



## Internal Audit Report

### Trade Waste

Issued: May 2018

Final

|                           |   |
|---------------------------|---|
| <b>Level of Assurance</b> | The overall control framework is of an <b>average</b> standard. Some weaknesses have been identified in the controls and improvements are possible. |
|---------------------------|---|

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## Executive Summary

### 1.0 Introduction

This Audit was carried out as part of the audit plan for 2017/18, which was approved by the Audit Committee on 21 March 2017.

All businesses in Scotland have a legal obligation to take reasonable steps to separate their waste for recycling and dispose of it via a licensed waste carrier. These requirements are part of the Waste (Scotland) Regulations 2012 and the Environmental Protection Act (1990). Additionally, food businesses consistently producing 5kg or more food waste a week must also segregate this from general waste and present it for separate collection, with some exceptions (eg some rural food businesses are exempt). Businesses that fail to comply with the Regulations risk receiving a fine or prosecution for failing to appropriately dispose of their waste.

Under the Environmental Protection Act 1990, local authorities may, if requested by the occupier of premises in its area, arrange for the collection of the waste. Persons requesting the collection of non-household waste are liable to pay a reasonable charge to the local authority for the collection and disposal of the waste.

Midlothian Council provides a Trade Waste service to businesses in Midlothian which includes:

- collection of general refuse (residual waste);
- collection of co-mingled recyclate; and
- collection of glass recycling.

The Council's Waste Services team is part of the Commercial Operations Service within the Resources Directorate. Administration support, which includes maintaining the register of Trade Waste customers, invoicing, input of waste transfer notes into the Waste Management System, archiving of Waste Transfer Notes (legal requirement to retain for 2 years), and pursuit of non-payment of charges, is provided by employees within Finance and Integrated Service Support (FISS) within the Resources Directorate.

Currently only waste from households is accepted at the recycling centre. However, plans were approved by Council in March 2018 to, in future, provide businesses with access to the Stobhill recycling centre for a fee.

Midlothian Council is required to carry out a food waste collection for non-rural householders; this requirement is set out in the Zero Waste Scotland Regulations. Midlothian Council does not provide a food Trade Waste collection service, and businesses in Midlothian must instead use a private sector food waste collection service. The Council's Trade Waste webpage advises customers to contact Keenan's recycling if

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their business is producing more than 5kg per week of food waste and the Council has a contract in place with Keenan's for the disposal of its own food waste.

Annually, the Council will set and approve fees and charges for the Trade Waste service. These charges are informed by budget forecasts and analysis provided by the Financial Services team within Resources Directorate. The service provided to each customer is tailored to the customer's needs and the quantity of waste their business produces, with the level of charge reflecting the number of bins provided and the frequency of collection.

Trade waste contracts must be signed annually by customers. This contract sets out the types of bin leased to the customer, the frequency of collection, and the type of waste collected. Additionally, the contract includes the Duty of Care Waste Transfer Note; this is a note which legally must be created for the transfer of controlled waste. The note must be signed by both parties and must contain certain prescribed information about the waste to be transferred. For repetitive transfers, there is provision in the Regulations to use one transfer note which will cover multiple transfers (ie a season ticket lasting up to 12 months). The Council uses the season ticket approach for its Trade Waste customers.

The Council enters into contracts for the disposal of: residual waste (Levenseat); recycle (Viridor Enviroscot Limited); and haulage transport of waste (Malcolm Logistics) from the transfer station at Stobhill to our residual waste contractor. The contracts encompass the transfer of both household and commercial waste. In 2019, arrangements will change as residual waste will instead be delivered to the Millerhill facility, where the waste will be treated and used to generate electricity. Also, the contract for recycle will end on 31 December 2018, so will need to be retendered.

The Council is required to report on various Waste performance measures set by the Local Government Benchmark Framework and SEPA. The Council uses the TotalMobile system to record details of customers' Trade Waste contracts, and customer invoices are raised on Integra, the Council's financial system. Webaspx is a route management software that is currently used for recording domestic routes, but is currently not used for our Trade Waste routes. Trade Waste routes are instead recorded in spreadsheets.

