



ABERDEEN
CITY COUNCIL

Internal Audit Report
Public Infrastructure and Environment
Trade Waste

Issued to:

Pete Leonard, Director of Communities, Housing and Infrastructure
Richard Ellis, Director of Corporate Governance
Mark Reilly, Head of Public Infrastructure and Environment
Peter Lawrence, Waste and Recycling Manager
Steven Whyte, Head of Finance
Anne MacDonald, Audit Scotland

EXECUTIVE SUMMARY

Under the Environmental Protection Act 1990, local authorities have a statutory obligation to collect waste if requested to do so. Aberdeen City Council provides waste and recycling collection services for businesses in Aberdeen. In addition the Council leases and sells bins, and compostable bin liners. The Commercial Waste budget for expenditure in 2015/16 has been set at £811,228, with the corresponding budget for income set at £1,746,896 to realise a net surplus of £935,668.

The objective of this audit was to consider whether adequate control is in place covering income and expenditure, that appropriate agreements and other paperwork is in place, and that accounting arrangements are robust. Whilst there are controls in place, a number of recommendations for improvement have been made, and actions agreed with the Service.

In contrast to Financial Regulations, which state that wherever possible money should be collected prior to service delivery, charges to trade waste customers are largely in arrears. Approval from the Director and Head of Finance is required for such arrangements, which the Service will seek to obtain.

The Service intends to replace a number of database and paper-based processes with a new Waste Management System. It is anticipated that this will provide better management information to provide assurance over the accuracy of charges made on the basis of estimates, and facilitate reconciliation of services provided with income received to ensure full recovery can be demonstrated.

Maximum and minimum charges for trade waste are approved by Full Council annually as part of the budget setting process, leaving the Service with the option to reduce charges where it considers it appropriate to attract business. There is currently limited data or evidence in support of these adjustments. The Service will review costs to verify that reductions remain affordable and appropriate, and ensure consistent evidence is retained of agreement to individual reductions.

No costs are charged for collection of waste from Council premises, therefore there may be less incentive for them to reduce waste. Finance has stated that the cost of internal trading outweighs the potential benefits. The Service is keen to obtain more detailed financial data in order to better demonstrate Best Value, and will engage with Finance to identify how this can be obtained.

A 25 year contract with SITA commenced in 2000, for management of the Council's landfill sites, civic amenity sites and treatment facilities. SITA negotiates contracts for the sale of recyclates and, under the present contract, remits approximately 10% of its income to the Council. The contract is being renegotiated to develop facilities and services that will allow the Council to fulfil statutory obligations, implement policy and provide improved services to householders and businesses.

The Waste Contracts Manager committed to further expenditure with SITA of £265,000 per annum, without seeking Committee approval in compliance with Standing Orders, or ensuring this was built in to the budget in advance. The Service will ensure future contract changes are approved appropriately and that budget implications are considered timeously.

There is currently no record maintained of expected against actual payments to SITA, although variances would be identified through the budget monitoring process. The Service will introduce a mechanism to provide additional assurance over the accuracy of invoices before they are paid.

There are currently no checks on the accuracy of charges to the Service for fuel. The Service, in conjunction with Fleet, will implement a reconciliation between charges and receipts, and in the interim will remind drivers that premium fuel should not be used.

There is currently no stock control system covering bins and parts held at Waste depots. The Service will implement stock controls to provide assurance over these items.

1. INTRODUCTION

- 1.1 Under the Environmental Protection Act 1990, local authorities have a statutory obligation to collect waste if requested to do so. Aberdeen City Council provides waste and recycling collection services for businesses in Aberdeen. The collections provided include glass; mixed recycling for paper, cardboard, plastic containers and metal tin cans; food waste recycling; general waste and special collections. In addition to the collection services, the Council leases and sells bins, and sells compostable bin liners.
- 1.2 Aberdeen City Council has a 25 year contract with SITA, which commenced in 2000, for accepting deliveries of waste from the Council, and for receiving and managing the waste deposited at civic amenity sites. The contract also covers SITA's management of the Council's landfill sites, civic amenity sites and treatment facilities, and the maintenance and operation of the plant listed in the contract. SITA also negotiates contracts for the sale of recyclates and, under the present contract, remits approximately 10% of its income to the Council.
- 1.3 The Council is in the process of renegotiating the contract with SITA to develop facilities and services that will allow the Council to fulfil statutory obligations, implement policy and provide improved services to householders and businesses. This may also lead to the Council receiving more of SITA's income, whilst bearing more of the base costs. SITA would be expected to pass on any cost savings to the Council.
- 1.4 The Commercial Waste budget for expenditure in 2015/16 has been set at £811,228, with the corresponding budget for income set at £1,746,896 to realise a net surplus of £935,668.
- 1.5 The objective of this audit was to consider whether adequate control is in place covering income and expenditure, that appropriate agreements and other paperwork is in place, and that accounting arrangements are robust. The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Mark Reilly, Head of Public Infrastructure and Environment, and Peter Lawrence, Waste and Recycling Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Income

