

**Final Internal Audit Report**

**Confidential**

**Concessionary Travel – Key  
Controls Review**

**July 2022**

## Executive Summary

### Audit Opinion:

Assurance Rating	Opinion
Level 5	Level 5 - Full Assurance: The systems of internal control are excellent with a number of strengths; no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4	Level 4 - Substantial Assurance: The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3	Level 3 - Reasonable Assurance: The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2	<b>Level 2 - Limited Assurance: The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.</b>
Level 1	Level 1 - No Assurance: The systems of internal control are poor; no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

### Assurance Summary:

Assessment	Key Control Objectives
Poor	1. To ensure clarity and formal acceptance of responsibilities of WECA, North Somerset and constituent authorities for administration of Concessionary Travel.
Poor	2. To ensure calculation of Concessionary Travel reimbursement payments to bus companies is reasonable, consistent, subject to scrutiny and approval (transparency), and in line with government guidance.
Good	3. To ensure payments processed for Concessionary Travel are accurate, timely and in line with notices issued to bus companies.
Poor	4. To ensure that constituent authorities are issuing Concessionary Travel Passes in line with WECA priorities and government rules.

## Detailed Report

### Opinion:

Internal Audit has undertaken a review of the risks and controls related to Concessionary Travel and assessed the framework of internal control at level 2. A total of 6 audit recommendations are detailed in the Action Plan.

### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above. The review focussed on the high-level controls in operation across the service.

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### Context & Audit Comment:

As part of the West of England Combined Authority (WECA) 2021/22 Annual Audit Plan, an audit review has been carried out on the adequacy of the framework of risk controls in relation to Concessionary Travel.

### Background

The English National Concessionary Travel Scheme (ENCTS) guarantees free travel for people over state pension age and people with an eligible disability on all eligible local bus services anywhere in England on weekends and from 09:30 to 23:00 on weekdays. Local Authorities can provide further concessions in accordance with their local priorities. Bus operators are entitled to reimbursement for journeys undertaken by residents under the scheme to account for lost revenue and additional costs.

The Diamond Travelcard is the Concessionary Travel scheme operating across the West of England Authorities and allows cross-border travel on buses for eligible residents. WECA and North Somerset Council (NSC) are the official Travel Concession Authorities with responsibilities for administering the scheme in the respective areas, which includes calculating the reimbursements due to operators and making the payments. Management of the scheme across the West of England was previously undertaken by South Gloucestershire Council on behalf of the four West of England authorities, who at the time were each Travel Concession Authorities. In 2017 WECA took on the Travel Concession Authority role from its three constituent authorities, and South Gloucestershire Council continued to manage the scheme on behalf of WECA and NSC. In April 2020, WECA took over this scheme management role, on behalf of itself and NSC. The three constituent authorities continue to issue passes to residents in their areas on behalf of WECA, and NSC issues in its area.

### Audit Summary Findings

WECA's management and administration of the Concessionary Travel Scheme requires improvement in several areas. The service has had to focus its efforts across the last two years on supporting operators by maintaining timely payments in line with temporary government guidance during the Covid-19 period. The pandemic hampered onboarding arrangements which took place during the first national lockdown in 2020, which meant that maintenance of day-to-day service has taken priority over reviewing and updating the management and administrative processes and the related key internal controls. In particular, there are no longer formal agreements in place between WECA and the four West of England Local Authorities since the previous Concessionary Travel agreements expired in 2020. Record-keeping has also suffered, with a lack of formal procedures and guidance notes outlining the complex reimbursement rate calculations, and poor audit trails evidencing previous payment calculations. WECA has not maintained formal oversight of the local authorities that are issuing passes on its behalf and there aren't any formal mechanisms in place for ensuring rules are applied consistently.

Covid-19 payment guidance is to be phased out during 2022/23, which provides an opportunity for a full review of the management of the service and the chance to implement an improved system of internal controls to manage risks as the service returns to normal. While many of the systems reviewed as part of the audit require improvement, there is evidence of improvements already underway, with the agreements between WECA and the local authorities having been drafted, and new system / process notes being compiled. It is also positive to note that operators continued to receive payments throughout the pandemic, along with notification of their reimbursement rates and we are aware there was only one formal challenge to the rate – subsequently withdrawn.

