



Internal Audit Report

2022/23



COMPLIANCE WITH THE PUBLIC
SECTOR INTERNAL AUDIT STANDARDS
NWCAE GROUP FEBRUARY 2018

Merseyside Recycling and Waste Authority Procurement

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Assignment Control

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Merseyside Recycling and Waste Authority

Procurement

1.1 Introduction

An audit review of Procurement was undertaken as part of the 2021/22 Internal Audit Plan. The purpose of the Audit was to provide an assessment of the adequacy of the control environment established, to ensure that objectives are achieved and risks are adequately managed.

1.2 Scope

The review encompassed general procurement processes in relation to revenue and capital expenditure to ensure that expenditure is appropriate, represents value for money and is in accordance with procedures.

Contract payments in respect of the Resource Recovery Contract and the Waste Management & Recycling Contract were excluded from this review as they are examined during separate audit reviews.

1.3 Background

Based on Revenue Budget revised estimates for 2021/22, having deducted expenditure relating to waste contract payments, employee costs, premise costs and other expenditure that is not subject to general procurement processes, there is approximately £800k of annual expenditure that is considered to fall within the parameters of general expenditure. The main cost centres for this expenditure are establishment supplies & services (£308k), closed landfill supplies (£50k) and the Behavioural Change Waste Prevention Programme (£362k).

The 2021/22 Capital Programme revised estimate was £685k.

1.4 Audit Opinion

Internal Audit contribute to the overall governance of the Council 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:

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.

1.5 Agreed Action

Actions to address the recommendations made in this report are included in section 4, which has been agreed with the relevant Managers

Control Objectives 2

Merseyside Recycling and Waste Authority

Procurement

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

1. To confirm that policies and procedures relevant to general supply and contracting arrangements for works and services are in place, up to date and available to all relevant staff.
2. To confirm that procurement is appropriate, represents value for money, and transactions are authorised and processed in line with Contract and Financial Procedure Rules, including any capital programme activity.

Findings Summary 3

Merseyside Recycling and Waste Authority

Procurement

The main findings from our review are highlighted below, and our detailed findings and recommendations are included in Section 4.

3.1 Areas of Good Practice

- The payment processing procedures are robust.

3.2 Key Areas of Development

- Obtaining and retaining quotes / tenders to demonstrate value for money and transparency in supplier / contractor selection;
- Strengthening the authorisation procedures so that requisitions that do not demonstrate compliance with value for money and contractor selection requirements are rejected;
- Issuing official Purchase Orders supported by terms and conditions of supply;
- Contracts should be signed by all parties, when relevant; and
- The storage and use of credit cards should be in accordance with the banks terms and conditions.

3.3 Recommendation Summary

In order to assist management in using our reports, we categorise our recommendations according to their level of priority, please see section 5 for definitions.

This table details the number of recommendations made for each level of priority.

Low priority recommendations are provided at the exit meeting, and are not included in this report.

Priority	Number
High	4
Medium	4
Low	0

REF.	FINDINGS	IMPLICATIONS / RISKS	RECOMMENDATION	MANAGEMENT RESPONSE
<p>Control Objective 1: To confirm that policies and procedures relevant to general supply and contracting arrangements for works and services are in place, up to date and available to all relevant staff.</p>				
<p>1</p>	<p>We were informed that the Contract Procedure Rules are currently under review. However, the Procedure for the Acquisition of Goods and Services also require review to take into account the impact of the separate recommendations within this report, in particular with regards to the storage and use of credit cards and the placement of official orders.</p>	<p>The risk of non-compliance increases in the event that policies and procedures do not reflect expected practices.</p>	<p>The Procedure for the Acquisition of Goods and Services should be reviewed and updated. Priority: Medium</p>	<p>Agreed Action: The Procedure for the Acquisition of Goods and Services is currently under review and will be redistributed to staff when finalised. Responsible Officer: Business Services Manager. Timescale: 30th November 2022.</p>

Control Objective 2: To confirm that procurement is appropriate, represents value for money, and transactions are authorised and processed in line with Contract and Financial Procedure Rules, including any capital programme activity.

