



St. Helens Council

Audit Report 2010 / 11

Merseyside Waste Disposal Authority

Contract Waste Management and Landfill Disposal, Human Resources and Procurement

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St. Helens Council

EXECUTIVE SUMMARY

Merseyside Waste Disposal Authority

Contract Waste Management and Disposal, Human Resources and Procurement

Scope

Merseyside Waste Disposal Authority (MWDA) has entered into a Service Level Agreement (SLA) for St Helens Council to provide its annual internal audit coverage commencing April 2010. This report summarises the results of the audit work undertaken with a view to providing an assurance that the financial controls in operation during 2010/11 were appropriate and effective in the following areas:

- i. Waste Management and Recycling Contracts;
- ii. 3 x Landfill Contracts
- iii. Corporate Services (Procurement; & Human Resources (HR)).

Background

Waste Management and Recycling Contract

Veolia Environmental Services under the Waste Management and Recycling Contract (WMRC) are responsible for the management of the waste at the MWDA's four transfer stations, the operation from recycling and transporting of waste at the fourteen HWRC's, the MRF at Bidston, arranging for the recycled materials to be sold and finally the transport costs of moving the waste / recyclable material out of various sites and to their required destination.

Landfill Contracts

The MWDA currently disposes of waste via three landfill disposal contracts. One of these contracts (3C Arpley Contract) is provided by Merseyside Waste Holdings Ltd (MWHL). The following summaries the three landfill contracts currently in place:

- i. 3C Arpley Contract (up to 370,000tpa) between Waste Recycling Group (WRG) accessed and MWHL;
- ii. Landfill Services Contract (Top up contract to 3C Arpley Contract) between WRG and MWDA;
- iii. Landfill Services Contract between Sita UK Ltd and MWDA for disposal of Cement Bonded Asbestos (Hazardous Waste).

The MWDA Landfill Services Contract with WRG acts as a 'top up' contract to MWHL's 3C Contract. The 3C Contract requires a minimum 200,000 tonnes per annum to be delivered and also allows up to a maximum 370,000 tonnes per annum to be accepted at Arpley LFS. The MWDA therefore must deliver 200,000 tpa to the 3C Contract, and may achieve this via delivery of waste from any of its transfer stations. However the 'top up' contract requires all waste above 200,000 tpa transferred to landfill via the Huyton and Gillmoss Transfer Stations to be delivered thereafter into the top up contract with WRG. The following table provides approximate contract values:

The following table details contract values:

Period Covered	Contract	Actual Cost £ Excluding VAT
June 2009 to March 2010	WMRC	14,285,491
April 2009 to March 2010	Landfill 3"C" Contract (up to 370,000 tpa)	11,926,379
April 2009 to March 2010	Landfill Top Up Contract	795,4620
April 2009 to March 2010	Hazardous Waste Contract	12,517
Estimated Annual cost of all the Waste Management Contracts for 2009/10		33,019,849
Period Covered	Contract	Estimated Cost £
April 2010 to Dec 2010	WMRC	12,721,530
April 2010 to Dec 2010	Landfill 3"C" Contract (up to 370,000 tpa)	11,085,732
April 2010 to Dec 2010	Landfill Top Up Contract	9,665,916
April 2010 to Dec 2010	Hazardous Waste Contract	17,017
Estimated Annual cost of all the Waste Management Contracts for (April to December) 2010/11		33,490,195

Corporate Services

The Corporate Services Team is responsible for the Human Resources function with payroll processing undertaken by St Helens Council via an SLA. At the time of the review, there were 36 staff employed at MWDA at an approximate cost of £1.4M

An in-house procurement system, providing for requisitioning, ordering and recording of the receipt of goods has been developed by the Corporate Services Team with enhancements made to the system in the last few years. A Service Level Agreement (SLA) is in place with the Councils for the processing and payment of invoices. Between 1st April 2010 and the 31st January 2011, St Helens Accounts Payable Section have processed 2066 invoices and made 984 payments on behalf of MWDA.

Audit Opinion

In our opinion, appropriate key controls are in place and are operating effectively with regard to the management of the various waste contracts. Testing confirmed that there are appropriate controls in place to ensure that payments made are in accordance with the rates, terms and conditions of the relevant contract.

