

FINAL INTERNAL AUDIT REPORT

ENVIRONMENTAL AND COMMUNITY SERVICES

REVIEW OF STREET CLEANSING CONTRACT MANAGEMENT FOR 2018-19

Issued to: Nigel Davies, Executive Director of Environment Services
John Bosley, Assistant Director of ECS
David Hall, Neighbourhood Manager
Sarah Foster, Head of Performance Management & Business Support ECS
Claire Martin, Head of Finance Corporate & ECS

Prepared by: Principal Auditor

Date of Issue: 08/02/2019

Report No: ECS/1/2018/AU

REVIEW OF STREET CLEANSING CONTRACT MANAGEMENT 2018-19

INTRODUCTION

1. This report sets out the results of our systems based audit of Street Cleansing contract management. The audit was carried out in quarter 3 as part of the programmed work specified in the 2018-19 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations. Any Priority 1 recommendations or Nil/Limited Assurance opinions must be considered for inclusion in the Department's Risk Register.

AUDIT SCOPE

3. The scope of the audit was outlined in the Terms of Reference issued on 30/07/2018.

AUDIT OPINION

4. Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C. Whilst there is a priority one recommendation in the report this relates to historical deficiencies. The current management of the contract and the implementation of new contract principles are reflected in the overall assurance opinion.

MANAGEMENT SUMMARY

5. The objective of the audit was to review the management controls on the performance of the Street Cleansing contract which delivers the day-to-day cleaning operations across the Council's administrative area. The budget for the Street Cleansing service for 2018-19 is £3,518,000.

REVIEW OF STREET CLEANSING CONTRACT MANAGEMENT 2018-19

6. The Street Environment Contracts commenced in March 2012 as a five year contract, with an option of a single two year extension at the sole discretion of the Council.
7. The audit considered the management of the contract, contract meetings, performance information and payment of invoices. To verify the inspection process, the auditor accompanied two inspectors working across the Orpington area (15/10/2018) and Shortlands & Bromley town centre area (01/11/2018). Interviews were held with the contract manager, Neighbourhood Officers and Finance. Committee reports relating to the award of contract, extension of contract and contract performance reports were sourced and reviewed.
8. Controls were found to be working well in the following areas:
 - The monthly monitoring reports were sought to support the payment of the sampled monthly contract invoice. It was noted that the payment was appropriately authorised and the contract monitoring information was attached to the invoice to demonstrate satisfactory performance
 - The contract monitoring arrangements were also reviewed to ensure that the contractor's performance is measured and monitored against performance standards and milestones set out in the contract. The Minutes of the Street Cleansing Contract meetings, including supporting documentation, were reviewed for October 2018, November 2018 and December 2018. The supporting documentation included contractor reports, Confirm enquires, inspection results and level of defects/defaults. Meeting notes confirmed action to be taken for issues identified and delegated responsibility for resolution. The information to support the Key Performance Indicators for the contract was reviewed and it was found to be satisfactory for the review period.
 - From the site inspection visits it was noted that the cleaning standard for 21 sites was satisfactory. The cleaning of 1 sampled carriageway and 1 sampled foot paths was found to be below standard at the time of inspections. Defect notices were raised on site by the inspector.
 - A sample of 5 sites, selected by the auditor, from the Autumn leafing programme were also visited. The leaf clearing at the sampled sites was found to be satisfactory.

REVIEW OF STREET CLEANSING CONTRACT MANAGEMENT 2018-19

9. However, management should be aware of the following issues arising:

Payment of invoices

10. A sample of 5 invoices, selected from all payments made to the contractor between April 2017 and October 2018, consisted of 1 invoice for the monthly core contract payment and 4 variable invoices (ad hoc and programmed additional works) which it should be noted are also monthly.
11. For the 4 variable invoices, the prices charged for some elements of the agreed programme of additional work could not be substantiated. The contract manager advised that they are unable to confirm the individual amounts agreed for:
- Deep Cleaning Monday to Friday (monthly cost £10,923.33)
 - Litter pick car park area of Mitre Public House twice weekly (monthly cost £200)
 - Extra bin emptying (monthly charge £2,048.62)
 - Monthly fly tip (monthly charge £ 2,572.79)
 - Additional Cleaning (monthly charge £1,042.75)
 - Weekend Channel sweep (monthly charge £5,996.25)

This accounts for expenditure of £23,144 each month, £277,725 per annum that has been processed for payment without supporting documentation. It was noted that some of the programmed additional works have been in place, from the start of the contract. The key elements were discussed and referred to in the contract award report (ES 11123) however they did not provide a breakdown of prices. Management provided a report from the Confirm database to demonstrate that the prices charged for the programmed additional work over the length of the contract have remained consistent since the start of the contract.

