2 Background

2.1 The Traffic Penalty Tribunal is an independent tribunal where impartial lawyers consider appeals by motorists and vehicle owners whose vehicles have been issued with:

- Penalty Charge Notices (or have been removed or clamped) by councils in England and Wales enforcing parking under the Road Traffic Act 1991 and the Traffic Management Act 2004.
- Penalty Charge Notices by councils in England undertaking civil bus lane enforcement under the Bus Lane Contraventions (Penalty Charges, Adjudication and Enforcement) (England) Regulations (2005 SI No 2757).

2.2 Under the above legislation and regulations, Councils operating civil parking and bus lane enforcement functions are responsible for defraying expenses in relation to the remunerations of the Adjudicators of the Traffic Penalty Tribunal. The Enforcement Authorities are required to carry out this function through a Joint Committee which they are required to set up for this and related purposes. The PATROL AJC and Bus Lane AJC perform this function. In accordance with legislation and regulations, the constituent authorities of each Committee defray expenses in such a proportion as they may decide.

2.3 Under established reporting requirements separate annual returns were to be submitted for to both Parking and Bus Lanes.

3 Scope and Approach

3.1 We reviewed the adequacy and effectiveness of the financial controls, risk management arrangements and management information in respect of 9 of the 10 internal control objectives detailed within Section 4 of the Audit Commission Annual Return document for 2010/11.

3.2 Our work did not include a review of the accounting statements and related records supporting the final accounts under control objective J. We did not consider this to be a key risk or indeed a function that should be discharged through Internal Audit. An opinion on the year end accounts is provided by the appointed auditor to PATROL AJC and we consider that any detailed testing of the accounts to support this opinion remains their responsibility.

3.3 Whilst there is a separate Joint Committee for the Bus Lane Adjudication Service it does share a number of systems and processes with PATROL. As a consequence we considered Internal Audit work relating to PATROL could be used as a

reasonable source of assurance. This work was designed to address the control objectives within the Annual Return and therefore provides some assurance in respect of the overall operation of financial and business systems.

- 3.4 Where independent systems and processes were in operation for Bus Lanes a review of relevant documents together with sample testing of transactions was completed.

4 Findings

- 4.1 We identified some positive areas of good practice in relation to the control and assurance mechanisms. These have been categorised into the areas in which they relate:

- All payments had been clearly supported by Invoices, retained in well structured files for easy identification. *(Parking and Bus Lanes)*
- A recent procurement practice clearly demonstrated the tender evaluation and basis for decision to appoint the successful bid. *(Parking)*
- Based on a sample of constituent authorities we confirmed that income was calculated, invoiced and received correctly. *(Bus Lanes)*
- Detailed working papers were maintained to enable the projection and monitoring of income. *(Parking and Bus Lanes)*
- The use of Payment cards has meant that PATROL AJC does not use Petty cash removing the need for additional controls over cash handling. *(Parking and Bus Lanes)*
- A joint risk register had been produced and approved. *(Parking and Bus Lanes)*
- The joint asset register contained comprehensive notes including any known faults, previous problems and previous users of IT equipment. *(Parking and Bus Lanes)*

- 4.2 In addition to these findings we identified a number of areas where practices could be strengthened, either through improving existing or implementing revised arrangements, as follows:


- Clearer segregation of duties in respect of procurement. *(Bus Lanes)*
- Reporting to Committee for the exclusive use of strategic and long term suppliers, particularly in relation to information technology. *(Parking)*
- Ongoing review of contracts, to ensure existing suppliers continue to provide value for money. *(Parking)*
- Better identification of the location of IT assets on the asset Register. *(Parking and Bus Lanes)*
- Timely disposal of faulty IT assets. *(Parking and Bus Lanes)*
- Timely bank reconciliations. *(Bus Lane)*
- Annual analytical review of the PAYE and NI calculations undertaken by the external payroll function. *(Parking)*



5 Conclusions


- 5.1 In our opinion both the PATROL and Bus Lane Joint Committees have achieved a satisfactory standard with regard to all nine control objectives examined. However, the standard in respect of financial regulations (B) was considered satisfactory subject to Joint Committee approval of a strategic supplier list for which standard tendering processes were not applied. We have also identified a number of other areas where internal controls were assessed as requiring further development and improvement but these were not considered sufficient to prevent the achievement of a satisfactory standard of control overall.
- 5.2 A detailed action plan of recommendations to improve the system of internal control is attached. (Appendix 1)

