



St.Helens Council

Internal Audit Report

2013/14

Merseyside Recycling and Waste Authority Capital Programme

	Section	Page
Executive Summary	1	2
Control Objectives	2	5
Findings & Conclusions	3	6
Action Plan	4	10

Report Prepared by:

Roy Platt Senior Auditor royplatt@sthelens.gov.uk
Barbara Aspinall Group Auditor barbaraaspinall@sthelens.gov.uk

Distribution

For Action:

Peter Williams Director of Finance
Lyn Fairhurst Waste Facilities Manager

For Information:

Carl Beer Chief Executive
Alex Murray Director of Operations

Ref: MWDA 03
Status: FINAL REPORT

August 2013



St.Helens Council

Merseyside Recycling & Waste Authority

Capital Programme

1.1 Introduction

An audit review of the management arrangements for the Capital Programme was undertaken as part of the 2013/14 Internal Audit Plan. The objective of the Audit was to provide an assessment of the adequacy of the control environment established, to ensure that the objectives are achieved and risks are adequately managed.

1.2 Scope

The review considered the arrangements in place for the planning and prioritisation of capital works, the Authority approval of the Capital Programme, tendering procedures, expenditure control and the maintenance of contract documentation.

1.3 Background

Context

The Capital Programme principally consists of works in relation to:

- i) Existing and new waste management facilities; and
- ii) Environmental control works at the Authority's former landfill sites.

The delivery of the Programme is predominantly managed by the Waste Facilities Section who are a multi-disciplinary team providing planning, engineering (civil, environmental and mechanical), project and commercial management, and environmental monitoring services.

Existing and new waste management facilities

These works are generally improvement works to existing facilities to provide improved recycling performance and/or access in and around the site or provision of new facilities to meet the Authority's overall aims and objectives.

Environmental control works

These are works that are required to be undertaken in order to protect the surrounding environment from pollution which may be escaping from the Authority's former landfill sites. They mainly relate to the escape of leachate (water that has been contaminated by the waste) and landfill gas – methane.

Budget

The total revised budget for the Capital Programme was £0.82m for 2012/13 and £2.408m for 2013/14.

1.4 Audit Opinion

Internal Audit contribute to the overall governance of the Authority by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relation to the areas under review.

Our opinion is based on the work performed as described in the above scope, which was agreed with management prior to the commencement of the review.

Our overall opinion, following this review is as follows;

Substantial Assurance The majority of expected controls are in place but there is some inconsistency in their application. Whilst there is basically a sound system of controls, there may be weaknesses in the design and/or operation of these and recommendations have been made to enhance the control environment further.

1.5 Key Issues

There are no key issues arising from this review.

1.6 Agreed Action

Actions to address the recommendations made in this report are included in the attached Action Plan, which has been agreed with the relevant Managers.

Control Objectives 2

Merseyside Recycling & Waste Authority

Capital Programme

To gain assurance that the following control objectives are being achieved within an appropriate framework of control:

1. Capital works are suitably prioritised, planned and subject to approval by the Authority.
2. Tendering and award arrangements are in compliance with Contract Standing Orders.
3. Capital works payments are substantiated and appropriately authorised.
4. Appropriate contract documentation is maintained.

Findings & Conclusions 3

Findings

3.1 Control Objective: Capital works are suitably prioritised, planned and subject to approval by the Authority.

We established that 5 out of 6 expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of one control was identified, and a recommendation has been made to enhance the control environment in this area, as detailed below:

3.1.1 Authority Approval The Authority is required to approve the Capital Programme as part of the annual budget setting process.

Whilst it was confirmed that the 2013/14 Capital Programme was approved by the Authority at the meeting of 1 February 2013, the programme contained options for major scheme developments as opposed to specific, agreed schemes.

In order to demonstrate that the Authority has given the appropriate approval of major schemes, if the schemes have not been specifically stated in the capital programme, they should be approved subsequently by the Authority prior to the procurement process commencing.

Recommendation *Major schemes should be approved by the Authority prior to the procurement process commencing.*

3.2 Control Objective: Tendering and award arrangements are in compliance with Contract Standing Orders.

We established that 8 out of 11 expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of 3 controls were identified, and recommendations have been made to enhance the control environment in these areas, as detailed below:

3.2.1 Selection of tenderers. Contract Procedure Rules specify the number of tenders/quotes required to be invited across appropriate financial bandings.

Whilst we did not identify any occasions where the required number of tenders / quotes had not been obtained, the method by which the contractors are selected to tender could be enhanced. Currently, the selection of tenderers on a rotation basis from the Approved List is hindered due to the limited number of Engineering contractors remaining on the List.

Whilst the Waste Facilities Manager informed us that the Approved List is due for review with the intention of increasing the number of eligible contractors, our view is that the method of contractor selection could also be improved by means of a combination of selection based on an assessment of previous work undertaken as well as an element of random selection from the Approved List.

