

Audit Committee

Tuesday, 17 November 2015

Additional Information

Agenda Item No. 6 – Internal Audit follow-up review: Licensing (Taxi and Private Hire)

APPENDIX 2

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Swindon Internal Audit Services

Licensing Private Hire and Taxis Follow Up Review

November 2015
(Final)

Contents and Distribution

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Report Distribution – Final Report issued on 12th November 2015 to:

Kathryn Ashton	Licensing Manager
Mike Shears	Taxi Licensing and Contracts Team Leader
Richard Bell	Head of Planning, Regulatory Services, Heritage and Libraries
Adrian Arnold	Head of Finance, Delivery
Bernie Brannan	Board Director, Service Delivery

Auditor:

Steve Hayward Senior Auditor

Executive Summary

Background

On inheriting the Licensing service following a business re-structure in 2014/15 the Head of Planning, Regulatory Services, Heritage and Libraries requested an internal audit be carried out to provide assurance over the private hire and taxi licensing service provided by the Council. An Internal Audit review was undertaken in late 2014 and a final report was issued in December 2014. The report found that there were 'fundamental weaknesses' in systems controls. As the service was considered to have a high impact and materiality, this led to an overall risk to the Council of "significant".

The full report was taken to Audit Committee in March 2015. At the committee meeting the service area provided an update on measures taken to date to address the issues raised in the report.

In line with best practice, a follow up review has been undertaken to ensure that agreed recommendations have been implemented.

Audit Opinion

The Auditor's opinion is that there has been some improvement in the procedures and controls within the Taxi Licensing service. However, recommendations relating to segregation of duties and financial reconciliations, key performance indicators and logical access controls (passwords) to the database used by the Taxi Licensing Team have yet to be implemented. Therefore, whilst improvements have been made, significant recommendations remain outstanding. The overall risk assessment has therefore been reduced from 'significant' to '**of concern**'. However, if the recommendations relating to income reconciliation are fully implemented then the overall audit opinion would be Satisfactory.

Key Messages

The Licensing Manager and her staff have made significant progress in implementing the audit recommendation that all licensed private hire and taxi drivers should have up-to-date Disclosure and Baring Service (DBS) criminal record checks. This major exercise is near completion and DBS information is being logged onto the Taxi Licensing database (Lalpac). From February 2016 all drivers will have an up-to-date DBS check and these checks will be renewed on a three yearly basis in accordance with best practice guidance issued by the Department of Transport.

The Licensing Manager advised that following the implementation of this audit recommendation a DBS check for one driver has resulted in him being listed to appear before the Licensing Sub Committee to consider whether any action is required.

At the time of the audit seven licensed drivers have not completed the necessary information requested by the Council in order to conduct DBS checks. The licences relating to these drivers expire on or before the end of January 2016 and will not be renewed in

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the absence of a new DBS check. However, it is noted that the Criminal Record Bureau checks for three of these licensed drivers have expired (two in 2014 and one in 2015) and the other four are recorded as having Police checks conducted in 2003.

Recommendations have been made for the Licensing Manager to seek a Police check under section 115 of the Crime and Disorder Act 1998 (S115) i.e. for a disclosure of any issues that may affect the use of the drivers' private hire/taxi licence. Following the DBS checks conducted and where any issues come to light, the Licensing Manager and the Taxi Licensing Contracts Team Leader need to evaluate the issues and evidence against Council's Hackney Carriage and Private Hire Handbook entitled "*Guidelines Relating to the Relevance of Convictions*".

A high priority recommendation made in the original audit report has yet to be implemented regarding the analysis and reconciliation of approximately £250,000 of income per year. This recommendation has been enhanced to improve segregation of duties controls raised in the original audit. Central Finance made further cash income analysis codes available for this purpose from July 2015 however these were not in use during the course of the audit. There is a risk of error, fraud or corruption in the absence of these controls being in place and operating effectively.

