

REDACTED



FINAL INTERNAL AUDIT REPORT

PLACE DEPARTMENT

REVIEW OF THE OPERATION OF THE WASTE DISPOSAL AND WASTE COLLECTION CONTRACTS 2021

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Reviewed by: Head of Audit and Assurance

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REVIEW OF THE OPERATION OF THE WASTE SERVICES CONTRACTS 2021

INTRODUCTION

1. This report sets out the results of our audit review of the operation of the Waste Collection and Waste Disposal Contracts. The audit was carried out as part of the work specified in the 2020-21 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The annual audit of Waste Services in November 2016 highlighted significant weaknesses, failure to adhere to financial and contract procedures and mismanagement of the application of the default process. Internal Audit recommended that a management investigation be undertaken to review contract monitoring and controls for all aspects of the Waste Management contract. A follow up Internal Audit report finalised on the 29/3/2017 reviewed the original recommendations relating to the default process and further issues highlighted by the management investigation. Fifteen priority 1 recommendations were identified relating to:-
 - financial processes including calculation and collection of defaults, recovery of monies owing and payments to the contractor
 - contract management including sight of the signed contract document, Change Control Notices (CCN) and paper write offs
 - contract monitoring including minuted monitoring meetings, lack of documentation, tonnage reconciliation, reporting performance indicators to Committee and documented negotiations with the contractor
 - compliance to Financial Regulations including payment of invoices, declaration of Gifts and Hospitality and an identified need for officers to complete further Financial Regulations training

The findings spanned all aspects of the Waste Services contract and as previous audit reviews had identified similar concerns with other Environment contracts a recommendation was raised for the Department to review and take remedial action to address inadequate contract management. The Department acted swiftly to review all existing processes and procedures and developed and implemented the Contract Management Framework and Contract Monitoring Framework to support the management and monitoring of the Waste Management Contract and was adopted for all contracts within Environmental Services. The 15 priority 1 recommendations were reported to the Audit Sub Committee and subsequent progress to implement. The priority 1 recommendations were closed when Internal Audit could evidence satisfactory implementation.

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3. The Waste Collection and Waste Disposal Contracts were awarded to the current contractor with effect from the 1/4/2019 for a period of 8 years. The whole life value of the contracts for Waste Disposal and Waste Collection are £73 million and £103 million respectively with an actual spend of £ 25,358,366 in 2020/21. The new contracts had incorporated measures to address any areas of weakness identified in the previous Internal Audit reports and management investigation. The contract management and monitoring of the new contracts should operate within the controls offered by the developed frameworks, separation of duties and revised procedures for all aspects of the contract (financial, service delivery and performance).
4. This audit review measured the current waste contracts against the previous 15 priority 1 recommendations as these were representative of key areas of risk within the contracts. Additionally, these were known areas of previous weakness and therefore facilitated targeted audit testing.
5. Management were fully engaged with the audit process and have supplied comprehensive documentation to support compliance to the 15 areas of review. Audit have accessed all shared areas to independently test payments, monitoring and contract management.
6. We would like to thank everyone contacted during this review for their help and co-operation.

AUDIT SCOPE

7. The original scope of the audit was outlined in the Terms of Reference dated 01/02/2021.
8. We identified the following key risks:
 - Failure to effectively manage service delivery and the contractor's performance
 - Lack of performance management information from the contractor
 - Failure to implement contract terms and conditions correctly including penalties
 - Failure to recognise and formalise contract variations to reflect changes in service which could have a financial impact
 - Damage to the Council's reputation

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AUDIT OPINION

9. Our overall audit opinion, number and rating of recommendations are as follows.

AUDIT OPINION	
Substantial Assurance	(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)

Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	1	0

SUMMARY OF FINDINGS

10. To identify and test the controls in place to mitigate the key risks in paragraph 8 above the original 15 priority 1 recommendations identified in the March 2017 Internal Audit report were used as a basis for reviewing the contract management of the current Waste Management contracts. At the start of the audit the 15 recommendations were submitted to the Assistant Director of Environment and requested that the Department consider the current status of these recommendations prior to the first meeting with Internal Audit. This was effectively a self-assessment and facilitated early collection of supporting documentation to evidence compliance. Internal Audit already had access to the Contract Filing System (ECS Teamsite) and Contract management/monitoring frameworks so was also able to establish compliance before the first meeting and start of testing.

