

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Head of Neighbourhood Services
C.C.: Chief Executive
Deputy Chief Executive (AJ)
Head of Finance
Senior Contract Officer

SUBJECT: Street Cleansing
DATE: 31 March 2014

1. Introduction

- 1.1 In accordance with the Audit Plan for 2013/14, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in March 2012.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2. Background

- 2.1 The street cleansing contract was let as part of a large exercise covering a number of different services provided by Neighbourhood Services. The new contract was awarded to Veolia and commenced in April 2013. The current value of the contract is around £1.63m a year.
- 2.2 Client side management of the contract is carried out by staff in the Contract Services section of Neighbourhood Services.

3. Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:
- Contract award
 - Contract amendments and variations
 - Performance monitoring
 - Budget setting and management
 - Payments and recharges
 - Insurance and risk management.
- 3.3 The audit programme identified the expected controls. The control objectives examined were:

- The contract was awarded to the most appropriate company following an appropriate tendering exercise
- Permanent changes to the contract (i.e. areas to be covered) are formally agreed
- The council only pays for work that has been previously agreed
- Works are undertaken to agreed standards
- Budget variances are limited as the budgets are set appropriately in line with known areas of income and expenditure
- The council is aware of any potential budget variances
- Payments are valid and accurate and processed in accordance with the appropriate conditions of contract
- The council receives all money that is due to it for works undertaken on behalf of others
- The council will not be liable for any claims received due to the work of the contractor
- The council is aware of the risks in relation to the cleansing of the areas it is responsible for and has taken steps to address them
- The contractor is aware of the risks in relation to undertaking the contracted services and has taken steps to address them.

4. Findings

4.1 Contract Award

- 4.1.1 The street cleansing contract was let following a large tendering exercise covering a number of different lots. The process followed was considered to be appropriate.
- 4.1.2 A detailed specification document is in place, which covers all of the services to be provided under the contract, along with the bills of quantities for the contract and appendices detailing, amongst other things, all of the areas to be covered under the contract.
- 4.1.3 Detailed spreadsheets are held showing all of the scores that were awarded for both the price and quality aspects of the bids received, with the documentation supporting these scores also being held. Veolia (the successful tenderer) did not submit the lowest priced bid, but had the highest quality score and the best combined score.
- 4.1.4 The evaluation spreadsheets also showed the outcomes in relation to discounts offered where companies had bid for more than one lot. None of these combinations proved successful. One issue was noted in the formula applied to one of the combination bids which included the relevant street cleansing lot, with the wrong cell being included with regards to the lowest price score. However, this did not affect the outcome for the award of this contract, as the combination of the individual prices still scored higher than those with the discount offered.
- 4.1.5 Letters were also held, advising the successful companies that they had been awarded the different lots as well as letters to the unsuccessful companies. These included details of how the company had scored in relation to the quality aspects of their bids, along with comparisons to the successful company's score where appropriate.
- 4.1.6 A deed of agreement is in place for the street cleansing contract. This is signed and sealed by the council and signed as a deed by directors of Veolia.

4.2 Contract Amendments & Variations

- 4.2.1 As the contract is only in its first year, there has not been any formal identification of new areas to be permanently included in the new contract. The Senior Contract Officer (SCO) advised that the work of the Rapid Response Units will be reviewed to ascertain if any recurring themes can be identified so that these can be placed within the work of specific area teams, although this has yet to be performed.
- 4.2.2 He advised that other sources would also be used (e.g. the work of other staff within the council) to identify new areas as appropriate, and steps would be taken to identify whether streets had been adopted etc. before the contract was formally varied to include them.
- 4.2.3 Where amendments are required, variation orders (VOs) will be raised to formally notify the contractor of any changes to the contract specification. The SCO provided a list of the VOs that have been processed since the start

of the contract (April 2013) and advised that the majority were for one-off events, as opposed to the identification of new areas to be included in the contract.

- 4.2.4 One new area included was identified on the sample variation order regarding the cleansing of the recycling centre at the new Morrisons store. However, it was noted that the recycling facility was known to the council, so it was not something that required specific 'identification'.
- 4.2.5 The individual Contract Officers will ensure that these amendments have been undertaken as part of their normal reviews of the areas (see below for further details regarding performance monitoring).
- 4.2.6 A 'schedules database' spreadsheet is maintained which shows all of the areas covered under the contract. A review was performed to ascertain whether the changes included in the contract variation (see 4.2.4 above) had been reflected on the database.
- 4.2.7 A filter was applied to the spreadsheet to show all recycling centre cleansing that was included in the current schedules and Morrisons was not included. The VO also included some sites to be removed and, whilst some did not appear on the schedule, two of the sites were still included, although one of these had a different cleaning frequency.