Following the last audit, service fees have been reviewed by the Licensing Manager to ensure that they cover the cost of the service. The new licensing fees were considered and agreed by Cabinet to go to a 28 day consultation on 15th July 2015. The basis of setting these fees was not in place at the time of audit, however during the review it has been established from the Finance Manager for Housing, Treasury and Growth that the level of fees have been set on a 'no more, no less' basis to ensure that the cost of service is neutral. In 2014/15 the net position after recharges was a shortfall of income to cover charges of £19,519.86. The estimated position for 2015/16, including new charges applying for January through to March 2016, will be a debit balance of £1,713.23

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Key improvements made since the last audit

The following improvements in controls and practices have been noted as taking place since the last audit review:

- Applicant's personal data is kept securely when not in use. A review of what to retain in files has been undertaken. Old files have been archived to storage at Hillmead and boxes of information of applicant's personal data are no longer stored on the office floor.
- The required National Fraud Initiative fair processing notice has been included on relevant licensing forms including those available on-line.
- All drivers, except those with a current DBS check recorded against them, have been offered the opportunity to have a DBS check undertaken and paid for by the Council. To date, DBS checks have been completed for all licensed drivers with the exception of seven. The licences for these drivers expire on or before 29th January 2016 and will not be renewed without a satisfactory DBS check. During the audit the Licensing Manager agreed to request a screening check for these drivers with Wiltshire Police to establish whether there are any issues that the Licensing Authority needs to be aware of.
- Revised fees were submitted to Cabinet and approved subject to consultation. These fees are designed to cover the cost of the service provided.
- A decision was made that all private hire and taxi drivers should be able to use bus lanes. Previously drivers had to request this. Any fee implications have now been included in the fee review.

Areas of concern/Risk

The following areas of concern have been identified during the review:

- Seven of the 657 drivers identified as not having an up to date DBS check as of March 2015 have yet to provide information needed to undertake a DBS check. However, Police screening checks have been requested.
- Where a licence is granted following adverse information on a DBS check or disclosure made by the Police under section 115 of the Crime and Disorder Act 1998, where it has not gone to the Licensing Committee for a decision, should be recorded on the notes screen on Lalpac.
- Regular reporting of drivers due a DBS check is not produced from Lalpac. Although this reporting functionality is not available within the Lalpac data this is expected to be available following the move to the Uniform data base.
- A full and independent reconciliation between income collected, services provided and supporting documentation has yet to be implemented; over £250,000 in fees is collected annually. At the time of the last audit sufficient detail of Private Hire and Taxi related income received and processed by customer services was not available. To remedy this situation Corporate Finance set up further analysis codes in July 2015 to enable this reconciliation. Following a request from the Licensing Manager in January 2015, the Oracle Team Leader set up a 'live' report template in March 2015 which is linked to the cash management system. This report identifies the nature of income received through customer services so that income can be analysed and coded appropriately.
- The Licensing Manager stated that Key Performance Indicators, which the service area indicated would be in place from April 2015 have been agreed but not yet been published.

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Overall Opinion

Materiality and Impact: High. Income from the 1,900 (approximately) Swindon Borough Council licensed private hire drivers, taxi drivers and operators is approximately £250,000. Materiality is therefore **low**. However, there is potentially significant risk to members of the public if drivers who would have failed a DBS check or declaration under Section 115 Crime and Disorder Act 1988 have not had up-to-date checks. This would also result in reputational risk to the Council if members of the public were put in danger due to the Council not providing a robust service, including checks on drivers and cars. Impact is therefore **high**.

Changes since the last audit: The table below is a summary of the progress made in implementing the recommendations from the 2014/15 audit

Priority of Recommendations	Total	Implemented	Partially Implemented	Not Implemented
High	8	5	0	3
Medium	4	3	0	1
Low	0	0	0	0
Total	12	8	0	4

Opinion on system controls: Significant improvements required (see Appendix A) i.e. the Auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.

Overall Assessment of Risk: the combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**. However, if the recommendations relating to income reconciliation are fully implemented then the overall audit opinion would be Satisfactory.