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11. At meetings on the 02/06/2021 and 03/06/2021 with Internal Audit, the Assistant Director of Environment, Neighbourhood Manager (Waste) and the Waste Strategy Manager the 15 previous recommendations were considered. Management submitted a spreadsheet to show how the issue was being addressed through the new Environmental Contract processes, highlighted any outstanding issues and declared a red/amber/green status for 2021/22. For each area of review Internal Audit stipulated the evidence required to support the declared status and selected the sample for independent audit testing and examination. Internal Audit was referred to the Business Support Team to review the payment and monitoring procedures.
12. The following paragraphs set out the work undertaken to evidence compliance for each of the 15 previous recommendations and to consider if the current processes comply with Financial Regulations, Contract Procedure Rules and agreed Departmental procedures. Any outstanding issues or new findings will be shown at Appendix A for management to consider.

13. Calculation and collection of defaults

Management advised that a Performance Management Framework (PMF) has been agreed and adopted for the new waste contracts. The aim of the PMF is to have a shared vision of the contract performance and future direction of the Service and Contract, and the roles that both parties will play in the achievement of the targets established to achieve that vision.

The Business Support Team provides an independent review of the PMF data submitted by the contractor and the Contract Manager completes a quality check. At the monthly contract meetings any performance deductions are agreed, minuted and then applied within the monthly invoice. Rates for performance deductions are reviewed and updated annually as per Schedule 4 of each of the contracts.

The monthly waste collection (variable) invoice for March 2021 was selected for audit review and the independent checks of the PMF data submitted by the contractor by the Business Support Team, the Contract Manager's quality checks, agreement of performance deductions for March 2021 at the contract monitoring meeting in April 2021 were satisfactorily evidenced. The rate of applied performance deductions were checked to the indexation spreadsheet and were correct for the year 2020-21.

The monthly waste collection (variable) invoice for March 2021 was also checked to ensure that previously identified issues with missed bin collections have been satisfactorily addressed. The following areas were discussed with management and verified to supporting evidence where applicable:

- **Working days were calculated correctly with no days missed at the start and end of each month.** The current reporting tool calculates the missed bins for specified date ranges and uses the actual number of collections that were carried out in that period. The PMF report for March 2021 covered the period 01/03/2021 to 31/03/2021.

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- **The actual collection rounds were correct.** Contractor's collection rounds were based on information initially produced by LBB which matches postal addresses to the UPRN from which all collection rounds were created, and the service provider's logistics system was updated accordingly.
- **Performance Deduction rates applied were correct.** The review of PMF by the Business Support Team for March 2021 was evidenced. The total value of performance deductions for March 2021 were calculated correctly and agreed rates for 2020-21 were applied.
- **Bulk waste missed bins were correctly recorded in accordance with the contract requirements.** The missed bins for flats are recorded on the PMF. No performance deductions for March 2021 were due as the missed collections for the month were within the acceptable range.
- **No credits for performance deductions were overdue.** At the time of testing there were no outstanding 'credits' or PAVs that have not been accounted for through the PMF process.

Overall, the audit testing for the March 2021 invoice and the information submitted by management evidences that the PMF has allowed adequate contract monitoring, independent review of the data submitted by the contractor that can then be quality checked and tracked through to contract monitoring. There are no issues arising from our review this time.

14. Payments made to the contractor

Management advised that the payment mechanism for Waste Disposal was applied monthly with the final cost determined and agreed in Month 13, in accordance with Schedule 4 Part 1 and 2 of the Contract. The principle is that for each month LBB pay the lowest cost, either target or actual. In month 13, at the year, the actual cost for the year is compared with, the target cost for the annual tonnage and the total sum paid to the contractor for the year. The Contract Manager's reconciliation for 2020-21 was reviewed to evidence process and to determine if the contractor was due a settlement as per the incentivised payment model based upon overall performance for the year. A payment of £71,482.43 was due to the contractor for 2020-21 and agreement of this amount was evidenced in the minutes of Strategic Operation Board (SOB) meeting in May 2021.