<p>2</p>	<p>For 19 of the 30 transactions tested, there was a firm basis for the payment, for example, formal contracts were in place. However, for the remaining 11 transactions, there was no evidence saved to the Procurement System to support transparency regarding supplier / contractor selection or that value for money had been achieved. Following enquiries with the relevant officers, whilst it was established that quotes had been obtained in six cases but not saved to the Procurement System, the remaining five had no quotes or notes recorded to support contractor selection or verify value for money. In some cases, over-reliance had been placed on market testing from several years ago. Whilst it is the case that these transactions were generally in the lower band of expenditure (less than £5k), there is still a duty to secure value for money.</p>	<p>A lack of adherence to procedures surrounding obtaining quotes and recording reasons for supplier / contractor selection has compromised the ability to demonstrate value for money and transparency in some cases.</p>	<p>i) When appropriate, quotes should be obtained and saved to the Procurement System to demonstrate achievement of value for money;</p> <p>ii) When appropriate, notes should be recorded in the Procurement System to demonstrate transparency in supplier / contractor selection.</p> <p>Priority: High</p>	<p>Agreed Action: Requirements to be reinforced via an instruction to staff and in induction training.</p> <p>Responsible Officer: Business Services Manager.</p> <p>Timescale: 30th November 2022 and ongoing thereafter.</p> <p>Agreed Action: Requirements to be reinforced via an instruction to staff and in induction training.</p> <p>Responsible Officer: Business Services Manager.</p> <p>Timescale: 30th November 2022 and ongoing thereafter.</p>
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3	<p>Since 2014 a consultant has provided specialist accounting advice and support on an ad-hoc basis. This was a direct appointment without tender. Whilst Contract Procedure Rules provide for exceptions to be applied for works of a specialised nature, such appointments are required to be approved by Administrative, Executive or Key Decision, dependant on value. In this case an Administrative Decision was required but was not sought. Since the audit, a retrospective decision has been processed for the case in question.</p>	<p>A failure to have exceptions from Contract Procedure Rules formally approved compromises the ability to demonstrate transparency in the procurement process.</p>	<p>All exceptions from Contract Procedure Rules should be formally recorded by the relevant Administrative, Executive or Key decision.</p> <p>Priority: Medium</p>	<p>Agreed Action: The requirements will be reinforced via an instruction to staff and in induction training.</p> <p>Responsible Officer: Business Services Manager.</p> <p>Timescale: 30th November 2022 and ongoing thereafter.</p>
4	<p>The Procurement System has inbuilt controls that require requisitions to be authorised. There is also the ability for authorising officers to reject requisitions. The purpose of the authorisation is to confirm that expenditure is legitimate and that the necessary Contract Procedure Rules and associated procedures have been complied with. However, for those transactions within the audit sample which were</p>	<p>A failure for authorising officers to reject requisitions that fall short of requirements does not provide the necessary assurances that expenditure is legitimate and in accordance with procedures.</p>	<p>With the exception of transactions in relation to fixed costs such as rent or service level agreements, authorising officers should reject requisitions that do not demonstrate compliance with Contract Procedure Rules and associated procurement procedures with regards to value for money and contractor selection.</p> <p>Priority: High</p>	<p>Agreed Action: Authorising officers are to be instructed to reject requisitions that do not provide the necessary evidence to support value for money or contractor selection.</p> <p>Responsible Officer: Business Services Manager.</p> <p>Timescale: 30th November 2022 and ongoing thereafter.</p>

