



St. Helens Council

Internal Audit Report 2016/17

Merseyside Recycling & Waste Authority Waste Contract Arrangements

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St. Helens Council

Merseyside Recycling & Waste Authority

Waste Contract Arrangements

1.1 Introduction

For the financial year 2016/17, Merseyside Recycling & Waste Authority has appointed St Helens Council to provide its annual Internal Audit coverage. The Audit Plan was agreed at the Authority meeting on the 22nd April 2016. The purpose of the Audit was to provide an assessment of the adequacy of the control environment established, to ensure that the objectives are achieved and risks are adequately managed.

1.2 Scope

In accordance with the 2016/17 Audit Plan, the scope of this review included:-

1. The Final Claim for 2015/16;
2. Verification of the accuracy of monthly payments to Veolia pursuant to the Waste Management and Recycling Contract (WMRC);
3. Verification of the accuracy of the monthly payment pursuant to the Landfill Contract;
4. Verification of the accuracy of the new Cognos System.

The time period covered under this review does not include the new Resource Recovery Contract (RRC). This will be subject to a separate review.

1.3 Background

Context

Under the Waste Management Recycling Contract (WMRC), Veolia Environmental Services are responsible for the management of waste on behalf of MRWA as follows:-

1. Operation of four transfer stations including associated transport of waste to disposal points and external process facilities;
2. Operation of the 16 Household Waste Recycling Centres (HWRC's) on Merseyside (and two HWRC's in Halton) including associated transport of waste to disposal points and making arrangements for the collection of recyclable materials for processing;
3. Operation of two Material Recovery Facilities (MRF's) including associated transport of waste to disposal points and external processing facilities; and
4. Ensuring appropriate payments are made or income received for the processing of waste at end markets.

Landfill Contracts

MRWA currently disposes of waste via two landfill disposal contracts. Merseyside Waste Holdings Ltd (MWHL) provides one of these contracts (3C Arpley Contract). The following summarises the landfill contracts currently in place;

1. 3C Arpley contract (up to 370,000pa) between MWHL and FCC Environmental (formerly Waste Recycling Group (WRG)) accessed via MRWA;
2. Landfill Services Contract (Top up contract to 3C Arpley Contract) between MRWA and FCC Environmental.

The Authority has invested in the Cognos System, IBMs Business Intelligence Software. The main purpose of the software is for the managing of the data and payment of the complex RRC contract. However, due to the adaptability of the System, there was an opportunity to have the WMRC contract integrated also. The project build lasted for 6 months, and was handed over to the Authority on the 25th April 2016. Since then, the Authority has further modified reports and carried on building into it such as Waste Data Flow Reports, Budget tracking, and Recycling Credit reporting. The Software automatically uploads daily transaction records from Veolia under the WMRC, and will soon upload Suez data under the RRC contract.

1.4 Audit Opinion

Internal Audit contribute to the overall governance of the Council by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relation to the areas under review.

Our opinion is based on the work performed as described in the above scope, which was agreed with management prior to the commencement of the review.

Our overall opinion, following this review is as follows:

Substantial Assurance The majority of expected controls are in place but there is some inconsistency in their application. Whilst there is basically a sound system of controls, there may be weaknesses in the design and/or operation of these and recommendations have been made to enhance the control environment further.

1.5 Key Issues

There are no key issues arising from this review

1.6 Agreed Action

Actions to address the recommendations made in this report are included in the attached Action Plan, which has been agreed with the relevant Managers.

Control Objectives 2

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To gain assurance that the following control objectives are being achieved within an appropriate framework of control:

1. Veolia Contract (Year End Reconciliation) - All contract payments are accurate, legitimate and accounted for appropriately.
2. To ensure that all monthly payments to Veolia are pursuant to the WMRC and are accurate, legitimate and accounted for appropriately.
3. To ensure the monthly Landfill Contracts & Hazardous Waste contract payments are accurate, legitimate and accounted for appropriately.
4. Information generated from the Cognos System agrees to the information electronically forwarded to MRWA from Veolia.

Findings & Conclusions 3

Findings

3.1 Control Objective: Veolia Contract (Year End Reconciliation) -All contract payments are accurate, legitimate and accounted for appropriately.

We established that all expected controls under review were in place and working effectively.

To ensure that all year-end adjustments have been calculated correctly, a review of the March 2016 claim was undertaken and we confirmed that all year-end adjustments performed within the claim were accurate and supported by appropriate supporting documentation.

3.2 Control Objective: To ensure that all monthly payments to Veolia are pursuant to the WMRC and are accurate, legitimate and accounted for appropriately.

We established that all expected controls under review were in place and working effectively.

As part of the Internal Audit review, we reviewed the May 2016 monthly contract payment and confirmed that all relevant checks had been undertaken and any anomalies identified had been raised with Veolia and appropriate supporting documentation retained.