15. Change Control Notices

Management confirmed that all changes/variations were documented and formalised as Change Control Notices (CCN) as advised by the Assistant Director Governance and Contracts. All CCN's are signed and saved on the Contract Filing System and Egress (shared online platform with the contractor).

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Management also informed that a self-review of the CCNs is being planned to ensure compliance with the agreed contractual process.

Internal Audit undertook a sequential check to ensure that all CCN's were saved on the Contract Filing System and on the Contract Database, the Council's online contract repository. Four CCNs were not found in the relevant folders and enquiries were made with the contract managers. The contract managers provided the missing information and acknowledged that the CCNs had been misfiled. We were satisfied with their explanations.

16. Paper write off

Management advised that an agreed process was in place for wet paper and card. Tonnages were accurately provided and checked, as well as all corresponding ticket information and documents from the paper and card recycling facility. Tonnages of the rejected loads are recorded separately to the tonnage for the Waste disposal contract to increase transparency around management of these loads. This agreed process was formalised by a CCN in December 2019.

The Waste Strategy Manager acknowledged that this agreed process for the wet paper and card was not fully followed in 2020/21 as LBB staff were not always on site due to Covid-19 restrictions, to undertake the required checks on the rejected paper loads. The process was temporarily revised to accommodate remote working, and the contractor was required to immediately email the photos of the moisture meter readings for the rejected loads along with the Waste transfer notes as soon as the wet paper was returned to LBB's Waste Depot. The acceptance of the supporting evidence and approval for the wet paper to be disposed was given over the phone as a decision on the rejected paper was required as soon as it was returned.

The monthly waste collection (variable) invoice for March 2021, included £5,668.65 for disposal of 8 loads of rejected paper (totalling 56.24 tonnes). The supporting information for these rejected loads was reviewed online with the Waste Strategy Manager and deemed to be acceptable given the ongoing Covid-19 restrictions.

However, this interim change to agreed processes should have been supported by written procedures to evidence approval by an appropriate authorising officer and to ensure business continuity in the absence of the responsible officer. An interim change in process should also be time limited and a review date diarised to ensure agreed working practices can be resumed as soon as circumstances revert to normal and business as usual is allowed. This has been set out as a finding below.

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17. Contract Monitoring Meetings

Management confirmed that the formal monthly Contract monitoring meetings (Service Operations Board) comply with the Contract Management Framework. Minutes are taken by an officer from the Business Support Team and saved on the Contract Filing System. The Assistant Director, Performance Management and Business Support or representative were also in attendance to provide independent scrutiny of decisions that were made. Both the contractors and the LBB officers are sufficiently represented at the appropriate level of seniority.

Internal Audit confirmed that the Contract monitoring meeting minutes were available on the Contract Filing system. Minutes for the monthly meetings March 2021, April 2021 and May 2021 were reviewed in detail. Appropriate representation from both parties were evidenced and monthly invoices and any performance deductions were agreed and minuted. Discussions and actions were recorded, agreed and subsequently monitored.

18. Lack of Documentation

The audit tests undertaken as part of this review confirmed that the supporting information was held on the Contract Filing System.

19. Tonnage Reconciliation

Management advised that a reconciliation process for tonnage was in place and documented in the Contract Monitoring Framework.

The reconciliation process checks the weighbridge disposal ticket numbers and tonnage for individual disposal tickets. The disposal invoice was supported by the contractor's spreadsheet, drawn from the disposal point weighbridge tickets, and the LBB weighbridge tickets. The format of this spreadsheet was a daily listing of all loads crossing the LBB weighbridge, by vehicle, by material and matched with the disposal point ticket for the same load. The Business Support Officer checks the total of the weighbridge tickets against an independent report drawn up from the LBB weighbridge system. These were agreed by their number and their weight, allowing an agreed percentage tolerance. Where the tolerance was exceeded, further investigative work was done including seeking explanation of the discrepancy from the contractor.

