

## Final Internal Audit Report

### Pay and Display Meter Maintenance and Income Collection

November 2017

Assurance Level	Recommendations Made	
<b>Limited Assurance</b>	Priority 1	2
	Priority 2	1
	Priority 3	1

#### Status of our reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of the London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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## Executive Summary

### 1. Introduction

- 1.1 The Road Traffic Regulation Act 1984 states that 'A local authority may by order designate parking places on highways, and the authority may make charges for vehicles left in a parking place so designated'.
- 1.2 The Council had a gross income of £3,097,000 for on street pay and display meters and £1,073,000 for off street pay and display meters for the financial year of 2015/16.
- 1.3 The Council spent £64,000 in relation to equipment maintenance and renewal relating to the parking account.

### 2. Key Issues

#### Priority 1 Issues

The contract between NSL and the Council expired in 2015 (**Issue. 1**).

None of the seven sampled variances between the pay and display meter readings and corresponding cash collections had been evidenced as investigated (**Issue. 2**).

#### Priority 2 Issue

An audit trail of action taken for three out of the sample of five machine faults reported was not available (**Issue. 3**).

The priority three issue is detailed under item 4.

During the audit, it was established that the TMA Annual Accounts for 2015/16 were published on the 10<sup>th</sup> November 2016, over a month after the deadline. A recommendation relating to this was raised as part of the 2016/17 Parking Enforcement and Income audit, so no recommendation has been raised for this report.

**3. Actions and Key Findings/Rationale**

<b>Control Area 4: Reconciliations of Pay and Display Income</b>	
<b>Priority</b>	<b>Action proposed by Management</b>
<b>1</b>	<p>Over the past few months Parking Services has replaced its worn and outdated pay and display machines stock both on and off-street with machines providing coin, contactless and credit and debit card facilities. At the same time we have reduced the number of machines by 190 and introduced additional pay by phone cashless parking facilities.</p> <p>These changes have significantly reduced the coins collected through the machines enabling the reduction in cash collections from the previous 5 days per week, 120 cash boxes per day to 3 days per week, 60 cash boxes per day. These changes should see a reduction in under/over payments.</p> <p>Prior to and during the installation/upgrading phase of the pay and display machine replacement project Parking Services was unable to undertake machine audits i.e. over/under cash payments. It is, therefore, not possible to refer back to any potential discrepancies.</p> <p>With the completion of the project we now have access to the Parkeon, Smartfolio pay and display machine auditing system.</p>
	<p><b>Detailed Finding/Rationale – Issue 1</b></p> <p>Income collection from the Pay and Display machines in the Council has been outsourced to NSL Services Ltd. In order to help ensure that all income due to the Council is collected by NSL Services Ltd, reconciliations of the income reading from the Pay and Display machines to the income collected are required to be conducted and any significant under/over collections investigated and resolved.</p> <p>Examination of the records for a sample of seven pay and display machines, where a variance between the NSL Services cash count and the meter reading was greater than £10, found that none of these had been investigated.</p> <p>The Paid Parking and Maintenance Manager explained that these were not investigated, as the new upgraded machines including contactless and debit and credit payments in the ticket prices and the variances were not considered correct. It was noted that the spreadsheet used to identify variances did not detail what the value of contactless and debit and credit payments were included in the 'income per ticket' and thus the assertion could not be verified.</p> <p>Where significant under collections between the income collected by NSL Services Ltd and the pay and display meter readings are not investigated and resolved, there is a risk that the Council does not receive all income due. Furthermore, there is a risk that machine faults may not be correctly identified in a timely manner.</p>

	<p>This has enabled Parking Services to introduce a new procedure for cash collection reconciliation. The procedure commenced in July 2017.</p>	
<p><b>Responsible officer</b></p> <p>Infrastructure Manager</p>	<p><b>Deadline</b></p> <p>Completed</p>	

<b>Control Area 2: Collection and Recording of Cash</b>		<b>Detailed Finding/Rationale – Issue 2</b>
<b>Priority</b>	<b>Action proposed by Management</b>	
1	<p>NSL Services has been providing cash counting and banking services to Parking Services since June 2012. With the loss of the in-house cash collection team in August 2016 it was necessary to contract NSL Services, under a short-term arrangement, to provide a cash collection service as well as the existing cash counting and banking service.</p> <p>The Councils Procurement Team is currently looking at procurement options for the delivery of:</p> <p>Cash collection, cash counting and banking services</p> <p>A contract should be in place during 2018.</p>	<p>The Tenders and Contracts Regulations require that a valid contract is in place before the contractor starts work. Furthermore, 'A report seeking authority for the change to the Contract must be made to the CCB, nominated Cabinet Member or Cabinet as appropriate, where the extra terms or variation will result in the new total value of the contract:</p> <ul style="list-style-type: none"> <li>i. Exceeding £100,000 or £500,000 or £5,000,000;</li> <li>ii. Exceeding the relevant public procurement threshold (for goods, services or works), as published from time to time by the European Commission.</li> </ul> <p><i>Or in any case, the original Contract value will be increased by more than 25%.</i></p> <p>Income collection from the Pay and Display machines in the Council has been outsourced to NSL Services Ltd. Although a signed contract is in place between the Council and NSL with a commencement date of 25 June 2012, this contract is only for a period of 2 years, with the option to extend it for up to a maximum of 12 months. The contract therefore expired on 24 June 2015. Furthermore, the contract was for £38,424 a year, i.e. £115,272 for the 3 years and therefore extending the contract period up to now results in the contract sum being increased by more than 25%. No evidence of a report to CCB has been provided.</p> <p>Discussion with the Parking Senior Manager established that the Project Manager is working on a new contract for cash counting along with cash collecting as well as taking into account the Council's changing demands. The process of re-procurement of the cash processing contract has started and is estimated to be in place during 2018.</p>