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

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Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the follow up audit of the Licensing Private Hire and Taxis service, together with the recommendations to mitigate risks, the manager's response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Policies and Procedures</i>			
1.1	<p>Procedures The new process for on-line DBS checks has not been documented. The procedures are not version controlled or indicate when they were last reviewed.</p> <p>Risk: wrong processes followed</p>	<p>The new process for the on-line DBS reviews should be documented in the appropriate procedure notes.</p> <p>All procedures should be version controlled and show the date of last review.</p> <p>Priority: Medium</p>	Licensing Manager December 2015	<p>Agreed As good practice procedures are being reviewed as an on-going process and will be updated as and when necessary.</p> <p>This will include the most recent fee structure in November 2015 and the online DBS checks. However, all drivers are sent written instructions in respect of this service.</p> <p>Nevertheless disagree that the wrong processes could be followed and that indeed this is classed as a medium priority.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	Risk: Policies and Procedures			
1.2	<p>Key Performance Indicators (KPI's) In the original audit report a recommendation relating to performance management and monitoring of the Licensing Service has yet to be implemented. Key performance indicators were recommended to be put in place so progress and improvement in local service delivery could be effectively monitored. An example of relevant service KPI's were provided in the initial report which was adopted by Derby Council.</p> <p>The Licensing Manager stated that key performance indicators for private hire and taxis have been agreed but they have yet to be published, although it was reported to Audit Committee that this would start from April 2015.</p> <p>Risk: performance not managed</p>	<p>Local Key Performance Indicators for private hire and taxis should be published so that the service can be effectively monitored and managed and to also benchmark performance against other Councils.</p> <p>Priority: Medium</p> <p><i>This recommendation is outstanding from the 2014/15 audit.</i></p>	<p>Licensing Manager December 2015</p>	<p>Agreed KPI's have been identified and reporting has started from November 2015</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	<i>Risk: Applications and renewals</i>			
2.1	<p>Disclosure and Baring Services checks</p> <p>The service has undertaken a one off exercise whereby the 657 private hire and taxi drivers who did not have a current CRB/DBS were offered the chance to have a DBS check paid for by the Council.</p> <p>Following this exercise one case has been referred to the Licensing Committee</p> <p>At the time of audit there were seven registered private hire/taxi drivers that had not yet taken up the DBS check. Checks expired for three drivers (two expired in 2014 and one in 2015 and the other four were Police checked in 2003). The private hire/taxi licences for these drivers expire on or before 31st January 2016. The Licensing Team are trying to contact these drivers to encourage them to take up the free DBS check.</p> <p>The Licensing Manager has advised that new licences will be subject to a satisfactory DBS check. By February 2016 all drivers will have DBS checks in place to support the issue of private hire/taxi licences.</p> <p>Risk: the public may be at risk/ reputational damage to the Council.</p>	<p>Private Hire/Taxi drivers who do not have a new and satisfactory DBS check in place should be subject to a screening check with Wiltshire Police under section 115 of the Crime and Disorder Act 1998 (S115) i.e. for a disclosure of any issues that make affect the use of the drivers' private hire/taxi licence.</p> <p>Consideration should be given to any appropriate action deemed necessary by Officers or Licensing Sub Committee</p> <p>Priority: High</p>	<p>Licensing Manager</p> <p>December 2015</p>	<p>Agreed</p> <p>However, the position is that as of 11th November 2015 there is only one licensed driver who has not satisfactorily completed the necessary information requested by the Council in order to conduct the DBS checks. Nevertheless information obtained by the Licensing Authority following checks with all Private Hire Operators indicates that he has ceased working as a Private Hire Driver. His Licence has therefore been terminated.</p> <p>Therefore there are no current licensed drivers who do not have an up to date DBS check.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	<i>Risk: Applications and renewals</i>			