Risk

Contractors and council staff are not aware of which sites should be cleaned under the contract.

Recommendation

The schedules spreadsheet should be reviewed to ensure that it reflects the current agreement.

- 4.2.8 Veolia generally submit two invoices each month: one for the main 'core' contract; and another for any additional works undertaken. The variation invoices submitted were reviewed against the VOs that were in place and a number of issues were noted:
- The VO number often differed between the invoice submitted and the corresponding VO held.
 - A figure had been agreed for the provision of a fifth Rapid Response Unit team, but additional figures were being charged over and above this. These additional amounts were separately identified on the invoices and the SCO advised that they related to extra hours worked. There was no separate VO to cover these extra amounts.
 - One VO had a different figure for each month. However, the figures for two months seemed to be incorrectly calculated as there was insufficient information available for the calculation to be completed, with a previous month's figure being used instead. One other month was not included on the calculations held.
 - There was a discrepancy between the amount on the invoice and the corresponding VO in one instance, leading to a potential overcharge of £65.90 (NB two other discrepancies were noted, but they only amounted to 4p each time).

- One charge was made for which there was no corresponding VO. The number on the invoice tied in with an approved VO, but this related to another event which was subsequently charged for.

Risk

The council is incorrectly charged for services provided.

Recommendations

A full review should be undertaken between the variation orders approved and the amounts charged to ascertain if any payment amendments need to be processed.

All future invoices should be checked appropriately against approved variation orders, with any discrepancies being rectified.

4.3 Performance Monitoring

- 4.3.1 Performance standards are set out in the formal contract and specification documents that are in place. These are supported by agreed method statements that were submitted by Veolia, one of which includes a specific section on the 'method of ensuring that work is fully completed to the required standard'.
- 4.3.2 The SCO advised that Contract Officers are undertaking performance monitoring as part of their 'rounds'. One of the Contract Officers advised Internal Audit that no formal inspection documentation is maintained for the individual inspections, although he advised that some informal notes will be made. Sample evidence was provided that these inspections had been performed, with a copy email from the Contract Officer to the contractor being examined which highlighted issues that had been noted during such an inspection.
- 4.3.3 The SCO also advised that joint inspections are performed with the relevant Contract Officer reviewing performance alongside representatives from the contractor and, again, sample documentation was reviewed.
- 4.3.4 Liaison meetings are also held with Veolia each month to discuss the contract, and any performance issues will be covered in these meetings. Sample copy minutes were provided which confirmed that relevant issues were being discussed.
- 4.3.5 The SCO advised that there had not been many formal complaints relating to the new street cleansing contract and highlighted that any formal complaints would be logged on Flare.
- 4.3.6 Although attempts to obtain a report from Flare of all relevant complaints were made, the level of detail available on the reports was limited. The report produced included 435 records, but only 125 of those had any relevant text to show what the complaint related to. The majority of the 125 cases related to refuse and recycling issues, as it was not possible to limit the report to issues specific to the street cleansing aspect of the service.

- 4.3.7 Elements of street cleansing were only mentioned in nine records and a sample of these cases was discussed with the SCO. Three were considered relevant complaints, although one of these related more to the previous contractor. In the other case, the level of detail recorded made it hard to ascertain whether there was actually a complaint being made. Details on the system also highlighted the action taken although, again, the level of details varied in each case, with some responses being minimal.

Risk

Staff are unable to ascertain whether an issue has been resolved.

Recommendation

Staff are reminded of the need to ensure that an appropriate level of detail is recorded on Flare so that anyone else reviewing the case can ascertain exactly what has been done to resolve the issue.

- 4.3.8 There are also other classes of 'enquiry' on Flare. These are not formally called complaints, although the line between whether an enquiry is classed as a complaint or not seemed to be fairly blurred.
- 4.3.9 Specific reports were produced relating to the 'Area Dirty & Littered' and 'Road Not Cleared' categories on Flare. Similar issues to the 'complaints' log were also noted on these reports, with limited information available on the reports in the relevant text / detail fields. It was also apparent that some similar complaints / enquiries were being recorded under different categories.
- 4.3.10 Sample cases from these spreadsheets were discussed with the SCO who agreed that some should probably have been classed as complaints.

Risk

Complaints raised regarding the standards of work performed by the contractor are not dealt with appropriately.

Recommendations

A review should be performed of the categorisation and reporting arrangements on Flare to make it useful to the service.