- 2.1.1 Aberdeen City Council has several streams of income in relation to the collection of commercial waste. In addition to providing waste and recycling collection services for businesses in Aberdeen, compostable bin liners are sold, and bins are leased and sold.
- 2.1.2 The majority of the Service's income comes from the uplift of wheeled bins and recyclates for which each trade customer has an agreement with the Council. Some customers are billed monthly, and others are billed quarterly, whilst some may receive monthly invoices for one service, and quarterly invoices for another. Monthly bills are charged in arrears, whilst quarterly bills are charges which are partly in advance and partly in arrears.
- 2.1.3 The Council's Financial Regulations are integral to its governance arrangements. Adhering to the Regulations ensures that all financial transactions of the Council are conducted in a manner which demonstrates openness, integrity and transparency.
- 2.1.4 Paragraph 5.3.1 of Financial Regulations states that: "Wherever possible monies owed should be collected prior to the supply of the goods and services... Where a service or business need exists invoicing in arrears is permitted, however this should be clearly documented and approved by the Director, and the Head of Finance should be notified so that appropriate accounting treatment can be applied to that area of Service."
- 2.1.5 The arrangements for the collection of income in arrears are historical, and the Service cannot confirm whether or not they were approved by the Director and Head of Finance. This means that the Service is unable to provide assurance that they are operating in compliance with Financial Regulations.
- 2.1.6 As charges are based on a pre-agreed level of service, invoices could be raised in advance. Although credits are applied for missed collections, this could be administered more efficiently through a reduced frequency of billing. This would need to be balanced with any impact on cashflow and customers.

Recommendation

The Service should review billing arrangements for trade waste customers. If an element of billing in arrears is agreed, the necessary approval of the Director and Head of Finance should be obtained per Financial Regulations.

Service Response / Action

Agreed. The Service has previously explored the option of utilising Direct Debits as a means of obtaining pre-payment and to ensure that the service can operate flexibly in a competitive environment, however it has not been possible to implement this to date. The Service will therefore seek approval to invoice in arrears.

Implementation Date

April 2016

Responsible Officer

Waste and Recycling
Manager

Grading

Significant within audited
area

- 2.1.7 Where the Council is requested to uplift special collections from trade customers, most common items are listed on a charging schedule, and payment is taken when the request is received. In the case of alternative items, a Supervisor will visit the customer to view the items to be uplifted, and to estimate the length of time to complete the job, and thereafter a quotation is provided. The price is not adjusted to reflect the actual time taken. The accuracy of the charge made is, therefore, dependent on the load not being altered

between the Supervisor's visit and the uplift, and on the accuracy of the Supervisor's estimate of the time required to complete the job.

2.1.8 Although job cards are retained, they are not used to record actual hours, and there is currently no routine monitoring of cost against cost estimates for special uplifts to determine the accuracy of the estimation process, or to ensure costs are being recovered.

2.1.9 Charges are raised by invoice in arrears, therefore it should be possible for the charge to more accurately reflect the actual work done, rather than the original estimate. However, as discussed above charging in arrears is contrary to the principles set out in Financial Regulations.

Recommendation

The Service in conjunction with Finance should review the charging system for extraordinary uplifts.

Service Response / Action

Agreed. The new Waste Management System can be configured to record actual activity much more simply and efficiently than the current paper-based approach.

Implementation Date

June 2016

Responsible Officer

Waste and Recycling
Manager

Grading

Important within audited
area

2.1.10 To ensure the proper stewardship of Council funds, all Services should have assurance that all income due to them for the goods and services provided is received, and that it is accounted for correctly. There are weaknesses in control over income for commercial waste services. Where requests are made for special collections of items listed on the schedule of charges, payment is taken electronically at the customer contact centre. Payment for all requests for bins and bio liners, and for the collection of any items not listed on the schedule of charges is administered within the Service. The completed job cards are returned to administrative staff, and the details are logged in the Service's database which holds all of the details required to raise the invoices. An account slip is completed and passed to the officer responsible for raising invoices as notification that an invoice should be raised. However, there is no reconciliation of job cards issued with invoices raised or with income posted to the Service's ledger codes from the contact centre. The Service is therefore not obtaining assurance that invoices have been raised or payments received for all chargeable services provided.