Following the review of the Human Resources we are satisfied that adequate controls are in place but improvement to the control environment is required particularly in relation to ensuring the integrity and completeness of personnel records for new appointments for which we have agreed recommendations with management.

The review of the Procurement system highlighted that there are appropriate controls in place, but we consider that control would be further strengthened on implementation of the agreed recommendations particularly in relation to the prompt processing of invoices and the integrity of system upgrades.

Key Issues

Appointment of staff

It is essential that copies of references and relevant qualifications for candidates are obtained and retained to ensure the legitimacy of the application, enable the Authority to satisfy itself as to the quality of candidate, and reduce the risk of appointment on the basis of a misleading, or at worse fraudulent application.

Payment of invoices / system upgrades

It is essential that invoice payments made by the Authority are made on a timely basis to ensure the maximising of credit terms whilst managing the risk of any claim under the provisions of the Late Payment of Commercial Debts (Interest) Act 1998.

Agreed Action

The recommendations and actions have been agreed with the Assistant Director (Finance).

INTERNAL AUDIT REPORT

Merseyside Waste Disposal Authority

1.0 Objectives

To review the controls in place in relation to the following:-

Contract Waste Management & Disposal

1. Veolia Contract – to ensure that all contract payments are accurate, legitimate and accounted for appropriately.
2. Landfill Contract – to ensure that all contract payments are accurate, legitimate and accounted for appropriately.

Human Resources

3. Appropriate HR policies and procedures are in place, regularly reviewed and available to staff.
4. Recruitment and selection is in accordance with agreed policies and procedures.
5. Appointments made are in accordance with agreed policy and procedures.
6. All leavers are authorised and records updated on an accurate and timely basis.
7. Records are maintained and protected from unauthorised access.

Procurement

8. Financial Procedures and Financial Instructions are subject to regular review.
9. Payments are only made for goods and services received, supported by a legitimate invoice and certified by an authorised officer.
10. Invoices are processed promptly in accordance with payment terms.
11. The procurement system is secure.

2.0 Conclusions & Recommendations

Contract Waste Management & Disposal

2.1 Control Objective – Veolia Contract – to ensure that all contract payments are accurate, legitimate and accounted for appropriately.

- 2.1.1 This control objective is being met.
- 2.1.2 Based on sample testing we confirmed that expected controls are in place and operating effectively.
- 2.1.3 Appropriate review and internal check of claims is being undertaken and a control checklist is signed and dated by the assigned responsible officer. We confirmed that queries are raised with Veolia on a timely basis and, where required, additional information requested to authenticate the claim. Amended invoices for payment are submitted to the Authority by Veolia.

- 2.1.4 Sample testing confirmed that all rates being applied (including performance deduction rates) were correct and that all payment certificates are signed/dated by an approved certifying officer. We confirmed with the Business Support Manager that a monthly reconciliation to FIS is undertaken to ensure the accuracy of coding.
- 2.1.5 At the time of the review, the Final Claim for 2009/10 (March 2010 claim) had not been agreed. The Assistant Contract Manager confirmed that Veolia were aware of the situation but accurate submission of year end year adjustments is key to both parties. The Director of Finance confirmed that a suitable creditor had been incorporated in to the Authority's 2009/10 accounts.

2.2 Control Objective – Landfill Contract – to ensure that all contract payments are accurate, legitimate and accounted for appropriately.

- 2.2.1 This control objective is being met.
- 2.2.2 Sample testing confirmed that an adequate level of checks to supporting documentation is performed on a monthly basis and evidence is retained.
- 2.2.3 We confirmed that adequate checks are in place to ensure discrepancies are raised and claims adjusted where applicable.
- 2.2.4 Controls are in place to ensure that the tonnage relating to each contract is monitored to ensure that the most financially beneficial option to the authority is actioned.
- 2.2.5 Testing confirmed that the correct contract rates have been applied, calculations are correct and appropriately authorised, and an authorised signatory certifies payments to MWHL and Veolia.