Finally, a sample of the total tickets was checked physically, to ensure that the actual LBB disposal tickets correspond with the contractor's spreadsheet report. The final tonnage and invoice value were agreed with the contractor and recorded at the Contract Management Meeting. The tonnage reconciliation process was reviewed for the April 2021 waste disposal invoice to ensure that it followed the documented process. The above process was observed to be followed except for the physical checks

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of a sample of LBB disposal tickets corresponding to the contractor's spreadsheet report. The Waste Strategy Manager stated that the process will be resumed once the Covid-19 restrictions are lifted. As reported in paragraph 16 above interim changes to agreed procedures should be documented, approved, time limited and subject to regular review.

20. Compliance to Financial Regulations for the authorisation and payment of invoices

Management confirmed that the staff responsible for the authorisation and payment of invoices understand their responsibility to comply with the Financial Regulations in performance of their roles.

The Waste Collection (variable) invoice for March 2021 and Waste Disposal (core) invoice for April 2021 were selected by Audit to verify that contract monitoring, verification checks, arithmetical accuracy, segregation of duties were in accordance with the Financial Regulations.

The independent checks undertaken by the Business Support which were signed off by the Contract Manager were also evidenced and supporting documents were saved on the Contract Filing System. The final amounts to be paid for the sampled invoices was agreed and formalised at the respective Contract Monitoring meetings. The checks were deemed satisfactory for the sampled invoice.

The payment process was satisfactorily checked to the requirements set out in Financial Regulations. The declaration of interest forms were also checked for officers involved in contract management and payment of invoices. For one officer a personal interest was declared, and management evidenced their statement to show knowledge and they had considered the impact, which was not of concern.

There were no issues arising in this area for ECS management although Internal Audit will be seeking HR advice to clarify the requirement for nominated LBB officers to complete declarations regularly and a process to monitor completion of the declarations.

21. Recovery of outstanding monies from the Contractor

As mentioned in section 14 above, Management advised that the Payment mechanism for Waste Disposal was applied monthly with the final cost determined and agreed in Month 13, in accordance with Schedule 4 Part 1 and 2 of the Contract. It was noted that a payment of £71,482.43 was actually due to the contractor for 2020-21 and agreement of this amount was evidenced in the minutes of Strategic Operation Board meeting in May 2021.

Also, as mentioned in 13 above there were no performance deductions outstanding for missed bins that have not been accounted for through the Performance Monitoring process.

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At the time of audit review there was no outstanding payments due to the Authority.

22. Performance indicators reported to Committee

Management confirmed that the performance management information presented to Committee is collated by the Business Support Officer who is independent officer to the waste contracts and works in a team separate to the waste management officers.

The information is sourced from the data that has been through the reconciliation process and signed off by appropriate officers for invoicing purposes.

All committee reports written by the Waste team are reviewed by Procurement, Legal and Finance before being published, this is in line with the Council's governance procedure.

Internal audit checked the performance indicators reported to the March 2021 Environment & Community Services PDS Committee to the performance management reports. The information presented to the Committee was satisfactorily verified to the supporting evidence.

23. Negotiations with the contractor

Management advised that the Head of Finance was consulted on the financial impact of any changes being considered before agreement. The two contract managers regularly liaise with the Senior Accountant ECS and there were planned quarterly budget monitoring meetings. Notes from these finance meetings are attached to a spreadsheet and saved. Summary notes from the Senior Accountant ECS in the form of emails are also retained. As reported in paragraph 16 above interim changes to agreed procedures should be documented, approved, time limited and subject to regular review.

Internal Audit satisfactorily verified the evidence of regular budget monitoring meetings to review the financial position. Evidence of consultation with Finance for CCN L1 010 and CCN L2 018 was obtained, reviewed and satisfactorily evidenced.

24. Gifts and Hospitality Register

The Department has maintained a Gift and Hospitality Register up until February 2020. Since home working emails have been sent to the Business Support Officer. The Department has introduced an electronic version of the register in June 2021 which

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has been rolled out to all officers in ECS. There have been no declarations in the Gifts and Hospitality Register in respect of the Waste contracts for the reviewed period 1st April 2020 and 31st March 2021.

