

Argyll and Bute Council
Internal Audit Report
February 2019
Final

Commercial Waste Management

Audit Opinion: **Limited**

	High	Medium	Low
Number of Findings	2	3	3

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1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of governance and procedures in relation to commercial waste management.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. The Waste (Scotland) Regulations 2012 require businesses to take all reasonable steps to dispose of their commercial waste safely and legally. Businesses must (by law) use a registered waste carrier to transport their waste, or register as a carrier if they transport their waste themselves. Contracts for the disposal of commercial waste can either be set up with the Council or with a private waste disposal company.
5. Any waste generated by commercial activity is classified as business waste. If you use part of your home to run your business then any waste from that part is business waste. This includes if your property is available to let for over 140 days per year, it will be rated as self-catering and is liable for non-domestic rates (NDR) with all refuse and recycling uplifts charged commercial refuse and recycling rates.
6. Development & Infrastructure have acknowledged that the systems and processes currently in place for commercial waste management are administratively intensive and agree there is an opportunity to review and improve these. There have been a number of recent personnel changes within the team and this provides a good opportunity to identify and implement new ways of working which should address some of the issues highlighted in this report. We recognise that the team are already considering different ways of working including visiting other local authorities to share knowledge and working practices.

Scope

7. The scope of the audit was to review the governance and procedures in relation to commercial waste management, including income maximisation.

Risks

8. The risks considered throughout the audit were:
 - **SRR03:** insufficient resource to meet current and future service requirement
 - **Audit Risk 1:** commercial waste contracts are not processed in a timely manner
 - **Audit Risk 2:** commercial waste income targets are not met
 - **Audit Risk 3:** commercial waste disposal charges are not correctly applied

Audit Opinion

9. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.
10. Our overall audit opinion for this audit is that we can take a limited level of assurance. This means that internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives at risk. Weaknesses must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.

Key Findings

11. We have highlighted two high, three medium and three low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
 - the backlog of approximately 400 contracts should be cleared
 - income reconciliations should be reinstated and the process formally documented
 - the process for managing commercial waste contracts should be reviewed with a view to streamlining it
 - use of the Council's debtor system should be explored to determine whether it could facilitate the streamlining of debtor account management
 - the current level of commercial waste debt should be quantified and reflected in the Council's general ledger system and financial statements
 - procedures should be established to identify B&B's and holiday lets requiring a commercial waste collection service
 - procedure documents should be revised and updated
 - the commercial waste section of the Council's website could be improved to provide clearer information on legislative requirements, duty of care and the charging structure.
12. Complete details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

13. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Commercial waste contracts are processed in a timely manner.	SRR03 Audit Risk 1	Limited	There are processes in place to identify and progress contracts however procedures notes need to be updated and there is currently a backlog of approximately 400 contracts waiting to be created or amended. The creation and management of contracts and invoices is

	Control Objective	Link to Risk	Assessment	Summary Conclusion
				a labour intensive process and would benefit from being streamlined.
2	Commercial waste charges are applied in accordance with agreed charging structure.	SRR03 Audit Risk 3	Substantial	Commercial waste management charges are applied in accordance with agreed Council charges which are detailed on the Council website. Contract details are entered onto the commercial waste database (the database) which automatically calculates the charges due. The database is, at times, unable to calculate part year charges.
3	Commercial waste income is recorded and reconciled in a timely manner.	SRR03 Audit Risk 1	Limited	Commercial waste income is recorded manually in the database using information received from daily cash receipting reports. Commercial waste debtors are not managed via the Council's debtor system and there is a lack of clarity over the current level of commercial waste debt with this not reflected in the Council's general ledger. Monthly income reconciliations have not been performed during 2018/19.
4	Commercial waste income targets are met.	SRR03 Audit Risk 2	Limited	Income targets have been set for the year and monthly engagement meetings are held between budget holders and Strategic Finance however, as income reconciliations are not being carried out, and due to the contract backlog, Strategic Finance are unable to project whether income targets will be met.

14. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

Commercial waste contracts are processed in a timely manner.

15. Information on commercial waste is available to business owners on the Council's website. Customers can contact the commercial waste management service using the online enquiry facility.
16. Whilst the onus is on the business customer to contact the Council regarding their commercial waste transfer arrangements the Council do employ area wardens who play a key role in identifying, visiting and advising businesses within their local area. They also play a key role in setting contracts and are required to visit customers to obtain signatories for new contracts or amendments to existing contracts. The Council's NDR team send regular reports to the commercial waste administration team detailing new businesses and changes to businesses. This information is then passed to wardens who provide the appropriate support and assistance to set up new contracts.

17. At the December 2018 budget engagement meeting with Strategic Finance an agreed £20k saving was that the service would *“Maximise income from B&B and holiday lets (some of which may not be subject to NDR). Carry out exercise regarding all B&B’s and holiday lets. Take action against any premises without appropriate arrangements, offer additional collections on a commercial basis for B&B’s and other commercial premises”*. There are currently no formal procedures in place to identify B&B’s or holiday lets that fall within the legislative requirements for commercial waste.