Appendix 1. Detailed Findings Recommendations and Action Plan


	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
Section B: The body's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.					
1	<p>Based on our sample of 20 purchases, consisting of 18 from Parking and 2 from Bus Lanes (representing 66% Bus Lane purchases in year) we identified the following:</p> <ul style="list-style-type: none"> 8/20 invoices reviewed related to long-term or strategic partners where the value of either individual invoices or an aggregated value would indicate a level of competitive procurement was necessary. The Financial Regulations (for both Parking and Bus Lanes) allows for the Head of Service to waive the requirement for tendering when it is in the interests of the Service, and maintain a record of such decisions to be reported to the Joint Committee. The Head of service has a list of the 	<p>Without clear evidence of purchasing decisions being submitted to the Joint Committee there is an increased risk of members remaining unaware of the strategic partnering arrangements in place.</p> <p>Without appropriate procurement arrangements expenditure may be incurred without correct authorisation, budgetary provision or maintenance of proper records, increasing the risk of budget overspend, inappropriate use of funds, misappropriation or error, and failure to obtain value for money.</p>	<p>The Head of Service should report to the Joint Committee a list of strategic partners currently in use, along with an explanation of why the usual procurement process being waived.</p> <p>Where it is decided that this waiver is no longer required the Head of Service should arrange for an appropriate procurement exercise to take place to identify a replacement supplier.</p> <p>In order to demonstrate value for money the Head of Service should ensure that there is an ongoing review of contracts to ensure that best value is achieved.</p>	<p style="text-align: center;">●</p> <p>Significant (Compliance)</p>	<p>Agreed: Yes</p> <p>Action to be taken: Details of strategic partners along with the services and arrangements for market testing are to be submitted to the Joint Committee in June 2011. A pro-forma documents will be presented to the Joint Committee which will be used as part of the periodic review of contracts.</p> <p>Additional Resources Required for implementation: No</p> <p>Responsible Officer: Head of Service</p> <p>Target Date: June 2011</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	<p>strategic ICT partners, but this has not been reported to the Joint Committee. There was no list of other long-term suppliers such as Egan Reid or Uniglobe at the time of our review nor had they been reported to the Joint Committee.</p>				
2	<p>In both Bus Lane invoices reviewed (relating to Manchester and Sheffield City Councils) there was insufficient separation of duties as the same person approved the order, the invoice for payment and the payment run. Whilst the payment run also required another person this was not considered sufficient.</p>	<p>The current arrangements are not sufficient to enforce and demonstrate a clear segregation of duties in order to reduce the risk of theft, loss or misappropriation of funds and exposes staff to the risk of allegations of misconduct.</p>	<p>The Head of Service should review the financial regulations to ensure that a clear separation of duties is required in respect of purchasing.</p> <p>The Head of Service in conjunction with the Finance Manager should undertake periodic sample checking to identify where staff are failing to comply with these requirements.</p>	<p> Moderate (Compliance)</p>	<p>Agreed: Yes Action to be taken: The financial regulations will be updated and sample checks undertaken. Additional Resources Required for implementation: No Responsible Officer: Head of Service Target Date: September 2011</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
Section G: Salaries to employees and allowances were paid in accordance with body approvals, and PAYE and NI requirements were properly applied.					
3	The PAYE & NI calculations are undertaken by Manchester City Council as the external payroll provider. These calculations have not been checked or verified by Patrol for reasonableness.	The absence of any periodic checks in relation to payroll costs, including on costs, increases the risk of any errors remaining undetected which may result in financial loss.	The Finance Manager should undertake an annual analytical review of the PAYE & NI calculations to ensure reasonableness.	 Minor (Control)	Agreed: Yes Action to be taken: An annual review of payroll calculations and information will be undertaken as part of year end preparation. Additional Resources Required for implementation: No Responsible Officer: Finance Manager Target Date: April 2012
Section H: Assets and Investment registers were complete, accurate and properly maintained.					
4	Although generally well maintained the asset register (used jointly by Parking and Bus Lanes) did not sufficiently distinguish the location of assets. In a significant number of cases the assets were listed as 'Unassigned Office' which included items both in the general office and those locked away in the IT storage cupboard.	If an up to date and comprehensive asset register is not maintained, there is an increased risk of loss or misappropriation, as well as increased risk of misuse.	The Technology Manager should ensure the location of all items is clearly recorded within the asset register to allow for easy identification, e.g. items held in storage should be separately recorded from those in active use. We suggest as best practice, the location of specific Items should be	 Moderate (Compliance)	Agreed: Yes Action to be taken: The presentation of the asset register will be reviewed to ensure that location is clearly identified. Additional Resources Required for implementation: No Responsible Officer: Technical Manager in conjunction with the