As at April 2018, the Trade Waste customers were as follows:

| Waste Stream                            | Number of Customers | Number of bin uplifts per week |
|---|---------------------|--------------------------------|
| Internal General Waste Customers        | 95                  | 164                            |
| External General Waste Customers        | 438                 | 520                            |
| Internal Co-mingled Recyclate Customers | 70                  | 92                             |
| External Co-mingled Recyclate Customers | 288                 | 265                            |

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|                          |            |             |
|--------------------------|------------|-------------|
| Internal Glass Customers | 19         | 18          |
| External Glass Customers | 41         | 49          |
| <b>Total</b>             | <b>951</b> | <b>1108</b> |

NB – for recyclate and glass, a higher percentage of customers opt to have collection on a fortnightly basis.

In 2017/18, the Council's Trade Waste service was budgeted to have income of £698k, which would cover the costs of the service by £47k (service costs for the Trade Waste service are £651k). However, as at Q3 2017/18, actual income is anticipated to be lower than budgeted by £18k. This means the service will still be covering the cost of service by £29k, but the service will not have met its budgeted income target. The main reason for the variance appears to be due to customers amending their trade waste offering between the time the financial analysis was completed and issue of the new trade waste contracts on 1 April 2017.

### 2.0 Objectives of the Audit

The purpose of this audit is to review the systems and controls in place for the charging, collection, and disposal of Trade Waste and related performance reporting. A copy of the terms of reference for the review is attached at Appendix 2.

### 3.0 Conclusion

Our audit identified that management have implemented a number of systems, internal controls, and procedures for Trade Waste. During the course of the audit we noted the following strengths:

- adequate information is provided to customers explaining the Trade Waste process;
- customer contracts were found to be in place for all sampled Trade Waste customers. These contracts adequately set out the customer's Duty of Care;
- flexibility is provided to customers allowing them to amend their contract throughout the year;
- adequate systems are in place to hold customer information relating to Trade Waste customers on the Totalmobile system;
- systems and procedures are in place to ensure that customers are billed correctly with the updated rates each year;
- adequate processes are in place to ensure that unpaid debt is identified and pursued. Additionally, regular monthly information is provided to the Council's Trade Waste Officer to ensure that collection is ceased for non-payers;
- Trade Waste routes are subject to review by an experienced Trade Waste Officer, and performance of routes is monitored by the Council's vehicle tracking software;

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- segregation of duties is in place between employees recording contract details and raising invoices, employees monitoring trade collection routes, and employees pursuing outstanding debt;
- there is regular monitoring of the Trade Waste budget by Financial Services, and financial modelling is carried out annually to ensure the Trade Waste service is covering its costs;
- tendered contracts are in place for the disposal of residual waste, co-mingled recyclate, and glass;
- all invoices reviewed were appropriately authorised;
- recharges for internal income were found to be accurate in the sample reviewed; and
- processes are in place to collate necessary performance information and confirmations are received from SEPA confirming that they are satisfied with the performance information submitted.

Some areas were identified that require improvement:

- the 'invoice checking' processes (ensuring the waste disposal invoice matches our own record of waste transfers and have been charged at the agreed contract rates) needs to be reviewed to minimise duplication of effort between services, confirm there is clarity of ownership for the tasks, and ensure sufficient resource and training in place so the task is completed in full. Currently there is duplication of effort as transfer notes are input into spreadsheets by Waste Services staff and into a separate internally developed Waste Management System by employees in FISS;
- currently, instead of using the Council's route management software, WebAspx, a spreadsheet with a list of addresses of Trade Waste customers is used. This provides less management information than it would if routes were recorded on the route management software (eg estimations of route timings and an audit trail of when routes have changed to demonstrate that we have stopped collecting from a non-payer);
- it was noted that although a contract is in place for the haulage provider, it had not been formally tendered and the required non-competitive action form had not been completed at the time of the audit review;
- Business Continuity plans for Waste Services require update;
- a budgeted saving of £35k for 2018/19 was agreed at the February Council meeting for providing business access to the Stobhill Recycling Centre. At the time of the audit review, planning for implementing this was at the very early stages. Therefore, at present, the proposed saving seems unlikely to be achieved;
- although the Council's website states that Bulky Uplifts are available to existing Trade Waste customers, adequate procedures including amendments to systems, have not been made at the Contact Centre to allow this service to be easily offered;
- trade waste bin stock is currently recorded in an insecure spreadsheet and is not recorded on the Totalmobile system (used to record the Council's main stock);
- at the time of review, evidence of periodic stock counts of the bins (both trade and non-trade) was not available;

