

GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

COMMITTEE SUMMARY

Item 2(g)

5th August 2020

Title of the Audit: Neighbourhoods and Sustainability – Glasgow Recycling & Renewable Energy Centre Review

1. Introduction

- 1.1 As part of the agreed Internal Audit plan we have carried out a review of the performance management and governance arrangements of the Glasgow Recycling & Renewable Energy Centre (GRREC).
- 1.2 The Glasgow Recycling and Renewable Energy Centre Facility processes residual waste that would otherwise be landfilled, extracts valuable recyclables and recovers energy from remaining material. A third party, Viridor, will operate the facility on behalf of the Council for an agreed period of 25 years.
- 1.3 The purpose of the audit was to obtain assurance in relation to the suitability of the arrangements the Council has put in place, for the operational and strategic management of the contract with Viridor.
- 1.4 The scope of the audit included a review of the following aspects:
- Risk management
 - Performance management, including compliance with agreed outcomes and financial targets
 - Contract monitoring
 - Contingency planning, including due diligence processes
 - Exit strategy, if required

2. Audit Opinion

- 2.1 Based on the work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified scope for improvement in existing arrangements with one recommendation which management should address.

3. Main Findings

- 3.1 We found that a project risk register is in place which is reviewed on a monthly basis. We were able to evidence the stated mitigating actions were in place. A suite of Key Performance Indicators (KPI's) form part of the contract and are reported monthly at an appropriate level. A sample of 10 KPI's was reviewed and verified as accurate.
- 3.2 Formal contract meetings occur regularly between stakeholders and management actions are documented and progressed appropriately. The charging model in place has been agreed and is documented. Staff are able to verify charges are correctly calculated by reference to the underlying data.
- 3.3 However we also found one opportunity for improvement. From a review of the project risk register we identified that none of the risks listed address any potential impact of the failure of the contract.
- 3.4 An action plan is provided at section four outlining our observations, risks and recommendation. We have made

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one recommendation for improvement. The priority of the recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	1
Low	Lower level controls absent, not being operated as designed or could be improved.	0
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.	0

- 3.5 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.6 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.7 It is recommended that the Head of Audit and Inspection submits a further report to Committee on the implementation of the action contained in the attached Action Plan.

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Contract risks are included on the project risk register.				
1	<p>From a review of the project risk register we identified that none of the risks listed address any potential impact of the failure of the contract.</p> <p>There is currently a 25 year contract in place with Viridor to operate the facility and Viridor have provided a parent company guarantee for the provision of alternative arrangements, if required. There are currently no regular financial checks into the ongoing financial viability of Viridor Glasgow or the parent company.</p> <p>This increases the risk to the council of not being in a position to react in a timely manner should the contractor experience financial difficulties.</p>	<p>Management should ensure that the project risk register considers the impact of contractual failure and suitable mitigating actions, including financial viability checks and potential alternative arrangements are considered.</p>	<p>Medium</p>	<p>Response:</p> <p>A new risk shall be added to the Project RAID (Risks, Assumptions, Issues and Dependencies) log and this will set out the risk and mitigation associated with failure of the contract.</p> <p>The agreed mitigation measures are as follows:</p> <ol style="list-style-type: none"> 1. Undertake regular financial standing checks on all organisations relevant to the contract. 2. Ensure Legal Services are updated regularly with contract status to ensure they are available should the need arise to re-tender the provisions of the contract. 3. Have in place contingency contracts (e.g. landfill) which could be used in the event of a contract failure.

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				<p>4. Ensure the Parent Company Guarantee is never diluted during the course of the contract.</p> <p>Officer Responsible for Implementation:</p> <p>Performance and Compliance Manager</p> <p>Timescale for Implementation:</p> <p>30 September 2020</p>
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