

## **LGSS Audit & Risk Management Service**

# **Internal Audit Report Street Lighting – Energy Management**

CCC

Client: ETE Directorate

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Final report to: Graham Hughes, Executive  
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John Onslow, Service  
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Tom Blackburne-Maze,  
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Commissioning.

July 2014

Date: Mairead Kelly

Lead Auditor: Final

Status of report: Limited Assurance

Internal Audit Opinion:

September 2014

Audit and Accounts Committee Date:

# Executive Summary

## Assurance Summary

Process Area	No	Limited	Moderate	Substantial	Full
Appropriate controls are in place to mitigate the risk that the Council pays the energy costs of street lighting furniture which are not the Council's responsibility.					
Appropriate controls are in place to mitigate the risk that the Council pays energy costs at the incorrect rate.					
<b>Overall</b>					

### Note

*All Internal Audit reports are available on a confidential basis to Senior Management and the Audit and Accounts Committee as a matter of course. The main points of this report and the overall assurance level will be summarised for the Audit and Accounts Committee in a report that is made available within the public domain.*

*We will follow up the agreed actions contained in this report in line with individual timescales and report on progress to Management and the Audit and Accounts Committee.*

## 1. Background to the review

Following the review of both the corporate and service risk registers, the Annual Internal Audit Plan 2014/15 included an audit review of Street Lighting. Following discussion with the Head of Assets & Commissioning, it was agreed to focus the audit on street lighting energy management arrangements.

In Cambridgeshire, the provision and maintenance of street lighting is managed by Balfour Beatty under the terms of a PFI agreement, and a major programme of street lighting replacement and rationalisation is taking place. The PFI contract does not cover the actual supply of electricity, for which the Council pays Southern Electric directly. In the 2013/14 financial year, the Council paid approximately £1.9m for street lighting electricity.

Street lighting constitutes an unmetered supply of electricity, meaning that the Council's billing from Southern Electric is based on estimated monthly usage. In order for the usage to be estimated accurately, on a monthly basis Balfour Beatty takes a 'snapshot' of the Council's current inventory of street lighting

furniture, which it holds and maintains on its Mayrise database. This is then sent to UK Power Networks, the Council's statutory Unmetered Supplies Operator (UMSO), which reformats the information into a summarised inventory that is sent to Power Data Associates, the Council's statutory meter administrator, which calculates the estimated monthly usage using ELEXON-approved software. Finally this information is forwarded to Southern Electric, which issues a bill based on the estimated usage and the current rates, which are set annually.

Included in the inventory of street lighting furniture, and consequently in the billing from Southern Electric, are lights owned by Fenland District Council and a number of Parish Councils. Cambridgeshire pays Southern Electric for the electricity for this lighting, and then recharges the cost to the councils, plus a 5% administration fee, on a monthly basis for Fenland District Council, and on a six-monthly (shortly to move to annual) basis for the Parish Councils. The amounts in question for the year from March 2013 – February 2014 equated to approximately £50,000 paid on behalf of Fenland District Council, and £130,000 paid on behalf of Parish Councils.

## **1.1 Key Risks**

The Council's corporate risk register includes the high level risk:

- Risk 4: The Council does not achieve best value from its procurement and contracts

Subsequent service-related risks identified through discussions with key individuals were:

- Risk 1: The Council pays the energy costs of street lighting furniture which are not the Council's responsibility.
- Risk 2: The Council pays or recharges energy costs for street lighting furniture at the incorrect rate.

## **1.2 Objectives**

To provide management with assurance that there are appropriate controls in place to effectively mitigate the risk that the Council pays energy costs at the incorrect rate or for street lighting furniture which is not its responsibility.

## **1.3 Approach**

Internal Audit's approach to the completion of this review was to obtain and document an understanding of the internal controls in place and assess whether there are adequate controls in operation to mitigate the risks outlined above. In order to test the operating effectiveness of the controls in place we performed sample testing, interviewed relevant officers and reviewed relevant documentation.