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- although performance measures are in place to comply with the SEPA requirements, no regular performance reports are provided to management regarding contracts, numbers of customers, direct debit payees, debtors' limits, etc. This would be beneficial to enable management to monitor this performance information as part of future service delivery improvements;
- although some monitoring is carried out of contamination levels for tips made for the recycle contract, the audit trail and standardised method of recording this could be improved; and
- it was noted that credit notes posted to correct billing errors were posted in the wrong financial year, 2 recharges reviewed were not adequately authorised, and invoices were submitted to businesses that were no longer current customers during 2017/18.

As noted above, some weaknesses have been identified in the controls and improvements are required in certain areas of Waste Services. We have therefore on this occasion rated this audit as **Average** in accordance with the Definitions of Ratings included on page **16**. We have raised **1** High, **11** Medium and **2** Low rated recommendations which are detailed in the Audit Issues and Management Action Plan to reduce risk further and these recommendations have been agreed by Management.

## 4.0 Audit Issues and Management Action Plan

### 4.1 Waste Transfer Notes, Invoice Checking Processes, and Business Support

#### Invoice Checking Processes and Input of Waste Transfer Notes

At the time of the audit review, the 'invoice checking' processes (ensuring the waste disposal invoice matches our own record of waste transfers and checking that these have been charged at the appropriate contract rates) were being carried out by the Waste Services team. Invoices are verified using a combination of waste transfer note information entered into a spreadsheet by Waste Services supervisors before the transfer notes are passed to FISS staff, waste transfer information from the Council's weighbridge prepared by Waste Services staff, and information received from suppliers.

A total of 38 invoices were reviewed as part of the audit. These included invoices for residual waste, recyclate, haulage, and contamination charges for recyclate. Our findings were as follows:

- contract rates were being observed by our suppliers. Only the minor differences noted below were found during the audit;
- out of the residual waste invoices reviewed, only one minor error was noted in one tipping charge in July 2017 which had not been identified and corrected (charged at £32.56 per tonne instead of £11.90, resulting in an overcharge of £510);
- from the sample of contamination invoices reviewed, some minor differences were noted between the recyclate contamination charged per the invoice and their supporting schedules and Waste Services analysis. In two instances we seem to have been undercharged by £489 then £958 respectively, and in one case we seem to have been overcharged by £193. Although these differences were identified by Waste Services, they were not subsequently corrected with the supplier;
- complete reconciliations for residual waste were in place for the sample reviewed. The reconciliations evidenced that the weight leaving the Stobhill transfer station was compared with the weightings reported by our supplier at their transfer station. Some variances were noted between our reported weight and the suppliers, although most of these were less than 1 tonne, so overall negligible. Two invoices were identified with a favourable variance of approximately 7 tonnes, and one with an unfavourable variance of 8 tonnes. It was noted that although the variance is reviewed, we do not have an established procedure of when we follow up on these larger differences with our supplier; and
- some gaps were noted in the reconciliation for recyclate weights (eg Trade Waste tips had not been included in the reconciliation for some of the months reviewed, and not every tip was matched from our record to the supplier's record). This reconciliation relied on spreadsheet information input by Waste Services operational staff which, although appeared to be mostly complete, some gaps were noted. Additionally, although the record of tips from Waste Services was dated, Waste Services staff did not input the waste transfer note reference number.

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### Input of Transfer Notes into the Waste Management System and Archiving of Waste Transfer Notes

On receipt of the transfer notes from Waste Services, FISS staff input the waste transfer notes into a Waste Management System developed by the Digital Services team. This system allows the input of the waste transfer note reference, the supplier, waste type, date, and weight. Transfer notes input into the system can then be matched within the system to the relevant invoice to ensure that the details all agree and the rates for the invoice match. During the review it was noted that whilst transfer notes were still being input into this system, the invoice matching function has not been fully used since September 2017, and was reporting 5,035 unmatched transfer notes as at 12 April 2018. Additionally, there was some evidence that use of the reconciliation function had been sporadic in 2016.