We confirmed that the payment certification had been subject to the application of a control grid stamp to confirm appropriate checks had been certified by an authorised officer prior to payment.

3.3 Control Objective: To ensure the monthly Landfill Contracts & Hazardous Waste contract payments are accurate, legitimate and accounted for appropriately.

We established that all expected controls under review were in place and working effectively.

We reviewed the May 2016 claim and verified that all supporting documentation was present and that any anomalies identified as a consequence of the checks carried out by the Contracts Payment and Performance Officer, had been forwarded to Veolia and a satisfactory response received.

The new RRC plant is currently in the commissioning stage and a percentage of waste is being diverted from the 3C Arpley contract to the new train terminal in Knowsley to be transported by train to the RRC plant in Wilton. Once the Wilton site is fully commissioned, all non-recyclable waste collected by Veolia on behalf of MRWA, will be deposited at Wilton and the 3C Arpley contract will end. MRWA has recently received written confirmation from FCC Environment that Arpley Meadows landfill site will close by 31st January 2017 due to the site nearing capacity and subsequently the contract will terminate on this date. MRWA are currently working with FCC Environment to ensure landfill provision up to this date, which may involve alternative landfill sites.

Finally, we confirmed that the contract rates for the year had been input correctly into the relevant spreadsheets, calculations were accurate and appropriate authorisation was evident on the document.

3.4 **Control Objective: Information generated from the Cognos System agrees to the information electronically forwarded to MRWA from Veolia.**

We established that 3 out of 5 expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of two controls were identified, and recommendations have been made to enhance the control environment in these areas, as detailed below:

3.4.1 **Cognos Procedures/ Training**

Data received from Veolia flows through Cognos, and the System updates daily, which is more accurate than the previous manual input. This enables the Authority to use this information as and when required rather than wait until month end, or until a contractor can manually send in information. To satisfy the confidence in the System, there is partial dual running that is continuing. The dual running will continue whilst there is familiarisation with the RRC contract, but officers have indicated a good amount of confidence in the WMRC contract side of the project.

All staff authorised to use the Cognos System should complete appropriate training to ensure that they are able to use the System appropriately and effectively.

The review has identified that currently only one member of staff within MRWA has received full Cognos training and there is currently no procedure manual.

Therefore, other members of staff who need to use the System are finding it difficult to navigate around and are not always able to obtain meaningful information.

Recommendations *Training sessions should be held for relevant members of staff to provide them with a basic knowledge of how the Cognos System operates.*

A Procedure Manual should be documented for use of the Cognos System.

3.4.2 **Staff Cover**

Adequate cover should be available in the event of the absence of the Contract Payments and Performance Officer.

The review has identified that currently, this officer is the only person able to run the various Cognos reports / set new reports.

If the Contracts Payment and Performance Officer was not available, then currently MRWA would not be able to run the monthly reports to carry out the month end reconciliation checks.

Recommendation *At least one other member of MRWA staff should be trained to a suitable level in order to provide cover for the Contracts Payment and Performance Officer in the Cognos reconciliation process.*

Conclusions

Internal Audit contribute to the overall governance of the Council by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relations to the areas under review. Our opinion is based on the findings of the work performed as described above.

Our overall opinion, following this review is as follows:

High Assurance

All expected controls are in place and being applied consistently and effectively and there is a sound system of control designed to ensure the achievement of the service or system's business objectives.

Substantial Assurance



The majority of expected controls are in place but there is some inconsistency in their application. Whilst there is basically a sound system of controls, there may be weaknesses in the design and/or operation of these and recommendations have been made to enhance the control environment further.

Limited Assurance

A number of expected controls do not exist or are not applied consistently or effectively. There are weaknesses in the design or operation of controls that could impact upon achievement of the service or system's business objectives and these may have resulted in the emergence of key issues.

Minimal Assurance

A significant number of expected controls are not in place or there are significant weaknesses in the control system that may put the service or system's business objectives at risk. A number of recommendations have been made and / or key issues identified.

Actions to address the recommendations made during this review are included in the Action Plan attached at Section 4 of this Report.

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Action Plan 4

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
1	Training sessions should be held for relevant members of staff to provide them with a basic knowledge of how the Cognos System operates.	Contract Payments and Performance Officer	A training session will be held for members of staff in the contracts team by July 2017.	
2	A Procedure Manual should be documented for use of the Cognos System	Contracts Manager	While there is already a Cognos manual available to staff, a procedure will be produced to detail the processes that are undertaken within the Cognos system by MRWA officers. This will be completed by October 2017.	
3	At least one other member of MRWA staff should be trained to a suitable level in order to provide cover for the Contracts Payment and Performance Officer in the Cognos reconciliation process.	Contracts Manager	Training will be provided to other members of staff, so that there is a greater understanding of the Cognos reconciliation process by an officer, other than the Payment and Performance Officer. This will be completed by October 2017.	