	lacking in quotes or notes to demonstrate value for money and transparency over supplier selection, the authorising officers had not rejected the requisitions.			
5	The Procurement System has the capability of producing official purchase orders. Whilst purchase orders are raised in the system they are not despatched to suppliers. Instead, officers generally e-mail suppliers quoting the order reference number. Also, there are no terms and conditions of contract for the supply of goods and services in place that should be issued to suppliers.	A less than formal approach to procurement by not issuing official purchase orders, together with the absence of terms and conditions, weakens the Authority's position on taking recourse action should the need arise.	Official Purchase Orders, including terms and conditions, should be despatched to suppliers as appropriate. Priority: High	Agreed Action: Appropriate enquiries are to be made with the system provider to investigate a solution to satisfy the requirement for the sending out of official purchase orders and associated terms & conditions. Responsible Officer: Business Services Manager. Timescale: 31 st December 2022.
6	For two of the contract arrangements reviewed, whilst the award letters confirmed that arrangements would be made for contracts to be signed, this matter was overlooked.	A failure to ensure that contracts are formally signed, when relevant, would weaken the Authority's position should recourse action become necessary.	Contracts should be formalised and signed when the requirements of Contract Procedure Rules dictate. Priority: Medium	Agreed Action: The requirements will be reinforced via an instruction to staff and in induction training. Responsible Officer: Business Services Manager. Timescale: 30 th November and ongoing thereafter.

7	<p>The Authority has engaged an ex-employee on an ad-hoc basis to undertake IT system work. The engagement was approved by Administrative Decision; however, the payments were made to the individual's personal bank account at gross i.e. without any tax implications being considered. Public authorities are required to consider whether the off-payroll rules (IR35) apply when making payments to individuals. The HMRC has an on-line assessment tool to establish if the individual is employed or self-employed for tax purposes.</p>	<p>A breach of HMRC regulations could result in financial penalties.</p>	<p>In advance of any engagement of individuals to provide services, the HMRC on-line assessment tool should be used to establish if the individual is employed or self-employed for tax purposes.</p> <p>Priority: Medium</p>	<p>Agreed Action: Appropriate advice and assistance to be sought from St Helens Council Human Resources Section as and when cases arise.</p> <p>Responsible Officer: Business Services Manager.</p> <p>Timescale: 30th November and ongoing thereafter.</p>
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<p>8</p>	<p>Three members of the Senior Management Team hold credit cards for business use. Two of the credit cards are held in the safe, which is contrary to the conditions of use, as dictated by the Bank. Also, one of the credit cards in particular is used for internet purchases for which a number of officers would process the transaction over the internet. This is also contrary to the conditions of use.</p>	<p>The recovery of sums in the event of fraudulent credit card use would be compromised if there are failures relating to the conditions of use.</p>	<p>i) Credit cards should be always kept on the cardholder's person.</p> <p>ii) Internet usage of card details should be restricted to the nominated cardholder only.</p> <p>Priority: High</p>	<p>Agreed Action: Cardholders are to be notified of the requirement for cards to be always kept on the cardholder's person.</p> <p>Responsible Officer: Business Services Manager.</p> <p>Timescale: 30th November 2022.</p> <p>Agreed Action: For internet transactions, Microsoft Teams will be used to facilitate the cardholder personally entering card details by taking control of shared screens whilst on-line transactions are being performed.</p> <p>Responsible Officer: Assistant Director of Business Services & Strategy.</p> <p>Timescale: 30th November and ongoing thereafter.</p>
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Assurance Levels

- Substantial** A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- Reasonable** There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
- Limited** Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
- No** Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Recommendation Priority

- Critical** Failure to address the risk could potentially lead to catastrophic loss of council services; loss of life; significant environmental damage or major financial loss; with national press coverage and substantial damage to the council's reputation. Remedial action must be taken immediately.
- High** Failure to address the address the risk could potentially lead to failure to achieve organisational objectives, serious injuries, significant disruption to council business or to users of its services, high financial loss, inefficient use of resources, failure to comply with law or regulations, damage to the council's reputation. Remedial action must be taken urgently.
- Medium** Failure to address the risk could potentially lead to an impact on operational objectives, moderate injuries, moderate financial loss, moderate breach of law or regulations, moderate reputational damage. Prompt specific action should be taken.
- Low** Matters that individually have no major impact on achieving the service's objectives. Specific remedial action is desirable.