It was identified that supplier names in the Waste Management System were not up to date as the record of residual waste transfers were being recorded under a previous supplier's name. Additionally, there was no option in the system to record food waste transfers (for household food waste). It was reported by FISS staff responsible for inputting the transfer notes that as there was no option to record food waste transfer notes within the system, these transfer notes were previously being destroyed instead of archived. This practice of destroying the transfer note for food waste stopped in January 2018, and the notes will be sent to archive with the other waste transfer notes. The Waste (Scotland) Regulations 2012 require waste transfer notes to be retained for at least 2 years.

The Marketing & Service Development Officer within Waste Services, who carried out all the key reconciliations reviewed during this audit, was granted access to the Waste Management System in January 2018. This allowed gaps in the data available to be checked against the Waste Management System. During the audit fieldwork, it was noted that some Waste Services staff believed that additional reconciliation processes were being undertaken by FISS, and that the purpose of their reconciliations was on the weightings for SEPA performance information rather than for invoice checking processes. Currently there is duplication of effort in place due to the input of waste transfer notes both by Waste Services staff and FISS staff.

| No | Recommendation   | Priority | Manager  | Target Date |
|----|--|----------|--|-------------|
| 1  | The 'invoice checking' process for Waste Services invoices needs to be reviewed to minimise duplication of effort between services, confirm there is clarity of ownership for the reconciliation tasks, and ensure sufficient resource and training in place so the task is completed in full. This recommendation includes agreeing a way forward for the future of the Waste Management System and ensuring all identified differences between internal records and invoices are followed up with the suppliers.<br><br><b>Management Comment:</b> | High     | Operational Support Manager / Waste Services Manager | 31/12/2018  |



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| No | Recommendation  | Priority | Manager | Target Date |
|----|---|----------|---------|-------------|
|    | Work has started to identify the requirements for a single solution to meet service and support needs within the Waste Management System and to update the supplier information held. Business Services and Waste Services are working with Digital Services to provide an updated specification for the Waste Management Software. |          |         |             |

### Business Administration Issues

It was noted during the review of trade waste income cost centres that credit notes were being raised at the end of the financial year for both 2016/17 and 2017/18 to correct billing errors for invoices raised in the following financial year. The credit notes should have been raised in the following financial year so they could be matched with the billing error. Approximately £9k of credit note corrections relating to 9 customers were posted in the wrong financial year in 2016/17, and approximately £16k relating to 24 customers was posted in the wrong financial year in 2017/18.

Further credit notes were raised close to the beginning of 2017/18. Many of these were to correct invoices raised to businesses that are no longer Trade Waste customers. On discussion with the Administration Assistant for Business Services, this was due to the invoice templates within Integra, the Council's finance system, not being updated to match the customer records within the Totalmobile system.

A review of 10 Trade Waste recharges identified that one was authorised by an employee not on the authorised signatory database (ASD), and another was authorised by an employee on the database but their authorisation level was below the recharge's value.

| No | Recommendation   | Priority | Manager                     | Target Date |
|----|--|----------|-----------------------------|-------------|
| 2  | Operational Support staff need to ensure all credit notes raised are posted in the correct financial period and that Integra Templates are updated to reflect the customer record within Totalmobile. Additionally, recharges should be checked for authorisation against the ASD.<br><br><b>Management Comment:</b><br>The findings have been reviewed and taken forward by management. | Medium   | Operational Support Manager | Complete    |

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### Contamination Monitoring

Additional charges are charged by the recyclate supplier if the waste delivered is contaminated. Contamination charges have varied over the year from £3.4k to £10.6k per month with annual costs circa £70k. Penalties are applied per tip of a waste vehicle individually. Approximately 95% of recyclate is household waste, with the remainder being commercial waste. A record of the contamination of each tip is provided on a monthly basis along with the total contamination charge and the rate charged by the supplier increases if the contamination level is higher.