Action Plan 6

18. There are 3,108 active contract accounts recorded on the database with documented procedures in place to ensure they are processed and managed. However a desktop review highlighted that a number were incomplete and officers confirmed they needed to be revised to reflect current working practices.

Action Plan 7

19. Setting up contracts for commercial waste is administratively intensive. The database, designed internally by an IT engineer, is used to record all commercial waste details including charges. However, it cannot interface with other Council systems meaning there is no single system that allows the recording of business details, the calculation of charges or the creation of invoices and credit notes. Creating an invoice or credit note requires three different computer packages (the database, Excel and Word) and a four step process:

Step 1 – Populate database.

Step 2 – Extract database records into Excel.

Step 3 – Create invoice/credit note in Word using Microsoft merge functionality to pull information from Excel.

Step 4 – Manually add additional information to the invoice/credit note which does exist in the database but can’t be extracted at step 2.

Action Plan 3

20. Whilst processes are in place to ensure contract change requests are recorded and amended these are not being processed in a timely manner due to workload pressures and a backlog of approximately 400 contracts or contract amendments needing processed. The backlog has been generated over the past 12 months due to resourcing issues and staffing changes. The processing of amendments can be further delayed by a need for a warden to visit the business premise to confirm amendment requests and have the contract signed by the customer.

Action Plan 1

[Commercial waste charges are applied in accordance with agreed charging structure.](#)

21. Fees and charges are agreed by Council on an annual basis and we confirmed that commercial waste service charges are being applied correctly. Whilst the commercial waste charges are detailed within the Council wide ‘Council fees and charges’ document available on the Council website they are not stated in the commercial waste management part of the website. In general the commercial waste section of the website could be improved to provide clearer information on legislative requirements, duty of care and the charging structure. This should help decrease the number of queries received about the service and the associated charges.

Action Plan 8

22. Contracts are agreed with customers and fees are applied according to the agreed charging structure. Contract details are entered on the database. The database then calculates the correct charge to be applied however the database is unable to calculate part year charges for glass recycling where there was a change in service part way through the year. Administration staff reported this was a common fault within the database with an established manual workaround in place. No specific issue has been raised in relation to this point however it should be considered as part of a wider consideration about amending processes when addressing points 3 and 4 in this report.

Commercial waste income is recorded and reconciled in a timely manner

23. Commercial waste charges are either paid in advance at the start of each financial year or by direct debit. Customers can pay their invoices online, at a customer service centre, by telephone or by cheque.
24. Income received from customers is recorded on the Council's cash receipting system. Cash receipting reports are received on a daily basis, detailing income received for commercial waste. These are checked against the database and customer records updated. As the cash receipting system does not interface with the database, income received has to be manually input against customer records.
25. The Council operates a sundry debtors system which interfaces with cash receipting however commercial waste customers are only recorded on the Council's sundry debtors system if the charges are subject to VAT or if bin bags or bins are purchased. All other income due and received for commercial waste is recorded on the database. Where commercial waste income due to the Council is not recorded on the debtors system, any debt is not subject to the Council's debt management procedures.

Action Plan 4

26. An outstanding debtors report is run each month from the database and this is followed up either by telephone by the administration staff or by a warden visiting the customer.
27. Where commercial waste debts are not recorded on the debtors system the debtor is not recognised in the Council's general ledger with year-end debtors not reflected in the Council's annual accounts. There is also no bad debt provision for commercial waste customers as it is assumed that no material debt arises as services are paid for in advance or, in the event of non-payment, the service is stopped. However, it was observed that debts can arise if direct debits are stopped or if a business ceases to trade. The backlog of contract amendments referenced at paragraph 20 may also result in debts being incurred as services are being delivered but no contracts or invoices have been generated yet. Officers were unable to quantify the current outstanding debt.

Action Plan 5

28. Prior to 2018/19 monthly reconciliations were carried out between income due and income received however these have not been completed in the current financial year. The loss of a key member of staff and the lack of a formal handover of duties has compounded this as the current team have no record of the process previously followed to generate the information required to carry out the reconciliation. The service has committed to re-establishing this control and Strategic Finance have provided a template to facilitate this. It is noted that the backlog of

contracts will need to first be cleared before this is an effective control as this is required to ensure information in the reconciliation is accurate.

Action Plan 2

Commercial waste income targets are met

29. An income budget has been set for commercial waste collection. The annual income budget for commercial waste management is £1.96 million, this includes glass and paper recycling (£1.71 million for commercial waste). The year to date actual income received at December 2018 is £1.50 million. Monthly engagement meetings are held between budget holders and members of Strategic Finance to discuss all budgets.
30. Due to reconciliations not be carried out on a timely basis, finance are unable to project the year end income figure against budget. This has been highlighted at monthly budget meetings with management since around June 2018.