## **2. Internal Audit Opinion, Main Conclusions and Good Practice**

### **2.1 Main conclusions**

2.1.1 Based on the completion of our fieldwork we are giving **limited** assurance over whether the Street Lighting service is meeting the objectives outlined above.

2.1.2 Our review identified a number of areas of good practice. Officers engaged positively with the audit process and were quick to respond to requests for information. It must be noted that a significant proportion of the staff in the Street Lighting service are new in post and this has naturally impacted on the knowledge of historic service issues. Staff have been active in working to resolve the ongoing problems caused by the inaccurate inventory which was passed from Cambridgeshire County Council to Balfour Beatty at the start of the PFI contract. However, the level of assurance is 'limited' due to a number of issues identified as part of the audit process.

#### **2.1.3 Oversight and controls:**

A number of expected checks are not currently taking place within the service. Billing from Southern Electric is not reconciled to the energy usage estimates provided by Power Data Associates, the Council's meter administrators, and electricity rates are not checked before bills are paid. Furthermore, while most additions to the street lighting inventory are made by Balfour Beatty as part of the programme of replacement works, occasionally the Council identifies further lights which have previously been missed off the inventory and therefore also need to be added to the database, known as accruals, and currently no checks take place to verify whether accruals are added to the database by Balfour Beatty in a timely manner. Service managers have stated that they intend to introduce regular checks regarding the addition of accruals to the street lighting inventory once the current backlog caused by the inaccurate initial PFI inventory is cleared. We did not identify a clear plan for when this testing will be introduced, who will conduct it, or the nature of the planned checks. As the inventory is the basis of the estimated electricity usage figures on which Southern Electric base their billing, an inaccurate inventory means that the Council will not be paying the correct amount for its electricity.

2.1.4 The service does not appear to have oversight of the billing process. The Council is not copied in to the inventory submission which is sent by Balfour Beatty to UK Power Networks to begin the energy usage estimation and billing process every month. This means that no checks take place to confirm that the submission is accurate, up-to-date and is sent at the correct time of the month. Consequently, if there are any issues with the process, the Council

is not made aware of this, which may result in inaccurate billing being issued and paid. As part of the audit, two months' submissions were reviewed and on one of these occasions the submission had been made incorrectly by Balfour Beatty, which had created confusion at Power Data Associates, who believed they had not been sent a submission for that month and based their billing on the previous month's inventory. Cambridgeshire County Council were, however, unaware of this and the fact that billing for the month was therefore based on an out-of-date inventory,

#### **2.1.5 Access to Information:**

The review identified that the service is, in some cases, heavily reliant on partner organisations to gain access to information which should be held in-house. When the Auditor sought copies of both the monthly reports from and the Council's contract with Power Data Associates, PDA had to be contacted to provide this information as it could not be accessed in-house. This was partly due to the fact that a staff member had moved on, and the monthly reporting which had been sent to them was not stored so that other team members could access it after their departure.

#### **2.1.6 Billing to Parish Councils:**

Significant issues were identified with the billing issued to parish councils for street lighting electricity, which the Council initially pays to Southern Electric. Billing was issued using an incorrect rate per kWh, which was too low, and against a different inventory to the one used as the foundation for Southern Electric's up-front billing, which appears to have resulted in the Council charging Parishes for more street lighting furniture than we were actually billed for. Additionally, the bills were calculated on a different basis to the original bills from Southern Electric, and no checks took place to ascertain whether the amount billed to parishes matched the amount paid for Parish electricity over the same period. As a result of these issues, the Council is not charging parish councils the same amount for street lighting electricity as it is paying. The net difference is approximately £8,000 overcharged by the Council; although the difference is relatively small, this is due in part to the fact that the effects of different errors partially balance one another out. It has now been established that in future the Council will be able to calculate billing on the same basis as the original bills are calculated by Southern Electric, thanks to a more detailed report which Power Data Associates can produce.