In order to gain assurance that the levels of contamination charged by the supplier are reasonable, periodically Waste Services staff will inspect recyclate tips at the supplier's depot to ensure that a fair assessment is made. From review of the checking records, this checking commenced in January 2018 and it was noted that although there was evidence this checking occurs, it could be further formalised by recording the dates visited and the findings made. Staff need further clarity that they are recording contamination methodically and the method of assessment should be documented and fully agreed with the supplier.

| No | Recommendation   | Priority | Manager                | Target Date |
|----|--|----------|------------------------|-------------|
| 3  | Waste Services should further formalise the method of recording visits to the recyclate supplier for contamination checks so the date visited and findings are recorded in a consistent approach by all employees. The method of assessment should be documented and agreed with the supplier. | Medium   | Waste Services Manager | 31/07/2018  |

### **4.2 Trade Waste Routes and Monitoring Arrangements**

#### Use of Route Management Software

Instead of using the Council's route management software, WebAspx, a spreadsheet with a list of addresses of Trade Waste customers is used. This provides less management information than it would if routes were recorded on the route management software. For example, using WebAspx would allow for estimations of route timings to be available when planning route changes, provide an audit trail of changes to routes, and allow tracking of when collection has ceased due to non-payment.

#### Route Monitoring

The Trade Waste Officer is able to monitor the progress of collections in real time using vehicle tracking software installed on all Council vehicles to ensure routes are carried out correctly and in good time. A minor issue noted was that for some vehicles the name of the driver was not being logged by the software. However, all waste services drivers must sign a driver log sheet as part of their shift, and driver identity confirmation through the driver fobs is an additional control.

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| No | Recommendation  | Priority | Manager                           | Target Date |
|----|---|----------|-----------------------------------|-------------|
| 4  | WebAspx should be used to record Trade Waste routes.<br><br><b>Management Comment:</b> Plans are underway to have relevant staff receive further training on the system and for all routes to be recorded on WebAspx. | Medium   | Waste Services Manager            | 30/09/2018  |
| 5  | Travel and Fleet Services should review the reason why the names of drivers are not being recorded on some vehicles on the vehicle tracking software and resolve this issue.  | Low      | Travel and Fleet Services Manager | 31/08/2018  |

### 4.3 Waste Services Contracts and Business Continuity Arrangements

#### Waste Services Supplier Contract Arrangements

Competitively tendered contracts are in place for the disposal of recyclate and residual waste. A contract is in place for the haulage of residual waste from the Council's transfer station to the residual waste supplier, but this contract has not been competitively tendered (contract value circa £170k per annum). Through discussion with the Procurement team it was established that the service opted to directly offer the contract to the existing haulage provider as the price was lower than those offered through the residual waste tender. However, a non-competitive action form should have been completed and authorised for this contract offer. Also, it was noted that the contract with the haulage provider were basic terms set out via an email; for a contract of this size a more comprehensive and detailed contract should be in place. All contracts of this size should be competitively tendered, but it is understood that this has been delayed due to the uncertainty as to when the Millerhill facility would be operational. Therefore, in the interim, a non-competitive action form should be authorised.

#### Waste Customer Contracts

Contract renewal letters are sent out to Trade Waste customers each year around March. The Trade Waste customer contracts are for 12 months, starting on 1 April and ending on 31 March (a 'season ticket'). The customer contracts include all relevant details regarding the customers' collection offering, and also include the 'Duty of Care' waste transfer note as required by the Waste (Scotland) Regulations 2012.

The following issues were noted with the waste customer contract:

- out of 15 customer contracts reviewed, it was noted that 4 were paying direct debits months before their contract had been signed and returned. As the season ticket cannot last longer than 12 months, management should review if this is the correct approach;

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- the customer contract is required to detail the place(s) of waste transfer and is documented as Stobhill Depot. However, recyclate is not bulked at Stobhill Depot, it is delivered directly to the supplier; and
- SIC numbers were being approximated by the Waste Services team as customers often did not know this information. SIC is the UK Standard Industrial Classification (SIC) of Economic Activities (2007). The SIC code is used to classify business establishments and other statistical units by the type of economic activities they are engaged in. It is a requirement to record the appropriate SIC code of the transferor on all controlled waste transfer notes. It was noted during the review that the SIC numbers recorded did not match the Companies House record for the business. This has now been updated by the Trade Waste Officer.

