

**Briefing Paper - Waste Management Assurance and Consultation Engagements**

## **BACKGROUND**

- 1 The Chief Executive has requested an increase in the Internal Audit activities and presence in relation to Waste Management, and assurance and advice has also been sought from the Audit Committee and senior management within the Planning, Transport and Environment Directorate in relation to the internal control environment. This follows allegations of financial impropriety and fraud, which have resulted in ongoing internal and police investigations, and a separate HMRC investigation into the calculation and application of landfill tax charges which is also ongoing.
- 2 The Director of Planning, Transport and Environment is scheduled to attend Audit Committee on 2 April 2019, which is considered to be the earliest opportunity to report an update on the activities and outcomes of the respective investigations. The Internal Audit team has been delivering a programme of audit engagements to provide management advice, guidance and assurance in core areas of internal control, determined through ongoing discussion and relationship management meetings.
- 3 The Internal Audit service develops and delivers a risk-based internal audit plan, which is responsive to changes to the Council's risk profile and needs for assurance, advice and guidance. The following work has been delivered through assurance engagements, which result in a formal audit opinion and may result in audit recommendations, and consultation engagements, which are of an independent advisory nature, typically at a point of service transition or development.

## **INTERNAL AUDIT ENGAGEMENTS**

- 4 A number of audit engagements have been delivered in Waste Management and additional areas are still to be concluded in order to deliver a comprehensive review for 2018/19.

### **Audits Delivered**

- 5 The Internal Audit team has issued draft reports / management briefings for five audit engagements in Waste Management in quarter three 2018/19 as included in the following table.

#### Draft Reports / Briefings Issued

| <b>Consultation Engagements</b>   | <b>Assurance Engagements</b> |
|-----------------------------------|------------------------------|
| Commercial Waste Recycling Centre | Lamby Way Stores             |

|                    |   |
|--------------------|---|
| Weighbridge system | Income and banking control procedures (Lamby Way) |
|                    | Acting up payments and overtime in Lamby Way      |

- 6 A summary of the audit work completed, the primary findings and outcomes are provided in the following paragraphs.

**Consultation Engagements - Summary**

- 7 As allegations of financial impropriety and fraud were investigated, a number of staff, supervisors and managers were removed from the Waste Management teams and a replacement weighbridge team was brought in for continuity of service. Staff were also redeployed to enable continued facilitation of the Commercial Waste Recycling Centre (CWRC) provision. Internal Audit was requested to have a physical presence at the site in Bessemer Close in an advisory capacity, during initial weeks, to make observations and provide guidance on the operation of fundamental controls.
- 8 The Auditor prepared a draft Action Plan, which highlighted the control deficiencies at the site. Principally, it recognised the need for improvements to site security (to ensure that vehicles should only flow through the site in accordance with the business process), and processes to ensure that all waste movements were recorded on the weighbridge system, with physical checks put in place to verify this. Additionally, it was recommended that monitoring of data and reconciliations should be put in place and that action should be taken to ensure that all income due, was received.
- 9 This Action Plan has been adopted by the Directorate and added to as appropriate. Steps to address physical controls and operational division of duties challenges, were put in place, in the short term, but some slippage was seen in the back office checks, which would support these, largely as a result of resource constraints. Recently progress has been made and work has been completed on the weighbridge system. It is anticipated that these improvements and the required level of checks on waste movements and data, will enable assurance to be given that the CWRC operates within a reasonably robust control environment.
- 10 In addition to the action plan, a secondary piece of work has been completed on the proprietary weighbridge software system (Gatehouse). Analysis of transactions was undertaken and assisted the Directorate in identifying issues and areas for improvement within that system, with additional areas of concern incorporated into the Action Plan. There remains a need to ensure that the management actions framed within the Action Plan are brought to a timely conclusion, for which an ongoing audit monitoring arrangement is in place. An assurance audit assignment is planned in respect of Gatehouse in quarter four 2018/19, following this initial advice and guidance.

## Assurance Engagements - Summary

- 11 At the end of quarter three 2018/19, three draft audit reports were issued to senior management within Waste Management for consideration and formal response. A summary of the audit findings and the respective assurance rating is as follows.

### Lamby Way Stores

- 12 An audit of the effectiveness of the stock management system in place within Lamby Way Stores has been welcomed by management, following ongoing stock discrepancies identified through systematic stock checks. The stores hold standard equipment, materials and products for use by operatives within the Waste Management teams and household products such as recycling / wheelie waste bins and wormeries. The stock held at the last stock check had a value of circa £413k.
- 13 The audit work has concluded and a draft report has been issued with an assurance rating of **Unsatisfactory**, as the level of stock discrepancies across stock categories indicates an inconsistent application of core processes to ensure all transactions in and out of the stores are consistently and accurately recorded.
- 14 Through the auditor's observation of the stores in operation, and a sample of transactions and associated documentation, the systems in place are considered to be reasonably effective, for which a limited number of recommendations have been raised. It is important for management to prioritise their attention to communicating, monitoring and managing a culture of strict adherence to these processes to achieve the level of accountability and control required.
- 15 Whilst there were no inherent concerns raised regarding the integrity of the SAP stock system, a recommendation has been raised to review the re-order levels established in order to reduce the level of manual intervention required to maintain effective stock levels. The audit reported delays in stock management processes, and a need to promptly raise stock orders to the levels necessary when required and to receipt items promptly once they have been verified as satisfactorily received. Recommendations have also been raised to ensure that in instances when stock needs to be manually issued, processes are properly adhered to, and to address some stock security weaknesses.
- 16 As the audit report has provided an opinion of unsatisfactory, Audit Committee will receive a briefing paper on the audit to include the management response, once the final report has been issued. All recommendations raised and progress in their implementation will be reported to Audit Committee through the recommendations tracker. Officers from Internal Audit will be present during the year-end stock count 2018/19, to provide assurance on the processes and controls in place in quantifying the stock held.