- 2.1.7 The review also identified that the Council had paid significant amounts of money in advance to Southern Electric for lighting furniture belonging to parish councils. However a number of parish councils had already paid for their electricity directly or via Fenland District Council. The service feel that the Council are unlikely to be able to recoup this cost, as the Council itself provided the erroneous inventory on which the charges for these lights were based. The full cost of this is not yet clear but is expected to be approximately £22,000 for the period April to September 2013, and a similar amount for the next six months. No attempt has been made to approach Southern Electric to try to recoup the charges; the service state that they believe they may owe Southern Electric approximately £10,000 due to a separate issue outside the

scope of this audit, and therefore will not approach Southern Electric until this has been clarified. Although work has started to address this issue, in the interim the Council is still paying for these lights. A clear process for removing this lighting furniture from the database as quickly as possible has not been set out, nor is it entirely clear when or by whom this will be done. There are no formal agreements in place with parish councils for which Cambridgeshire pays electric costs in advance, creating a risk that in future if any parish councils should decide to begin paying for their electricity directly or their inventories change, the Council may not be made aware of this and consequently may continue paying for electricity for which it will not be reimbursed.

#### **2.1.8 Fenland District Council Lighting:**

As mentioned above, it has been identified that a number of parishes that the Council was expecting to charge individually for their street lighting electricity, actually have an agreement with Fenland District Council that it will pay for their street lighting costs. This has created some confusion, as Fenland District Council lighting is also initially paid up-front by Cambridgeshire and is then recharged to the District. It seems possible that the costs of these lights have simply been mislabelled on the inventory as belonging to Parishes rather than the District Council and consequently they would have been missed off the monthly charges to Fenland District Council and will need to be recharged; equally, they may have been double-counted. However, although the service has stated that they do not believe that these lights are being double-counted by Cambridgeshire, they have not been able to clarify the situation or how it is being dealt with.

### **2.2 Good Practice**

Areas of good practice are listed at **Appendix 1**.


### **2.3 Main findings**


For each of the issues identified we have detailed our findings in the accompanying action plan, which managers have reviewed and provided agreed actions to address these findings. When implemented these will positively improve the control environment and aid the Authority in its ability to effectively manage its risks.



### **2.4 Acknowledgement**


We would like to take this opportunity to thank all members of staff whom we contacted during the course of this review for their time and assistance.


# Findings and Management Responses



Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
<p>1.</p> 	<p><b>Mayrise Database – Accruals Inventory Checks:</b></p> <p>The Mayrise database contains an inventory of all Cambridgeshire County Council street lighting furniture, and is maintained by Balfour Beatty as per the PFI contract. Errors within the inventory which was initially passed to Balfour Beatty at the start of the contract came to light once the PFI was in operation, and the database has subsequently been significantly revised. This process resulted in a backlog of accruals, some of which still have yet to be added to the database.</p> <p>As street lighting is an unmetered supply of electricity, the monthly charges made to the Council by Southern Electric are calculated according to the estimated usage based on the current inventory. Consequently, inaccuracies in the database will lead to inaccurate charges by Southern Electric.</p> <p>Given the large number of street lights held by the Council, it is not possible to conduct regular checks on the accuracy of the entire database. Some checks are undertaken on a six-monthly basis by the Council's Independent Certifiers, and the Commission Monitoring Manager also undertakes some checking on an ad-hoc basis when visiting sites. However, at present no testing takes place which specifically looks at the process of accruals, where lights are identified by the Council to be added to the database outside of the scope of the replacement programme, for instance if they were missed out of the original inventory. This process may be seen to be more 'high-risk' in terms of maintaining an accurate inventory, as a large backlog of accruals has previously built up, and the accruals process itself involves contact between a number of different services.</p> <p>The service has stated that it intends to implement a system of random sample testing to be conducted on this process as soon as the current backlog is cleared, but it is not clear what the scale of these checks will</p>	<p>The backlog of accruals is now cleared; all outstanding accruals have been processed and entered onto the Mayrise system. A new process has been introduced, to ensure that all accruals are physically tested within 10 working days so that Cambridgeshire County Council are able to recharge these costs to the Development Team. The asset details are then passed to Balfour Beatty to enter onto the Mayrise system. A time-frame is specified for the details to be entered onto Mayrise; the length of time allowed will vary dependent on the quantity within the batch.</p> <p>A random inventory check will be carried out on a quarterly basis to ensure that the accruals information has been entered correctly onto the Mayrise database. To enable these checks to take place, each batch of accruals passed to Balfour Beatty is listed and the information is kept on our (CCC) system.</p>	<p><b>Sally Savage</b> 1<sup>st</sup> April 2014</p> <p><b>Ben Jakes</b> 31<sup>st</sup> July 2014</p>


Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
	<p>be, who will conduct them, or when this testing will be implemented. Equally implementing this testing while the backlog of accruals is still being cleared might provide impetus for the contractor to ensure that this is done as quickly as possible.</p>		
<p><b>2.</b></p> 	<p><b>Inventory Submission to UK Power Networks:</b></p> <p>On a monthly basis, Balfour Beatty supply UK Power Networks (the Unmetered Supplies Operator) with a copy of the complete Mayrise inventory. UKPN then reformat this into a summary inventory, which they then forward to Power Data Associates (the meter administrators), who convert the inventory into estimated energy usage for the month and forward this on to Southern Electric.</p> <p>Because this 'snapshot' of the inventory forms the basis of the month's billing from Southern Electric, it is important that the snapshot is taken at the correct time of the month, after monthly monitoring reports are completed, and that this is sent to UKPN in a timely manner. At present, the Council is not copied in to the email from Balfour Beatty to UKPN and thus there is no oversight of this process by Cambridgeshire, either with regards to the timing of the submission or the accuracy of the inventory which is sent.</p> <p>Limited testing of this process for December 2013 and January 2014 was conducted as part of this audit, and this identified that in January, a file with the wrong name was submitted by Balfour Beatty, and consequently Power Data Associates had no record of any January submission but stated that they had used the previous month's submission as the basis for January's power usage estimate. It therefore appears that should any problems arise with this process, the Council would not be notified and, as they are not copied in to the inventory submission email to UKPN, would remain completely unaware of any issues.</p>	<p>A member of Council staff has now been trained in submitting the monthly inventory submission to UK Power Networks so that there is a member of staff at Cambridgeshire who understands this process. The service will henceforth be copied into every submission made by Balfour Beatty, and a copy of each submission will be saved in an electronic folder which is accessible to the whole team.</p>	<p><b>Ben Jakes</b> 15<sup>th</sup> June 2014</p>
<p><b>3.</b></p>	<p><b>Reconciliation of Southern Electric billing to Power Data Associates Reports:</b></p> <p>Given the complexity of the process by which electricity usage is</p>	<p>Power Data Associates have been contacted and will henceforth be copying a member of CCC Business Support into their monthly summary reports. These reports will be saved electronically in a file which is accessible to other members of the team.</p>	<p><b>Pamela Bailey</b> 31<sup>st</sup> July 2014</p>


Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
	<p>estimated for the Council's unmetered street lighting furniture, it is not possible for the service to conduct a complete 'sense check' that the amount of electricity we are billed for each month does indeed trace back to the initial inventory sent to UKPN.</p> <p>The service does not currently conduct any reconciliation between the monthly usage summary report sent to CCC by Power Data Associates, and the billing from Southern Electric, to verify that the number of units of energy which PDA calculates that the Council has used per Meter Point Administration Number (MPAN) matches the number of units for which Southern Electric bills the Council each month for that MPAN.</p> <p>This reconciliation was conducted as part of the audit process, for the months of November and December 2013, and two small disparities were discovered between the billing for the CMS MPAN and the PDA report. Although these differences, of a couple of kWh each, were too small to be material, larger disparities or disparities which are repeated over time could create additional costs to the Council, and it appears that these would not be identified by the service.</p>	<p>On a monthly basis, the PDA summary will be compared with the energy invoices received, to verify that the number of units that PDA calculates the Council has used per Meter Point Administration Number (MPAN) matches the number of units for which Southern Electric has billed the Council for each MPAN. Any discrepancies identified will be addressed with Southern Electric and/or PDA, as appropriate.</p> <p>A formal, written process detailing this procedure, where reports will be filed, and the checks that need to take place will also be developed, to ensure a consistent process and so that any member of staff should be able to undertake these checks by referring to the procedure document.</p>	<p><b>Michael Richards</b> 31<sup>st</sup> August</p>
<p><b>4.</b></p> 	<p><b>Billing Parish Councils – Calculation of Billing:</b></p> <p>When billing for the period April – September was issued to Parish Councils in March 2014, the amounts owed by each Council were calculated in-house using a copy of the current inventory of Parish lighting, taken from the Mayrise database, and estimated annual usage for each light, which was then divided in half to estimate a figure for six month's worth of billing.</p> <p>When billing for the same period was originally issued by Southern Electric to Cambridgeshire County Council for the Parishes, the electricity usage was calculated on the basis of a series of complex calculations conducted by Power Data Associates, the Council's meter administrator, which accurately estimates energy usage for each class of lighting on a monthly basis. Consequently, bills from Cambridgeshire County Council to Parish Councils were calculated on a different basis to that which Southern Electric used for the original billing. No checks were performed</p>	<p>Power Data Associates have been contacted and have agreed to provide an inventory showing the annual energy usage including a breakdown of the costs by individual Parish and District Councils. This will be used as the basis of the annual billing to Parish and District Councils, to ensure that Cambridgeshire are not over- or under-charging these councils.</p> <p>The process will work as follows: on the 30<sup>th</sup> September, Balfour Beatty will prepare an inventory report and send it to Power Data Associates for summarising. This will then be sent on to Cambridgeshire in mid October, to give the detail of the actual cost per council. This report will reflect the inventory changes over the previous months, to ensure that bills from the Council are calculate on the same basis as bills from Southern Electric. This report will be used as the basis of the billing calculated by Cambridgeshire, and a process of reconciliation will also take place, as per the agreed management action against Finding 4.</p>	<p><b>Ben Jakes</b> 31<sup>st</sup> October 2014</p>

Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
	<p>to ascertain whether the amount that CCC had calculated as due from the Parish Councils was the same as the amount which CCC had paid for Parish lighting in that period, and audit testing indicated that there was a significant disparity between the estimated annual usage figures calculated by CCC and the actual amount charged for the same period by Southern Electric. With the 5% administration fee excluded, a disparity of £7,664 (or 6% of the actual billing from Southern Electric) was identified when the annual charge estimated by officers was compared to the actual charges for 2013/14. Split between the 159 Parish Councils which were due to be charged, this equated to a £48 overcharge for the year to each Council, which is significant when many Parishes incur annual charges of less than £100 for their street lighting.</p> <p>It is important that both the County Council and the Parish Councils have assurance that the amount recharged to Parishes is the same as the amount that CCC has paid in advance for their electricity, to ensure that Parishes are not being over- or under-charged.. Contact with Power Data Associates indicates that it would be possible for them to provide CCC with a usage report, itemised by Parish Council, which could be used as a basis for this billing in future.</p>		
<p><b>5.</b></p> 	<p><b>Billing Parish Councils – Timings and Inventory:</b></p> <p>The Council pays in advance the costs of electricity for some Parish Councils. These costs are then recharged to the Parishes in question on a six-monthly (shortly to become annual) basis. The most recent round of billing to Parishes took place in March 2014, with Parishes being billed for the period spanning April – September 2013. This is a significant delay between the Council incurring the cost and recouping the cost.</p> <p>It also appears that the most recent round of billing to Parishes was calculated by the service based on the inventory as it stood at March 2014, despite the fact that billing to the Council by Southern Electric was based on the inventory between April – September 2013. This has resulted in disparities between the actual amount billed to CCC by Southern Electric for Parish Councils electricity, and the amount recharged by CCC to the Councils in question. Additionally it seems that</p>	<p>Before billing is issued each to Parishes and Districts each year, a process of reconciliation will be undertaken by the service. This will confirm that the total amounts that the Council has identified that it will be charging to Parishes and Districts, on the basis of information from Power Data Associates, are the same as the amounts that the Council has paid up-front for Parish and District electricity over the year. Any discrepancies will be addressed with Power Data Associates to try to identify the cause and ensure that Parishes and Districts are only being charged the amount that the Council has paid for their electricity.</p>	<p><b>Michael Richards</b> 31<sup>st</sup> October</p>

Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
	<p>no attempt was made to track any changes to the Parish Council's inventory which occurred throughout the period.</p> <p>It is important that both the County Council and the Parish Councils have assurance that the amount recharged to Parishes is the same as the amount that CCC has paid in advance for their electricity, to ensure that Parishes are not being over or under charged.</p>		
<p><b>6.</b></p> 	<p><b>Billing Parish Councils – Councils Billed in Error:</b></p> <p>When the most recent round of billing to parish councils was issued in March 2014, it transpired that a large number of Parish Councils which Cambridgeshire expected to bill, having already paid for their electricity in advance, were already paying for their street lighting electricity directly, or via Fenland District Council. This means that 32% of the calculated income (over £22,000) due from Parish Councils for the period April – September 2013, will not be received. The Council has also paid up-front costs for these Parishes from October 2013 onwards, and these costs will likewise not be recouped.</p> <p>This problem appears to have arisen due to errors in the street lighting database. The arrangement by which Cambridgeshire pays in advance for Parish Council lighting is historical, and there appear to be no written agreements with Parishes which formalise this arrangement. Additionally, although Cambridgeshire has paid for electricity for which Councils were already paying directly, the Council is unlikely to be able to recoup this money, as the costs charged by Southern Electric were based upon the erroneous inventory which CCC supplied.</p> <p>Work is taking place within the service to ascertain the correct inventory of street lights for all the Parishes, however the service has stated that the database will not be updated until the inventories for all Parishes are finalised. There is no clear process in place for completing this work, and the service could not provide a timescale for when the Parishes inventory should be finalised and updated. It is not clear why the inventory could not be updated on a more regular basis as soon as the inventory for each individual Parish is finalised.</p>	<p>Correspondence has been sent to District and Parish Councils requesting confirmation of whether they pay for their street lighting energy via Cambridgeshire County Council or Southern Electric. The information is slow to materialise; however, when confirmation is received the Mayrise system is updated immediately. If Councils are paying directly, this is noted on the system and when the monthly UKPN submission is made these are automatically excluded from the submission.</p> <p>Balfour Beatty are in the process of ensuring that Ben Jakes has a Mayrise login key, to enable him to access the database. When Ben has access, he will begin a process of carrying out regular random inventory checks to ensure that the database is being updated on a regular basis and that the information input is correct with that on site. When conducting these checks, Ben will include changes to the Parish street lighting database in his samples, so that it can be verified that where Councils are identified as paying for their energy directly, the database is updated as soon as possible.</p> <p>It was agreed during a management meeting that took place on Monday 9<sup>th</sup> June that when the annual invoices are sent out to Parish and District Councils in October, an agreement letter will be included along with the billing, with the request that each Council who pays for their electricity via Cambridgeshire should sign and return this letter, to formalise the agreement between these Councils and Cambridgeshire.</p>	<p><b>Ben Jakes</b> 31<sup>st</sup> August 2014</p> <p><b>Ben Jakes</b> 31<sup>st</sup> August 2014</p> <p><b>Sally Savage</b> 30<sup>th</sup> November 2014</p>

Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
	Without any agreements in place with Parishes, there is additionally a risk that in future other Parishes will decide to pay for their energy directly or via a District Council, without informing Cambridgeshire of this decision, and again the Council will find itself in the position of having paid up-front electricity costs for which it will not be reimbursed.		
<b>7.</b> 	<p><b>Electricity Rates:</b></p> <p>The service has confirmed that when electricity bills for street lighting are received, the rates charged are not checked to the agreed annual rate from Southern Electric to confirm that the correct rate is being applied. This runs the risk that, should the Council be charged the wrong rate in error, this would not be identified and the Council would pay for its energy costs at the wrong rate.</p> <p>The most recent round of billing to Parish Councils, for the period April – September 2013, was issued using the incorrect rate of electricity. The rate used was £0.09827 per kWh, i.e. the electricity rate charged at the time by Southern Electric for County Roads and Fenland District Council. Electricity for Parish Councils was charged by Southern Electric at a rate of £0.09838. Although the difference is small, given the very high number of units involved, this difference will still have an impact.</p>	The service have agreed to put together a written procedure to confirm that a regular process of checks that will be undertaken on a monthly and annual basis, to confirm that the electricity rates which the Council is charged on bills are correct and the rates that the Council charges out to Parishes and Districts are also correct.	<b>Michael Richards</b> 15 <sup>th</sup> November 2013
<b>8.</b> 	<p><b>Billing Parish Councils – VAT:</b></p> <p>The question of whether or not VAT should be charged out to Parish Councils on their billing from CCC for street lighting electricity has been in dispute over much of the past year. At one point, HMRC ruled that VAT should be charged to Parishes, but this decision was then reversed in March. The feedback from the LGSS VAT Adviser is that this is potentially still a fluid situation, and the service need to be aware of this going forward to ensure that VAT is treated correctly.</p> <p>This has created a potentially sensitive situation, as around half of the billing to Parishes for April – September 2013 was issued in March, before the new ruling was known, and consequently VAT was charged on the invoices. When the remainder of the invoices go out to the other</p>	After consultation with the Council's VAT adviser, the decision has now been taken to treat all Parishes the same and so the remaining bills to Parishes for the period April – September 2013 will be issued with VAT charged. However, when the next round of billing is issued in October 2014, no VAT will be charged and it was agreed to send a cover letter to Parishes and Districts along with their bills, to explain the VAT situation and why the VAT was formerly charged but now will not be.	<b>Michael Richards</b> 30 <sup>th</sup> November 2014

Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
	<p>Parishes for the same period, a decision will have to be taken as to whether VAT should be charged on these, and a situation could result whereby half of the Parishes have been charged VAT but the other half have not; there is a risk that this could create bad feeling as these small organisations are unlikely to be VAT registered. It is suggested that the service liaise with the LGSS VAT Adviser with regards to this issue.</p>		
<p><b>9.</b></p> 	<p><b>Access to Information:</b></p> <p>Throughout the audit process, it became clear that the Street Lighting staff are heavily reliant on partner organisations to access information which ideally should be accessible in-house. It is recognised that this may in part be due to the fact that a significant proportion of staff in the Street Lighting service are new in post and consequently may not always be aware of where historic information is saved in the Council's filing system.</p> <p>The Council should have accessible copies of its contracts and agreements with organisations such as Power Data Associates, but when a copy of the PDA contract was sought, the service had to obtain this from PDA themselves. Similarly, when copies of the monthly reports from PDA were sought, it transpired that the service only had copies of these reports from January onwards, as prior to this the reports were sent to a member of staff who had since left the Council, and seemingly had not been saved in a shared IT area. Again, PDA had to be contacted to provide these reports. Additionally, members of staff in the service only have read-only access to the Mayrise database. It is therefore not possible for them to download the information into a spreadsheet and thus are dependent on Balfour Beatty to provide any downloads required, which the service state has caused delays in the past. As part of the Audit, the service requested some information on inventory changes from Balfour Beatty, who did not respond within the 10-day time limit required by the PFI.</p> <p>A lack of information stored in-house not only creates the risk of inefficiency if officers have to seek this information from other organisations, but could also create significant problems if, for example, there were disputes over the terms of contracts or agreements with</p>	<p>A new contract has just been awarded to PDA for three years, commencing on 1<sup>st</sup> June 2014. A copy of the procurement and contract documents have been saved in the electronic file marked Meter Administrator, where they should be accessible to staff in the service in future.</p> <p>The procedure for electronic filing for Power Data Associates reports (see agreed action against finding 2) will ensure that the service has more key information available.</p> <p>Aleks Mecan, the Contracts Monitoring Manager, has set up a log in which she is recording any delays in communications requested from Balfour Beatty, in order to apply the related penalties under the PFI contract. The team will be informed of the need to report any delays in response times from Balfour Beatty to Aleks so that they can be recorded and the proper penalties applied.</p>	<p><b>Sally Savage</b> 30<sup>th</sup> June 2014</p> <p><b>Aleksandra Mecan</b> 31<sup>st</sup> August 2014</p>