Human Resources

2.3 Control Objective – Appropriate HR policies and procedures are in place, regularly reviewed and available to staff.

- 2.3.1 This objective is generally being met.
- 2.3.2 Discussion with the Assistant Corporate Services Manager confirmed that all relevant HR policies and procedures are documented within the Authority's Handbook. The Handbook is in electronic format and maintained on the Intranet. All staff as part of their induction process are directed to these documents.
- 2.3.3 Discussion with the Assistant Corporate Services Manager confirmed that maintenance of the Authority's policies and procedures in relation to new legislation / amendments to existing legislation is ensured via:
- ♦ Membership of the Chartered Institute of Personnel and Development (CIPD) and the requirement to maintain Continuing Professional Development (CPD) ;
 - ♦ Consideration of monthly briefings from CIPD; &
 - ♦ Information bulletins from Croner re Employment Law.
- 2.3.4 We reviewed the electronic handbook and confirmed that all relevant HR policies and procedures were present.

- 2.3.5 We noted that approximately 20% of the policies had not been subject to a review for several years the Corporate Services Manager confirming to us that these were currently being considered. At the time of the review, the Corporate Service Section confirmed that they maintain a control record of dates detailing when policies / procedures require review.
- 2.3.5 We considered compliance with the Return to Work Policy regarding sickness absence procedures to be adopted for both short and long term sickness absence.
- 2.3.7 Based on a sample of sickness absence we confirmed that in approximately 40% of cases the Assistant Corporate Services Manager had not received a copy of the employee's return to work (RTW). The Assistant Corporate Services Manager obtained copies of these from the relevant line managers during the review. We consider that it would be good practise if the Assistant Corporate Services Manager receives copies of the completed RTW.
- 2.3.8 We confirmed a member of Corporate Services completes a monthly return of absence and the completed document is forwarded to St Helens HR Section. Evidence of the completed return of absence is retained on file. Testing confirmed that the return is being completed monthly, from a range of sources and that the Assistant Corporate Services Manager monitors sickness levels. The Assistant Corporate Services Manager provides the Executive Management Team with the following statistics:
- ♦ % days lost due to sickness including long term sickness – currently at 3.94%
 - ♦ % days lost due to sickness excluding long term sickness – currently at 2.17%

Recommendations

- 1 The employee handbook to remove all hyperlinks to documents and employees directed to the Controlled Document Library where approved policies and procedures are updated promptly.
- 2 Sickness Absence Procedure to be amended to include the requirement to provide copies of return to work interviews on a timely basis to the Assistant Corporate Services Manager.

2.4 Control Objective – Recruitment and selection process is in accordance with agreed policies and procedures.

- 2.4.1 Control improvements are required to ensure that this objective is met.
- 2.4.2 As part of the review we reviewed the four most recent appointments to confirm compliance with agreed procedures.
- 2.4.3 There was some evidence within the individual files that scoring sheets to support the recruitment and selection process had been completed but it was confirmed by the Assistant Corporate Services Manager that standard scoring documentation is not always utilised, despite there being some evidence of a scoring mechanism on files. To facilitate an objective approach, all candidates should be assessed against criteria on the job description and person specification and scores awarded accordingly.

- 2.4.4 Maintenance of standard documentation will enable the Authority to withstand any challenge to an appointment.

Recommendation

3. A consistent approach to be adopted in relation to scoring documentation for the evaluation of employing candidates.

2.5 Control Objective – Appointments made are in accordance with agreed policy and procedures.

- 2.5.1 This objective is not being met in full.

- 2.5.2 We confirmed that a personal file for every successful candidate is maintained and recruitment information retained on the file. We also noted that a file is maintained for unsuccessful candidates to provide evidence should a challenge to the recruitment process be received. The review confirmed that all new employees are required to sign a contract of employment and the original is retained on the employee's file.

- 2.5.3 A review of the four recent appointments was undertaken and we noted the following-

- ◆ Copies of candidates qualifications / certificates could not be located for one candidate;
- ◆ Completed induction forms could not be located for two appointments.

- 2.5.4 It is essential that personnel files contain relevant information to provide evidence of proper appointment processes, employee's acceptance of conditions, and evidence of any changes to conditions of employment. It is also essential to ensure that any appointment is made based on sound evidence of references and achievement of essential qualifications.

Recommendation

4. That the Corporate Services Team ensure copies of key information is retained on employee personnel files including:-
- i) Employee qualifications;
 - ii) Completed and signed induction forms.

2.6 Control Objective – All leavers are authorised and records updated on an accurate and timely basis.

- 2.6.1 This control objective is generally being met.