Recommendation

The Service should implement reconciliations between records of work completed, work invoiced, and income received, to ensure that income has been received for the provision of all goods and services.

Service Response / Action

Agreed. The new Waste Management System can be configured to manage this.

Implementation Date

September 2016

Responsible Officer

Waste and Recycling
Manager

Grading

Significant within audited
area

2.1.11 The database contains details of all Commercial Waste collections, and information contained within the database forms the basis of all invoices. The process for raising debtors' invoices for routine collections of Commercial Waste is initiated by administrative staff whose assumption is that the information contained within the database is complete.

Reliance is placed on the system to produce an accurate and complete request for invoices to be raised.

- 2.1.12 No checks are performed to ensure that invoices are being requested either timeously or for the correct amounts, and there is no reconciliation of expected income with the income received.

<u>Recommendation</u>		
The Service should introduce checks to ensure the accuracy and completeness of all invoices raised.		
<u>Service Response / Action</u>		
Agreed. The new Waste Management System can be configured to make this activity straightforward.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2016	Waste and Recycling Manager	Significant within audited area

- 2.1.13 Charges for trade waste are approved by Full Council annually as part of the budget setting process. These are however detailed as maximum and minimum charge levels. The Trade Waste Co-ordinator, and the Trade Waste Officer therefore have some latitude to reduce charges to trade waste customers as a lever to try to retain or attract business. However, there has been no comparison of the cost of uplifts for trade waste against the level of charges set, therefore there is insufficient data to demonstrate that this makes sound commercial sense. The Service has noted that historically there have been difficulties separating out costs for trade and residential waste, and that plans are being progressed to analyse these costs in more detail.

<u>Recommendation</u>		
The Service should review the cost of uplifts against charge rates, and determine whether or not it is appropriate for reduced charges to be offered to either attract or retain customers.		
The Service should develop a framework to provide a clear audit trail on decisions made to adjust individual charges.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
June 2016	Waste and Recycling Manager	Important within audited area

- 2.1.14 The Council's Waste Service collects waste from other Council properties. The cost of this service, other than services provided to the Housing Revenue Account, is absorbed entirely by the Waste Service, and not passed on to individual Services occupying these properties. This could impact on incentives for internal customers to reduce the amount of waste they are producing, or for them to dispose of waste correctly.

- 2.1.15 This also means that the total cost of each Service is likely to be under-reported. The CIPFA Service Reporting Code of Practice (SERCOP) states that the total cost of Services should be recorded, and this includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation.

- 2.1.16 Finance has stated that the cost of internal trading outweighs the benefits, that estimated allocations are completed annually to comply with SERCOP, and no issues have been raised by External Auditors in this respect.
- 2.1.17 The Service however is keen to collect and utilise more detailed financial information in order to demonstrate commercial viability, and drive efficiencies. More comprehensive data could improve the ability of the Service to demonstrate Best Value and to develop fully informed business cases for change.

Recommendation

The Service should identify its financial management information requirements, and in conjunction with Finance, develop a plan for its delivery.

Service Response / Action

Agreed.

Implementation Date

June 2016

Responsible Officer

Waste and Recycling
Manager

Grading

Important within audited
area

2.2 Expenditure

- 2.2.1 During the audit, sixteen payments were tested. With the following exceptions, the results of testing were considered satisfactory.
- 2.2.2 Expenditure on fuel totalling £37,000 was charged to the Commercial Waste budget in 2014/15. Fuel cards are used throughout the Service. Each vehicle has been allocated a fuel card, and the driver is expected to obtain a receipt, and to submit it to the administrative staff in Waste where the details are logged on a spreadsheet.
- 2.2.3 Invoices for fuel are received and paid by Fleet without verification. Recharges are carried out by journal entry to the ledger system, details of which are provided to the Service by the Accountant. The accuracy of charges to Commercial Waste is however not checked against the spreadsheet maintained by administrative staff. There is, therefore, a risk of incorrect payments being made and not identified.

Recommendation

The Service should periodically reconcile fuel charges against fuel receipt records.

Service Response / Action

Agreed. Data is now being obtained from Fleet to do so.

Implementation Date

Implemented

Responsible Officer

Waste and Recycling
Manager

Grading

Significant within audited
area

- 2.2.4 Review of fuel invoices highlighted a number of regular instances of premium fuel and car-wash facilities having been used. Although these were not material sums in relation to the overall cost of fuel supplied, these demonstrate additional costs incurred which may have been avoidable.

Recommendation

The Service should ensure drivers are aware that only standard fuel should be used for Council vehicles.

Service Response / Action

Agreed.