2.2	<p>Disclosure and Barring Service results</p> <p>There is an agreed documented process in place to cover the situation where a decision on awarding a licence is not straight forward based on the results of a DBS check.</p> <p>There is a section in the Council's Hackney Carriage and Private Hire Handbook entitled "Guidelines Relating To The Relevance Of Convictions". However, where a licence is granted following adverse information on a DBS the reasons and officer(s) making the decision, where it has not gone to the Licensing Committee for a decision, are not recorded on the notes screen within Lalpac.</p> <p>Although it is understood that a record of any conviction is recorded on a separate conviction screen, there is no record that this has been taken into account when issuing the licence.</p> <p>Risk: the public may be at risk/ reputational damage to the Council</p>	<p>Where a DBS contains qualified information, but a decision is taken by the Licensing Manager and the Taxi Licensing Team Leader, the reasons should be recorded on Lalpac on the notes screen.</p> <p>Priority: High</p>	<p>Licensing Manager December 2015</p>	<p>Partly agree</p> <p>However, in the one case highlighted as part of this audit, the conviction was recorded on the conviction screen of Lalpac and was taken into account by the Taxi Licensing and Contracts Team Leader at the time of issuing the licence and recorded on the drivers hard copy file.</p> <p>However, further notes are now being recorded on Lalpac and will continue until the transfer to the Uniform system.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	<i>Risk: Applications and renewals</i>			
2.3	<p>Disclosure and Baring Service results</p> <p>The service has undertaken an exercise where the 657 private hire and taxi drivers who did not have a current DBS were offered the chance to have a DBS check paid for by the Council.</p> <p>At the time of the audit the team are managing the outstanding seven cases where they still need to have sight of the DBS certificate.</p> <p>Risk: the public may be at risk/ reputational damage to the Council.</p>	<p>On transfer of the service management information system from Lalpac to Uniform run regular management reports to identify those drivers due a DBS check.</p> <p>Priority: High</p>	<p>Licensing Manager April 2016</p>	<p>Agreed</p> <p>All completed DBS checks of the 655 drivers have been seen by the Licensing Manager or Taxi Licensing and Contract Team Leader. (This 655 is of the 657 identified in March 2015 and excludes the 2 drivers viz. one expired on 11/11/2015 and one terminated.)</p> <p>All have their DBS checks entered on the Lalpac system but reporting is not carried out from this system as it is covered by the GB Group online system which shows the accurate position of all checks to date. It would merely duplicate this system if Lalpac were used for reporting and is not as efficient for this process.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Licence Register</i>			
3.1	<p>Lalpac access controls</p> <p>The Lalpac access controls do not yet meet the Council's IT Security policy. Currently password changes are set at 90 days or more, when they should be no more than 60 days.</p> <p>Risk: inappropriate access</p>	<p>The frequency of the need to change passwords should be reduced to 60 days or less to meet the Council's IT Security policy.</p> <p>It is acknowledged that this risk will cease on transfer of data from the Lalpac system to Uniform.</p> <p>Priority: Medium</p> <p><i>This recommendation is outstanding from the 2014/15 audit.</i></p>	<p>Licensing Manager</p> <p>December 2015</p>	<p>Agreed and implemented.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Licence Register</i>			
3.2	<p>Lalpac System Administrators</p> <p>Two of the Taxi Licensing Team have system administrator privileges. However, they do not have separate sign ons for this activity, rather using one log on for both day to day and system administrator work. This is contrary to best practice as it does not facilitate control over system administrator activity.</p> <p>It is noted that when the section migrate from Lalpac to Uniform this risk can be mitigated by reducing the privileges currently available to the Lalpac system administrators. Uniform has its own systems administrators. These are independent of the operational areas, and although there is local service area system administration they do not have full system administration privileges.</p> <p>Risk: inappropriate use of access rights</p>	<p>The Lalpac systems administrators should have two sign ons, one for their operational work and another for their system administration activity. Alternatively, the system administrator role could be split from the licensing staff operational role.</p> <p>Following implementation of the above mentioned recommendation, reports should be produced of system administrator activity and these reviewed by an independent officer for appropriateness of activity.</p> <p>Priority: Medium</p>	<p>Licensing Manager December 2015</p>	<p>Disagree</p> <p>This is normal practice with the Uniform system used for the remainder of Regulatory Services. Uniform will be utilised for taxi licensing from April 2016.</p> <p>It is not considered that the risk is high and it is not practicable or possible to have users assigned to separate logins.</p> <p>Lalpac is a bespoke licensing software package and utilised by many local authorities in the same way without identified risk.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