Monitoring of rebate for the extension period

12. At the Executive meeting on 15th July 2015 the proposal to re-tender or extend the contract beyond March 2017 for the remaining two year period was considered (Report ES15045). Members were informed that “*the contractor has re-profiled its*

REVIEW OF STREET CLEANSING CONTRACT MANAGEMENT 2018-19

costing model by 3% to reduce prices for routine scheduled operations should the current contract be extended. This would amount to efficiencies worth £100k from 2017 for each of the remaining two years of the contract. Options for utilising the efficiencies comprised:

- *a financial rebate of £100k;*
- *reinvestment of the £100k efficiencies as service enhancements;*
- *a combination of service enhancements and financial rebate (e.g. service enhancements at £50k and rebate at £50k)."*

Executive resolved that:

"(1) the street cleaning contract be extended for a single two year period from March 2017 to March 2019 with the £100k per annum saving from efficiencies, based on current specification, accepted; and

(2) further consideration be given to options for using the £100k efficiency savings, including retention of some of the £100k efficiencies for pressing ES departmental priorities."

From this Executive report and resolution Internal Audit queried how the £100k rebate (per annum), offered for the extension period, had been utilised and applied. The client team conducted an extensive review of the costings of various service enhancements that were delivered above the baseline requirements of the Street Cleansing contract over the past two years of the extension and demonstrated that reduction in the unit costs were applied when compared against the contractual schedule of rates which are contractually applicable to the additional work, thus providing service enhancements to the contract. It was noted that the responsibility to ensure that the resolutions set by Members are actioned and evidenced was not formally assigned and the expected savings were not monitored to ensure their delivery.

Site inspections

13. As part of contract monitoring, Neighbourhood Officers conduct random inspections for Street Cleansing, with inspections being administered using the Nautoguide system, a web-based IT system used for recording inspection findings and results. It

REVIEW OF STREET CLEANSING CONTRACT MANAGEMENT 2018-19

was noted that the Nautoguide inspections do not include inspection of all additional and ad hoc work i.e. bus stop cleaning, the Autumn leafing programme.

SIGNIFICANT FINDINGS (PRIORITY 1)

14. There is one priority one finding relating payment of invoices as reported in paragraphs 10 and 11 above.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

15. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

16. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p><u>Payment of invoices</u></p> <p>A sample of 5 invoices, selected from all payments made to the contractor between April 2017 and October 2018, consisted of 1 invoice for the monthly core contract payment and 4 variable invoices (ad hoc and programmed additional works) which it should be noted are also monthly.</p> <p>For the 4 variable invoices the prices charged for some elements of the agreed programme of additional work could not be substantiated. The contract manager advised that they are unable to confirm the individual amounts agreed for:</p> <ul style="list-style-type: none"> •Deep Cleaning Monday to Friday (monthly cost £10,923.33) •Litter pick car park area of Mitre Public House twice weekly (monthly cost £200) •Extra bin emptying (monthly charge £2,048.62) •Monthly fly tip (monthly charge £ 2,572.79) •Additional Cleaning (monthly charge £1,042.75) •Weekend Channel sweep (monthly charge £5,996.25) <p>This accounts for expenditure of £23,144 each month, £277,725 per annum that has been processed for payment</p>	<p>Overpayment/dispute as a result of potential incorrect prices being invoiced</p>	<p>The agreement of scope and price for ad hoc and additional work should be formally agreed and supporting documents retained.</p> <p>[Priority 1]</p>

Project Code: ECS/1/2018/AU

Page 7 of 14

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>without supporting documentation. It was noted that some of the programmed additional works have been in place from the start of the Contract. The key elements were discussed and referred to in the contract award report (ES 11123) however they did not provide a breakdown of prices. Management provided a report from the Confirm database to demonstrate that the prices charged for the programmed additional work over the length of the contract have remained consistent since the start of the contract.</p>		
2	<p><u>Monitoring of rebate for the extension period</u></p> <p>At the Executive meeting on 15th July 2015 the proposal to re-tender or extend the contract beyond March 2017 for the remaining two year period was considered (Report ES15045). Members were informed that “the contractor has re-profiled its costing model by 3% to reduce prices for routine scheduled operations should the current contract be extended. This would amount to efficiencies worth £100k from 2017 for each of the remaining two years of the contract. Options for utilising the efficiencies comprised:</p> <p>a financial rebate of £100k;</p>	Overpayment as a result of not utilising rebate available	<p>In future management should formally assign responsibility to ensure that the resolutions set by members are actioned and evidenced and savings are monitored to ensure delivery.</p> <p>[Priority 2]</p>