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### We identified the following strengths:

- Passenger trip data has continued to be received and held on file throughout the pandemic, as a record of passenger numbers, supporting current and future calculations.
- The correct reimbursement rates are used in calculations for monthly payments, in line with notices issued to operators.

### We identified the following weaknesses:

- The Agreements setting out the roles and responsibilities of WECA and the West of England Local Authorities in managing the scheme administration and issuing travel passes expired in 2020.
- Although some basic procedural notes are in place or in the process of being updated, they do not currently include other key processes such as calculation of reimbursement factors and oversight of constituent authorities issuing travel passes on WECA's behalf.
- The method for calculating the reimbursement rate has not been consistently applied, although it should be noted that due to the Covid-19 pandemic the latest formal calculations were carried out prior to the service being brought in-house.
- Calculations of reimbursement rates for bus operators are not being carried out on an annual basis as per requirements in the Department for Transport (DfT) Statutory Instrument.
- There is no formal process for sign off / approval of new reimbursement rate calculations.
- There is little formal oversight by WECA of the constituent authorities which are issuing passes on behalf of WECA.

### Audit & Risk Personnel:

#### Lead Auditor:

Pete Charles

#### Acknowledgements:

Sincere thanks to the Bus Improvement Manager, Senior Transport Operators Officer, Transport Operations Officer and all service staff for their help and assistance provided throughout the audit review.

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ACTION PLAN

HIGH RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>H1</b>	<p><b>Contracts and agreements</b> The Managing Authority Agreement for 'day to day' management of the scheme has expired and although WECA has taken back the management responsibility from South Gloucestershire Council, it continues to provide management duties for North Somerset Council without a formal agreement in place.</p> <p>In addition, the Inter Authority Delivery Agreement for the constituent authorities to act as agents to assess eligibility and issue travel passes in their areas expired in March 2020, although the local authorities continue to carry out this role.</p> <p>It is acknowledged that the agreements were updated in 2020 but were not ultimately signed, likely due to the pressure and impacts of Covid-19.</p>	<p>Duties may be carried out by parties without a solid legal basis, leading to potential disputes and legal challenges.</p>	<p>A Managing Authority Agreement should be drawn up between North Somerset Council and WECA in order to detail the duties to be undertaken by WECA in the day-to-day management of the scheme on behalf of itself and North Somerset Council. The Agreement should be agreed and signed by WECA and North Somerset Council.</p> <p>A new Inter Authority Delivery Agreement should be drawn up and signed by all parties, outlining the responsibilities of the constituent authorities as agents for administering travel passes on behalf of WECA.</p>	<p>Revised agreements are being drafted and will be submitted for legal input and discussion with the parties involved.</p> <p>Responsible officer: Andy Strong Completion date: 31 December 2022.</p>

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<b>HIGH RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>H2</b>	<p><b>Reimbursement Rate Calculation Method</b></p> <p>The method for calculating the reimbursement rate is not consistently applied, although it should be noted that due to the Covid-19 that the latest formal calculations were carried out prior to the service being brought in-house. For one of the four operators reviewed there was not a formal record on file to show how the current figures were calculated.</p>	<p>Incorrect payments may be paid to operators, leading to over- or underspends. Calculations may not be adjusted timely to take into account changes in costs.</p>	<p>A standard model should be adopted for reimbursement rate calculations and reviewed on an annual basis to ensure it complies with government guidance and WECA priorities and resources. This method should be formally documented and approved by Management, with version control recorded on the document.</p> <p>Evidence of the payment calculations made should be retained on file for audit and reference purposes.</p>	<p>Agreed</p> <p>Responsible officer: Andy Strong Completion date: 30 November 2022.</p>