4	Risk: Fees and charges			
4.1	<p>Reconciliation</p> <p>The Taxi Licensing Team has yet to action the agreed recommendation to reconcile income received and entered on Lalpac to that posted to Oracle Financials analysis codes.</p> <p>Corporate Finance has set up further income analysis codes within Oracle Financials from July 2015 to support the reconciliation. The Oracle Team Leader has also produced weekly reports of income received through customer services for private hire and taxis so periodic reconciliations can be undertaken.</p> <p>The reconciliation process should identify all income due is collected and banked. This should identify any discrepancies between e.g. licenses issued and income collected.</p> <p>Risk: fraud, error and corruption.</p>	<p>An independent reconciliation between Lalpac, (fees collected) supporting documentation and the General Ledger (income posted) should be devised and implemented.</p> <p>Priority: High</p> <p><i>This recommendation is outstanding from the 2014/15 audit.</i></p>	<p>Licensing Manager in conjunction with the relevant Finance Department Senior Accounting Technician</p> <p>December 2015</p>	<p>Agreed</p> <p>The reconciliation has been completed as the new fees were agreed by Cabinet late October 2015 and appropriately implemented as on 1 November 2015. All new codes are now in use. This enables the full reconciliation required. On-going reporting is in place.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
4	<i>Risk: Fees and charges</i>			
4.2	<p>Whilst cash is the most popular method of payment for private hire and taxi licensing, this is mainly due to the nature of the business. However, other services within the Council have moved to cashless pay which mitigates the risk and cost of cash handling, banking and security.</p> <p>Analysis showed that over the last five years there is a decline in cash payments for the service and an increase in non-cash payments. In 2011 63% of payments were in cash, 37% non-cash (cheque/card). So far in 2015, it is 57% cash and 43% non-cash.</p> <p>Risk: misappropriation and/or loss of income</p>	<p>Consult with the trade over a switch from cash to cashless payments, with a view to setting a date when cash will no longer be accepted. This has already been introduced successfully in a number of other local authorities.</p> <p>Priority: Medium</p> <p><i>This recommendation is outstanding from the 2014/15 audit.</i></p>	<p>Licensing Manager December 2015</p>	<p>Agree recommendation, however, concerned with lack of detail regarding the analysis.</p> <p>It has been agreed that this will be discussed with the trade via regular taxi forums to gather views. However, the risk of no cash payments the Taxi Licensing Section means that until monies are cleared licences cannot be issued. If cheques are an accepted method this will cause difficulties that licences could not be issued until clearance and this would restrict their livelihoods present challenges under human rights issues. The feedback from our customers is that they would oppose the move from cash. It is considered far better to secure licence fees than obstruct applicants.</p> <p>There have also recently been fraudulent cheques produced to SBC in other areas. Not all our customers have bank accounts.</p> <p>Audit Comment: Details of income analysis was obtained from relevant cash sheets. Further detail of this analysis will be provided by Internal Audit.</p>

Standard Audit Opinions	Standard Audit Opinion System Control
<p>The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.</p> <p>The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).</p>	<p>Audit Opinion 1. High standard The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made</p> <p>Audit Opinion 2. Satisfactory standard The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.</p> <p>Audit Opinion 3. Significant improvements required The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.</p>
<p>The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).</p>	<p>Audit Opinion 4. Fundamental weaknesses identified The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.</p>

Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

Name	Job Title
Kathryn Ashton	Licensing Manager
Mike Shears	Taxi Licensing and Contracts Team Leader
Jackie Wells	Transport Assistant
Ruth Walsh	Transport Assistant
Michayla Tipping	Assistant Licensing Officer
Menna Stapley	Senior Accounting Technician
Adrian Arnold	Head of Finance, Delivery