### Business Continuity Plan and Written Procedures

During the review it was noted that the business continuity plan for Waste Services required to be reviewed and updated, and written procedures for the service would benefit from an update. Waste Services is a complex area and is subject to some volatility in relation to the future prices available on the market for recyclate. Similarly, in recent years, one of the Council's previous suppliers failed and ceased operations. Additionally, there are risks of non-collection of waste if vehicles fail. The Waste Services back office team is small with significant reliance on key personnel. An update to the business continuity plan and written procedures would help to mitigate these risks, and highlight the risks to senior management.

| No | Recommendation  | Priority | Manager                                      | Target Date |
|----|---|----------|--|-------------|
| 6  | A non-competitive action form should be completed and authorised for the Council's Waste Services haulage contract. Additionally, the terms should be reviewed to ensure they are sufficiently comprehensive for a contract of this size.   | Medium   | Waste Services Manager / Procurement Manager | 31/08/2018  |
| 7  | Management should review and resolve the issues identified with the Waste Customer Contracts detailed in the audit report (whether service should cease for customers that have not returned contract, updating SIC codes, and updating place of transfer on Customer Contracts). | Medium   | Waste Services Manager                       | 31/08/2018  |
| 8  | Management should review and update the business continuity plan for Waste Services and ensure written procedures for key processes are up to date.   | Medium   | Waste Services Manager / Head of Commercial  | 31/12/2018  |

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| No | Recommendation | Priority | Manager    | Target Date |
|----|----------------|----------|------------|-------------|
|    |                |          | Operations |             |

### 4.4 Business Access to the Stobhill Recycling Centre and Commercial Bulky Uplifts

#### Business Access to the Recycling Centre

Commercial businesses and traders are currently not permitted to use the recycling centre to dispose of trade waste. Plans were approved at the February 2018 Council meeting to permit access to and charge for commercial use of the Stobhill recycling centre. This is expected to generate income to achieve a budgeted savings target of £35k in 2018/19 and £50k per annum thereafter.

Providing commercial access to the recycling centre has some complexities, as a waste transfer note will need to be created for the waste transfer, and in order to accept waste, the Council will need to clarify if the customer is a Registered Waste Carrier or a Professional Waste Collector. Some other Councils have addressed this by creating an online form for customers that allows all relevant details to be recorded, enable payment to be made, and generates a ticket for the customer to bring to the recycling centre as proof of payment.

During the audit review, it was noted that plans for charging for access were at the very early stages. Therefore, unless action is taken quickly to agree Trade Waste customer charges for use of the recycling centre, and have a system designed for recording the relevant details of the business transferring the waste and taking the payment from customers, then it is unlikely this saving will be achieved.

#### Commercial Bulky Uplifts

Per the Council's website, bulky uplifts are offered to existing Trade Waste customers only; this means a separate waste transfer note is not required as the customer will already have a 'season ticket'. Domestic Bulky Uplifts are recorded and paid for through the Council's Contact Centre. Systems and procedures have not been established to allow trade waste bulky uplifts to be recorded and paid for through the Contact Centre. Instead the procedure is for a quote to be provided by the Waste Services team, and then payment to be made through the cash office at Buccleuch House either in person or over the phone (the payment is made using Webspay).

At the time of the review, Waste Services had only taken 3 Commercial Bulky Uplifts in 2017/18. It was noted that 2 of these were recorded as domestic bulky uplifts as they were processed through the Contact Centre; this means that the income was posted to the incorrect cost code (a domestic waste cost code instead of the commercial waste code) and VAT was incorrectly not charged to the customer.