Recommendations	<i>Consideration be given to amending the selection process for contractors invited to tender in order to include a combination of selection based on assessment of previous work undertaken and random selection.</i>
	<i>Staff procedures be documented to prescribe the process for selecting contractors to be invited to tender / quote.</i>

3.2.2 Contractor Vetting	Contractor vetting to confirm a contractors financial stability has in the past been undertaken by way of enquiry to St Helens Council's Select List Manager, however, St. Helens Council have established that their own contractual arrangements with Dunn & Bradstreet do not allow enquiries on behalf of MRWA. As a consequence the Authority will need to put its own alternative arrangements in place for future vetting of contractors financial standing.
---------------------------------	---

Recommendation	<i>A procedure be implemented to ensure that appropriate checks are undertaken to confirm a contractor's financial standing prior to their engagement.</i>
-----------------------	---

3.2.3 Issue identified	Contract Procedure Rules require tenders to be awarded in respect of the most economically advantageous tender. When contracts are awarded on a Price and Quality basis, we confirmed that an appropriate quality scoring methodology is adopted and applied to include predetermined quality criteria and weightings. However, the quality scoring is generally undertaken by only one officer. To implement a more effective process of quality evaluation, the undertaking of quality scoring by more than one officer would provide greater assurance that the scores awarded are fully reflective of the submission.
-------------------------------	---

Recommendation	<i>Quality scoring of tender submissions be undertaken by more than one officer.</i>
-----------------------	---

3.3 Control Objective: Capital works payments are substantiated and appropriately authorised.

We established that 6 out of 7 expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of one control was identified, and a recommendation has been made to enhance the control environment in this area, as detailed below:

3.3.1	Engineer's Instructions	The agreement of variations/additional works are required to be formalised by way of issuing documented and approved Engineer's Instructions to the Contractor.
--------------	--------------------------------	---

Whilst we found that Engineer's Instructions had, in the main, been issued, there were a minority of cases when although there may have been correspondence with the contractor to confirm the variations/additional works, they had not been formalised by way of an Engineer's Instruction.

Recommendation ***Engineer's Instructions should be issued in respect of all material cases of variations/additional works.***

3.4 Control Objective: To confirm that appropriate contract documentation is maintained.

We established that 6 out of 7 expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of one control was identified, and a recommendation has been made to enhance the control environment in this area, as detailed below:

3.4.1	Proof of Contractor Insurance	Contractors are required to demonstrate to the Authority that they have the appropriate Public Liability and Professional Indemnity insurance cover.
--------------	--------------------------------------	--

Whilst the contract places responsibility to insure and indemnify with the contractor, confirming at the outset of the contract that the arrangements are adequate would prevent any deficiencies having an impact, should an event occur.

We identified for a recent large scheme that although there was reference in the pre-construction meeting that the proof of insurance was requested, it could not be verified from records that the insurance proof was obtained.

Recommendation ***Proof of contractor insurance should be obtained and evidence retained on file.***

Conclusions

Internal Audit contribute to the overall governance of the Authority by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relations to the areas under review. Our opinion is based on the findings of the work performed as described above.

Our overall opinion, following this review is as follows;

High Assurance

All expected controls are in place and being applied consistently and effectively and there is a sound system of control designed to ensure the achievement of the service or system's business objectives.

Substantial Assurance



The majority of expected controls are in place but there is some inconsistency in their application. Whilst there is basically a sound system of controls, there may be weaknesses in the design and/or operation of these and recommendations have been made to enhance the control environment further.

Limited Assurance

A number of expected controls do not exist or are not applied consistently or effectively. There are weaknesses in the design or operation of controls that could impact upon achievement of the service or system's business objectives and these may have resulted in the emergence of key issues.

Minimal Assurance

A significant number of expected controls are not in place or there are significant weaknesses in the control system that may put the service or system's business objectives at risk. A number of recommendations have been made and / or key issues identified.

Actions to address the recommendations made during this review are included in the Action Plan attached at Section 4 of this Report.

**Merseyside Recycling & Waste Authority
Capital Programme**

Action Plan 4

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
1	Major schemes should be approved by the Authority prior to the procurement process commencing.	PW	Agreed on an on-going basis	
2	Consideration be given to amending the selection process for contractors invited to tender in order to include a combination of selection based on assessment of previous work undertaken and random selection.	LF	Agreed. November 2013	
3	Staff procedures be documented to prescribe the process for selecting contractors to be invited to tender / quote.	LF	Agreed. November 2013	
4	A procedure be implemented to ensure that appropriate checks are undertaken to confirm a contractor's financial standing prior to their engagement.	LF	Agreed. November 2013	

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
5	Quality scoring of tender submissions be undertaken by more than one officer.	LF	Agreed on an on-going basis	
6	Engineer's Instructions should be issued in respect of all material cases of variations/additional works.	LF	Agreed on an on-going basis	
7	Proof of contractor insurance should be obtained and evidence retained on file.	LF	Agreed on an on-going basis	