- 2.6.2 The Authority has experienced low employee turnover and at the time of the review, there had only been one leaver in the last two years.
- 2.6.3 We confirmed that a letter of resignation was on file accepted by the Director of the Authority in writing. The notice period, remaining leave, and lieu time was calculated by the Assistant Corporate Services Manager and confirmed in writing to the employee.
- 2.6.4 St Helens Payroll Section were informed of the leaving date and we confirmed that the final payment was made on the correct date and that no further payments were made thereafter.
- 2.6.5 The Assistant Corporate Services Manager is responsible for recovering any equipment issued to the leaver. However, there was no record on the employees file of issued equipment i.e. laptop, mobile phone, I.d. badge, etc or a signed record of returned items. Whilst the Assistant Corporate Services Manager confirmed equipment had been returned prior to the employee leaving a control record should be maintained. There would be benefit in introducing a control record that would provide a check list for completion on termination and could include lap tops, mobile phones, IT software licences cancellation etc.

Recommendation

5. That a control termination record is maintained on individual personal files completed on termination.

2.7 Control Objective – Records are maintained and protected from unauthorised access.

- 2.7.1 This control objective is not fully being met.
- 2.7.2 The review confirmed that the personnel records are stored in one of two ways:
- i. electronic database;
 - ii. manual record
- 2.7.3 We confirmed the only members of staff who have access to the electronic database are the Corporate Services Manager and the Assistant Corporate Services Manager. To enter the system requires a user i.d. and password, but the two members of staff confirmed that they are not required to change their passwords automatically which is a basic IT security requirement.
- 2.7.4 All manual files are maintained in a secure environment with keys maintained securely within an arrangement between the Assistant Corporate Services Managers and her line manager.
- 2.7.5 The Assistant Corporate Services Manager confirmed the retention of personnel records is reviewed annually to ensure compliance with the Authority's Retention of Records Policy and that all payroll correspondence is undertaken via e-mail and we noted evidence of this during the review.

Recommendation

6. Staff who use the electronic database are reminded to change their password on a regular basis.

Procurement

2.8 Control Objective – Financial Procedures and Financial Instructions are subject to regular review.

- 2.8.1 This control objective is not being met.
- 2.8.2 As part of the review we considered Financial Procedures and Financial Instructions within the employee handbook and on opening the links identified that the documents had not been updated for three / four years. Financial Instructions were dated February 2007 and the Assistant Director (Finance) confirmed that the documents were being updated and awaiting approval from the Senior Management team.
- 2.8.3 We confirmed that there is an MWDA Capital Strategy in place and it was approved by the Executive Management Team on the 7th December 2007. The Corporate Services Manager confirmed that the strategy was due for review and the relevant officers had been contacted.

Recommendations

7. Financial Procedures / Financial Instructions are updated, approved by the Authority and subject to annual review.

2.9 Control Objective – Payments are only made for goods and services received, supported by a legitimate invoice and certified by an authorised officer.

- 2.9.1 This control objective is generally being met.
- 2.9.2 We sampled twenty five orders and confirmed suitable controls and good separation of duties were in operation. We noted that the system through the various stages of the procurement process following appropriate electronic authorisation.
- 2.9.3 Invoices are received by the Corporate Services Team, registered on the system compared to the order and forwarded to the requisitioning officer.
- 2.9.4 A reminder e-mail is sent to the requisitioner if there is no progress on an order / invoice within seventy five working days but this action is not fully automated and occurs only when the Systems Manager instigate a verification report. We consider this process should be automated as our sample tested noted the instigation of these reports was sporadic.
- 2.9.5 From our sample we confirmed that there is adequate separation of duty within the system and we confirmed there is a current authorisation signatory list maintained electronically and we confirmed that staff within the Corporation Services Team had access to system. We verified that the signatures on copy invoices were present and

correct.

Recommendation

8. That the verification report to support progression of the procurement process is automated on a weekly basis.

2.10 Control Objective – Invoices are processed promptly in accordance with payment terms.

2.10.1 This objective is not being met.

2.10.2 We noted e-mail to staff who have outstanding transactions in the procurement system could be sent out three / four times as a result of no action being taken by them.

2.10.3 We consider it would be appropriate if the process was amended to redirect the e-mail notification to the next management level after two reminders.