	Where a valid contract is not in place, the Tenders and Contract regulations are being breached and there is a risk that the Council may not have any legal recourse should any contractual issues arise.	
<b>Responsible officer</b>	<b>Deadline</b>	
Project Manager	31 March 2018	

<b>Control Area 3: Maintenance of Pay and Display Meters</b>	
<b>Priority</b>	<b>Action proposed by Management</b>
<b>2</b>	<p>The procedure for the cash collection reconciliation introduced July 2017 requires:</p> <p>Each day NSL email a spreadsheet with the cash count for that day to <a href="mailto:parkingfinance@croxdon.gov.uk">parkingfinance@croxdon.gov.uk</a> email address. This entails the count for Parkeon machines. This spreadsheets shows the total count of each cash box collected on that day. <i>(Please note the spreadsheets are originally formatted by Croydon and emailed to NSL. All updates are carried out by Service Delivery Officer).</i></p> <p>A 'Cash Flow Management' report is completed on the Parkeon, 'Smartfolio' system which generates a daily report of the audit of each Parkeon machine. The audit amount for each machine is entered onto the spreadsheet provided from NSL under the heading 'income per ticket'. The variance column will show any differences between the NSL count and the audit tickets. The audit position column will show whether an audit of the machine is required by stating whether we have 'received less' monies than</p>
	<p><b>Detailed Finding/Rationale – Issue 3</b></p> <p>If during the cash collection process, faults with any machines are detected, the details of these are provided to the Council to follow up on and, where appropriate, perform maintenance work.</p> <p>Examination of the documentation relating to a sample of five reported meter faults identified that for three of these cases, no evidence of maintenance being performed could be produced.</p> <p>Discussions established that explanations for the above omissions were difficult to obtain, as the team was in the process of transitioning from paper to electronic records and some teething issues were being experienced.</p> <p>Where appropriate records of the action taken to deal with machine faults are not held, there is a risk that meter faults may not be correctly identified or resolved in a timely manner.</p>



	<p>what NSL have counted or 'received more' or 'audit not required'.</p> <ul style="list-style-type: none"> <li>• Anything over or under £25 differences will require a machine audit.</li> <li>• In the result of an audit being required, a 'Pay and Display Variance' spreadsheet will need to be filled in showing all variances over/under <b>£25</b>.</li> </ul> <p>Any variances under or over £25 will be initially investigated using the Parkeon, 'Smartfolio' system. If this cannot be solved by using the system then the machine details will be emailed to a generic pay and display engineering mailbox (c.c. Infrastructure Manager) whereby, any of the engineers can pick this up and investigate.</p> <p>Once investigated by an engineer the results are to be emailed back to the Service Delivery Officers and copying in Infrastructure Manager. The 'Pay and Display Variance' spreadsheet will then be completed with the reason for the variance.</p>
<b>Responsible officer</b>	<b>Deadline</b>
Infrastructure Manager	Completed

**4. Priority 3 Issue**

<b>Action proposed by Management</b>	<b>Detailed Finding/Rational</b>
<p>Please see response to Item 3.</p>	<p>Procedure notes provide staff with guidance on the processes that need to be followed in completing key tasks.</p> <p>Through discussion with the Principal Service Delivery Officer and the Paid Parking &amp; Maintenance Manager it was noted that there are procedure notes in place for the various tasks undertaken in the pay &amp; display process, however, while procedures for the cash collection and refund process were available, procedures for process of reconciling the amounts and tickets handed over by NSL, as well as processes for auditing cases with material variances and any maintenance to be undertaken were not evident.</p> <p>Where procedure notes are not in place for all key tasks undertaken, there is a risk of inconsistent working practices which may lead to avoidable errors that will need to be corrected.</p>

**TERMS OF REFERENCE**

**Pay and Display Meter Maintenance and Income Collection**

**1. INTRODUCTION AND BACKGROUND**

- 1.1 The Road Traffic Regulation Act 1984 states that ‘A local authority may by order designate parking places on highways, and the authority may make charges for vehicles left in a parking place so designated.’
- 1.2 The Council had a gross income of £3,097,000 for on street pay and display meters and £1,073,000 for off street pay and display meters for the financial year of 2015/16.
- 1.3 The Council spent £64,000 in relation to equipment maintenance and renewal relating to the parking account.
- 1.4 As part of the agreed 2017/18 Internal Audit Plan, an internal audit in respect of the Pay and Display Maintenance and Income Collection was identified to be undertaken.

**2. OBJECTIVES AND METHODOLOGY**

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
  - Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

**3. SCOPE**





- 3.1 Recommendations raised include:

Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	0	1
Collection and Recording of Cash	1	0	0
Maintenance of Pay and Display Meters	0	1	0
Reconciliation of Pay and Display Income	1	0	0
Management Reporting	0	0	0
Risk Register	0	0	0

## DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

## STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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