### Income and banking control procedures (Lamby Way)

- 17 A review has been completed on the Income and Banking Control Procedures within Lamby Way upon request for assurance from management. The level of annual cash income received at Lamby Way is relatively low, with circa £2k received in Reception and circa £17k received by the Business Support Teams (as per 2017-18 data). The income received in reception related to the sale of wormeries, water butts, compost bins, re-useable garden sacks and new bins. Income received by Business Support consisted of Enforcement income (Fixed Penalty Notices and Bag Clearances) and Commercial Waste income (Sale of Orange bags - on an exception basis).
- 18 The audit work has concluded and a draft report has been issued with an assurance rating of **Insufficient with Major Improvement Needed**. The collection of income and banking records could be independently followed, to provide assurance that for the receipts checked as part of the audit, the respective income had been appropriately accounted for and banked. However, there was no inventory (stock) received in and issued / sold record for the Lamby Way Reception and Business Support office. Without this record, and with gaps in the Lamby Way stores issue records, it is not possible to provide the necessary assurance that all items issued from Lamby Way Reception and Business Support Offices have been appropriately charged for, with all income duly receipted and banked.
- 19 Installing the above stock control mechanism will enable stock to be periodically verified and checked and to enhance the completeness of income reconciliations in order to provide effective assurance over income and stock management. In addition to this core area, management have also been advised of a need to review stock security measures at Lamby Way Reception.

### Acting up payments and overtime in Lamby Way

- 20 A review has been completed on the processes and procedures in place relating to acting up and overtime payments at Lamby Way. The audit scope was developed with directorate management, who recognised the need for control improvements in some areas, and have sought Internal Audit assurance and advice.
- 21 The audit work has concluded and a draft report has been issued with an assurance rating of **Insufficient with Major Improvement Needed**, as attention is required in order to improve areas of compliance, coordination and control. The sample of overtime payments made within the teams at Lamby Way had been duly authorised by an approved individual and paid at the correct rates. However, there is a need to ensure overtime is consistently allocated and managed within the Working Time Regulations, as some officers have worked excessive hours.
- 22 This audit follows a recent review of acting up processes, which concluded in August 2018, reporting on the Materials Recycling Facility (MRF) and the Household Waste Recycling Centre (HWRC) in Lamby Way. The original audit identified improvements needed in the records for, and payments of, acting up allowances. Management

requested this audit to review both overtime and acting up arrangements, within the Cleansing and Collections teams at Lamby Way in addition to the MRF and HWRC.

- 23 The audit has recognised the difficulties in processing ad hoc acting up payments in the teams reviewed. The standard process of completing an acting up form for a set period is not viable where acting up arrangements are allocated on a shift basis. However, the practice adopted of using overtime wage codes in the absence of an acting up wage code for processing claims provides a greater risk of error and poor management information. Following the audit work in August, there has been a reduction in the proportion of acting up claimed for overtime hours.
- 24 The Acting up Scheme specifies that acting up arrangements should be the exception and should only apply where the services provided cannot function for operational or health and safety reasons without the higher graded post being filled immediately. The audit also showed that there were 305 acting up (shift) claims at Lamby Way for April to May 2018, and 149 for November 2018 (MRF, HWRC, Collections and Cleansing Teams). The scale of ongoing acting up arrangements indicates a need management to review their workforce needs, ensure appropriate arrangements are in place for general officer cover, and reserve acting up provisions for matters of urgent service requirements and not business as usual activity.

### **Audits Ongoing / Planned**

- 25 A number of internal audit engagements are either underway, or are planned for completion within the financial year 2018/19. Audit Committee will receive an update on these audits as part of their progress report and all recommendations and management delivery, via the recommendations tracker.

#### Reports Pending for 2018/19

| <b>Audits Underway</b>            | <b>Audits Planned</b>      |
|-----------------------------------|----------------------------|
| Waste Management Contracts        | Gatehouse Assurance Review |
| Waste Management Income Contracts | Stock Checks – Lamby Way   |

### **Management Response**

#### General comments on internal audit engagements

- 26 Whilst these reports have been recently received there is a commitment to proactively work on the audit findings and recommendations, and we will be responding in full to the recommendations shortly. Planning, Transport and Environment Management find the use of internal audits instrumental to supporting improvements relating to poor working practices and lack of processes in service delivery. The management team have worked with the internal audit team to identify priorities and scope for internal audits.

### Lamby Way Stores

- 27 Waste Services utilise SAP to manage stock and therefore have good software to support officers to manage stock levels and reconcile costs associated to changes in the associated levels. The assurance engagement identifies shortfalls in processes relating to managing and reconciling stock. The senior management team accept and will implement the recommendations from the assurance audit.

### Income and banking control procedures

- 28 Waste Services manage low levels of cash income at Lamby Way but recognise the importance of having processes in place to provide assurance. The reconciliation of stock relating to cash income is important to reduce the risk of fraud or maladministration. The senior management team accept and will implement the recommendations from the assurance audit.

### Acting up payments and overtime payments

- 29 Waste Services operations has significant acting up and overtime payments. Ad-hoc acting up relates to roles where officers cover driving or use of machinery when people are on leave, sick or on break and therefore work at a payment grade different to their employed role. The senior management team accept and will implement the recommendations of the assurance audit and will work with Corporate Resources to agree processes relating to operational requirements.