25. Signed Contract Document

Management confirmed that the signed contracts for the Waste Disposal and Waste Collection are held in the strong room which is managed by Legal. Electronic copies of the contracts were available on the Contract Filing System and Egress, the shared online platform with the contractor. Internal Audit checked the Contract Database and confirmed that signed copy of contracts have been uploaded for both Waste Collection and Waste Disposal contracts. The Legal team also verbally confirmed that a copy of the contract should be in the vault as both contracts were noted on the strong room inventory, held as an excel spreadsheet. The physical check on the sealed contracts could not be checked due to ongoing Covid-19 restrictions.

26. Training

Management advised that the Contract Managers have undertaken the Financial Regulation and the Contract Procedure Rules training. Internal Audit discussed the ongoing management responsibility to ensure that all officers involved in financial processes have access to the Financial Regulations and understand their roles and responsibilities. Any issues identified with the understanding and interpretation of the Financial Regulations should be addressed by appropriate management support and training. The Financial Regulations are available on the corporate intranet and have embedded links to relevant policy documents and the contact details for the responsible team.

The review of the payment process as part of this audit did not highlight any issues with the officers understanding of their roles and responsibilities. Other evidence seen as part of this review also demonstrated that the Contract Managers were aware that any variations to contracts need to be actioned formally via CCN.

27. Contract Management

The Senior Performance Officer advised that Business Support Team undertook a review of the contract management process at the start of the new Waste contract in April 2019. Their review formed the basis of the Contract Monitoring Framework which sets out the Contract Monitoring Systems that operates for the Waste Collection and Disposal Contract. A further review by the Contract Managers in collaboration with the Business Support Team of the PMF and the processes surrounding its application is due to commence, as they enter the third year of the contract. Satisfactory evidence of the review in April 2019 and the planned review was provided.

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28. Summary

This audit review has considered areas of known weakness previously identified by Internal Audit reports and management investigations. Management have evidenced ownership of the issues previously raised and have adopted processes and procedures to mitigate identified risks.

The areas of this review are quite specific with the audit opinion based on the specific areas defined in the scope. It is acknowledged that not all aspects of the Waste Management contracts have been considered this time but adequate coverage has been achieved in key areas to allow the substantial assurance audit opinion to be given.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

29. 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, together with management's responses and timescales for implementation. Appendix B details the definition of the audit assurance and priority ratings.

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

1. Interim Procedures

Finding

The Waste Strategy Manager acknowledged that the agreed process for the wet paper and card was not fully followed in 2020/21. LBB staff were not always on site to undertake the required checks on the rejected paper loads due to Covid19 restrictions. The process was temporarily revised to accommodate remote working. The contractor was required to immediately email the photos of the moisture meter readings for the rejected loads along with the waste transfer notes as soon as the wet paper was returned to LBB's Waste Depot. The acceptance of the supporting evidence and approval for the wet paper to be disposed was given over the phone as a decision on the rejected paper was required as soon as it was returned.

The interim procedures were not available as a practice note, evidenced as being approved by an authorising officer or available to officers that may need to substitute for the Waste Strategy Manager. There was no review or end date for these interim procedures.

Risk

Consistent service delivery is not achieved.

Interim procedures are allowed to continue although the special circumstances have ceased to be evident.

Recommendation

Any interim change to agreed processes should be supported by written procedures to evidence approval by an appropriate authorising officer and ensure business continuity in the absence of the responsible officer.

An interim change in process should also be time limited and a review date diarised to ensure agreed working practices can be resumed as soon as circumstances revert to normal and business as usual allowed.

Rating

Priority 2

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

<u>Management Response and Accountable Manager</u>	<u>Agreed timescale</u>
<p>This recommendation is agreed, the paper and card process need to be reviewed and updated according to the current processes as a result of the changes Covid-19 made to the way of working. The revised process will need to be agreed with the Service Provider through a CCN and then continually placed under review.</p>	31 August 2021
<p>Accountable Manager – Waste Strategy Manager</p>	

OPINION DEFINITIONS

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation rating

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.