	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
	It should also be noted that with the support of the Technology Manager we were able to locate all the items tested, however this detailed information needs to be retained on the register.		linked to a desk plan to provide a clear detailed location for items in general offices.		Finance Manager Target Date: September 2011
5	A number of laptops and computers were listed along with known faults. In discussion it was confirmed by the IT Manager that a number of these items were no longer usable and could not be repaired but may be used for parts. Whilst we acknowledge that there may be some call for a limited stock of spare parts (subject to having fully qualified staff to undertake repair) the majority of these broken items should have been formally disposed.	Failure to dispose of items that are no longer usable increases the storage needs for equipment and increases the likelihood of someone trying to use the faulty item with both time and health and safety implications. Increased levels of equipment that is not in use increases the risk of loss, damage and theft.	<p>The Technology Manager should undertake periodic reviews of items with known faults to determine if they should be formally disposed.</p> <p>If electronic equipment is to be repaired, the Technology Manager should maintain a list of staff who are qualified and registered to applicable standards to repair electronic equipment.</p>	 Moderate (Compliance)	Agreed: Yes Action to be taken: A formal recorded disposal of broken items will be undertaken together with a report of residual equipment retained with details of their faults. A review of the policy for repairing laptops in light of the audit report will be undertaken. A twice yearly documented review of faulty items will be undertaken to determine what should be formally disposed of and ensure that there is a report on the faults associated with any residual equipment.

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
					Additional Resources Required for implementation: No Responsible Officer: Technology Manager Target Date: November 2011
Section I: Periodic and year-end bank account reconciliations were properly carried out.					
6	<p>Although periodic bank reconciliations were undertaken these were not completed monthly in line with the Financial Regulations.</p> <p>We acknowledge that reconciliations for Bus Lanes had not been undertaken each month due to the absence of transactions on a number of statements.</p>	<p>If the bank reconciliation process is not completed in a timely manner there is an increased risk that errors, loss, or inappropriate use of funds would not be identified.</p>	<p>The Finance Manager should ensure monthly reconciliations are completed in line with financial regulations. Where there are no transactions appearing on a statement and no reconciliation undertaken as a result, the bank statement should be signed as evidence of review.</p> <p>The Head of Service should periodically check that bank reconciliations have been completed within the allotted timescale.</p>	<p style="text-align: center;">● Moderate (Compliance)</p>	<p>Agreed: Yes Action to be taken: Monthly reconciliations are to be undertaken in line with financial regulations and periodic checks in year are to be established. Additional Resources Required for implementation: No Responsible Officer: Finance Manager and Head of Service Target Date: July 2011</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
7	Although there was space for both the preparer and the reviewer to print their name on the bank reconciliation form, there was only a space for the reviewer to sign it.	The absence of formal signature results in a failure to demonstrate a clear separation of duties in respect of Bank reconciliation, increasing the risk that errors, loss, or inappropriate use would not be identified.	The Finance Manager should amend the bank reconciliation form to allow the preparer as well as the review to sign.	 Minor (Control)	Agreed: Yes Action to be taken: The forms are to be amended to incorporate the additional signature. Additional Resources Required for implementation: No Responsible Officer: Finance Manager Target Date: July 2011

Appendix 2. Basis of our opinion and level of assurance

Risk Type	Description
Control	There are areas for development and improvement in the design of the system of internal control.
Compliance	There is need to improve compliance with the existing system of internal control, processes or procedures

Risk	Assessment rationale
 E. Critical	Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance. Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects. Large increase on project budget/cost: (more than 15 to 30% of the service budget). Statutory intervention triggered.
 D. Major	Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance. Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for Patrol. Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (more than 6 to 15% of the service budget).
 C. Significant	Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance. Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of service performance. Financial Regulations not complied with. Impact on the effectiveness of governance at the Service level. Significant increase on project budget/cost: (more than 3 to 6% of the departmental budget). Handled within the team.
 B. Moderate	Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of service performance. Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance or moderate impact at service level. Small increase on project budget/cost: (up to 3% of the departmental budget). Handled within the team.
 A. Minor	Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).