

Internal Audit Report For East Hants District Council

Special Audit 2002/2003 Waste

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EXECUTIVE SUMMARY

1. SCOPE

This review examined the controls for EHDC Waste Reduction Service's external contracts. The audit assessed the extent to which the authorities standing financial instructions have been contravened and the impact of this upon the council's financial affairs and image. The review was conducted through interviews with staff and examination of financial reports and supporting documentation and transaction tests.

2. RESULTS

Operations being carried out

Alternate Weekly Collections

- The Contractor has been collecting the waste.
- The Contractor has been distributing wheelie bins to missed out customers.
- Composters and Waterbutts have been delivered to qualifying residents.
- EHDC and their partners have successfully implemented the AWC scheme across the district in a very short time.

Management and Accounting Controls

- Steps have been taken to create good administrative records to provide management control.
- Effective action by council officers has been taken to improve the terms and conditions of the partnership agreement and expedite timely contract payments.
- Budgets have been redrawn and all future costs have been contained and capped to known levels.
- The future management requirement has been identified and recruitment process has started to ensure the appointment of a suitably qualified and experienced officer to oversee the service.

Operations Where Actions/Improvements Required

Alternate weekly Collections

- The surplus stock of bins owned by EHDC must be disposed of without any further delay in order to minimise any financial losses.

Green Garden Waste Scheme

- The projected costs for this service are deemed to be expensive, officers must use their best endeavours to meet the objectives inherent in the scheme by devising cost effective alternatives.
- The implementation of the current methods of delivering the service has shown that it is difficult to administer and control the operation in a manner that is fair and equitable to all residents. The partners must devise a better solution and put this to members for agreement.
- Green sacks have been distributed to a selection of residents. The inadequacy of these records will prejudice the success of the scheme in future years. Officers must bring this situation to order and re-establish effective controls without delay.
- There is no stock control over green garden sacks or over the tags issued, to identify a valid licence has been purchased by the resident.

Composters and Waterbutt Replacement Scheme

- Officers must ensure that all residents who qualify for a composter or water butt are provided with a complete unit. The waste Reduction Team has identified that there are a number of incomplete units that require further work before the composter and waterbutt distribution can be completed.
- The data clean up process has been started and officers must ensure it is reconciled to successful deliveries.

3. RECOMMENDATIONS

8 recommendations have been made these are listed in the attached Appendix A.

4. BACKGROUND

4.1. The Corporate Director (Business & Economy) asked internal audit to look into adverse variances arising in designated cost centres where there were identified high risks. The audit was carried out and a special internal audit report to the Corporate Director (Business & Economy) called 'Adverse Budget' was issued on the 26th July 2002. The report identified concerns over budget planning out and whether budgets were being properly scrutinised by managers. There were also indications that financial management controls (Waste reduction, refuse collection, refuse/recycling) were not properly in place. Variances were not being properly addressed. Accounting information

was in some respects flawed from miscoding and some technical accounting problems had caused problems for the budget holders. It concluded that some business managers had not accepted responsibility for or properly controlled the contractor and ensured that they work within the confines of an agreed financial plan.

- 4.2. The work carried out highlighted the need to take a closer look at the contract for alternate weekly collection. (AWC). The Corporate Director (Business & Economy) discussed the above report with Corporate Management Team (CMT). A team of three people was tasked to determine the financial position with the contract and where actions could be taken to prevent any further overspend. The team consisted of the Accountancy Manager, the Senior Auditor and a temporary Contracts Manager working for Contract Services. The team agreed the scope for the work with the Corporate Director (Business & Economy) and Corporate Director (Environment) on 16th October 2002.
- 4.3. The team finished their initial work and issued a report to the Corporate Director (Business & Economy) called 'Adverse Budget Outcome – Waste Collection Services' on the 11th October 2002. The conclusions of the report were that the waste contract had not been properly managed, and subsequently the bin assets had not been properly controlled. Financial controls had not prevented an invoice to the bin supplier from being paid. The bin distribution records were incomplete and there were a number of unexplained differences. Effective project management and control mechanisms had been put at risk by the recent management changes. The combined AWC and Green Waste Collection Services had had a significant impact on the Council's finances. The report was unable to pin point what the effect was at the time because there was still a lot of investigation that needed to be carried out to get to the bottom of the problem.
- 4.4. A significant finding was the controls had not been in place as required by Financial Procedure rules. The result of the report was that CMT requested that the Head of Contract Services undertake:
 - 4.4.1. A stock count to be carried out for bins held in the Contractor's store purchased by EHDC – within 7 working days.
 - 4.4.2. Written explanations of any differences arising from the stock count – within 10 working days.
 - 4.4.3. Implementation of a proper stock control system – immediately.
- 4.5. Further work was carried out by the team, after their October report, to try and identify the financial and contractual positions. Further problems were identified. The big issues were, that there was likelihood that the capital budget had been overspent by £60,000, the lack of stock control and control of contracts, and purchases resulting in ownership of wheelie bins not being clear. Other problem areas