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| No | Recommendation  | Priority | Manager  | Target Date |
|----|---|----------|--|-------------|
| 9  | The decision to allow and charge access to the Stobhill recycling centre by commercial operators should be progressed to enable the associated income and savings to be generated for 2018/19. This involves agreeing the charges and implementing a system for recording the relevant details of the business transferring the waste and taking the payment from customers,<br><br>Implementing this will require support from Digital Services and Business Services. | Medium   | Waste Services Manager / Head of Commercial Operations | 30/11/2018  |
| 10 | A review of the Commercial Bulky Uplifts service should be undertaken and if it is to continue, the correct process for undertaking these should be developed and provided to staff.  | Medium   | Waste Services Manager                                 | 31/08/2018  |

### 4.5 Streamlining Processes, Income Collection, and Income Maximisation

Arrears are followed up timeously by the Sundry Debt team, and information is passed regularly to the Trade Waste Officer so collection routes can be updated to exclude non-payers. The collection routes were reviewed and we found that the collection was not being given to non-payers.

Additional methods that could be used to further increase income and reduce costs are:

- reducing the range of bin sizes offered to customers to simplify the collection regime;
- reviewing the level of discount offered to charities to determine whether to continue, remove, or reduce;
- collecting only on a weekly basis rather than offering bi-weekly or twice weekly collections to simplify the collection regime and route planning process; and
- advertising the service provided by the Council to generate new customers. Currently there is no money allocated for advertising the service.

| No | Recommendation   | Priority | Manager                | Target Date |
|----|--|----------|------------------------|-------------|
| 11 | Management should review if there is scope to further increase income and reduce costs for the Trade Waste service using the methods outlined in the audit report. | Medium   | Waste Services Manager | 31/12/2018  |

## 4.6 Performance Information and Trade Waste Customer Contracts

### Trade Waste Performance Indicators

Although performance indicators are in place as outlined by SEPA and LGBF, there are no specific periodically reported Trade Waste performance indicators or reports in place. Performance reports could include, for example, unsigned contracts, number of customers, number of customers paying by direct debit, number of collections, Trade Waste sundry debt etc. Additionally, the Association of Public Service Excellence (APSE) provide a number of voluntary performance indicators on Trade Waste that the service could consider using.

### Review of Trade Waste Weightings and Waste Data Flow Upload

Local authorities are required to report to SEPA about waste collected and managed by or on behalf of them. This is done through an online reporting system called WasteDataFlow (WDF). Reports are submitted to SEPA annually, with a submission deadline of 28 February. Local authority waste data is verified on an annual basis by the Data Unit in SEPA and is used to help fulfil Scotland’s reporting obligations to the Scottish Government and Europe.

As part of the audit, the process for collating waste data and preparing for the upload to WDF and how the upload leads to the production of particular Waste Services PIs was reviewed. Generally, adequate processes are in place to ensure the data is reported accurately. The following minor points were noted:

- SEPA’s data is reported on a calendar year basis, whereas Midlothian Council reports on a financial year basis. It was noted that when some of the Q4 PIs were reported, these were actually a year’s data for the year ended 31 December but this was not made clear in the performance reporting;
- whilst processes are in place to prepare the quarterly upload to waste data flow, the data upload is not reconciled to the WDFs output to check for errors / differences. As part of the audit, this reconciliation was carried out for one quarter’s data, and while only some minor differences in mixed glass and Waste Electrical and Electronic Equipment were noted, it would be beneficial for this reconciliation to be carried out as part of the standard upload process; and
- access to the waste statistics’ directory is available to numerous staff in Waste Services. This access should be reviewed to mitigate against the risk of data loss.

| No | Recommendation | Priority | Manager | Target Date |
|----|----------------|----------|---------|-------------|
|----|----------------|----------|---------|-------------|

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|    |  |        |                        |            |
|----|--|--------|------------------------|------------|
| 12 | <p>Regular performance reports should be provided for management review by Waste Services regarding contracts, numbers of customers, direct debit payees, debtors' limits, etc., to complement the financial management information regarding monitoring of budgets as part of future service delivery improvements.</p> <p>Additionally, consideration should be given to the minor points raised in the audit report in relation to the preparation of information for WDF and reporting of WDF performance information.</p> | Medium | Waste Services Manager | 30/09/2018 |
|----|--|--------|------------------------|------------|