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>reinvestment of the £100k efficiencies as service enhancements; a combination of service enhancements and financial rebate (e.g. service enhancements at £50k and rebate at £50k).”</p> <p>Executive resolved that:</p> <p>“(1) the street cleaning contract be extended for a single two year period from March 2017 to March 2019 with the £100k per annum saving from efficiencies, based on current specification, accepted; and</p> <p>(2) further consideration be given to options for using the £100k efficiency savings, including retention of some of the £100k efficiencies for pressing ES departmental priorities.”</p> <p>From this Executive report and resolution Internal Audit queried how the £100k rebate (per annum), offered for the extension period, had been utilised and applied. On enquiry the client team conducted an extensive review of the costings of various service enhancements that were delivered above the baseline requirements of the Street Cleansing contract over the past two years of the extension and demonstrated that reduction in the</p>		

Priority 1
 Required to address major weaknesses and should be implemented as soon as possible

Priority 2
 Required to address issues which do not represent good practice

Priority 3
 Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>unit costs were applied as compared against the contractual SOR rates which are contractually applicable to the additional work, thus providing service enhancements to the contract. It was noted that the responsibility to ensure that the resolutions set by Members are actioned and evidenced was not formally assigned and the expected savings were not monitored to ensure their delivery.</p>		
3	<p><u>Site inspections</u></p> <p>As part of contract monitoring Neighbourhood Officers conduct random inspections for Street Cleansing, with inspections being administered using the Nautoguide system, a web-based IT system used for recording inspection findings and results. It was noted that the Nautoguide inspections do not include inspection of all additional and ad hoc work i.e. bus stop cleaning, the Autumn leafing programme.</p>	<p>Loss due to non-delivery of service</p>	<p>Contract monitoring inspections must include inspections of all additional and ad hoc work to confirm service delivery.</p> <p>[Priority 2]</p>

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	The agreement of scope and price for ad hoc and additional work should be formally agreed and supporting documents retained.	1	<p>Management agree with the recommendation and since the application of the revised governance structures put in place in Neighbourhood Management, pricing of contract values are reviewed annually and document control is via the Contract Filing System. Any changes or alterations that are a material change are processed via a Change Control Notice which are placed on the Contract Database.</p> <p>Pricing agreed in terms of resource application is now itemised and further scrutiny and transparency is applied. This is demonstrated through the retention on the Contract Filing System of itemised Schedule of Rates items which</p>	Neighbourhood Manager with responsibility for Street Environment Contracts	February 2019

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			comprise variable works as well as service initiatives being drafted to include a full breakdown of costs rather than overall costs applied.		
2	In future management should formally assign responsibility to ensure that the resolutions set by members are actioned and evidenced and savings are monitored to ensure delivery.	2	Management agree with the recommendation and the demonstrable change is through the implementation and use of the Contract Filing System within Neighbourhood Management. Further application of decision making will form part of the annual Contract Monitoring Framework to ensure delivery of agreements as well as the tracking of the deliverables post implementation.	Assistant Director of Environment	February 2019
3	Contract monitoring inspections must include inspections of all additional and ad hoc work to	2	In terms of cleansing initiatives, the client team has undertaken improvements on proactive	Neighbourhood Manager with responsibility for	February 2019

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	confirm service delivery.		<p>monitoring and the application of monitoring solutions through improvements in technology are also being considered. The primary monitoring tool (Nautoguide) is not designed to accommodate ad hoc or interim service applications and the Management team has identified this in the past as a weakness.</p> <p>Further development of inspection systems will be considered by Management to improve on the foundations that have been established.</p>	Street Environment Contracts	

Priority 1
 Required to address major weaknesses and should be implemented as soon as possible

Priority 2
 Required to address issues which do not represent good practice

Priority 3
 Identification of suggested areas for improvement

OPINION DEFINITIONS

APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve all the objectives tested.
Substantial Assurance	While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
Limited Assurance	Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
No Assurance	Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.