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<b>HIGH RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>H3</b>	<p><b>Annual review of reimbursement calculations</b>                      Formal calculations of reimbursement rates for bus operators are not being carried out on an annual basis as required by the DfT Statutory Instrument. Based on a sample of four calculations it was noted that there was not any evidence of a formal calculation since 2018/19 for two operators, 2017/18 for one operator and none at all for the fourth operator in the sample. It should be noted that operators continue to receive formal letters from WECA on an annual basis with the reimbursement rates and there have been few challenges which indicates that operators are generally satisfied with the rates in use.</p>	<p>Reimbursements may become out of line with operator costs, resulting in under or over-payments. WECA may be subject to additional challenge from operators.</p>	<p>WECA should make proportionate provision to review the calculations made in accordance with the Authority's standard method at least once in each period of 12 months that the relevant reimbursement arrangement is in operation.</p> <p>Evidence of review of annual calculations should be recorded on file for future reference.</p>	<p>Agreed – this will take the form of an annual submission of basic data from operators to allow a review to be carried out without placing a disproportionately onerous burden on them.</p> <p>Responsible officer: Andy Strong                      Completion date: 31 December 2022.</p>



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<b>MEDIUM RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M1</b>	<p><b>Procedural notes</b> Although some basic procedural notes are in place, (covering the reimbursement process for bus operators), or in the process of being updated they do not currently include other key processes such as calculation of reimbursement rates, or interaction and oversight of constituent authorities for issuing travel passes. The process notes that were in place were not version controlled.</p>	<p>Procedures may be applied inconsistently leading to incorrect reimbursement rates and financial loss, or additional costs due to challenges by operators.</p>	<p>The procedural notes for reimbursing bus operators should be updated and finalised to cover existing processes. Additional procedural guidance should be drawn up to cover other key processes, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Calculation of reimbursement factors</li> <li>• Oversight and interaction with constituent authorities for issuing travel passes</li> </ul> <p>These documents should be subject to annual review with recorded version control.</p>	<p>Agreed. Responsible officer: Andy Strong Completion date: 31 December 2022.</p>

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<b>MEDIUM RISK EXPOSURE</b>				
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<b>M2</b>	<p><b>Approval of Reimbursement Rate Calculations</b> There is no formal process for sign-off / approval of new reimbursement rate calculations.</p>	<p>Calculations could be created with errors or inconsistencies, leading to over- or under-payments to operators. There is also an increased risk of corruption or collusion with operators leading to financial loss and reputational damage.</p>	<p>Reimbursement rate calculations should be approved and signed off by management before being communicated to operators. Evidence of sign off should be recorded on file for audit purposes – providing an audit trail and evidence of management check (accountability).</p>	<p>Agreed Responsible officer: Andy Strong Completion date: 31 August 2022</p>

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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>M3</b>	<p><b>Oversight of Issuing Passes</b> There is little formal oversight by WECA of the constituent authorities which are issuing passes on behalf of WECA. In particular:</p> <ul style="list-style-type: none"> <li>• No information of performance is provided (e.g. passes issued, time taken to process applications)</li> <li>• Monthly information is not provided on stock levels, as required by the DfT.</li> <li>• No verification checks are undertaken to verify that the Agents are issuing passes in line with their responsibilities</li> <li>• There are no regular meetings with individual authorities or as a group to ensure consistency of service across the constituent authorities.</li> </ul>	<p>Procedures may be applied inconsistently leading to incorrect reimbursement rates and financial loss, or additional costs and administration due to challenges by operators.</p>	<p>WECA should implement measures to ensure appropriate oversight of issuing of Concessionary Travel passes, in line with WECA's obligations as the Concessionary Travel Authority for the region, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining monthly information on performance, such as stock levels (as required by the DfT) and passes issued.</li> <li>• Undertaking verification spot checks or audits on the issuing of passes by the Local Authorities. In respect of online issues, this will involve liaison with the software provider.</li> <li>• Host regular meetings with Officers responsible for issuing travel passes at the constituent authorities to encourage collaboration, transparency and sharing of good/best practice.</li> </ul>	<p>Agreed Responsible officer: Andy Strong Completion date: 30 September 2022</p>