The need for consistency in the classification of calls received should be highlighted to relevant staff.

- 4.3.11 The contract in place allows for penalty charges to be imposed in the event of sub-standard performance. No penalties have been imposed to date, although the SCO provided a copy email in which a potential penalty had been threatened.

4.4 Budget Setting & Management

- 4.4.1 The SCO advised that the budget (for the relevant codes) would be set in line with the contract. These figures are covered in the monthly valuations. The budget, as per TOTAL, was checked to the latest valuation spreadsheet provided and the figures agreed (allowing for rounding to the nearest £100).
- 4.4.2 The SCO also advised that budget monitoring is undertaken on a monthly basis. The relevant Assistant Accountant provides a spreadsheet detailing all

relevant budget codes (for the service as a whole, not just street cleansing) and these are discussed with the Head of Neighbourhood Services.

- 4.4.3 A copy of the latest (completed) budget review spreadsheet was provided which included comments to explain variances and proposing action where considered necessary.
- 4.4.4 The contract also covers a number of areas that fall under other budgets that are not held by Neighbourhood Services. The SCO advised that monitoring these figures would be the responsibility of the relevant section, although again highlighted that they should tie in with the relevant budget figures, with the contract payments being 1/12th of the total amount unless variations had been agreed.

4.5 Payments & Recharges

- 4.5.1 No specific checking of works being performed to the required standard is undertaken prior to the payment of individual invoices. The SCO highlighted that the performance checking is undertaken at an earlier stage (see above), and only if penalties were to be deducted would the payments be differed.
- 4.5.2 During the testing undertaken on the approval of contract variations (see above), testing was also undertaken to ensure that the invoices had been appropriately authorised.
- 4.5.3 The majority were signed by the SCO and the Head of Neighbourhood Services who are both authorised signatories. However, three were signed by a Customer Services Adviser who is not an authorised signatory, although she had been authorised in a previous role in Housing & Property Services, which may have resulted in this issue not being identified by the FS Team.
- 4.5.4 As these were early in the financial year, and authorised signatories have since been reviewed, it is not felt necessary to include a recommendation in relation to this issue.
- 4.5.5 As part of the contract, some work is undertaken on behalf of other council departments (e.g. cleansing of housing land). The costs of these works are coded directly to the relevant codes at the invoice stage, so there is no requirement for any recharges to be processed.

4.6 Insurance & Risk Management

- 4.6.1 The contract document includes a section on the level of insurance that the council requires the contractor to hold.
- 4.6.2 Copies of the insurance certificates held were provided which confirmed that the contractor held the relevant level of public and employer's liability provision in line with the contract. However, at the time of the audit, the SCO could not locate evidence to confirm that the contractor held professional indemnity cover as required.

Risk

The council is held liable for relevant claims received.

Recommendations

The contractor should be asked to provide evidence that they hold professional indemnity insurance in line with the contract conditions. Annual reminders should also be set up to ensure that updated copies are received upon expiry of the certificates provided.

- 4.6.3 The Neighbourhood Services risk register includes a specific section on refuse, recycling and street cleansing related risks. This includes the risk of service disruption.
- 4.6.4 Also, within the more generic aspects of the register, there are a number of risks related to the performance of the contractor, including the failure to deliver services and their ability to deliver services if the service grows. The risks detailed, along with the mitigation measures suggested seem appropriate.
- 4.6.5 It was also noted that the risk register is a working document within the department, with notes to suggest where further work was required to update the position shown. This was considered to be an example of good practice.
- 4.6.6 As part of the tender submission, one method statement included details of risks that the council had identified in relation to the provision of the services. Tenderers were asked to submit details of who they thought the risk should be allocated to, along with the mitigation measures that they would implement and any additional risks that they thought were relevant. This had been appropriately completed.
- 4.6.7 Subsequently, the successful contractor had been asked to submit copies of the detailed risk assessment for all relevant areas of operation covered by the contract. These were provided by Veolia, although a number of them referenced grounds maintenance operations rather than street cleansing. However, they covered issues that were still relevant to the contract lot that they had been awarded.

5. Summary & Conclusion

5.1 Following our review, we are able to give a MODERATE degree of assurance that the systems and controls in place for the management of Street Cleansing are appropriate and are working effectively.

5.2 Issues were identified relating to:

- the work schedules spreadsheet differing from agreed variations
- differences between the agreed variation orders and the detail included on the invoices submitted, including prices in some instances
- the level of detail recorded on Flare in relation to complaints and the consistency of classifying these cases
- the lack of current evidence relating to the professional indemnity insurance held by the contractor.

6. Management Action

6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

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