Area Risk Level	Key findings	Management Agreed actions	Timescale / Owner
	external organisations. Information should be accessible centrally and remain accessible if staff move on from the Council or require a leave of absence at short notice. Where information is not provided by partner organisations under the terms of their contract with the Council, this should be monitored with sanctions applied appropriately if necessary.		
<b>10.</b>  	<p><b>Fenland District Council billing:</b></p> <p>When the most recent round of billing to Parishes was issued in March 2014, it was discovered that a number of Parishes that the Council was expecting to charge individually for their street lighting electricity, actually have an agreement with Fenland District Council that it will pay for their street lighting costs. This has created some confusion, as Fenland District Council lighting is initially paid in advance by Cambridgeshire and is then recharged to the District.</p> <p>It seems possible that the costs of these lights have simply been mislabelled on the inventory as belonging to Parishes rather than the District Council and consequently they would have been missed off the monthly charges to Fenland District Council and will need to be recharged; equally, they may have been double-counted, in which case the Council would have been charged twice for the electricity. However, although the service has stated that they do not believe that these lights are being double-counted by Cambridgeshire, they have not been able to clarify the situation or identify what plans are in place to investigate and resolve the issue.</p>	<p>It has now been clarified that in fact the lights in question had been double-counted, as they were charged to the Fenland District MPAN and then double-counted in the billing to Parishes, but were not actually charged to the Parishes MPAN by Southern Electric. Consequently no recharge to Fenland District Council is required.</p> <p>A representative from Balfour Beatty has now visited Fenland District Council to go over the inventory with them and ensure that the street lighting furniture assigned to Fenland on the inventory is correct and agreed with the Council. The inventory has now been agreed with Fenland following this process, and future bills to Fenland will be made on this basis.</p>	<p><b>Ben Jakes</b> 30<sup>th</sup> June 2014</p>

# Appendix 1 – Areas of Good Practice

## Good practice identified

- ✓ Officers engaged positively with the audit process and were quick to respond to requests for information;
- ✓ A new process has been developed which formalises the process for adding street lighting furniture accruals to the Mayrise database and how this is handled between Cambridgeshire County Council, Balfour Beatty and Connect Roads;
- ✓ Access to the Mayrise database of street lighting appears to be appropriately controlled;
- ✓ VAT on billing to Parish Councils has been treated correctly in light of recent changes to the direction from HMRC, and the service are in touch with the VAT Adviser.

## Appendix 2 – Audit Definitions

### Level of Assurance

Internal Audit gives an overall opinion on the level of assurance provided by the controls within the area audited. The level of assurances are defined below:



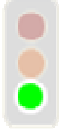
#### Level of Assurance      Definition

Full Assurance	There is a sound system of control designed to address the relevant risks with controls being consistently applied.
Substantial Assurance	There is a sound system of control, designed to address the relevant risks, but there is evidence of non-compliance with some of the controls.
Moderate Assurance	Whilst there is a basically a sound system of control, designed to address the relevant risks, there are weaknesses in the system, that leaves some risks not addressed and there is evidence of non-compliance with some of the controls.
Limited Assurance	The system of control is weak and there is evidence of non-compliance with the controls that do exist which may result in the relevant risks not being managed.
No Assurance	There is no system of internal control. Risks are not being managed.

### Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks.

For ease of reference, we have used a colour code system to prioritise our findings, as follows:

	Failure to address the finding has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.  The finding is critical to the system of internal control and should be implemented immediately.		Failure to address the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss. The finding has a significant effect on the system of internal control and should be implemented as a matter of priority.		Addressing the finding is important to maintain a reasonable system of internal control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently. Management should review, make changes if considered necessary or formally agree to accept the risks.
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