were beginning to surface in the areas of composters and wheelie bins, and green waste contract being considered to be expensive.

4.6. There wasn't any immediate action taken as a result of the note of the 18th October 2002 so the Audit Manager wrote an informal note to CMT stating concerns that action she thought was necessary to turn the situation around was not being taken urgently enough. As a result of this note and a further note from the Corporate Director (Environment) giving both sides of the picture the Chief Executive issued a memo to CMT stating that the following matters needed to be resolved:

- Establish ownership of the bin stock
- Implement stock control procedures for waste and other receptacles such as bins, waterbutts, composters and green waste sacks.
- Investigate alternative ways of providing means of operating the green waste collection service and drawing up costed proposals to inform a strategic decision on the future of the service and provide accurate budget estimates.
- Review other contract arrangements (at a later date)

The Head of Contract Services (HCS) was identified as the member of staff who should take ownership of these issues and directly devise and implement actions to remedy the current shortcomings in the first three bullet points above.

4.7. It was agreed that the Senior Auditor should be seconded to the Head of Contract Services for a short period to assist. The HCS, Corporate Director (Environment), Temporary contract manager, Senior Auditor, Accountancy Manager and other members of the Contract Services staff and also the waste Contractor's representatives have had frequent and regular meetings to progress the aims set out in the Chief Executive's memo above and also to deal with new issues as they have developed.

4.8. Internal Audit reported a concern to Overview and Scrutiny Committee on the 20th November 2002. The Committee resolved that CMT should report action that had been taken to resolve the position and the internal auditor should report back to Committee on the matter.

4.9. Section 5 below concludes on what action is still outstanding relating to the above instructions and also to new areas that have arisen since the above instructions were issued.

5. Conclusions

Re Chief Executive's memo:

- 5.1. The ownership of the bin stock has now been resolved. See findings below for details. (RESOLVED)
- 5.2. Data clean up has been carried out by the Senior Auditor. Databases have been handed over to Contract Services staff to allow the service to control movements of: bin deliveries to customers, bin stocks, composter and waterbutt deliveries and stock, green sack deliveries and stock. Management should ensure that there is proper control and that the Waste Reduction Team follows up any mismatches of information (partially resolved)
- 5.3. No options or plans for green waste have been drawn up to date or been costed. This needs to be addressed.

Re Overview & Scrutiny Report

- 5.4. A small number of bins have been sold but the indications are that it is unlikely that EHDC will sell the bins using the current method. A new strategy should be developed on how to sell/dispose of the bins urgently so that the Council is not stuck with an expensive stock overhead. (outstanding)

6. Re: Issues that were not identified in the above report for action

- 6.1. Contract amounts under dispute need resolving /negotiating (outstanding)
- 6.2. Contract payments not up to date distorting budgetary control (resolved)
- 6.3. Wheelie Bins and Composters records of orders and deliveries incomplete and corrupted. (partly resolved)
- 6.4. Wheelie bins and composter stock controls in place. (stock counted but no proper records of stock movements)
- 6.5. Condition of wheelie bin and composter stock (resolved)
- 6.6. Green sacks - records not properly kept of issues (outstanding)
- 6.7. Green sacks - no stock control over sacks or tags (outstanding)
- 6.8. System for determining renewal of yellow tag – after one year not determined (outstanding)