### 4.7 Bin Stocks

Trade waste bin stock and domestic bin stock is currently recorded in an insecure spreadsheet and is not recorded on the Totalmobile system (used to record the Council's main stock). At the time of review, evidence of periodic stock counts of the bins (both trade and non-trade) was not available. It is important that a robust record of bins is in place given that the intention is for the Council to start charging developers of new estates for the provision of bins.

| No | Recommendation  | Priority | Manager                       | Target Date |
|----|---|----------|-------------------------------|-------------|
| 13 | Management should review if the Council's record of bins can be recorded on the Council's Totalmobile system. | Medium   | Head of Commercial Operations | 30/09/2018  |

### 4.8 Waste Services Risk Register

It was noted from a review of the Waste Services risk register that no specific risks have been identified for Trade Waste.

| No | Recommendation  | Priority | Manager                | Target Date |
|----|---|----------|------------------------|-------------|
| 14 | Management should review the Waste Services risk register and log relevant Trade Waste risks. | Low      | Waste Services Manager | 31/08/2018  |



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## APPENDIX 1

### Definitions of Ratings

#### Audit Opinion

| Level of Control | Reason for the level of Assurance given   |
|------------------|---|
| <b>Excellent</b> | The control framework is of a high standard with no unacceptable risks identified.  |
| <b>Good</b>      | The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.  |
| <b>Average</b>   | The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.  |
| <b>Weak</b>      | The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council. |
| <b>Poor</b>      | The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.   |

#### Recommendation Rating

| Priority      | Risk Definition   |
|---------------|---|
| <b>High</b>   | Legal / regulatory issues would normally be regarded as high risks. |
|               | Strategic risks would normally be regarded as high risks.           |
|               | Financial impact - £50K plus and / or national press interest       |
| <b>Medium</b> | £5K - £49K and / or local press interest                            |
| <b>Low</b>    | Under £5K and / or no press interest.                               |

# Midlothian Council - Internal Audit Report – Trade Waste

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## **Distribution**

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Gary Fairley, Head of Finance and Integrated Service Support
- Ricky Moffat, Head of Commercial Operations
- Phil Riddell, Waste Services Manager
- Jacqui Dougall, Business Services Manager
- Kathleen Leddy, Operational Support Manager
- Trevor Docherty, Travel and Fleet Services Manager
- Iain Johnstone, Procurement Manager

## **Audit Team**

|           |                |                   |
|-----------|----------------|-------------------|
| Author:   | James Polanski | Auditor           |
| Reviewer: | Jill Stacy     | Chief Auditor     |
|           | Elaine Greaves | Principal Auditor |

**TERMS OF REFERENCE:**

**Audit Objective and Scope**

**Audit Background:**

The purpose of this audit is to review the systems and controls in place for the charging, collection, and disposal of Trade Waste and related performance reporting.

**Audit Objective:**

The scope of the audit is to examine and evaluate the following areas:

- end-to-end process in respect of Trade Waste and Trade Waste customers;
- income collection and debt recovery including withdrawal of services;
- streamlining processes and systems to ensure income maximisation;
- management information and performance reporting; and
- disposal of trade waste and respective controls around delivery of waste to the Council's contracted suppliers and payment of supplier invoices at the appropriate contract rate.

**Potential Risks**

Potential risks include:

- increased costs of disposal of waste and budget pressures;
- reputational damage due to customer dissatisfaction with service quality or charges;
- fraud and theft (eg through collection of waste from non-paying businesses);
- supplier failure and associated business continuity risks;
- competition from other trade waste providers; and
- non-payment of trade waste charges.

**Audit Approach**

The audit approach consists of:

## Midlothian Council - Internal Audit Report – Trade Waste

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- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to Midlothian Council's Audit Committee.

### **Timescales & Reporting**

The Audit will commence in February 2018 and once complete, the report will be submitted to the next available Audit Committee.

### **Information Requirements**

Access to all relevant systems, documentation and employees.

### **Audit Resource**

|                  |  |                      |
|------------------|--|----------------------|
| <b>Auditor:</b>  | <b>James Polanski</b>                  | <b>0131 270 5646</b> |
| <b>Reviewer:</b> | <b>Jill Stacy &amp; Elaine Greaves</b> | <b>0131 271 3285</b> |