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	Backlog of Contracts There is currently a backlog of approximately 400 commercial waste contracts or contract amendments needing processed.	The Council may not maximise the income they can generate from commercial waste services.	The Business Support Team who provide the administrative input for Commercial Waste contracts has transferred across from a central team. The team is currently reforming and working towards its first year end process. This audit had been requested by the service in order that a number of improvement actions could be independently identified and progressed. Following the audit findings, the team will concentrate on the backlog to ensure the remaining contracts (now 300) are processed.	Fleet, Waste & Infrastructure Manager/ Network and Standards Manager 30 April 2019

High	2	Income Reconciliations Income reconciliations have not been carried out in 2018/19 and the current team have no record of the process previously followed to generate the information required to carry them out. The service has committed to re-establishing this control and Strategic Finance have provided a template to facilitate this. Reconciliations should be reinstated and the process followed to perform them should be formally documented.	Strategic Finance are unable to project actual income figures against budgeted income.	This action will run in conjunction with the backlog of contracts. The reconciliation will be introduced with immediate effect and the process will be continued in future years.	Fleet, Waste and Infrastructure Manager/ Network and Standards Manager 30 April 2019
Medium	3	Commercial Waste Contracts Setting up and amending commercial waste management contracts is an administratively intensive process involving area wardens visiting customers to obtain signatures and administrative officers inputting details into three different packages to produce an invoice or credit note. The process should be reviewed with a view to streamlining it.	Inefficient use of resources and increased risk of error.	The audit has helped to identify a number of improvement areas, this being a key one. The commercial waste contract process will be reviewed to understand the full system then it will be streamlined accordingly.	Fleet, Waste and Infrastructure Manager 30 November 2019

Medium	4	<p>Debtor Management</p> <p>Where commercial waste income due to the Council is not recorded on the sundry debtors system, any debt is not subject to the Council's debt management procedures. The use of the Council's debtor system should be explored to determine whether it could facilitate the streamlining of debtor account management.</p>	<p>The Council may not maximise the income they can generate from commercial waste services.</p>	<p>Officers will assess other systems within the Council as well as systems used by other local authorities and service providers to the waste industry. Once a suitable system has been identified this will be procured and implemented. In the interim, consideration will be given to progressing streamlining of the existing systems.</p>	<p>Fleet, Waste and Infrastructure Manager</p> <p>31 March 2020</p>
Medium	5	<p>Accounting for Debtors</p> <p>Commercial waste debts are not recorded on the debtors system the debtor are not recognised in the Council's general ledger with year-end debtors not reflected in the Council's annual accounts. There is also no bad debt provision as it is assumed that no material debt arises as services are paid for in advance or, in the event of non-payment, the service is stopped. However debts can arise if direct debits are stopped, a business ceases to trade or if contract amendments are not processed in a timely manner. Officers were unable to quantify the current outstanding debt.</p>	<p>The Council's general ledger and financial statements may not reflect an accurate debtor.</p>	<p>The debtor process will be reviewed to ensure that contract amendments are processed timeously. This process will link directly to debtor management with reliance on systems based control.</p>	<p>Fleet, Waste and Infrastructure Manager,</p> <p>31 March 2020</p>

Low	6	<p>B&B/Holiday Let Income Maximisation</p> <p>The commercial waste management service has identified 2019/20 savings of £20k for which includes an exercise to maximise commercial waste income from B&B and holiday lets. There are currently no formal procedures in place to identify B&B's or holiday lets that fall within the legislative requirements for commercial waste.</p>	Savings targets may not be met.	Services to ensure appropriate procedures are in place. These procedures will reflect the reduced number of environmental wardens following the February 2019 Budget Decision. It is anticipated that there will be a greater reliance on the back office system for chasing up B&B and Holiday Let contracts.	<p>Fleet, Waste and Infrastructure Manager and Operations Manager</p> <p>31 March 2020</p>
Low	7	<p>Documented Procedures</p> <p>Procedure documents are in place for commercial waste management however a number remain incomplete and the entire suite would benefit from a review to ensure they reflect current working practices.</p>	Staff may be unclear of their roles and responsibilities and this could lead to inconsistent working practices.	Procedural documents will be reviewed to ensure the partially completed documentation is updated to incorporate current practices.	<p>Fleet, Waste and Infrastructure Manager/ Network and Standards Manager</p> <p>30 November 2019</p>

Low	8	Council Website The commercial waste section of the website could be improved to provide clearer information on legislative requirements, duty of care and the charging structure.	Customers are unable to obtain information resulting in an increase in the number of enquiries.	The commercial waste section on the Council's website will be reviewed as part of the ongoing Digital Review to provide improvements and to ensure compliance in line with legislative processes. The duty of care will be highlighted to all current and potential commercial waste customers. Information will be presented on the charging structure and updated accordingly.	Fleet, Waste and Infrastructure Manager/ Network and Standards Manager Ongoing. Completed by 31 March 2020
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In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives at risk. Weaknesses must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.