

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 24 January 2017

**BY:** Depute Chief Executive – Resources & People Services

**SUBJECT:** Internal Audit Report – Waste Services Income

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Waste Services Income.

**2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan.

**3 BACKGROUND**

- 3.1 A review of Waste Services Income was undertaken as part of the audit plan for 2016/17.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for the sale of recycled materials were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

**4 POLICY IMPLICATIONS**

- 4.1 None

**5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

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<b>DATE</b>	12 January 2017

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT WASTE SERVICES INCOME**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding Waste Services Income was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- The Council has adequate arrangements in place for the provision of recycling facilities – in addition to kerbside collections, the Council has recycling centres, recycling points and on the go recycling points.

#### **1.3 Areas with Scope for Improvement**

- There was a lack of adequate separation of duties – all key activities in respect of the sale of recyclates, including negotiating with buyers, the raising of debtor invoices and the issuing of credit notes were undertaken by the same member of staff. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of a clear audit trail for the sale of scrap metal – no independent record was held by the Council of scrap metal collected, uplifted and dispatched for sale. The only records available were documents that had been initiated by the buyer. *Risk – errors and irregularities may occur and remain undetected.*
- In a number of cases, no formal agreements were held by the Council to confirm the rates agreed for the sale of recyclates – a spreadsheet of agreed rates was maintained, however in some cases the rates charged by the Council were lower than those detailed on the record of agreed rates. *Risk – errors and irregularities may occur and remain undetected.*
- There had been a failure to ensure that debtor invoices issued by the Council clearly detailed the total tonnage being sold and the agreed rate per tonne. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of adequate arrangements in place to ensure that income received had been properly accounted for in the ledger – for one supplier where self billing arrangements were in place, there had been a failure to properly account for VAT. *Risk – overstatement of income.*
- In one case identified, there had been a failure to raise an invoice for waste that had been sold for recycling. *Risk – loss of income to the Council.*
- There is a lack of adequate arrangements in place to ensure that regular reconciliations are undertaken between the general ledger and the waste services record of income received from recyclates. *Risk – errors and irregularities may occur and remain undetected.*
- There was a failure to adopt a consistent approach throughout the Council for the sale of recyclates. *Risk – loss of income to the Council.*

#### **1.4 Summary**

Our review of Waste Services Income identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**January 2017**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
WASTE SERVICES INCOME**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.1	Management should ensure that detailed procedures are in place for the sale of recycled waste.	Medium	Service Manager – Waste	A corporate policy on selling will be drawn up – service areas to develop procedures.		To be confirmed
3.2.1	Management should ensure that a clear audit trail exists for all recyclates. All materials collected, uplifted and dispatched for sale should be recorded and a weighbridge ticket held.	High	Service Manager – Waste	Agreed		In Place
3.3.1	Management should ensure adequate separation of duties. The existing practice whereby all key tasks relating to the sale of recyclates are undertaken by the same member of staff should cease with immediate effect.	High	Service Manager – Waste	Agreed – to be implemented through Service Review Completion.		March 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>With the exception of self-billing, Management should ensure that debtor invoices raised are based on source information initiated by the Council.</p> <p>Management should ensure that rates for recyclates are formally agreed with the buyer – a copy of the agreement should be retained on file.</p> <p>Management should ensure that debtor invoices issued by the Council clearly set out the quantity of waste (supported by a weighbridge ticket) and the agreed rates.</p> <p>Management should ensure that evidence is held to demonstrate that the Council has obtained best value from the sale of recyclates.</p> <p>Management should ensure that a retrospective invoice is raised to recover the amounts due to the Council from the sale of glass.</p>	Medium	Service Manager – Waste	<p>Agreed</p> <p>Not always possible due to private sector/market changes.</p> <p>Agreed</p> <p>This is already done however evidence is not always possible. Audit need to understand the market place.</p> <p>Agreed</p>	<p>In Part</p> <p>Yes</p>	<p>March 2017</p> <p>January 2017</p> <p>January 2017</p>

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.4.2	Management should ensure that VAT is properly accounted for where income is received directly to the Council's bank account as part of self-billing arrangements.	Medium	Service Manager – Waste/Finance	Agreed		In Place
3.5.1	Management should ensure that regular reconciliations are undertaken between the general ledger and the waste services record of income received from recyclates.	Medium	Service Manager – Waste/Finance Business Partner	Agreed		March 2017
3.6.1	Management should review the current approach adopted for the sale of recyclates to ensure that a consistent approach is applied throughout the Council.	Medium	Corporate	To be confirmed		

### **Grading of Recommendations**

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.