2.10.4 From the statistics available from the procurement system, we noticed late payment of invoices i.e. exceeding the 30 day payment term period. The statistics produced from the procurement system demonstrate an improvement on the previous financial year further but improvements should be actioned. A failure to meet the specified credit terms for the payment of invoices to suppliers could lead to a claim for late payment interest against the MWDA in accordance with the provision of Late Payment of Commercial Debts (Interest) Act 1998.

2.10.5 The following table below shows the percentage of late payments after twenty-five days for the last three calendar years. The first two years are year-end figures, but the 2011 figure only has information on the first two months of the year.

Year	Percentage paid on time	Percentage paid late
2009	53	47
2010	62	38
2011	78	22

Recommendations

9. Authorising officers be reminded of the requirement to ensure prompt payment of invoices.

2.11 Control Objective – The procurement system is secure.

- 2.11.1 This control objective is being met in the main.
- 2.11.2 The procurement system has been developed by the Information Support Officer. We noted a user manual is available within the employee handbook and available to staff via the intranet.
- 2.11.3 The Information Support Officer confirmed his responsibility for initiating users on the procurement system and access levels are as follows:-
- i. Administrator;
 - ii. Manager;
 - iii. Normal access; &
 - iv. Corporate Services Administrator.
- 2.11.4 All new starters are provided with Administrator level, unless their line manager requests one of the other levels. We confirmed that the only staff that have Manager access are the Corporate Services Manager, the Assistant Corporate Services Manager and the Systems Manager.
- 2.11.5 Access to the procurement system requires an individual to have access via the Authority's networked I.T. system. To gain access to the system requires the System Manager on receipt of an e-mail from the Assistant Corporate Services Manager to install the new user and set required i.d. and password. Unless other wise requested, all new users are set up with lowest level of access.
- 2.11.6 To enable the Information Support Officer to review individual's access / usage of the system, an audit log is incorporated and run on request. At the time of the review, we were unable to confirm that this log was active, as the system does not retain evidence of a run request or manual copies retained.
- 2.11.7 It would be beneficial if the audit log was retained and any action taken as a result of the identification of unauthorised access / attempts by the Information Support Officer documented and retained.

Recommendations

10. That the Systems Manager considers the following options:
 - i. The audit log is run automatically on a weekly basis;
 - ii. The audit log should be printed off and signed / dated to confirm adequate checks have been undertaken /action taken on evidence of attempted unauthorised access.

3.0 Action Plan

Rec No.	Recommendation	Responsible Officer	Agreed Action and Date of Implementation	Actual Date of Implementation
1	The employee handbook to remove all hyperlinks to documents and employees directed to the Controlled Document Library where approved policies and procedures are updated promptly.	Assistant Corporate Services Manager	June 2010	
2	Sickness Absence Procedures to be amended to require Line Managers provide copies of return to work interviews on a timely basis to the Assistant Corporate Services Manager.	Assistant Corporate Services Manager	June 2010	
3	A consistent approach to be adopted in relation to scoring documentation for the evaluation of employing candidates.	Assistant Corporate Services Manager	Immediate Effect	
4	That the Corporate Services Team ensure copies of key information is retained on employee personnel files including:- i) Employee qualifications; ii) Employee references; iii) Completed and signed induction forms.	Assistant Corporate Services Manager	Immediate Effect	
5	That a control termination record is maintained on individual personal files completed on termination.	Assistant Corporate Services Manager	Immediate Effect	
6	Staff who use the electronic database are reminded to change their password on a regular basis.	Corporate Services Manager	Immediate Effect	
7	Financial Procedures / Financial Instructions are updated, approved by the Authority and subject to annual review.	Treasurer	June 2010	
Rec	Recommendation	Responsible	Agreed Action and Date of	Actual Date of

No.		Officer	Implementation	Implementation
8	That the verification report to support progression of the procure to pay process is automated on a weekly basis.	Corporate Services Manager	June 2010	
9	Authorising officers be reminded of the requirement to ensure prompt payment of invoices.	Treasurer	April 2011	
10	<p>That the Systems Manager considers the following options:</p> <ul style="list-style-type: none"> i) The audit log is run automatically on a weekly basis; ii) The audit log should be printed off and signed / dated to confirm adequate checks have been undertaken /action taken on evidence of attempted unauthorised access. 	Corporate Services Manager	June 2010	