Implementation Date

January 2016

Responsible Officer

Waste and Recycling
Manager

Grading

Significant within audited
area

- 2.2.5 The Service has a Service Level Agreement with Fleet Services which states that Fleet must notify the Service of the cost of rechargeable repairs to vehicles before the work is carried out. This arrangement is intended to afford the Service the opportunity to control its costs by identifying and addressing any obvious causes. E.g. if there are certain drivers who are frequently damaging vehicles, they may offer training in a bid to redress the issue.
- 2.2.6 However, notifications and subsequent recharges from Fleet are not always timely, which means the Service has difficulty managing the budget for vehicle repairs. This recharge mechanism is at variance with the practice operated by the Waste Service, and advocated by Finance, for internal service provision as discussed at 2.1.13-15 above.

Recommendation

The Service, in conjunction with Finance should review the Fleet charging mechanism and budget allocation to services for non-contract repairs.

Service Response / Action

Agreed. This is currently being reviewed as part of the Fleet finance work stream. A project team is in place to take this forward.

Implementation Date

June 2016

Responsible Officer

Head of Public
Infrastructure and
Environment

Grading

Important within audited
area

- 2.2.7 In order to manage the contract with SITA for waste disposal facilities, the Waste Contracts Manager has been granted unlimited authority to approve SITA invoices. In November 2013 the Manager committed the Council to expenditure of £265,000 per annum in respect of a management fee for new facilities at The Grove Nursery Household Waste and Recycling Centre (HWRC) from 28 January 2014 until a variation to the SITA contract had been worked out and agreed. He also committed the Council to payment towards staffing and security costs of £19,500, which exceeds the amount of £15,000 originally requested by SITA.
- 2.2.8 Commercial and Procurement Services has confirmed that the commitment to SITA with reference to the new HWRC should have been authorised by Committee – not by an individual officer.
- 2.2.9 The Service has stated that the additional costs were included as a pressure in the budget which was approved by Full Council. However, this was omitted from the budget in 2014/15. Costs, which the Service described in their growth bid as a contractual obligation rather than new services, have been included in the budget for 2015/16.

Recommendation

The Service should ensure new contracts are approved at the correct level.

The Service should ensure budget resources are available for all contracts before seeking approval for their commencement.

Service Response / Action

Agreed.

Implementation Date

Implemented

Responsible Officer

Waste and Recycling
Manager

Grading

Major at a Service Level

2.2.10 The Waste Contracts Manager is responsible for authorising all payments to SITA. However, there is no mechanism for controlling these payments other than the Contracts Manager manually reviewing the list of invoices paid to ensure that no duplicate payments are made. The authorisation process is further complicated through application of corrections, rebates and credits. In the absence of the Waste Contracts Manager, it would be difficult for another officer to verify an invoice prior to authorisation of its payment.

2.2.11 A record of expected payments under contract, against which invoices received could be checked, would provide more assurance over the accuracy of these payments.

Recommendation

A record of expected and actual payments to SITA should be maintained.

The payments should be analysed regularly to ensure they are in line with expectations.

Service Response / Action

Agreed. The Service does monitor expenditure on the Waste Management Service Contract closely through the Monthly budget management processes and outturn projection. A further mechanism will be introduced as recommended.

Implementation Date

January 2016

Responsible Officer

Waste and Recycling
Manager

Grading

Significant within audited
area

2.2.12 The Trade Waste Co-ordinator raised a concern that purchase orders raised by Supervisors in the purchasing system (PECOS) are sent to multiple individuals for authorisation. As well as being inefficient, there is an inherent risk with this process that orders may be authorised by someone who does not have sufficient knowledge of or authority over the budget and purchase being approved.

Recommendation

The Service should ask ICT to review the settings within PECOS which are causing the purchase orders raised by Supervisors to be sent to multiple authorised signatories for approval.

Service Response / Action

Agreed.

Implementation Date

January 2016

Responsible Officer

Waste and Recycling
Manager

Grading

Important within audited
area

2.3 Stock

2.3.1 Financial Regulations require adequate records to be kept in order to maintain control over stock. There are stocks of bins and parts at the depot at Potterton, but there is no stock system or record of stock movements. As a result it is not possible to confirm the existence or value of the stock at any particular point in time. In the absence of such controls there is an increased risk of loss or theft of items not being identified and addressed.

<u>Recommendation</u> The Service should implement a stock control system.		
<u>Service Response / Action</u> Agreed.		
<u>Implementation Date</u> April 2016	<u>Responsible Officer</u> Waste and Recycling Manager	<u>Grading</u> Significant within audited area

AUDITORS: D Hughes
C Harvey
A Taylor

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.